

**FEDERAL POWER MARKETING
ADMINISTRATION BORROWING
AUTHORITY: DEFINING SUCCESS**

OVERSIGHT HEARING

BEFORE THE
SUBCOMMITTEE ON WATER AND POWER
OF THE
COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED ELEVENTH CONGRESS
FIRST SESSION

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Tuesday, March 10, 2009
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**OVERSIGHT HEARING ON “FEDERAL POWER
MARKETING ADMINISTRATION BORROWING
AUTHORITY: DEFINING SUCCESS.”**

**Tuesday, March 10, 2009
U.S. House of Representatives
Subcommittee on Water and Power
Committee on Natural Resources
Washington, D.C.**

The Subcommittee met, pursuant to call, at 2:30 p.m., in Room 1324, Longworth House Office Building, Hon. Grace Napolitano [Chairwoman of the Subcommittee] presiding.

Present: Representatives Napolitano, Miller, Grijalva, Costa, DeFazio, Baca, McMorris Rodgers, Smith, Coffman, McClintock, and Hastings.

Mrs. NAPOLITANO. Good afternoon, ladies and gentlemen.

This meeting of the Subcommittee on Water and Power will come to order.

The purpose of today’s meeting is to hold an oversight hearing on the Federal Power Marketing Administration borrowing authority, and defining its success as a prelude to stimulus action affecting Bonneville and WAPA.

I do ask unanimous consent that any Members of Congress who come and want to join the dais be allowed to sit on the dais and participate in the Subcommittee proceedings today.

Without objection, so ordered.

Before we begin this hearing, I would first like to mention that this is the first meeting of the Subcommittee on Water and Power of the 111th Congress. I consider it to be a very great privilege to serve as the Chairwoman of the Subcommittee; and I am very, very pleased to welcome back as the Ranking Member of the Subcommittee, my colleague, Congresswoman Cathy McMorris Rodgers of Spokane, Washington, who has been a very great pleasure to work with.

As we begin to work on the Subcommittee for the 111th Congress, rest assured I will try to do my best to administer the Subcommittee with a fairness and with a respect for every Member; and I expect the same respect in return. I have an open door policy; and all of you are welcome to contact me in my office or Amelia Jenkins, the Subcommittee Director, the Majority Staff Director at any time. And this applies to both sides of the aisle, my colleagues.

We will listen to anybody who has a water problem. That has always been what we consider essential for this Subcommittee.

While there will be times when we may have partisan differences, the Subcommittee shall be handled on a nonpartisan basis and has been for a number of years. I intend to work with all who wish to help solve water problems and expand renewable energy in the West, and we can only accomplish this if we set aside our partisan differences.

Allow me to briefly introduce my Democratic Members.

I would like to first start off with Congressman Jim Costa of Fresno, California. Jim and I served together in the California State Legislature in the 1990s, and his knowledge of California water issues is very comprehensive, and is now in his third term on the Subcommittee.

Welcome back, Jim.

I would like to recognize Congressman Joe Baca from Rialto in San Bernardino County in California. Welcome back, Joe. He's the Chair of the House Subcommittee on Department Operations, Oversight, Nutrition, and Forestry on the full Agriculture Committee. I know he is especially concerned with protecting groundwater supplies from perchloric contamination, and it will continue to be a priority for our Subcommittee.

I would also like to welcome our new colleague on the Subcommittee. He is serving on my Subcommittee, and I have added my name to his Subcommittee. It is Raúl Grijalva from Tucson, Arizona. He is the Chairman of the Subcommittee on National Parks, Forests, and Public Lands, and I gladly joined his Subcommittee. He has been a tireless devotee to conservation efforts during his time in Congress, from working to protect the public lands to encouraging water conservation through recycling programs. He is interested in the Colorado River issues, which will continue to be one of the focal points of the Subcommittee.

I will do the statements after, Cathy, if you will introduce your Members.

Mrs. MCMORRIS RODGERS. Thank you, Madam Chairman.

I am glad to be back as the Ranking Member on this Subcommittee. I have enjoyed working with you on a variety of issues over the last term and look forward to working with you this Congress.

Yes, I would definitely like to introduce the Members of the Subcommittee on Water and Power, but let me first start by introducing the new Ranking Member for the Natural Resources Committee, Doc Hastings, who is my neighbor in Washington State, my neighbor to the east, and has been a mentor to me since I arrived in Congress. We have worked together on a variety of issues, and I am really pleased to see him in this leadership role for resources.

Next, we have Representative Adrian Smith from Nebraska's Third Congressional District, which includes 68 counties in the western part of the State. He served with distinction on this Subcommittee in his first term, and we are pleased to have him back for his second term.

Representative Mike Coffman comes to us from Aurora, Colorado. We served on the Armed Services Committee together, and I am pleased to now have you on this Subcommittee.

And, with that, I will turn it back to the Chairwoman.

Mrs. NAPOLITANO. Thank you.

After my opening statement, I will recognize all of the Members of the Subcommittee for any statement they may have. Any Member who desires to be heard will be heard.

Additional material may be submitted for the record by witnesses, Members, or any interested party. The record will be kept open for 10 business days following today's hearing.

The 5-minute rule with our timer will be enforced. "Green" means go, "yellow" near the end, and "stop" means if you don't, I will.

STATEMENT OF THE HON. GRACE F. NAPOLITANO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mrs. NAPOLITANO. I am very pleased to continue to address power issues at this, our first meeting of the Subcommittee. Renewable energy generation through the West is a very critical topic for all of us. We all understand that for generation to meet ever-growing market demand, we need to assist in the development of additional transmission infrastructure.

Last year, I visited the Western Area Power Administration and was able to get a much-needed perspective on that grid from the air and in talking to some of the folks on the ground. It is a totally impressive system, serving 15 States total.

I was also fortunate to visit a control center to get a firsthand view of the rooms where transmission is managed and how the system is operated. And it is something to behold, to see those lights and the transmission power lines indicating how it is managed, how it is set up for transmission by putting in orders for what is going to be needed.

Senator Reid was the champion of the provisions in the American Recovery and Reinvestment Act of 2009 that provided expanded financial tools for the Bonneville Power Administration and Western Area Power Administration. We did not have the opportunity to fully vet these provisions, and I am hopeful this hearing will provide both Bonneville and WAPA the opportunity to hear from various interests and then clarify how they intend to move forward.

[The prepared statement of Mrs. Napolitano follows:]

**Statement of The Honorable Grace F. Napolitano, Chairwoman,
Subcommittee on Water and Power**

I am pleased to continue to address power issues at this, our first meeting of the Subcommittee. Renewable energy generation throughout the West is a very critical topic. We all understand that in order for generation to meet ever-growing market demand, we need transmission infrastructure.

Last year I visited Western Area Power Administration and was able to get a much-needed perspective of that grid from the air. It is an impressive system, serving 15 states in total. I also was fortunate to visit a control center to get a firsthand view of the rooms where transmission is managed, and how the system is operated.

Senator Reid was the champion of provisions in the American Recovery and Reinvestment Act of 2009 that provide expanded financial tools for Bonneville Power Administration and Western Area Power Administration. As part of a larger package, we did not have the opportunity to fully vet these provisions. I am hopeful this hearing today will provide both Bonneville and Western the opportunity to hear from various interests and then clarify how they intend to move forward.

With that said, I am pleased to now yield to my friend and colleague, Ranking Member Congresswoman Cathy McMorris Rodgers, for the introduction of her MOCs and her statement.

Mrs. NAPOLITANO. I am pleased now to yield to my friend and colleague, Ranking Member Cathy McMorris Rodgers, for her statement.

STATEMENT OF THE HON. CATHY McMORRIS RODGERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mrs. McMORRIS RODGERS. Thank you, Madam Chairwoman.

Today, we are going to be talking about the need for transmission lines. Most everyone agrees we need more transmission. But there are still a lot of questions as to who will build it, how it will be built, and who ends up paying for it. These might seem like simple questions, but nothing is simple in the electric industry.

Back home in the Pacific Northwest, the Bonneville Power Administration continues to have a positive impact on the region. BPA's energy sales constitute 40 percent of the market, and three-quarters of the transmission lines belong to the agency. Even though costs are higher due to a number of factors, BPA's ratepayers continue to enjoy the benefits of a hydropower-based system.

We are here today to discuss BPA's borrowing authority and the new WAPA borrowing authority. BPA's borrowing authority has been around since 1974. It can be used for building transmission for all sources of energy, fish and wildlife mitigation, and conservation.

We look forward to hearing from the Administrator, Steven Wright, and the Executive Director of the Public Power Council, Scott Corwin, on how the agency will carry out its access to new funding.

