



TESTIMONY

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SENATE BILL 568 AND ELECTRONIC TRANSMISSION LINE PROJECTS

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Protection, Energy and the Environment Committee

TO THE HONORABLE MEMBERS OF THIS COMMITTEE

My name is David Stokes, and I am director of municipal policy for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state and local policy. The ideas presented here are my own and rely heavily on research conducted by my former colleague Jakob Puckett during his work at the Show-Me Institute. These comments are intended to provide relevant information regarding Senate Bill (SB) 568 and the construction of electric transmission line projects in Missouri.

Electric transmission lines are necessary for transporting electricity from power plants to customers, but there are limits to how much electricity a given line can carry at one

time. Transmission lines overloaded with electricity are a safety hazard and could be an expensive burden for ratepayers in the event of an accident. According to the Midcontinent Independent System Operator (MISO)—the operator of one of the regional electricity grids and wholesale markets to which Missouri belongs—transmission lines in several parts of Missouri are stretched beyond capacity.¹ More electric transmission lines will need to be built.

Transmission lines are built after the grid operator—in Missouri's case MISO or the Southwest Power Pool (SPP)—determines that more transmission lines are needed to meet electric demand. In a recently released draft study, MISO and SPP identified several points along their regions' seams, including near Sibley, Missouri (in Jackson County), where new transmission projects can help relieve congestion and better integrate

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new generation capacity² (although the economic benefits from the proposed Sibley 345 kV bus upgrades are not specifically quantified in the final report).

SB 568 would grant Missouri's monopoly utilities the "right of first refusal" (ROFR) for construction of any proposed electric transmission line with a capacity greater than 100 kilovolts. The ROFR would also apply to any transmission lines that connect to a facility owned by that monopoly utility, even if the transmission line is outside its territory. Lines with capacities greater than 100 kilovolts are used for long-distance transmission of electricity, in contrast to local distribution lines, which typically have capacity of under 69 kilovolts. Passage of SB 568 would entitle monopoly utilities to construct any transmission lines over 100 kilovolts that MISO and SPP determine need to be built, pre-empting any competing company that could (in theory) also build them. Only if the monopoly utility declined to build the transmission lines would the project be subject to competitive bids from other parties. Construction costs would be borne by ratepayers, with an additional percentage added on so the utility could make a profit.

It is difficult to imagine how exempting any company from competitive pressure could benefit consumers. As economic theory would suggest, a competitive market leads to lower costs, in this case for ratepayers. Evidence from North American electricity markets has shown that allowing competitive bidding for transmission projects has resulted in lower transmission project costs. According to research from the economic and legal consulting firm The Brattle Group, bids that grid operators receive when they are solicited competitively come with substantial cost savings and increased cost certainty for customers.³ This has been the case with Missouri's two regional electric grids. MISO has experienced a 15 percent reduction in costs when using competitive bidding, and SPP has experienced a 50 percent reduction in costs. The nationwide average is 40 percent.⁴ All transmission lines must be built to standards set by the North American Electric Reliability Council, so cost savings from competition don't come at the expense of quality.⁵

In contrast, transmission projects that were not subject to competitive bidding saw higher-than-expected prices. Due in part to cost overruns and delays, non-competitively

bid projects came in an average of 34 percent higher than original estimates.⁶ Moreover, the Antitrust Division of the U.S. Department of Justice has weighed in on this matter, making it clear that state ROFR laws harm consumers by reducing competition.⁷

Transmission costs are ultimately passed on to customers, so exempting electric transmission projects from a competitive bidding process as SB 568 intends increases the likelihood that customers will face higher electric bills. Missouri's average electricity prices have already risen the fourth-fastest in the nation since 2008, so raising costs even further is something legislators should be wary of.⁸ If lawmakers want to lower electric bills for Missourians, or at least keep them from increasing more than necessary, it would be prudent to explore ways to expand competition in electric transmission line construction rather than restricting it. SB 568 powers Missouri in the wrong direction.

NOTES

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3. Pfeifenberger, Johannes et al. Cost Savings Offered by Competition in Electric Transmission. The Brattle Group. April 2019. https://www.brattle.com/wp-content/uploads/2021/05/16726_cost_savings_offered_by_competition_in_electric_transmission.pdf.
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7. Harr, Daniel E. “Letter of the U.S. Department of Justice Antitrust Division to the Honorable Travis Clardy.” Department of Justice. 19 April 2019.
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