Even people who could not care less about renewable energy development have heard the plea: in order to deliver big bunches of power from central station renewable sources, we need lots of new transmission lines. If so, then who should put up the money to get the lines built? In a decision issued a few days ago, federal regulators made the answer to that question a little less certain.

When one utility company provided everything from power generation to the meter, the answer was much simpler — once regulators agreed, the utility would pay for building a new line and pass on the cost to all of its customers through its rate charges. But when the Federal Energy Regulatory Commission (FERC) started pushing for competitive wholesale generation markets, FERC had to deal with the fact that a competitive generator could build a plant wherever it wanted, regardless of the ability of the electric grid to carry the power. It hardly seemed fair to impose the cost of a new transmission line on all ratepayers if it was only needed to serve a new wholesale generator. In 2003, FERC ordered new generators needing transmissions upgrades to fund 100 percent of the cost initially, and then receive reimbursement through credits against transmission service costs once the generator began commercial operation.

Making new generators pay their own way seemed to make sense until we decided, as a society, to increase our reliance on renewable power. If we want to encourage people to build wind farms and solar plants, does it make sense to saddle them with the upfront cost of a new transmission line?

California and many other states have to rely on FERC to resolve this problem, since FERC sets rates for transmission service provided by independent system operators like California's ISO. Nonetheless, the California legislature directed its regulators to do everything they could to take the burden of transmission investment off of the renewable energy providers and put it on all of the ratepayers.

FERC seemed to be moving in the direction of broader ratepayer funding until it issued a decision on October 23, 2009, in a case involving the Midwest Independent System Operator (MISO). Two smaller MISO member utilities (Otter Tail Power and Montana-Dakota Utilities) expressed fear that their ratepayers would drown in higher bills unless certain wind farms covered the cost of needed transmission improvements. The utility customers would otherwise pay for the new lines even though the resulting power would zip right by them, and serve ratepayers elsewhere. Otter Tail and Montana-Dakota threatened to withdraw from the MISO if the problem wasn't resolved (by doing that, they could evade federal rate regulation). FERC took the threat seriously, and approved an interim arrangement leaving the wind farms with the upfront cost of grid expansion.

The renewable energy industry is complaining loudly, saying that this will stifle new development. The utilities point out that the grid improvements in question will add only 5% to the cost of the wind farms. FERC is quick to add that this is just a temporary funding policy, since it is hoping that a group of stakeholders will soon come up with a new approach for future projects. In the meantime, the campaign for massive additions to the transmission grid to support renewable energy development has hit another bump in the road.