Some in Congress recently chose to give the Western Area Power Administration a brand-new borrowing authority. There are some similarities between BPA and WAPA, as we will hear today. There are also some differences, and I am aware there are some concerns over WAPA's new borrowing authority, and setting up a process to resolve those concerns is one reason why we are having the hearing. We have some of the best and brightest here to enlighten us. I applaud my colleague, Mr. Smith, for asking for this hearing.

Madam Chairwoman, I look forward to working with you on these issues.

Mrs. NAPOLITANO. Thank you.

[The prepared statement of Mrs. McMorris Rodgers follows:]

Statement of The Honorable Cathy McMorris Rodgers, Ranking Member, Subcommittee on Water and Power

Thank you, Chairwoman Napolitano. I'm glad to be back as Ranking Member of the Water and Power Subcommittee. We've worked well together in the past to solve problems and I once again look forward to working with you this Congress.

Like you, I would like to introduce my fellow Subcommittee Members—but first let me introduce to you our new Ranking Member of the full House Natural Resources Committee, Mr. Doc Hastings. Doc is my neighbor in eastern Washington where we've worked closely together since I came to Congress. Doc has been a mentor and I'm thankful to have his leadership on the Committee.

Next we have Representative Adrian Smith from Nebraska's Third Congressional District, which includes 68 counties in the western part of the State. Adrian served with distinction on the Subcommittee in the last Congress and I look forward to having him aboard for another Congress.

Representative Mike Coffman is a new Member and comes to us from Aurora, Colorado. Mike Represents Colorado's 6th Congressional District. Mike and I also serve together on the House Armed Services Committee. Next we have Representative Tom McClintock from northern California 4th district. I'm grateful that Tom's on this Subcommittee since so many of our issues involve California water. Madam Chairwoman, I am confident we have a good team put together and we all look forward to working with you this Congress.

We gather to talk about the need to build more transmission lines. Most everyone agrees that we need more transmission but there are still many questions as to who will build it, how it will be built, and who ends up paying for it. These seem like simple questions, but nothing is simple in the electricity industry.

Back home in the Pacific Northwest, the Bonneville Power Administration continues to have a positive impact on the region—BPA's energy sales constitute 40% of the market and three-quarters of the transmission lines belong to the agency. Even though costs are higher due to a number of factors, BPA's ratepayers continue to enjoy the benefits of a hydropower-based system.

We're here today to discuss BPA's borrowing authority and the new WAPA borrowing authority. BPA's borrowing authority has been around since 1974 and can be used for building transmission for all sources of energy, fish and wildlife mitigation, and conservation. We look forward to hearing from Bonneville's Administrator, Steve Wright, and the Executive Director of the Public Power Council, Scott Corwin, on how the agency will carry out its access to new funding.

Some in Congress chose to give the Western Area Power Administration a brand new borrowing authority. There are indeed many similarities between BPA and WAPA and, as we will hear today, there are significant differences. I'm aware that there are some concerns over WAPA's new borrowing authority and setting up a process to resolve those concerns is one reason for this hearing. We have some of the best and brightest here today to enlighten us and work in a productive way. I applaud my colleague, Adrian Smith, for asking for this hearing.

Madame Chairwoman, I look forward to another two years working with on this Subcommittee.

Mrs. NAPOLITANO. I would like to welcome to our Subcommittee Congressman Peter DeFazio from Springfield, Oregon, representing the southwest portion of that State. Congressman DeFazio is currently the Chair of the Transportation Committee's Subcommittee on Highways and Transit, and he is truly dedicated to transportation and environment issues. In his more than two decades in this House, he has been an advocate for land and wildlife in the Pacific Northwest as well as for the expansion of renewable energy; and we also want to welcome him to the Subcommittee.

Mrs. MCMORRIS RODGERS. Madam Chairwoman, I am pleased to introduce Tom McClintock from California's Fourth Congressional District; and I am really pleased that he has joined this Subcommittee. As we all know, there is a variety of water issues especially important to California, and I know he will bring an important perspective as we address them.

Mrs. NAPOLITANO. We have no statements on our side. Do you have some?

STATEMENT OF THE HON. DOC HASTINGS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. HASTINGS. Thank you, Madam Chairwoman.

I am especially pleased to be here today as the Water and Power Subcommittee has a profound and direct impact on my constituents in central Washington.

Water is at the heart of our economy and our way of life. The Bureau of Reclamation's Columbia Basin and Yakima Projects turned what used to be a desert into some of the most productive farmland in the world. They serve as a major economic force in central and eastern Washington and also feed millions in domestic and international food markets.

In addition, the Federal Columbia River power system and its flagship dam, the Grand Coulee Dam, which I might add is a Bureau of Reclamation dam, provides clean, renewable and emissions-free hydropower to millions throughout the Pacific Northwest.

The historical value of these projects is proven to many, but they are under a constant assault due to age, litigation, and regulatory schemes. For example, the Snake River Dam continues to be a target, yet it is illogical to talk about removing these dams when they provide the Nation's free hydropower and help boost other energy renewables.

Certainly, the President's recently released budget proposed an undefined and extensive global climate change cap-and-trade system that could very well punish Northwest rate payers for using carbon-free hydropower and giving carbon credits to those in fossil-burning regions.

Today's hearing examines the growing need for transmission in the West. In the Pacific Northwest, the Bonneville Power Administration has 75 percent of the transmission assets. The agency now has expanding borrowing authority—which, of course, is the subject of this hearing—to integrate more wind generation, some of which will be sold to California rate payers. As we all know, there have been serious wind integration issues in the region.

As part of this discussion, I would like to hear whether BPA might have to reduce its lower-cost hydropower generation to accommodate the more expensive wind energy that may be used within the region or shipped to California. Whether the wind energy gets delivered to customers in or out of the region, it could force an uneconomic BPA business decision, possibly to the detriment of Northwest rate payers.

Similar cost concerns apply to the current customers of the Western Area Power Administration, who would face higher electricity costs if the agency fails to be transparent and allocates costs accordingly to the new borrowing authority.

As both the Chairwoman and the Ranking Member have said, there are differences with the expanding borrowing authority as in relation between WAPA and BPA, and I have to tell you that I have serious concerns from reading what that authority is to WAPA. Some have tried to tie BPA's proven, effective use of borrowing authority to WAPA's new authority, but this really is like comparing apples to oranges, starting with the fact that Northwest rate payers repay every debt with interest, versus a new WAPA provision that allows similar debts be forgiven or potentially forgiven and paid for by all American taxpayers. So, simply put, that provision puts an unnecessary cloud over the whole Federal program.

So, Madam Chairman, I am pleased that we are having this hearing today. I look forward to the testimony of all of the parties as we move forward, because we clearly do have to make sure that

we can move our electricity around to keep our ever-growing economy ever growing.

With that, I yield back.

[The prepared statement of Mr. Hastings follows:]

**Statement of The Honorable Doc Hastings, Ranking Member,
Committee on Natural Resources**

Thank you, Chairwoman Napolitano and Ranking Member McMorris Rodgers. I'm especially pleased to be here today, as the Water and Power Subcommittee has a profound and direct impact on constituents in my Central Washington district. Water is at the heart of our economy and way of life.

The Bureau of Reclamation's Columbia Basin and Yakima projects turned the desert into some of the most productive farm land in the world. They serve as a major economic force in Central and Eastern Washington and also feed millions in domestic and international food markets. In addition, the Federal Columbia River Power System and its flagship dam, Grand Coulee, provide clean, renewable and emissions-free hydropower to millions throughout the Pacific Northwest.

The historical value of these projects is proven to many, but they are under constant assault due to age, litigation and regulatory schemes. The Snake River dams continue to be a target, yet it's illogical to talk about removing these dams when they provide emissions-free hydropower and help bolster other renewable energies. Similarly, the President's recently released budget proposes an undefined and expensive global climate change cap-and-trade scheme that could very well punish Northwest ratepayers for using carbon-free hydropower and giving carbon credits to those in fossil-burning regions.

Today's hearing examines the growing need for transmission in the West. In the Pacific Northwest, the Bonneville Power Administration has 75% of the transmission assets. The agency now has expanded borrowing authority—the subject of this hearing—to integrate more wind generation, some of which will be sold to California ratepayers. As we all know, there have been serious wind integration issues in the region. As part of this discussion, I want to hear whether BPA might have to reduce its lower cost hydropower generation to accommodate more expensive wind energy that may be used in the region or California. Whether the wind energy gets delivered to customers in or out of the region, it could force an uneconomic BPA business decision—possibly to the detriment of Northwest ratepayers.

