

Sutherland Institute Perspective on the
Regional Transmission Operation Proposal

Presented before the Public Utilities, Energy, and Technology Interim Committee
of the Utah Legislature

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Thank you, Mr. Chair, and members of the committee. Stan Rasmussen, with Sutherland Institute. This afternoon, I am filling in for our policy director, Mr. Derek Monson, who was invited to address the topic before you today. Derek regrets that he is not able to be here. Complications with return flights from meetings in the East have prevented him from arriving in time to make this presentation.

On his behalf, Sutherland appreciates the opportunity to present our perspective on the proposed regional power transmission system. We hope that through our remarks today we can help encourage an elevated dialogue by identifying sound policy principles and information relevant to this issue.

To summarize Sutherland's perspective on a regional power grid in a sentence, both principle and insufficient data suggest that the right approach to the regional power grid proposal is one of prudent caution and thorough study, likely to require multiple years in order to do it right; to ensure a thorough examination of proper structure of a regional power grid and the complex list of important policy questions it raises. Our perspective is grounded in the fact that an affordable and efficient power system, or the lack of it, can make or break lives. For instance, higher power bills can take food off of a working family's table and can prevent a business owner from being able to hire a new employee. We believe that the *right* policy decision in this case will protect the lives and the livelihoods of Utah families and businesses.

This is most likely to be achieved if a western-states regional power grid can be structured around free-market ideals, such as encouraging competition among electricity suppliers. For instance, the regional grid operator's decisions ought to be guided by a priority of achieving the lowest reasonable cost of power for the families and businesses that pay for electricity, not on the political or economic interest of a particular state in the network. This priority will force electricity producers to compete on price by containing costs wherever it is reasonable and possible to do so, to the benefit of families and businesses in Utah.

In that light, we are skeptical that the California Independent System Operator (CAISO) provides the right vehicle to accomplish this outcome, since it is established by California state law and guided by the political appointees of California politicians. When push comes to shove, CAISO

will naturally and reasonably choose to serve the client they were designed to serve first: the people and political leaders of California.

A better option would be to establish a new and independent governing body for the transmission system with representatives from CAISO and other member states. However, creating such a governing body and structuring it appropriately will require extensive dialogue and negotiation among elected officials, industry representatives and other stakeholders, and the scope of this negotiation is likely to require more time than is available in the current interim period.

Recently published research further illustrates the importance of the regional grid manager's priorities to the success of the regional power grid. The study, published in June by a private economic research firm, examined the economic impact of fulfilling renewable portfolio standard goals. The study was performed by University of Wyoming economist Dr. Tim Considine, who reported that fulfilling statutory Regional Power Supply (RPS) goals increases electricity prices, reduces economic output and diminishes job creation.ⁱ In Utah specifically, according to Dr. Considine, the impacts of fulfilling RPS goals by 2025 include average electricity rates that are 11 percent higher, economic output that is more than \$2 billion lower, and 10,500 fewer jobs than there would be without fulfilling RPS goals.ⁱⁱ

What this study shows is that if the top priority of the proposed regional power grid is to fulfill goals like renewable portfolio standards, then it likely will fail to protect the lives and livelihoods of Utah families and businesses. Certainly, the regional grid manager can be successful with both economic and environmental goals, but having a clear understanding and mandate for the prioritization of those goals will be critical to the proposal's success.

Finally, in our estimation, credible data and thoughtful analysis specific to the CAISO regional power grid proposal is lacking on a host of important policy questions. For instance, important questions about the CAISO proposal that need to be answered, in addition to its impact on electricity rates, include:

- What will be its impact on wholesale energy markets?
- What efficiency impacts will it have on baseload and renewable energy production?
- What will be the direct and indirect costs of managing and operating the regional power grid?
- What will be the environmental effects that regional power transmission will have through its impact on the overall balance of renewable versus fossil-fuel energy production?

- How will varying climate and weather patterns in coastal states versus intermountain states translate into changing regional power demand throughout the typical day and throughout the year as seasons change? and
- What will that mean for electrical production capacity needs?ⁱⁱⁱ

Additionally, the claim that the savings for consumers in a regional power grid will be dramatic does not reflect the lack of consensus in the research on this question, and probably deserves further investigation as well to validate its accuracy.^{iv}

Some of these questions could arguably merit their own interim committee hearing. Finding answers to some these questions in the specific context of the CAISO proposal could arguably require an interim committee hearing dedicated solely to that topic. To study them all sufficiently likely will require more time than is available in the current legislative interim, if not the next legislative interim as well.

In conclusion, both the policy principles necessary to protect Utahns lives and livelihoods and the lack of available data and research on many relevant questions specific to the CAISO proposal point to the need for much further study of this issue before an informed decision can be made. If the regional power grid and its operator can be structured around free-market ideals, be tasked with the proper policy outcomes, and we can obtain sufficient data to get reasonably clear answers to relevant policy questions – which is likely to take several years under a thorough study process – then perhaps the regional power grid concept might prove to be the right one for Utah. But until that is accomplished, we think the proposal will not have met the standard required of good policy to be adopted by the State of Utah.

Thank you.

ⁱ Timothy J. Considine, “Moving to renewable energy is more costly than you think,” *Investors Business Daily*, July 6, 2016, available at <http://www.investors.com/politics/commentary/moving-to-renewable-energy-is-more-costly-than-you-think/>.

ⁱⁱ Timothy J. Considine, “Evaluating the costs and benefits of renewable energy portfolio standards,” June 2016, *Natural Resource Economics, Inc.*, available at https://www.researchgate.net/publication/304581173_Costs_Benefits_of_Renewable_Energy_Portfolio_Standard

ⁱⁱⁱ Seth Blumsack, “Measuring the benefits and costs of regional electric grid integration,” 2007, *Energy Law Journal*, Volume 28: 147- 84, available at <http://felj.org/sites/default/files/docs/elj281/147-184.pdf>.

^{iv} *Ibid.*