The State Role in Implementing the Bipartisan Policy Center's Report:

"Policies for a Modern and Reliable U.S. Electric Grid"

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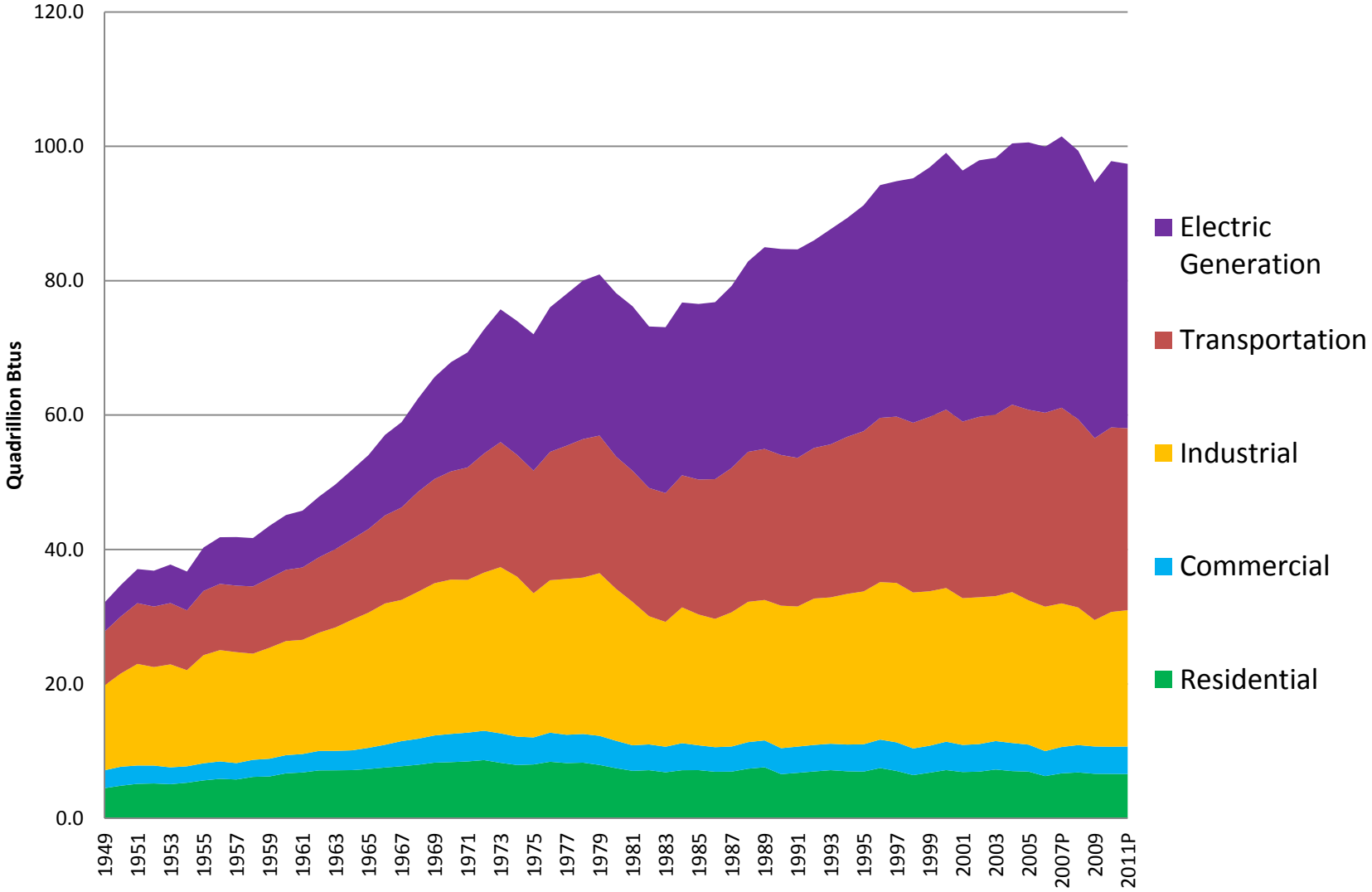
What is the challenge?

- Electricity demand growth is flattening, while electrification of the economy is continuing.