Similar cost concerns apply to the current customers of the Western Area Power Administration, who could face higher electricity costs if the agency fails to be transparent and allocate costs accordingly with its new borrowing authority. I have been strongly supportive of expanding borrowing authority for BPA, but I have serious concerns about WAPA's newly granted authority. Some have tried to tie BPA's proven, effective use of borrowing authority with WAPA's new authority. This is an apples-to-oranges comparison, starting with the fact that Northwest ratepayers repay every debt with interest versus the new WAPA provision that allow similar debts to be forgiven and paid for by all American taxpayers. Simply put, that provision puts an unnecessary cloud over the entire federal power program.

In addition, it is highly unlikely that this new WAPA borrowing authority will have a profound stimulus effect on the economy when it takes many years just to plan major transmission lines. I fear that WAPA's new borrowing authority may create more problems than solutions, but hopefully this hearing will help sort through some of these concerns. I look forward to hearing testimony on these issues.

Madam Chairwoman and Ranking Member McMorris Rodgers, I look forward to participating actively with you on this and many other hearings. Thank you.

Mrs. NAPOLITANO. And now we have Mr. Smith.

**STATEMENT OF THE HON. ADRIAN SMITH, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF NEBRASKA**

Mr. SMITH. Thank you, Madam Chairwoman, Ranking Member McMorris Rodgers, for holding this hearing.

I also want to welcome audience members here today from the Midwest Electric Consumers Organization, an organization representing thousands of rate payers in western Nebraska. I certainly appreciate you being here.

My reason for requesting this hearing is rather simple. Our Nation needs more electricity transmission to meet the growing demands for all sources of electricity, including abundant wind resources in my home State of Nebraska. However, as I hope to learn today, there are a growing number of questions about the most effective way to build new transmission. One such method is the new borrowing authority for the Western Area Power Administration, or WAPA.

As Members of the Water and Power Subcommittee, we ought to ensure this new borrowing authority will not stifle private-sector transmission and lead to loan defaults, which ultimately are laid to rest on the backs of American taxpayers.

In addition, WAPA's traditional mission and its customers cannot be forgotten or superseded by this new program; and I personally appreciate the value of WAPA's historical mission, as my grandfather worked in the Federal power program.

The plain States have great potential for wind generation, yet transmission is necessary to bring that power to population centers elsewhere, And that transmission will mainly be built on private land in Nebraska. Under its new authority, WAPA can use Federal eminent domain to build new transmission lines over private property.

Throughout my time in the Nebraska Unicameral and now here in the U.S. Congress, I have been a strong defender of landowners' rights and ensuring farmers, ranchers and others are treated fairly.

Finally, as the graph by the witness table shows, private investment in transmission far outweighs Federal efforts. As we do move forward, it is very important for private investments to continue to play a leading role in new transmission and not be hindered by WAPA's new program.

We have many witnesses here, one of whom is Joel Bladow from Tri-State Generation and Transmission Association, a wholesale power utility with six members in western Nebraska.

With the witnesses we have before us, I hope we can begin to answer my questions and together solve potential issues. Today will hopefully be the first step toward many of a successful program. To that end, I would urge WAPA to convene a task force of its customers, private utilities and investors in the renewables industry as a way of making sure this program meets success through cooperation.

[The prepared statement of Mr. Smith follows:]

**Statement of The Honorable Adrian Smith, a Representative in Congress
from the State of Nebraska**

Let me begin by thanking Chairwoman Napolitano and Ranking Member McMorris Rodgers for holding this hearing. I also want to welcome audience members of the Mid-West Electric Consumers Association, an organization representing thousands of public power ratepayers in western Nebraska. I appreciate you being here.

My reason for requesting this hearing is simple: our nation needs more electricity transmission to meet growing demand for all sources of electricity, including abundant wind resources in my home state of Nebraska. However, as I hope to learn today, there are a growing number of questions about the most effective way to build new transmission.

One such method is the new borrowing authority for the Western Area Power Administration, or WAPA. As members of the Water and Power Subcommittee, we ought to ensure this new borrowing authority will not stifle private sector trans-

mission and lead to loan defaults, which ultimately are laid on the backs of American taxpayers. In addition, WAPA's traditional mission and its customers cannot be forgotten or superseded by this new program—and I personally understand the value of WAPA's historical mission as my grandfather worked in the federal power program.

The Plains States have great potential for wind generation, yet transmission is necessary to bring that power to population centers elsewhere. And that transmission will mainly be built on private land in Nebraska. Under its new authority, WAPA can use federal eminent domain to build new transmission lines over private property. Throughout my time in the Nebraska Unicameral and now in the U.S. Congress, I have been a strong defender of landowner rights and ensuring farmers, ranchers and others are treated fairly.

Finally, as the graph by the witness table shows, private investment in transmission far outweighs federal efforts. As we move forward, it is very important for private investments to continue to play a leading role in new transmission and not be hindered by WAPA's new program.

We have many witnesses here, one of which is Joel Bladow from Tri-State Generation and Transmission Association, a wholesale power utility with six members in western Nebraska. With the witnesses we have before us, I hope we can begin to answer many questions and together resolve potential issues. Today will hopefully be a first step of many towards a successful program. To that end, I would urge WAPA to convene a task force of its customers, private utilities and investors and the renewable industry as a way of making sure this program meets success through cooperation. Thank you.

Mrs. NAPOLITANO. Now we will hear from Mr. Coffman.

STATEMENT OF THE HON. MIKE COFFMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

Mr. COFFMAN. Thank you, Madam Chairman and Ranking Member, for holding this hearing today. And welcome to our witnesses.

I would like to extend a special hello to our witnesses from the State of Colorado. It is always a pleasure to see fellow Coloradans here in Washington, D.C.

As our Nation works to meet our growing energy needs, investing in our transmission infrastructure is of great importance. The government can play a role in this, but it is important that it does not alienate consumers or hinder private industry investment.

Thank you.

Mrs. NAPOLITANO. We will proceed to hear from our witnesses. We have one panel, and the witnesses will be introduced before they testify. After we hear from the panel, we will open it for questions from our Members.

All of your submitted prepared statements will be entered into the record, and all witnesses are asked to kindly summarize the high points of your testimony because we will have it to read. In fact, most of us have already read it. And please limit your remarks to 5 minutes.

Again, the timer is before you; and we will enforce the rule, unless there is something really key that we want to hear on.

The rule also applies to all questioning, a total of 5 minutes for questions, including responses, which also applies to our Members. If there are any additional questions, we may have a second round, if time permits.

For our panel, we have Timothy Meeks, Administrator of Western Area Power Administration; Steve Wright, Administrator of Bonneville Power Administration; Steve Ellenbecker, Energy Policy Advisor to Wyoming Governor Dave Freudenthal; Leslie James, Ex-

ecutive Director of the Colorado River Energy Distributors Association; Scott Corwin, Executive Director of the Public Power Council; Chris Crowley, President of Columbia Energy Partners, LLC; and Edward M. Rahill, Vice President of Finance, CFO of ITC Holdings, Transmission Company.

Welcome to our panel.

We will proceed with Mr. Meeks. You are on, sir.

Before you start, and Doc Hastings, to your point in regard to the debt forgiveness, the Ranking Member and I, we have been talking. We need to work with you on that, because I am with you on that.

STATEMENT OF TIMOTHY MEEKS, ADMINISTRATOR, WESTERN AREA POWER ADMINISTRATION, LAKEWOOD, COLORADO

Mr. MEEKS. My name is Timothy Meeks, Administrator of the Western Area Power Administration. I would like to thank you all for inviting me here today to hear your concerns and the concerns of your constituents as far as Western's new authority to build transmission under the American Recovery and Reinvestment Act. I understand the huge responsibility that has been given to Western under this provision, and we do not take it lightly.

Basically, though, we are not a stranger to responsibility when it comes to building transmission, though. We own and operate 17,000 miles of high voltage transmission. We have partnered with public and private entities, many of those who are sitting in this room today. I do believe that, if this is executed properly, that we do have a role to play in building new transmission in the western United States to help facilitate the delivery of renewable energy.

The key balance that we must strike, obviously, is, one, as it was mentioned, our primary, first and foremost mission is delivering low-cost Federal hydropower to our preference customers; and we have to ensure that there is a wall between the people who benefit under the new authority and the people who have benefited under our traditional authority. We are taking steps that are necessary to ensure that there is a separation between these two programs so that those who do benefit from each program pay for their fair share of that program.

As I have mentioned, we believe in order for this authority to be maximized to its fullest extent we must partner with other entities. \$3.25 billion is a lot of money. But when it comes to the needed transmission in the western United States, it is just a drop in the bucket. So, in order for us to maximize that authority, we have to seek partnership with other entities, public and private entities; and, as stated, the law requires that I certify that these projects are economically viable. In order to do that, there must be a consensus, a ground swell of support for these projects that we undertake.

