

The Cornerstone: The case for a regional transmission rate

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Ladies and Gentlemen:

Let me start by thanking the New Brunswick Economic Council for inviting me to take part in this roundtable. I would also like to thank the Atlantic Institute for Market Studies (AIMS) in Halifax for publishing my statements on the potential future of the electricity market in the Maritimes and New England.

I will not be speaking today directly about your usual line of business, but rather on the economy in general, and the economy of New Brunswick in particular. The recommendations I will be making at this roundtable are aimed at decreasing electricity rates, which could have a significant impact on corporate profits.

We first need to understand where we're at in our little corner of the world, at a time of continent-wide restructuring in the electrical power sector.

Let us first look at Canada, and provincial policies and practices.

In New Brunswick, the industry has been restructured, at least in theory. The New Brunswick Power Corporation (NBPC) was divided into several parts. What interests us most are

power generation, transmission and management of the transmission system. This structure should

enable competition between the power plants, all of which have equal access to the system. I said in theory because, at this time, almost all power stations and transmission belong to the NBPC, which translates into very little competition. Management of the system was given to an organization called the New Brunswick System Operator (NBSO), which is independent from the NBPC. Its objective is to maintain the reliability of the power system and to facilitate the organization and operation of a competitive electricity market.

Emera is a Nova Scotia company that owns Bangor Hydro Electric, an electrical power company in the state of Maine. Therefore, the path between Emera's two main parts runs through New Brunswick.

Two other satellites of NBPC are also nearby: Maritime Electric in PEI and, at the other end of the province, in northern Maine, a group of four companies, members of the Northern Maine Independent System Administrator, which depends entirely on NBPC for access to the other systems and even to the American market. Yes, part of NBPC's system is entirely in the U.S.

Now, as for the United States, we must look to the federal government, which regulates power policy and which began restructuring the industry in 1992.

Initially designed as a means of establishing the electricity wholesale market, this initiative led to the creation of retail markets in several states, in particular in five of the six New England states. Under the mandate of the federal regulatory commission, New England set up an organization, ISO-New England, the NBSO's counterpart, which operates as a system and market manager. Similar occurrences took place throughout the United States.

In my opinion, it appears that the restructuring of the American industry was unsuccessful, save for the basic regulation that ensures non-discriminatory access to the system. As a result of the complexity of the regulations imposed by the Federal Energy Regulatory Commission (FERC), whose employees know very little about how the markets are organized, there is hardly any competition and the industry risks being dominated by a few large national corporations. Without a free market, without new transmission lines, which have been promised, and with increasingly high fuel and natural gas costs, instead of a market that produces lower prices, we now have the highest prices in history.

The manager of the New England system now wants to subsidize power stations to ensure they remain available. It is consumers who will have to pay the additional costs of this policy. With additional transmission lines, this policy would never have surfaced.

Not happy with this decision, the Maine legislature has just adopted legislation to review the possible withdrawal of Maine's corporations from the ISO-New England system. Logically, this study should look into reinforcing the links with New Brunswick and perhaps even replacing the links with the ISO through an agreement with the NBSO.

In view of our current situation, what can we do?

Three elements are needed for a reliable market in New Brunswick, the Maritimes or the

northeast: transmission lines, power stations and cooperation.

The NBPC and Emera are in the process of taking the first step. They have fortunately recommended building a new transmission line between this province and Maine. With this line, the links between the Maritimes and New England, now limited to only one line, will enable an increase in exchanges and even a market uniting the two parts of the northeast.

Removing barriers imposed by transmission rates is essential for developing a new market in this region. Each power corporation currently has its own rate. In order to transmit power from New Brunswick to northern Maine, which is in fact part of the New Brunswick system, transmission costs have to be paid on two systems. If Emera wants to transmit power from Nova Scotia to Maine, for use by Bangor Hydro consumers, its subsidiary, it has to pay three times.

A few years ago, an attempt was made to set up the East Coast Transmission Organization (ECTO), a system operator for the Maritime and northern Maine. This project did not succeed. Why? In order to have a single rate, the average rate must be higher than the current rates of certain participants and lower than the rates of others. The corporations that would have been required to pay more rejected ECTO's proposal.

Remember that each corporation's rates are comprised of subsidies paid by certain consumers in favour of others. It is obvious that the costs of serving each consumer are not identical, but that the rates of each class of consumer – residential, commercial – are identical. Therefore, what is true at the provincial level would also be true among the regional power corporations.

This same problem came up ten years ago in New England. I presided over negotiations involving the nine corporations from the six states, each of which own part of the system. We were finally able to agree by adopting a gradual introduction of a common rate, spread over several years.