Annual Percent Growth in Electricity Demand

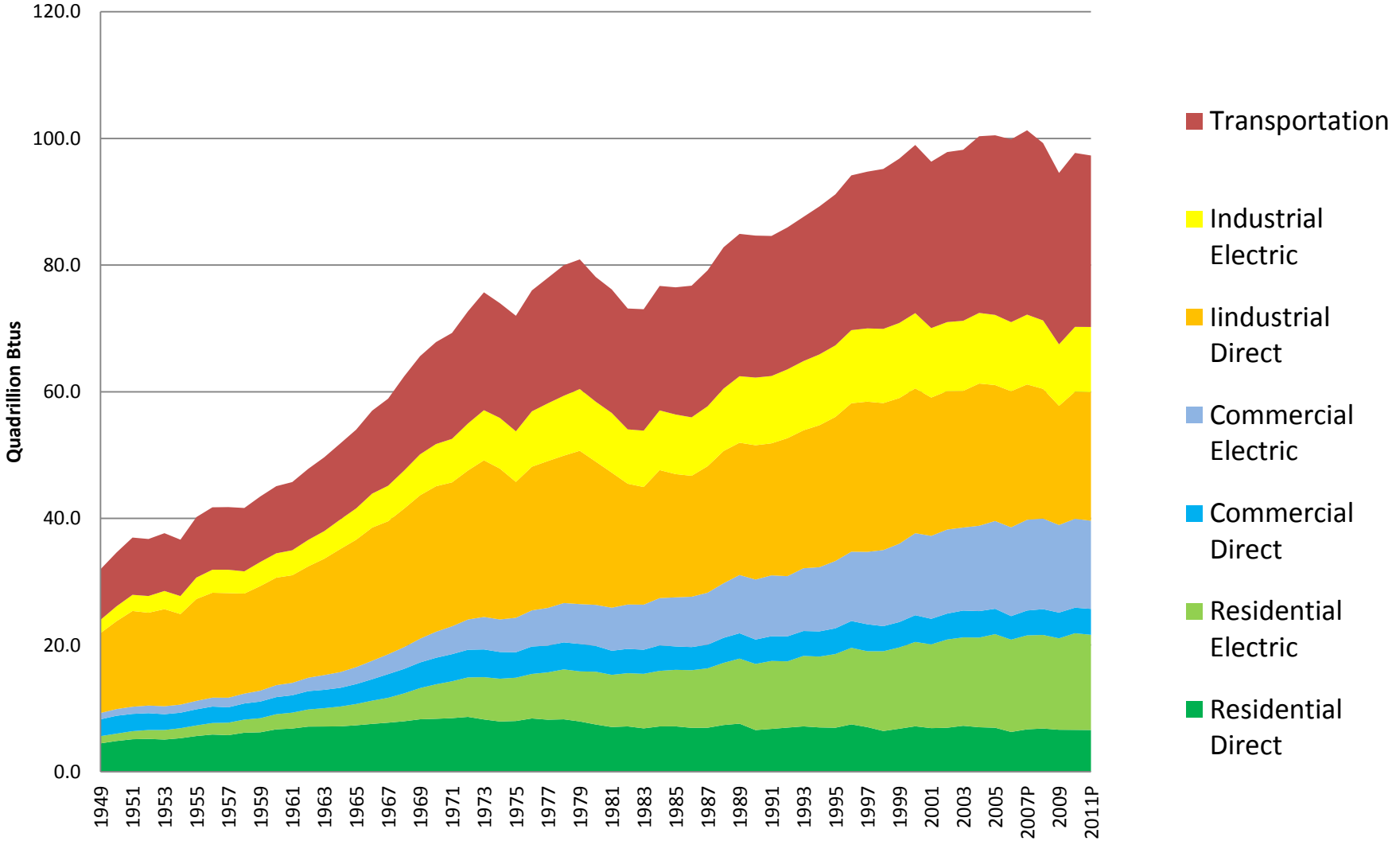
Source: Annual Energy Outlook 2012, EIA, June 2012