We have a Federal Register notice out soliciting input or statements of interest for individuals interested in building new transmission under this authority.

Prior to this authority, we have been contacted numerous times throughout our existence of how can Western help, how can Western help build new transmission that is needed in the United States; and up until this authority we have had a limited ability to respond. So, I do believe there is a role for us to play.

Visibility. We do have another Federal Register notice, as required by law to have a public process that solicits input for the authority, on how to set up policies and procedures on this new program. So, we are seeking comments from all interested parties as to the many questions that come with this new authority.

But, remember, we do have a proven track record. About 4 or 5 years ago, we entered into a public-private partnership in California to build the Path 15 Project. That project has been a constrained path that was known for 20 years but was never built until we were able to pull it together with the help of the private sector. That constrained path caused blackouts in the early 2000s in California. And so, with our ability to partner with others, we were able to accomplish this needed link under budget and under schedule. From the time we began construction, we completed the project, turned it on in 10 months.

That is proven success that we are able to bring to the table.

And, yes, this is a new authority for us. We did not have borrowing authority before; and we—as I said before, we do not take it lightly. I welcome the comments from all of you and the questions.

And with that, Madam Chairwoman, I am happy to answer any questions you may have.

[The prepared statement of Mr. Meeks follows:]

Statement of Timothy J. Meeks, Administrator, Western Area Power Administration, U.S. Department of Energy

I am Timothy J. Meeks, Administrator of the Western Area Power Administration (Western). This is my testimony for the March 10 oversight hearing on “Federal Power Marketing Administration Borrowing Authority: Defining Success.”

Good afternoon and thank you, Madame Chairwoman and Subcommittee members. It’s a privilege to update you on the actions Western is taking right now to deliver the results envisioned under Section 402 of the American Recovery and Reinvestment Act of 2009 (Recovery Act). Section 402 grants borrowing authority to Western, which is a tremendous milestone—a solid step toward energy independence. I am honored that Congress and the Obama Administration called upon Western to help address the clear need for new transmission in the West.

Today, I will talk about how Western is moving forward expeditiously, yet with due diligence, to carry out the law’s intent because the demand for transmission infrastructure is immediate. I will describe how we will wisely invest funds to create and preserve jobs for workers to develop and build projects that lead to the delivery of clean, renewable, home-grown energy to consumers across the West, promoting economic stability and energy security for our Nation as a whole. I want to emphasize that we will implement Section 402 as intended; and, at the same time, honor our commitment to continue providing excellent service to our existing customers and fully execute our power marketing mission.

Continuing commitment to traditional customers—our core mission

Western delivers—not only power and energy—but results. Our long-standing core mission was, is and will continue to be, the marketing and reliable delivery of more than 10,000 megawatts of power annually—primarily clean, renewable hydropower generated at Federally-owned dams. This power is sold according to preferences established in Federal Reclamation Law at the lowest cost consistent with sound business principles.

Together with our customers, we have brought comfort and security to people from small and large communities alike—Native American reservations, universities, military bases and hospitals—through today’s Federal hydropower marketing program, which has thrived for more than 100 years. We have decades of experience and well-established partnerships with both public and private entities in providing affordable, reliable, renewable and clean Federal hydropower to our customers who serve millions of consumers across 15 western and central states. We have built those partnerships by working through challenges and change together. We envision partnerships having an even greater role with this new authority.

Section 402 does not replace and is not intended to compromise Western's current mission; it grants new responsibility to support a critical need for transmission infrastructure to facilitate delivery of renewable energy to market. We will meet the challenges of implementing Section 402 and deliver results without sacrificing our core mission and our high standards of providing quality service to existing customers.

Our marketing mission and programs should improve and get even stronger as we move forward. With this new authority, the critical role of the Federal hydropower program has received more national attention. Increased attention will bring the value of Federal hydropower into clearer focus and demonstrate what we can do to meet the renewable energy goals of Congress and the Administration.

Today's Federal transmission infrastructure

Western delivers Federal hydropower over an integrated 17,000-circuit mile, high-voltage transmission system—an electrical Federal highway—that spans a 1.3 million square-mile service area. This system was primarily developed to deliver Federal hydropower to preference customers. While our role as transmission owner and provider is critical to the delivery of Federal power, the role we play in transmission is integral to our Nation's interconnected electrical grid and helps ensure the reliable and secure delivery of our Nation's power supply. Our customers, the industry and others look to Western as a partner in initiatives to increase transmission capacity and reliability, to eliminate congestion points and to respond to additional requests for interconnection onto the grid.

In these types of collaborations, we are known for bringing many parties with differing interests together to solve difficult transmission issues across our service territory. In addition, we openly work with landowners, local and state agencies, interest groups and others in balancing competing interests and minimizing impacts resulting from transmission projects while protecting the resources of the landscapes across the West.

Our management of Path 15, 84 miles of new 500-kV transmission line to alleviate a 20-year old major bottleneck in California, is an example of how we deliver results. We placed 246 lattice towers and 98 steel poles to support 756 miles of conductor and 168 miles of overhead ground wire in just 10 months, ahead of schedule and under budget. I commit to you that—to the best of our abilities—we'll deliver results like this again, and then again.

Facilitating renewables to market: transmission under the Recovery Act

We view Section 402 of the Recovery Act, which grants Western \$3.25 billion in borrowing authority, as another opportunity for Western to show Congress, the Administration and industry what we can do to deliver on the promise of energy independence. With this authority, Western can borrow funds from the Treasury to finance, facilitate, plan, construct, operate and maintain or study the construction of new or upgraded transmission lines and related facilities, with at least one terminus in Western's service area. The goal is building new transmission to deliver or facilitate the delivery of power generated by renewable energy resources to meet growing demand for power and to create jobs in the process.

The law calls for each project funded under this authority to be repaid separately and distinctly from Western's other power and transmission facilities and from other projects funded using borrowing authority. This safeguard assures that costs are properly allocated to entities that benefit from each project funded by Section 402 authority and protects existing projects and customers. Last week, we initiated the public processes, required by the law, to seek requests for interest in identifying potential projects and to develop policies and practices to implement this authority.

For each project in which Western participates under this authority, I must certify, before committing any funds, that:

- the project is in the public interest,
- the project won't adversely affect system reliability, operations or other statutory obligations; and,
- it is reasonable to expect that the project proceeds will be adequate to repay the loan.

Borrowing Authority—"lining up jobs and projects"

Use of this authority will be pivotal in addressing two of the major energy challenges we now face in the West—the need for additional transmission infrastructure and integration of renewables onto the grid. While it is evident that new transmission is urgently needed, getting "lines in the air" has not occurred to any significant degree in the past decade. We know that there are entities interested in working with us to deliver renewables. For example, our November 2008 Federal Register notice, seeking partners interested in contributing up to \$100 million in third-

party funding to develop a transmission project under section 1222 of the Energy Policy Act of 2005, generated considerable interest. Five parties responded with 13 proposals to build transmission for renewables.

Parties interested in developing renewable resources have consistently come to Western seeking transmission services. However, until passage of the Recovery Act, Western lacked sufficient funding and authority to meet these requests. It's been a vicious circle—a lack of funding has been the weak link in building transmission and the lack of transmission has been the weak link in the development of renewable generating resources. Using this borrowing authority, we will link renewables to transmission and workers to green jobs. Again, we will deliver results.

Linking renewables to transmission

Based upon the level of developer interest and how well our service territory overlays areas with renewable energy potential and transmission needs, we know projects are out there that are ready to go. Private entities and Western's power customers are looking to us as partners to help meet transmission demands for renewables.

For example, there are 78 active requests for transmission interconnections for wind pending in Western's interconnection request queue—representing a total of 18,800 megawatts of wind to add to the grid. Each of these requests represents a wind farm with an average 200 megawatts each. In addition, several major transmission projects to deliver renewable resources to market are in various stages of planning and development.

Our service area fits well into the energy picture of the West. First, we conduct business in the heart of our Nation's renewable energy potential. Nine of the 10 windiest states and the best geothermal and solar potential in the Nation are in our geographic footprint. Second, some areas in our service territory (as outlined in the DOE's 2006 National Electric Transmission Congestion Study) are considered critically congested and need to be addressed immediately, are congestion areas of concern where a congestion problem exists or may be emerging, or are conditionally congested areas where future congestion would result if large amounts of new generation were to be developed without simultaneous development of associated transmission. The latter category includes the Montana-Wyoming and Dakotas-Minnesota areas in our service territory. In addition, one of the national interest electric transmission corridors is in our marketing area. Third, about three-fourths of the Western Interconnection's congested transmission paths are in our service territory, pointing to the need for upgrades. Many of these congested paths are in areas rich in renewable resource potential.

