

# Against the odds: building new power lines in a deregulated world

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In August 1995, Terra Group and Neil Palmer and Associates asked senior electric power staff specialists at 20 state regulatory commissions around the country about the potential impact of electricity deregulation on transmission line siting and construction. Most of these specialists acknowledged that deregulation would probably complicate the already difficult task of obtaining environmental and other permits for new high-voltage lines. Regulators were especially skeptical about regional transmission planning and operation, which "might make economic sense," as one staff director put it, but would become "a complete debacle" when specific lines were considered.

Strangely absent from this discussion were the country's major environmental and public interest groups. With a few notable exceptions, electricity deregulation was barely on their radar screen at the time; requests to interview environmental leaders in Wisconsin, California and other key states drew puzzled and polite refusals.

All of that changed a few months later, after FERC issued Order 888 in April 1996. Now in virtually every state capital around the country, environmental organizations have formed political coalitions with consumer groups, farmers, low-income ratepayers, academics and land use advocates to shape restructuring legislation and implement a broad social agenda.

The authors' new study, "Crossed Wires: Electric Power Deregulation Leaves Holes in the Nation's High-Voltage Transmission System" (April 1999), showed these groups have become significant stakeholders in

the deregulation debate. Quite often, they are sophisticated, knowledgeable and very successful in mobilizing support from community members and elected officials. Understanding these new stakeholders—and working with them strategically where common goals can be identified—has become an important part of the electric power business.

In effect, environmental organizations are prepared to support new transmission and generation facilities, but only after these facilities have passed a litmus test comparing them to "distributed renewable generation" and other preferred options. "Our position," one activist explained, "isn't 'Just say no!' We may very well find that we need more capacity," especially to transmit power eastward from renewable sources in Minnesota and the Dakotas. The real question, he added, lies in whether the new transmission planning process—whatever shape it takes—will allow for effective public participation and involvement.

## Threats and opportunities of deregulation

What do public interest groups want? In general, environmental organizations remain suspicious of deregulation, which they believe would primarily benefit "industrial customers, typically pursuing a larger national or even international agenda," as one group recently warned its members. They are particularly uneasy about retail competition, which "would increase pollution, reduce reliability, shift costs to small consumers, and eliminate energy efficiency and renewable energy progress."

Interviews with key activists in the upper Midwest, California and elsewhere reveal a significant consensus about "getting the right rules for public health and the envi-

ronment." This consensus includes three major themes:

- **A level playing field for green power.** Environmental activists throughout the Midwest argue that the Clean Air Act provides a "competitive advantage for dirty plants" that must be eliminated before real electric competition in the United States can begin. "If dirty plants are cheaper," one leader asked, "how can anyone sell clean power against them?"
- **A renewables portfolio standard.** "Until renewables are fully commercialized," writes the Union of Concerned Scientists in a recent report, "they cannot compete fairly with mature fossil and nuclear technologies." The solution, environmentalists suggest, is a renewables portfolio standard that requires power suppliers to purchase energy from renewable sources equal to 3 percent of their current load, rising to 10 percent in 2010.
- **Public disclosure of the sources and impacts of power supplies.** As part of electricity restructuring, environmentalists insist, consumers must be encouraged to choose clean power, not just cheap power. The key involves providing a detailed breakdown of power supplied to each customer, together with environmental consequences of this mix (for example, in tons of carbon emitted or nuclear waste generated). Such views have been forcefully articulated by the Environmental Law and Policy Center in Chicago, which also issued a set of "Public Interest ISO Principles" emphasizing "broad representation of stakeholder interests (including environmental advocates) on the Board of Directors" and a prohibition against new transmission capacity

“where re-dispatch, demand-side management or distributed power options are available.” In the future, it would seem, transmission rate cases are likely to provide the battleground where the issues left over from state restructuring legislation are fought.

## **Chicago gets the power, we get the pollution**

Clearly, requiring new high-voltage lines to meet a needs test involving distributed generation and other public benefits sets the stage for serious opposition to virtually any proposed project—especially now that the old compact among regulators, utilities and their customers has been broken. Under this compact, local residents accepted (albeit reluctantly) environmental and other consequences of new facilities that were built primarily to serve them.

With wholesale deregulation, and even more with retail deregulation, that compact no longer applies. Today, virtually all major plants or transmission lines are open to challenge from community members, local officials and grassroots groups—even when project developers can invoke the power of eminent domain, which is held exclusively by investor-owned utilities (IOUs).

A case in point involves the transmission gap across Wisconsin. As one Minnesota activist put it, why should he support new high-voltage capacity to address that problem if it means that “Chicago gets the power and we get the pollution?” This

question becomes particularly important as activist groups look for opportunities to expand public involvement in transmission siting and construction decisions. As state regulatory officials adopt a broader view of “need” in connecting the open marketplace, local jurisdictions are likely to respond with a flurry of ordinances that amount to a town-by-town permitting process—with major business and technical decisions made over the open mike.

Unless electric companies take the initiative in forming alliances with environmental and community groups ahead of time, their projects face significant delay or other obstacles. And project delays quickly translate into significant economic costs—for replacement power, lost revenue and legal fees. In other words, the “right to build” these projects now depends largely on community consent, not statutes and legislation.

## **Setting new rules for public participation**

How will electricity generators and transmission operators obtain the right to build in or through local communities? In our experience, the answer lies in creating an orderly and effective process of public participation in new electric projects. Independent power producers (IPPs), IOUs and transmission operators must learn to identify and understand key stakeholders and develop a public participation plan that effectively addresses their concerns.

Remember: within broad economic limits, power lines can follow many potential routes and use several designs. The main challenge in avoiding needless controversy lies in understanding how to organize an effective outreach effort and in involving public affairs specialists who have managed successful programs. The challenge is not to build the cheapest or straightest line—it is to win community support.

Building transmission and generation facilities poses far greater challenges than in the past, because the old “contract” balancing benefits and risks has been virtually erased by deregulation. Utilities, IPPs and transmission companies have little choice but to embrace this new world of public participation. They must become as skilled at earning support for controversial projects as they have traditionally been at producing and distributing electricity. ■

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