

A Narrow Window Of Opportunity To Fix Energy Transmission

By **David Smith** (October 18, 2024)

Arguably the least exciting and sexy component of the energy transition is proving the most essential and elusive in resolution: transmission. Put simply, we have grown very proficient at producing electrons cheaply and renewably; the problem is that we cannot get them where we need them.

Two leading senators unveiled a legislative proposal on July 22 claiming to have at least a partial, bipartisan solution.

Grid operators throughout the nation, meanwhile, struggle with their own logjams and proposed solutions. While technologies evolve and advance at light speed, tried and true regulatory and financial barriers remain as static, uncompromising and intractable as the periodic table of elements.

If solutions are not defined and expedited, realization of state and national climate ambitions will face likely and wholly foreseeable and fatal implementation failures. As negotiations continue in both chambers of Congress, all eyes are on the lame-duck, post-election legislative window of opportunity.

Transmission: Where Does it Go and Who Pays?

Two very simple tenets underpin the transmission quandary: geography and cost recovery. First, our historic energy infrastructure is premised on a very centralized model. A significant generation source (e.g., coal- or natural gas-fired power plants) would be located in relative proximity to a consumer base of industrial, commercial and/or residential offtakers.

Large transmission towers and high-voltage lines transmit the energy to the consumer base and an intricate local distribution system would bring the electrons into homes and businesses that would be charged a preestablished rate based upon their consumption. The whole system would likely be under the control of a single vertically integrated utility that fronted the cost for all components, including generation, transmission and distribution.

Our energy system, however, has, and is, evolving into a far less centralized dynamic. For example, the Dakotas and surrounding states are rich in wind resources ripe for harvesting as zero-emission electricity, but the nearest need for most of that energy is far to the east, and existing infrastructure is incapable of transmitting that plentiful supply, making geography the first vexing tenet.

The second tenet, cost recovery, is a guarantee — including a reasonable profit — to the generator, transmitter and distributor — sometimes, but decreasingly so, the same entity. That guaranteed return is how consumer rates are set. Developers propose new generation, transmission and distribution infrastructure, what it will cost and what must be recovered from consumers in the form of utility rates.

In a centralized, vertically integrated system, this was a relatively straightforward concern, with disputes focusing more on economics than logistics. With a decentralized system where new transmission infrastructure may traverse multiple states and involve more than one



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grid-operator region, what costs are reasonable and which beneficiaries of the energy supply and related infrastructure will be required to shoulder the cost are defining considerations?

Legislators, policymakers, grid operators, utilities, developers and innumerable others are grappling with these issues in real time throughout the country.

S.B. 4753: The Energy Permitting Reform Act

Sens. Joe Manchin, I-W.Va., and John Barrasso, R-Wyo., chair and ranking member, respectively, of the U.S. Senate Energy and Natural Resources Committee, say they have struck a rare bipartisan balance that they hope will pass in the coming lame-duck session of Congress. The Energy Permitting Reform Act of 2024, S.B. 4753, boasts something for nearly all stakeholders: Democrats and Republicans, renewable and fossil fuel advocates, climate hawks and reliability watchdogs.

The bill is garnering both support and skepticism from all sectors. While many Democrats and climate interest groups say S.B. 4753's fossil fuel provisions would lock in emission sources for decades to come, others note the imperative for large-scale transmission for the transition to electrification of our energy supply and the fact that third-party analysis claims that, even with the fossil fuel provisions, the net impact of the bill would be emission reductions.

The breadth and balance of S.B. 4753 is notable. Designed to streamline and modernize regulatory review and permitting processes for both renewable and traditional energy infrastructure, the bill is intended to increase and expedite pending and proposed projects. Its core elements include:

- Limiting the period of time within which a project opponent can judicially challenge an administrative approval or denial of an energy or mineral project;
- Expediting and streamlining regulatory review provisions for onshore oil and gas development on federal lands;
- Promoting offshore energy leasing and permitting, including traditional and wind resources;
- Broad direction on incenting, streamlining and coordinating review and approval of large-scale transmission infrastructure;
- Focused review of grid reliability concerns;
- Elimination of delays in approval or denial of pending and future proposed liquefied natural gas export facilities; and
- Modernization of permitting provisions for hydropower.

It was a much delayed deal between Senate Majority Leader Chuck Schumer, D-N.Y., and Manchin that enabled passage of the Biden administration's seminal climate law, the Inflation Reduction Act, though the act was devoid of any provision or funding for transmission.

It was widely reported that part of Schumer's deal with Manchin was support for passage of a future package on transmission. Such a package, until now, has proven unpalatable to

Republicans, but Barrasso's negotiation and support of S.B. 4753 changed that dynamic and kicked off broad, bipartisan support for the bill.

Pundits opine that it may be now or never for a bipartisan deal on transmission infrastructure. Manchin is not seeking reelection and will vacate his influential seat as chair of the Energy and Natural Resources Committee.

Whatever the outcome of the 2024 election, it will likely preclude a proposal capable of garnering the requisite 60 votes in the Senate. If Republicans win the majority, it is unlikely there will be support for the extensive transmission infrastructure provisions of S.B. 4753. Should the Democrats prevail, they are unlikely to get behind the level of fossil fuel support in the bill that brought Barrasso and his allies' approval.

Thus, a last-ditch effort in the post-election, lame-duck tail of the current congressional session may be the only narrow window of possibility. Discussions underlying a companion bill in the U.S. House of Representatives are ongoing and focus primarily on revisions to the National Environmental Policy Act, a long-time focus of House Republicans.

Regional Grid Governance and Cost Allocation

The nation's electricity transmission infrastructure, or the grid, is overseen and operated primarily by regional transmission organizations and independent service operators, which are responsible for approval, cost allocation and cost recovery of infrastructure improvements.

One pending improvement proposal illustrates the complexity of project proposal and cost allocation of multistate regional infrastructure projects. The Midcontinent Independent System Operator, or MISO, is considering a \$21 billion transmission expansion plan.

The proposal includes 4,000 miles of new transmission lines traversing nine states in the Midwest region. Among other objectives, the intent is to expand the capacity for renewable wind generation and battery storage for the benefit of consumers far to the east for which there is currently severely constrained transmission capacity.

For MISO to approve the plan, it has to make a finding that the regional project provides benefits that match or exceed its costs. Although the current position of MISO is that the project's benefits may be double the costs, not all agree. At issue is putting a price on carbon emission avoided based on construction of the project — the social cost of carbon.

The estimates vary widely, many pegged to the tax credit values established in the Inflation Reduction Act. Should the MISO board make the requisite cost-benefit finding, ratepayers in the region would bear the \$21 billion price tag based on the benefits allocation established by MISO through stakeholder input from states, utilities and consumer advocates, among others.

Conclusion

The core issues on mass transmission expansion are not difficult to articulate: Where does it go, and who pays for it? Answering those questions is another matter.

Whether the Manchin-Barrasso compromise or the myriad regional transmission organization and independent service operator proposals currently under consideration are the focus, existing capacity deficiencies throughout our national grid present the potentially

greatest impediment to realization of energy transition and emissions reduction goals of both states and the nation.

Additionally, while the federal government has yet to adopt any single emissions mandate, most states have, including binding deadlines. California, for example, is legislatively bound to reduce emissions to 40% below 1990 levels by 2030, and to accomplish carbon neutrality by 2045.

Without adequate transmission infrastructure for all types of renewable energy, those goals will remain merely aspirations that, in reality, are largely unattainable.

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