Stimulating the Economy

To meet transmission demands means that we will need the expertise of engineers, project managers, construction workers, environmental specialists, economists and equipment manufacturers—meaning an infusion of new jobs into the industry and dollars into the economy. The level of borrowing authority in Section 402 will equal about three decades worth of Western's current construction program. In addition to contract awards to the commercial sector for government-furnished equipment needed to build each project, Western contracts out much of the environmental work associated with our projects and 100 percent of actual construction, which is the majority of project costs.

In the short term, we envision private sector jobs being created by injecting dollars into the economy to get projects started that haven't had the critical mass to move forward to date. Jobs will be created by the demand for workers to perform environmental work, acquire land and conduct preliminary field work for construction. In addition, there will be large contract awards for long-lead-time equipment purchases.

Depending on the projects we receive from the statements of interest and their state of readiness, we are striving for "lines in the air" for renewables in about 18 months to two years, which will contribute to the Administration's goal for energy independence and a green economy.

Principles, practices and policies designed for results and benefits

The demand for transmission infrastructure is enormous. While the \$3.25 billion in borrowing authority is a substantial boost to our ability to meet transmission demands, it will not close the gap between what exists today and tomorrow's demands. Therefore, one of Western's implementation objectives is to encourage non-Federal participation in order to leverage this new authority.

Western does not have a vested interest in any particular solution. Therefore, we can serve as a neutral facilitator, assuring that projects that best accomplish the intent of the law will rise to the surface. Any projects constructed using this author-

ity will be considered separately from procedures and requirements for arranging for transmission service or interconnection under Western's existing open access transmission tariff.

Western has designed and proposed a set of principles to serve as overarching guidance and a series of policies and practices to produce tangible results and concrete quantifiable benefits, the cost of which will be paid by those who use the facilities. The overall goal is to implement a program that fully meets the intent of the law and the Administration's promise of accountability and transparency.

We will provide opportunity for participation in projects by other entities, use revenues from project beneficiaries as the only source of repayment of all associated project costs, and maintain controls to ensure project repayment is treated separately from Western's other projects, including other projects developed with this authority. All selected projects, including upgrades to Western's existing transmission lines, must meet the requirement that there is a reasonable likelihood that it will generate enough transmission service revenue to repay the principal investment, all operating costs and the accrued interest.

Progress Report—moving at a high speed

Program Development

To expedite the process of developing this new program, Western has issued two Federal Register notices (FRN) simultaneously, one soliciting interest in projects and the other defining the program.

The first FRN, Notice of Availability of Request for Interest, published on March 4, seeks interest from entities in identifying proposed projects. Responses for initial consideration are due April 3.

Also on March 4, Western published the Notice of Proposed Program and Request for Public Comment, which lays out the rules of the road—how the authority will be implemented. This began a public process with a 30-day public comment period. A public meeting, also available via webcast, is set for March 23. We expect to obtain third-party input to help us develop policies and procedures to effectively and efficiently implement this new authority. Western will analyze the comments received and make any necessary revisions to its proposed program principles, policies and practices.

Financial Management and Program Funding

Western is modifying its business systems in order to track and manage the projects and funding mechanisms under this new authority separate from our other projects. Discussion is underway with the Treasury on the terms and conditions under which Western will obtain loans to fund transmission projects under this authority. We are consulting with the Bonneville Power Administration on its use of and experience with borrowing authority.

Transmission Infrastructure Program

A new and separate function, Transmission Infrastructure Program, charged with implementing this new authority, has been formed. Its manager reports directly to me and it will initially be a small group. If growth in staff is required, it will occur at a measured pace. The staff includes a program manager, project manager, transmission planning engineer, public utilities specialist, industry economist and administrative assistant. A small team of existing staff was assigned to develop the program while the process of permanently filling necessary positions takes place.

Delivering on the promise of sustainability and clean energy

As a hydropower and transmission service provider, Western has learned to effectively respond to changes in the power industry. We have learned how to better meet our customers' needs by adapting and changing how we do business. Western is an essential part of the electric utility industry with important roles to play today and tomorrow.

Today, with the support of Congress, the Administration, our customers and industry partners, we now have borrowing authority—a mechanism to contribute even more as a Federal agency, to play a more significant role in our Nation's energy solutions and in our Nation's energy future. We will report our progress, pledge accountability to the Treasury, our customers and the taxpayers, and will move as quickly as possible to do our part for economic recovery and energy independence. This is an exciting time for our industry, and we appreciate your trust and confidence in us to help build the electrical grid of tomorrow while continuing to fulfill our core mission.

Thank you, Madame Chairwoman. I would be pleased to answer any questions that you or the Subcommittee members may have.

Response to questions submitted for the record by Timothy J. Meeks, Administrator, Western Area Power Administration, U.S. Department of Energy

QUESTION FROM REPRESENTATIVE GRIJALVA

Q1. Is Western limiting itself to the projects in the queue, which was formed before Western was given a specific charter to pursue new renewable energy sources?

Answer 1. The Recovery Act requires Western to seek Requests for Interest from entities interested in identifying potential projects through one or more notices published in the Federal Register. The program proposes to consider projects that may be constructed pursuant to its authority under section 402 of the Recovery Act separately from procedures and requirements for arranging for transmission service or interconnection under Western's Open Access Transmission Tariff. Therefore, the proposed program would not limit itself to projects in the interconnection request queue.

Q2. What precautions is Western taking to ensure that these investments do not expand carbon-heavy coal-fired generation?

Answer 2. Western is still in the process of developing its Transmission Infrastructure Program (TIP), but Western is clearly required by the Recovery Act to construct, finance, facilitate, plan, operate, maintain, or study construction of new or upgraded electric power transmission lines and related facilities that "support delivery of power generated by renewable energy resources." Western intends to fully comply with the intent of this requirement in evaluating projects and established this as a criterion in Western's Federal Register notice on the TIP.

Q3. Is WAPA doing everything possible to work with other entities in the transmission infrastructure building business to avoid needless duplication of lines with the attendant added damage to natural resources?

Answer 3. Western is involved in many regional and sub-regional transmission planning groups to work with transmission entities in coordinating numerous proposed transmission additions in an effort to avoid duplication of lines. Western is a member of the WestConnect transmission planning group which provides an annual 10-year regional transmission plan that coordinates all transmission plans across the WestConnect planning area. Western also participates in the Mid-continent Area Power Pool (MAPP) West Reliability Organization (MRO) Transmission Planning Subcommittee (TPSC) which facilitates the development of a biennial coordinated transmission plan for all transmission facilities in the MAPP region.

QUESTION FROM REPRESENTATIVE INSLEE

Q1. Please provide a list of ongoing multi-stakeholder regional transmission planning efforts that are focused on the construction of new or upgraded transmission infrastructure within your service area. Please describe which of these planning efforts in which you are currently engaged and/or working to help facilitate the construction of new or upgraded transmission infrastructure, particularly transmission infrastructure that is designed to deliver or facilitate the delivery of power generated by renewable resources.

Answer 1. Within the Western Interconnection, the Western Electricity Coordinating Council (WECC) has a specific Regional Planning Process within its Procedures for Regional Planning Project Review and Rating Transmission Facilities document.

Within the Eastern Interconnection, Western participates in the Mid-Continent Area Power Pool (MAPP) Transmission Planning Subcommittee (TPSC) and other transmission planning groups.

Following are some of the ongoing multi-stakeholder regional transmission planning efforts within Western's service area:

- Wyoming Colorado Intertie (WCI)—800 MW increase in TOT3 by construction of a new 345-kV line from southeastern Wyoming to northeastern Colorado. There are specifically 585 MW of wind resources signed up to acquire long-term agreements on the WCI. Western is involved in this project which has recently gone through the WECC Regional Planning Process.
- Joint Coordinated System Plan (JCSP)—Western participates in the JCSP through the MAPP TPSC which facilitates the coordination for the MAPP members.
- Green Power Express—Developer ITC intends to use the Midwest Independent Transmission System Operator (MISO) regional planning process. Western is

not a member of MISO; we are exploring our options to participate in the MISO process.

- American Electric Power (AEP) 765-kV Transmission—At this time, Western is not involved in the planning process.
- Regional Generation Outlet Study (RGOS)—At this time, Western is not involved in the planning process since it started as a MISO related study. However, due to its impact to the Upper Midwest Transmission Development Initiatives, Western intends to begin participation in this process.
- Upper Midwest Transmission Development Initiative (UMTDI)—Western has been involved in this Initiative from its creations. Western has members on both the Planning Working Group and the Cost Allocation Working Group. The Planning Working Group has been relying on the MISO RGOS and Western intends to become involved in this MISO study.
- Eastern Wind Integration and Transmission Study—At this time, Western is not involved in the planning process.