Ten years later, with the creation of a common rate, we have noticed that the increase in the amount of transmission transactions is the result of the sacrifices made by the corporations that

were forced to pay the subsidies. It is usually possible to use existing lines without increasing costs for a larger number of transactions. Therefore, the subsidies were more than offset by the increased revenues from new transactions. It should be emphasized that, under this plan, each corporation continues receiving the required revenues according to its own rate. What may be different is what each user pays in transmission costs.

The ultimate goal is to arrive at what we call a postage stamp rate, that is, a rate where everyone pays the same amount per unit of electricity transmitted, regardless of the distance. However, for several years from the start of the transition, it is possible to establish a rate called a licence plate rate, that is, when you pay the rate for your own system and get access to the regional system.

To date, the NBPC hasn't wanted to accept such a transmission rate plan; however, perhaps the time has come to revisit the matter.

Last year, the NBPC applied for a subsidy from the northern Maine corporations for assistance in building the second transmission line between New Brunswick and New England, a request that was denied by the Maine regulatory commission. In the meantime, the NBSO proposed that if the others were to assist with the costs of building a transmission line here, the NBPC would accept the gradual removal of rate barriers between New Brunswick and northern Maine, which is connected to the NB system. Good idea.

Since the NBPC obtained financial assistance from Maritime Electric and Emera, it would be very easy to foresee an agreement between New Brunswick, Nova Scotia, PEI and northern Maine to begin setting up harmonized rates, as proposed by the NBSO.

We must admit that setting up a regional rate won't be easy. But, as we did in New England, we could negotiate an agreement that would include a transitional compensation mechanism to cover the financial impact of this new rate.

New Brunswick's participation is vital for this type of agreement to succeed. So, the NBSO would need to adopt basic permanent regulations on

which the other participants can count. And the rules would need to focus on removing regional rate barriers and on non-discriminatory operation of the system, without favouring any market in particular.

If negotiations are launched to set the regional rate, the study on the future of the Maine systems may take note of this. More importantly, the removal of rate barriers applied to electricity exports between all of New England and the Maritimes could be foreseeable. The NBSO, the organization in charge of managing the provincial system, could also become the regional system's operator.

If we succeed in creating a regional system, what would be the outcome? Having made a bigger market possible, this system could be used to encourage the construction of new power stations to serve consumers located anywhere on the expanded system. These stations could quite easily be set up in the middle of the system, i.e., in this province. These new power stations could also provide the province's consumers with a greater choice.

If the NBPC could bring in greater revenues as a result of new users on its system, it could use the additional funds to lower rates for the province's consumers. I should remind you that the experience of the New England power corporations shows that their transmission services contributed to their revenues, which now far exceed expectations. Furthermore, these revenues are steadier and more stable than those from power station operation.

Does a unified market need to be created when harmonized transmission rates are put in place? In my opinion, no. Each province or state should have the right to regulate the electricity market differently from the others, provided that three conditions are accepted. First, a market must be allowed to exist at least for wholesale transactions. Second, each market must be open to power produced in stations located anywhere. Third, the system's operating rules must be neutral and not influenced by any participant's market; instead, these rules should facilitate all markets.

If the answer to these recommendations is yes, what should be done? Decide, negotiate, act.

Each Maritime Province and the state of Maine must make the primary decision to set up a transmission system between at least northern Maine and the Maritimes. This decision should include a transition period to help the power corporations become accustomed to the new plan.

Once the decision is made, negotiations must take place with the regulatory boards and power corporations in order to deal with technical and financial issues. During the negotiations, issues regarding transition and compensatory mechanisms, as well as the means of financing the organization in charge of operating the system must be addressed.

Then, approval would be sought from the provincial boards and the state of Maine, as well as from the American federal commission as concerns the American corporations. Given the political will behind this recommendation and the policies favouring the large-scale transmission agreements, these commissions will probably grant their approval.

Should it become necessary to make the rules for each jurisdiction uniform, perhaps the uniform law system that already exists in both countries could be used.

Of course, what I am proposing is too complicated to explain in its entirety today. But I hope that it is obvious that the time has come to resume talks on a regional transmission rate. If we succeed, the province of New Brunswick could be the cornerstone of a new regional market, and its consumers, including its companies, could profit from it.

Thank you.

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Other AIMS publications of interest:

[*The Atlantica Power Market: A Plan for Joint Action*](#) by Gordon L. Weil

[*Making Atlantica Work*](#) by Brian Lee Crowley

[*Power Trip: Stumbling toward a policy for NB Power*](#) by Thom Tucker

[*A Tale of Two Cities: How to put the International Northeast at the centre of the new global trading patterns*](#) by Brian Lee Crowley