Sectoral Energy Demand Growth
1949 - 2011



End Use Sectoral Demand Growth

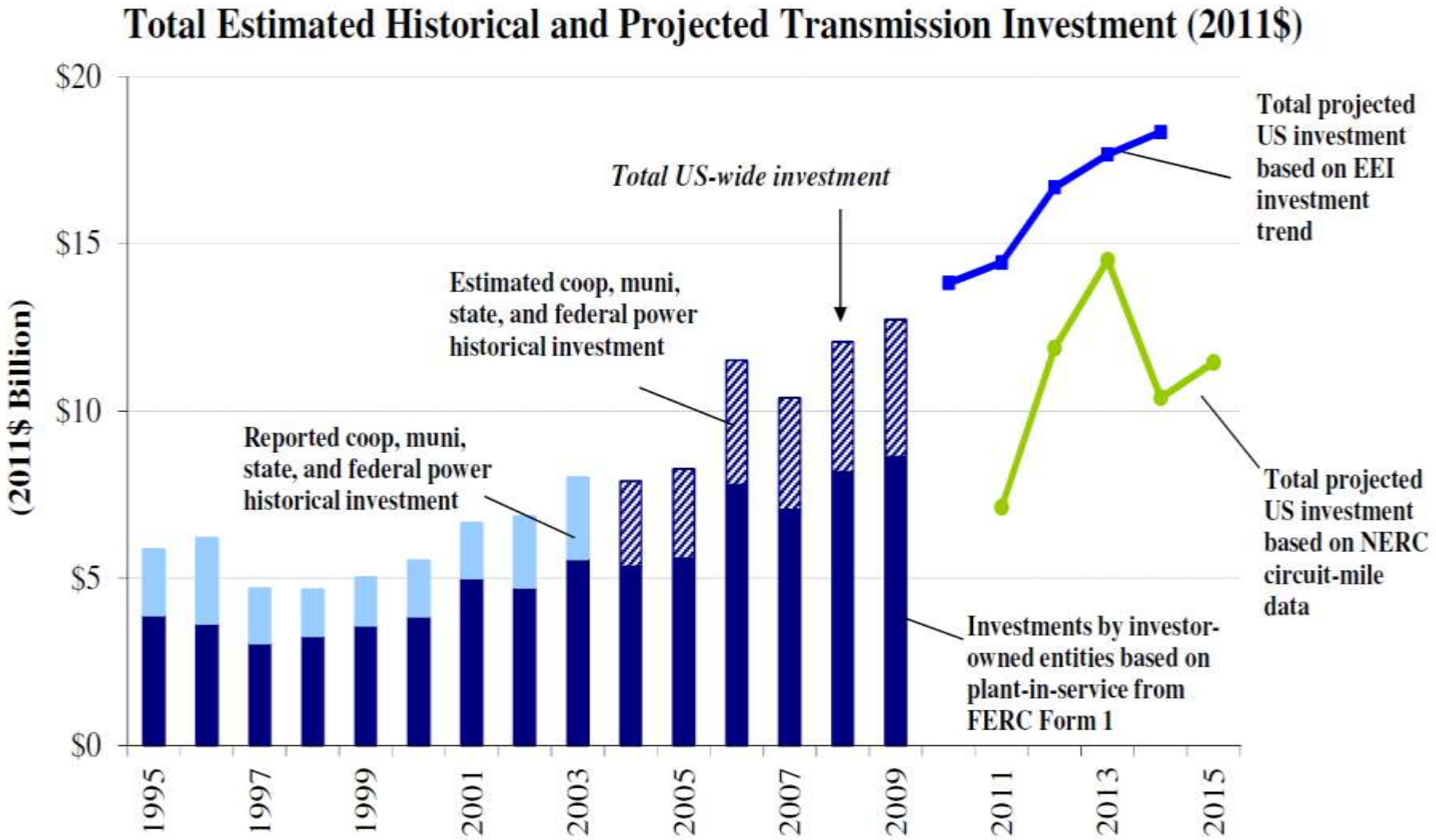
1949-2011



What is the challenge?

- Electricity demand growth is flattening, while electrification of the economy is continuing.
- Clean energy is necessary; the electric system is the primary source of greenhouse gases.
- Transmission grid was ignored, aging, and failed to access significant emerging clean energy resources.
- Electric grid has grown beyond individual utilities and states to become synchronous interregional system.
- Onrushing multi-faceted transition will clearly revolutionize the technology, business model, and customer role in the electricity sector.
- The century-old structure of laws, regulations and institutions governing the electric sector must accommodate all these changes, but is slow to adapt.

We <u>are</u> adding transmission



But the big changes are coming at the retail customer level…

States are the Key Intermediaries

- They are critical for the approval of transmission lines and links in regional grids. Without their support, we cannot have the benefits of:
  - regional markets for differences,
  - bulk market competition,
  - regional mitigation of renewable energy variability, and
  - regional reliability and resiliency enhancement.
- They are also the jurisdictional entities that regulate local distribution operations, investments, and economics. Without wise decisions we cannot have the benefit of:
  - Smart grid efficiencies
  - Distributed energy interconnection
  - Renewable energy incentives
  - Demand response programs
  - Utility-sponsored energy efficiency
  - Utility

Recommendations from BPC Report (1)

- Enact a new, targeted federal backstop siting authority for multistate HVDC or 765+ KV lines where at least one state has approved and another state has refused any route for 18 months.
- Federal agencies should coordinate to permit transmission routes on their lands.
- FERC should allow regional cost-allocation for transmission which is expandable in the future and serves location-constrained resources.
- DOE should support distribution company best practices for advanced grid architecture.

Recommendations from BPC Report (2)

- DOE should continue interconnection-wide planning processes
- States regulators should adopt incentive regulation, dynamic pricing and demand response programs.
- NERC should provide for greater data and analysis to backstop reliability goals
- Balancing authorities should be consolidated where they are smaller than optimum or where they can effectively integrate variable energy resources.

The Key Role of the States

- States will retain jurisdiction over siting and construction of electric transmission lines.
- States will be the key provider of renewable energy impetus.
- Effective markets are now regional or interconnection-wide, justifying similar planning and project approval.
- Wide geographic markets mitigate renewable energy variability, lowering costs further that are already declining.
- Technology is evolving to reassert new local, individual consumer capabilities, discretion; states will govern them.
- States will be the key nexus between developing broader regional grids and integrating the new competitive flexibility consumers will have through distributed, small-scale resources and microgrids.
- States need to work together, seek broader goals.
- States need to support integration of technologies, common standards, market principles, least costs.