Q2. How is the Obama Administration’s stated climate and renewable energy policy goals factored into your planning and public review processes for providing new electric transmission to facilitate the increased use of renewable energy resources. Are you considering any scenarios in which there would be a price associated with carbon dioxide emissions from fossil-powered electricity sources and the U.S. achieves a 15 percent greenhouse gas emissions reduction below currently levels by 2020? If so, what carbon prices are assumed under such scenarios? Are you considering scenarios in which U.S. utilities generate 25 percent of their electricity from renewable sources by the year 2025?

Answer 2. Section 402 of the Recovery Act authorizes Western to construct, finance, facilitate, plan, operate, maintain, or study construction of new or upgraded electric power transmission lines and related facilities that “support delivery of power generated by renewable energy resources.” Western is currently conducting a public process to develop its Transmission Infrastructure Program (TIP). Western has not included consideration of carbon dioxide emission prices in its proposed TIP. Western encourages the public to comment on this and other issues related to the TIP.

Q3. Could you describe in greater detail how WAPA intends to use its borrowing authority to partner with the private sector?

Answer 3. Western outlined its proposed program for the Transmission Infrastructure Program, which is the vehicle Western will use to implement borrowing authority in a Federal Register notice published March 4, 2009 (74 FR 9391). One of Western’s objectives in implementing this program is to encourage nonfederal participation so as to leverage Western’s borrowing authority. One of the proposed program principles states that “Western will ensure the program provides an opportunity for participation of other entities in constructing, financing, owning, facilitating, planning, operating, maintaining or studying construction of new or upgraded electric power transmission lines under this authority by seeking requests from entities interested in identifying potential projects through one or more notices published in the Federal Register.”

Western is currently conducting a public process on its proposed program with comments due April 3. Concurrent with this public process, Western is also seeking interest from any entity or entities interested in identifying a proposed transmission project, primarily in Western’s service area, and/or desiring to participate with Western and possibly others by constructing, financing, owning, operating or maintaining transmission facilities or acquiring transmission rights or entering into long-term transmission service agreements on that project (74 FR 9391). These statements are also due April 3.

Western has a long history of partnering with other entities in developing transmission across our 15-state service territory. Each project has had different mixes of participants that assume a variety of roles and responsibilities, based on the specifics of that project. Western expects to continue this business model in implementing the Transmission Infrastructure Program. However, because the proposed program is still in development and Western has not yet identified specific projects and participants, it would be premature to speculate on the specific roles and responsibilities that partners, including Western, would likely assume.

QUESTION FROM REPRESENTATIVE SMITH

Q1. You said in your testimony that in response to WAPA's November 2008 Federal Register notice seeking partners interested in contributing up to \$100 million in third-party funding to develop a transmission project under section 1222 of the Energy Policy Act of 2005, five parties responded with 13 proposals to build transmission for renewables.

- a. Are you moving forward to build any of these proposed projects?**
- b. If so, which ones?**
- c. If not, why not?**

Answer 1. In February 2009, after completing an initial screening of the responses, Western contacted each of the parties that provided an initial response with a request for additional information, in order to complete an initial assessment of project viability and readiness for construction. Four of the five entities responded to this request by the March 18 deadline. Western is now examining this data and will provide a report to the Secretary of Energy later this spring. All of the entities responding to both Western's initial and subsequent data requests noted that specific details they provided should be held as business confidential, so specific entity or project identification is not included here. Western will not move forward to complete further analysis on the project(s) proposed by the entity that did not respond to the second data request.

Finally, one of the respondents suggested that the new borrowing authority granted to Western under the Recovery Act might be a better fit for the respondent's business model, and that they would also be responding to Western's March 4 Request for Interest Federal Register notice.

Q2a. You also said in your testimony that there are 78 active requests for transmission interconnections for wind pending in Western's interconnection request queue—representing a total of 18,800 megawatts of wind.

How many requests for the interconnection of renewable generation has WAPA granted in the past three years? Please provide number of projects and megawatts of transmission capacity requested.

Answer 2a. Twelve installations with 259.5 MW of wind capacity have been installed in the past three years.

Q2b. You also said in your testimony that there are 78 active requests for transmission interconnections for wind pending in Western's interconnection request queue— representing a total of 18,800 megawatts of wind.

What is WAPA doing to reduce this interconnection queue?

Answer 2b. Western has assembled a team to develop proposals for revising Western's queue processing to address backlogs in its queues, which is a similar issue experienced by other transmission providers including the regional transmission organizations. This team identified a number of initial short term and long term proposals to address issues that Western has faced in processing requests in its generation interconnection queues. These proposals include stricter requirements to ensure that necessary environmental studies are completed on a timely basis by the interconnection customer, review of Western's resources to attempt to more rigorously meet its obligations in processing generation interconnection requests, including the use of additional outside resources to expedite completion of required studies. The longer-term proposals include more significant tariff changes to attempt to reduce the large number of speculative requests creating backlogs in Western's queues, including more stringent requirements on the interconnection customer (e.g. deposits, milestones, and limitations on suspension abilities) and also streamlined processing changes (e.g., "first ready-first served") similar to some elements of the queue reforms incorporated recently by regional transmission organizations. Western is in the process of evaluating and implementing the proposals.

Q2c. You also said in your testimony that there are 78 active requests for transmission interconnections for wind pending in Western's interconnection request queue—representing a total of 18,800 megawatts of wind.

What would be the cost of building the transmission necessary to accommodate all these interconnection requests?

Answer 2c. Multiple requests for a certain points of interconnection exist in the queue. Until transmission planning studies are further refined, the costs to accommodate all of the interconnection requests are not known. Question from Representative SMITH

Q3. You indicate that WAPA is, “Striving for “lines in the air” for renewables in about 18 months to two years.” What does that mean in terms of when you will select the projects to build?

Answer 3. Western will use the information gathered from its initial solicitation for potential projects and participants to identify projects on which construction can be started in the very near future. While it’s difficult to predict with any certainty which projects or partners will be identified, and therefore difficult to predict the roles and responsibilities that are envisioned for participants, Western expects to be able to identify potential projects within 90 days of completing the public processes and to complete negotiations for participation soon thereafter. Question from Representative SMITH

Q4a. You testified that, “Western has designed and proposed a set of principles to serve as overarching guidance and a series of policies and practices to produce tangible results and concrete quantifiable benefits, the cost of which will be paid by those who use the facilities.” I understand that you published these principles, policies and practices in the Federal Register on March 4.

One of your principles states that Western will ensure that each transmission project approved for funds “[h]as the necessary capabilities to provide generation-related ancillary services.” What are these “necessary capabilities” and how would a transmission company or a renewable generation developer be able to meet this requirement?

Answer 4a. Section 402 of the Recovery Act contains four separate references related to ancillary services. Western interprets these references as requiring any new transmission projects to be financially responsible for necessary ancillary services, and further, that these new projects may not turn to Western’s existing Reclamation projects to provide uncompensated ancillary services.

Section 1.2 of the Federal Energy Regulatory Commission’s pro forma open access transmission tariff defines Ancillary Services as “[t]hose services that are necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of the Transmission Provider’s Transmission System in accordance with Good Utility Practice.”

Q4b. You testified that, “Western has designed and proposed a set of principles to serve as overarching guidance and a series of policies and practices to produce tangible results and concrete quantifiable benefits, the cost of which will be paid by those who use the facilities.” I understand that you published these principles, policies and practices in the Federal Register on March 4.

Would rates for transmission service over projects approved by WAPA for use of its new stimulus funding authority be subject to FERC regulation? If not, how would the rates for such projects be determined?

Answer 4b. As noted above, one of Western’s objectives is to encourage non-federal participation to leverage Western’s borrowing authority. Depending upon the roles and responsibilities agreed to by the parties, the transmission rates charged by another entity may be subject to FERC rate jurisdiction. This will need to be determined on a case-by-case basis.

It is expected that the transmission projects will be subject to FERC electric reliability rules.

Western’s transmission rate setting process is described in the Federal Register notice for Western’s Transmission Infrastructure Program. “[t]ransmission rates for transmission capacity Western owns or controls will be developed in a public process following the applicable requirements outlined in 10 CFR 903 and set by the Administrator as specified in relevant DOE orders.

Q4c. You testified that, “Western has designed and proposed a set of principles to serve as overarching guidance and a series of policies and practices to produce tangible results and concrete quantifiable benefits, the cost of which will be paid by those who use the facilities.” I understand that you published these principles, policies and practices in the Federal Register on March 4.

What are the, “concrete, quantifiable benefits” you will use in evaluating projects? What value will you attribute to interconnecting renewable generation?

