



Budget Briefs

from the
Wisconsin Legislative Reference Bureau

Budget Brief 99-1

November 1999

ELECTRIC RELIABILITY 2000

The biennial state budget act (1999 Wisconsin Act 9), passed by the legislature and signed by Governor Tommy Thompson on October 27, 1999, creates the Reliability 2000 Initiative (R2K), designed to increase the reliability of the state's electricity supply and foster continued economic growth. The chief feature of the initiative is creation of a nonprofit corporation to control the high-voltage transmission lines that move bulk electricity across the state. R2K, enacted in Chapter 196, Wisconsin Statutes, also includes a commitment to the use of renewable energy resources, encouragement of conservation efforts, and financial assistance for low-income energy customers.

The R2K initiative results from a compromise among the major players in the energy marketplace: utility companies and cooperatives, government officials and regulators, businesses, and consumer advocacy groups, and is an extension of utility deregulation that began with 1997 Wisconsin Act 204, the "Electric Reliability Act" (see LRB Legislative Brief 98-7). Act 204 required that investor-owned electrical utilities and cooperatives transfer control of their transmission facilities to an independent entity. Reliability 2000 sets the deadlines for the transfer and represents a major structural shift for existing electric utilities. The 1997 act also streamlined the approval process for construction of new electrical generating plants and required the Public Service Commission (PSC) to study existing transmission line capacity and order additional construction, if necessary.

BACKGROUND

In 1907, Wisconsin was the first state to regulate all public utility service. For almost a century, Wisconsin's electric utilities have provided power to exclusive service areas through vertical integration of the three main supply functions: 1) generation of bulk electricity; 2) transmission over the main grid system, and 3) retail distribution to homes and businesses over local power lines.

The PSC, which is charged with ensuring that all customers have access to adequate electrical service at a reasonable price, oversees the construction and maintenance of power plants and transmission lines and structures prices to balance the interests of consumers and investors. Largely because of the efforts of the PSC, Wisconsin customers have long benefitted from electricity rates that are lower than those in neighboring states and significantly below the national average.

In recent years, however, adequate supply has become a problem, largely due to insufficient generating capacity and bottlenecks in the transmission system. In a number of instances since 1997, various residential and commercial customers have been threatened with blackouts during peak use periods, such as the summer months when heavy reliance on air conditioning greatly increases demand. The problem has been compounded by routine maintenance and unforeseen shutdowns at several power plants in and near Wisconsin.

Most states have implemented or are considering deregulation of their electric utilities as a means of opening up competition at the retail level in order to strengthen electrical service. Under deregulation, customers would be able to choose the utility company that generates their electricity, after considering factors such as price, length and type of contract, and whether some of the electricity is generated from renewable ("green") energy sources. Some compa-

nies may be involved only in the generation of electricity; others may concentrate on distribution. One concern is possible consumer confusion in choosing a supplier (akin to selecting a long-distance telephone provider). Another question is whether the free flow of power in a nationwide competitive environment will be detrimental to Wisconsin's relatively low kilowatt hour rates. Some ask whether businesses that use large amounts of electricity will be able to leverage lower rates that are disadvantageous to residential customers.

KEY FEATURES OF R2K

Independent Transmission Company. R2K provides for the transfer of ownership and control of the high-voltage transmission lines currently held by Wisconsin-based companies, operating principally in the eastern part of the state, to a nonprofit independent transmission company (generically referred to as a "transco"). Public utilities are expected to make the transfer by September 30, 2000, while cooperatives and municipal utilities have an additional year. The privately owned companies and cooperatives will receive stock in the transco to compensate them for their divested assets. In turn, the transco is required to provide them equitable access to the transmission grid at fair rates, and it will be responsible for constantly monitoring the flow of electricity and reallocating supplies between areas to alleviate spot shortages. The transco, the first independent entity of its type in the nation, will also be responsible for the planning, construction, operation, maintenance, and expansion of the grid. Upgrading the capacity of the transmission lines affords Wisconsin utilities better access to plentiful sources of surplus power in Canada and the western United States.

Asset Cap Relief. In return for surrendering ownership and control of transmission lines, R2K will exempt a utility from the current asset cap that limits a company's nonutility holdings to 25% of its total assets. Companies will be allowed to increase their holdings in diversified investments, including related energy, environmental, or water businesses; energy customer service, such as metering and billing; and telecommunications.

Use of Renewable Energy Required. 1997 Act 204 previously required that by December 31, 2000, eastern Wisconsin utilities must develop new generating capacity that will produce 50 megawatts of electricity from renewable energy sources (wind, water, solar, or biomass). R2K requires any electric utility or cooperative to generate an escalating portion of its retail electricity sales through renewable resources, increasing to 2.2% by the end of 2011.

Public Benefits Grant Programs. The act creates grant programs, funded by about \$44 million in annual customer fees (estimated at between \$14 to \$16 per year for each residential customer), to assist low-income customers in paying their energy bills and to promote conservation efforts, such as home weatherization. The grants will also encourage energy efficiency and environmental protection through renewable energy sources and research and development. Conservation efforts are aimed at delaying the construction of additional costly and pollution-causing generating plants. The grant programs will be administered by community action agencies, nonprofit corporations, or local units of government under contract from the Department of Administration.

PSC REGULATORY AUTHORITY

The PSC establishes the rules for inspecting, maintaining, and repairing electric generation, transmission, and distribution facilities and retains retail rate approval authority. To ensure a reliable supply of electric power, R2K requires it to order additional investment in transmission lines, where needed. For further information about the Reliability 2000 Initiative, contact the PSC at (608) 266-5481.