Answer 4c. Section 402 of the Recovery Act gives three primary requirements for evaluation. For each project in which Western “participates pursuant to this section,

the Administrator shall certify...that...(A) the project is in the public interest; “(B) the project will not adversely impact system reliability or operations, or other statutory obligations; and “(C) it is reasonable to expect that the proceeds from the project shall be adequate to make repayment of the loan.” In addition to these primary requirements, Section 402 contains other specific items of direction in evaluating projects; for example, as related to ancillary services. In its Federal Register notice on the Transmission Infrastructure Program (TIP), Western developed a series of principles to guide the TIP and also evaluation. The notice opened a public comment process on the TIP and Western expects to receive comments on the specifics of the evaluation process. The final evaluation criteria will be established following the closure of the public process. Question from Representative SMITH

Q4d. You testified that, “Western has designed and proposed a set of principles to serve as overarching guidance and a series of policies and practices to produce tangible results and concrete quantifiable benefits, the cost of which will be paid by those who use the facilities.” I understand that you published these principles, policies and practices in the Federal Register on March 4.

How will you determine “those who use the facilities?” Does this mean that transmission built to interconnect renewable generation will be paid for entirely by the renewable generator, by the customers that purchase that generation, by any customer who might benefit, now or in the future, from the transmission built to accommodate renewable generation? All of these?

Answer 4d. “All of these” or better perhaps, “all, or any of these” is probably the best answer that can be given at this time. Section 402 of the Recovery Act clearly requires, for repayment purposes, Western to treat each project funded with Treasury borrowings as separate and distinct from all other Western transmission facilities and that proceeds from use of each project are to be used to repay the Treasury. Therefore, the obligation of repayment of a transmission projects funded by the Treasury falls generally on two groups—generation and load. This obligation can be allocated in any number of ways. Section 402 of the Recovery does not set out any particular model for repayment except that the costs of a project shall not be charged to users of Western’s facilities constructed prior to the Recovery Act.

Western expects the Statements of Interest it receives in response to its Request for Interest will propose a wide variety of repayment methodologies.

Q5a. Finally, you say in your testimony that, “several major transmission projects to deliver renewable resources to market are in various stages of planning and development.”

What is WAPA’s role with respect to these projects?

Answer 5a. Western is currently seeking interest from any entity or entities interested in identifying a proposed transmission line project, primarily in Western’s service area, and/or desiring to participate with Western and possibly others by financing, constructing or owning facilities or acquiring transmission rights or entering into long-term transmission service agreements on that project (74 FR 9391). Since Western has not yet identified specific projects, Western’s role in these projects is not known at this time.

Q5b. Finally, you say in your testimony that, “several major transmission projects to deliver renewable resources to market are in various stages of planning and development.”

Is WAPA willing to enter into joint ownership of transmission projects to leverage the funding authority that it has been given, or will WAPA participate in constructing only transmission that it will own?

Answer 5b. One of Western’s objectives in implementing the Transmission Infrastructure Program is to encourage non-Federal participation so as to leverage Western’s borrowing authority. Therefore, Western would consider entering into joint ventures for the development of transmission projects to meet this objective to the extent allowed under Western’s legal authorities.

Q5c. Finally, you say in your testimony that, “several major transmission projects to deliver renewable resources to market are in various stages of planning and development.”

Is WAPA willing to partner with transmission project developers, or is WAPA only willing to work with renewable energy developers in the development of transmission?

Answer 5c. Entities referred to in the Federal Register notice (74 FR 9391) include transmission project developers and renewable energy developers.

Mrs. NAPOLITANO. We will move on to Mr. Steve Wright.

**STATEMENT OF STEVE WRIGHT, ADMINISTRATOR,
BONNEVILLE POWER ADMINISTRATION, PORTLAND, OREGON**

Mr. WRIGHT. Madam Chairman, Members of the Subcommittee, thank you for the opportunity to appear here today.

Bonneville Power Administration is a self-financed Federal agency. We are not for profit. We market power and transmission in the Pacific Northwest. We became self-financed in 1974. We have received no appropriations since that time. All of our expenses are covered by the revenues generated from selling power and transmission services.

But any business, particularly one in the electric utility industry, has to have access to capital. The 1974 Act gave BPA the ability to borrow from the United States Treasury without getting further appropriations.

Bonneville is statutorily authorized to borrow for four purposes: to build and maintain transmission within the Pacific Northwest, to invest in maintenance and upgrades of the low-cost Federal hydroelectric assets in the Northwest, to invest in fish and wildlife restoration activities that mitigate for damage caused by Federal hydroelectric system, and to invest in cost-effective energy efficiency measures.

To date, Bonneville has borrowed over \$8 billion using that authority and has repaid over \$6 billion, three-quarters of the amount, with interest, which fully covers Treasury’s cost.

Because our customers pay our costs, Bonneville is committed to increasing transparency regarding its budgets. Last year, we began sharing 10-year capital budget forecasts. These forecasts project increases for all four of the statutorily authorized categories.

There was fairly broad support for the planned capital spending within the Northwest. Essentially, these projects are lower cost than are available for the utilities. Simultaneously, in developing these budgets, Bonneville was developing a financial plan, and in that plan we displayed that using the capital expenditure forecast we were on a path to exceed our statutory borrowing authority of the \$4.45 billion somewhere in the time frame of 2012 to 2016. So, that clearly was not a sustainable path. We can’t run out of capital and maintain the system.

In essence, this means that Bonneville could not have proceeded to fully implement the plan; and the result would have been higher rates, reduced reliability, and a less-healthy environment.

Now, in particular, I will highlight the transmission program, because I know it is of interest to this Subcommittee.

Bonneville has used the FERC Open Access Transmission Tariff to guide offering transmission in an open and nondiscriminatory

manner. The FERC rules provide a first-come, first-served prioritization and requires that requesters of transmission pay for any necessary studies, including NEPA analysis. Most observers would agree that that process was generally not leading to either efficient or expedited transmission expansion due to its approach of sending transmission requests one by one.

Bonneville initiated a new process, with FERC's blessing, that jointly study requests of all requesters who commit to pay for service if it is offered by Bonneville. Since the requests are studied in clusters, Bonneville is working jointly with its customers, agree to pay for the necessary studies and pass the costs along and its transmission rates, different from the way the things have been set up under the FERC tariff.

Now, that process has proven to be extremely successful in the Northwest. Separating out transmission requests that were really ready to go, was able to identify 6,500 megawatts, three-quarters of which are wind. It is providing a more efficient study process that allows us to offer 1,700 megawatts of transmission without building anything at all.

We have been able to develop a transmission build-out plan to serve the remaining 4,700 megawatts of request; and, following that, we have defined costs and rate impacts of implementing that build-out plan. Then, using that, we have been able to determine through a public process the interest particularly of transmission customers that will be responsible for the costs that Bonneville will incur proceeding with their interest in proceeding with those specified transmission projects.

The result is that Bonneville is in a position to proceed with a substantial transmission construction program, expanding wind power access to the market that is defined by market requests and consistent with the desires of the customers who will pay for it. But this effort, along with the rest of our capital program, likely could not be fully implemented without an increase in our borrowing authority.

That was the picture we were looking at last summer and fall. And then, from my perspective, a miracle occurred. The \$3.25 billion included in the American Recovery and Reinvestment Act means Bonneville will not have to leave valuable projects on the cutting room floor.

I am grateful to this Subcommittee and in particular to the Northwest Members who pushed and prodded to accomplish this change in the law. My commitment to you is we will use the new authority wisely. We will remain committed to using an internal asset management process that thoroughly evaluates with rigor all of the uses of capital across our agency. We will provide transparency such that the public will have the opportunity to understand our investments before they become fixed costs. We will structure out business at a rate such that BPA will continue its exemplary record of repaying the U.S. Treasury, as we have done for the last 25 years in a row.

Madam Chairwoman, I am open to any questions this Subcommittee may have.

[The prepared statement of Mr. Wright follows:]

**Statement of Stephen J. Wright, Administrator,
Bonneville Power Administration, U.S. Department of Energy**

Thank you Madame Chair.

My name is Steve Wright, and I am the Administrator of the Bonneville Power Administration (BPA) which is headquartered in Portland, Oregon. I appreciate the opportunity to describe the significance of the \$3.25 billion in additional Treasury borrowing authority provided BPA by the American Reinvestment and Recovery Act (ARRA) and how BPA plans and executes capital investments for its mission to serve the Pacific Northwest region.

Created by Congress in 1937, BPA markets at wholesale the electric power generated from 31 Federal dams, one non-Federal nuclear power plant and several small non-Federal power plants. BPA serves about one-third of the electric power used in the Pacific Northwest and its over 15,000 circuit miles of transmission lines provide about three-quarters of the high voltage transmission in the region.

Introduction: BPA makes the best use of its Treasury borrowing to meet regional environmental and energy efficiency goals.

The ARRA raised the ceiling on the borrowing that BPA conducts under the Federal Columbia River Transmission System Act of 1974 (Transmission System Act) by \$3.25 billion. Prior to 1974, BPA received annual appropriations for all of its expenditures and the revenues BPA raised through its rates were deposited in the General Fund of the Treasury. BPA has always been required to set its rates to cover all of its costs, so this was essentially a zero-sum arrangement. Recognizing this, and seeking to increase the efficiency of government and enable BPA to enter into multi-year commitments with its business partners in the Pacific Northwest electric power system, Congress provided BPA with “self-financing” authority in 1974 establishing a separate fund in Treasury—the Bonneville Fund—that BPA manages. Into the Bonneville Fund go BPA’s revenues, and from it BPA pays all of its costs, eliminating the need for Congress to provide annual appropriations of taxpayer funds. The Transmission System Act also authorized BPA to borrow from Treasury, at Treasury’s current cost of money plus an amount to be comparable to prevailing electric utility market determined borrowing costs, for its capital expenditures. BPA fully repays these loans with interest at market rates. There is no subsidy to BPA. BPA’s borrowing authority has been increased several times since 1974 to now total \$7.7 billion which I will describe in more detail.

BPA is authorized to use its borrowing authority for multiple purposes; including to expand and upgrade its transmission system, including the facilitation of new renewable electricity resources while keeping electricity rates as low as possible; energy efficiency; and to meet its obligations under the Pacific Northwest Electric Power Planning and Conservation Act of 1980 (Northwest Power Act). The obligations under the Northwest Power Act include significant capital investments for fish and wildlife. Today, Bonneville’s transmission, power and environmental programs are being called upon by the Pacific Northwest region and, in fact, much of the West Coast, to provide the backbone for supplying new renewable electric resources to reduce greenhouse gas emissions and to continue to restore the sustainability of Columbia Basin fish and wildlife.

The capital financing required to meet these demands is significant as we look over the next two decades. BPA conducts extensive planning with public review for its capital program and manages the wisest allocation of its Treasury borrowing authority after weighing other alternatives to meet its needs. Last year BPA made its 25th consecutive annual Treasury payment in full and on schedule. BPA believes that its use of Treasury borrowing authority is a good deal for U.S. taxpayers.

BPA plans for its capital spending needs carefully.

As I have mentioned, the current drivers of BPA’s capital spending needs come from regional goals for clean electricity and environmental restoration and the need to maintain and upgrade an aging transmission and power system. BPA forecasts its capital spending with thoroughly transparent analysis, including regular public reviews with its customers, implementation partners and other interested parties in the Pacific Northwest. BPA initiated its most recent proposed capital spending review last summer.

BPA has had considerable success in meeting some of the demands for its services through innovative non-capital means. Last year BPA conducted a first-of-its-kind Network Open Season to sort out a complicated queue of service requests from customers seeking access to BPA’s transmission system. Many of these requests were for delivery of wind-generated electricity that has exploded in development in the Northwest. Constraints on the transmission system at critical transfer points prevented BPA from providing service without upgrade and expansion of the grid.

BPA's Network Open Season obtained financial commitments and signed service agreements that allowed BPA to conduct system engineering studies to determine what service could be provided from the existing capacity of the transmission system. We found that we could provide service for 1,780 megawatts of new service without major construction, simply by withdrawing from the queue those not ready to commit to taking service. Just last week, we also began offering Conditional Firm transmission service to more of the service requests we processed in the Network Open Season. Conditional Firm service provides service with the potential for a small amount of interruption if transmission becomes congested, and it is a product that has appeal for some of our customers, including wind generators. We are currently making offers of approximately another 1,200 megawatts of service, and expect to make additional offers of Conditional Firm service on an interim basis in the future.

After these system engineering studies we conducted financial analysis of the construction costs for the remaining service requests we evaluated in the Network Open Season. We are preparing to offer transmission service with four new transmission lines and one system upgrade for 3,700 megawatts, almost 2,800 of which will come from renewable, non-carbon-emitting generation. Three of these projects are about to undergo environmental analyses; but one is shovel-ready, the environmental review having been completed in 2002. That project is a 500-kilovolt transmission line from McNary Dam to John Day Dam along the Columbia River in Washington and Oregon.

With the added assurance of the additional borrowing authority Congress has just provided, we feel confident we can move forward with these projects, and last week we announced that we will begin construction this spring on the 79-mile, McNary-John Day line. We estimate that construction of this roughly \$340 million line will create about 700 jobs at its peak. It will deliver more than 700 megawatts of wind energy across BPA's transmission system.

I am pleased with this approach that allowed BPA to find ways to first meet new service requests without needing to borrow for new construction and then make cost-effective decisions on the projects that do need to be built.

It is important to note the planning processes for other proposed capital spending initiatives. Last year, BPA signed historic 10-year agreements with five Columbia Basin Indian tribes and two states. The agreements set a course of action for restoration of salmon and steelhead listed for protection under the Endangered Species Act and other populations important to these partners. The parties agree that these commitments meet BPA's obligations, and those of the U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation, under the Endangered Species Act and the Northwest Power Act. The agreements specify implementation of a sequence of scientifically-reviewed fish and wildlife projects, including investments that will bring BPA's capital spending for its fish and wildlife obligations to \$50 million a year.

BPA also has completed asset management studies of needed capital upgrades and replacements for its aging transmission system and the needs for the aging Federal hydro generation, which BPA finances through direct-funding agreements with the Corps and Bureau of Reclamation. We have a prioritized sequence of projects that are needed to maintain the quality and reliability of the Northwest power system and to optimize the output of this significant source of non-carbon-emitting electrical generation. BPA's rates cover all of the costs of Corps and Bureau power facilities and operations in the Pacific Northwest.

We review all of these schedules with regional stakeholders prior to our rate cases. We conduct public workshops that present and thoroughly discuss our costs and our proposed capital spending. The initial public process preceding our 2010-2011 rate case was initiated last summer. We intend to conduct these public processes every two years.

We also completed a new Financial Plan for the agency that defines strategies and policies for guiding how BPA will manage risk and the variability of electricity markets and water years. Importantly, the Financial Plan describes how we will continue to manage to ensure that we meet our Treasury repayment requirements. As a follow-on to the Financial Plan we are scheduling further discussions with our customers and regional parties to refine our strategies for our access to capital.

BPA's capital investments help accomplish its mission to serve the Pacific Northwest.

The demand for our service to meet regional greenhouse gas reduction and environmental goals continues to increase. BPA's transmission system is a major component of the Western Interconnection which extends from Mexico to Canada and supports long distance transfer of electricity, including increasing amounts of renewable

electricity. The growing volumes of renewable power help to meet expanding state goals for greenhouse gas reduction.

In the Pacific Northwest, the new renewable electricity resource is wind. Just two years ago BPA and the Northwest Power and Conservation Council completed an Action Plan that confirmed that adding 6,000 megawatts of wind generation in the Northwest by 2020 is technically feasible but assumed that about half of that would be located where BPA supplies transmission. Instead, wind generation is rapidly concentrating in BPA's system and we believe 6,000 megawatts of wind could be attached to our system by 2013.

We're advantaged by a Federal hydrosystem that is a major source of carbon-free electricity for the Pacific Northwest. It is now being called upon to back up the intermittent supply of wind and, especially with fish constraints, is reaching the limits of its ability to meet that need. BPA continues to work with the region to meet the wind integration challenges and adequate access to capital is a key component to modernizing the system for that capability.

BPA also helps the region meet its clean energy goals through its ability to capitalize major investments in energy efficiency. BPA currently budgets about \$40 million for annual capital investments in energy efficiency. And, as I have previously mentioned, there is a significant capital component to BPA's commitments under the Columbia Basin Fish Accords.

The ARRA's addition of borrowing authority is a significant addition to BPA's capital resources.

BPA's Treasury borrowing authority originated in the 1974 Transmission System Act when Congress made BPA self-financed and accorded BPA \$1.25 billion in Treasury borrowing authority to finance capital investments in the transmission system. This was subsequently expanded to include all BPA functions under the Northwest Power Act.

In the Northwest Power Act, Congress initially authorized an additional \$1.25 billion in Treasury borrowing authority for conservation and renewable resource loans and grants. This borrowing authority was then provided in the Energy and Water Development Appropriations Act of 1982. A further \$1.25 billion of Treasury borrowing authority was made available to BPA in Energy and Water Development Appropriations Act of 1984, for all of BPA's capital requirements.

In the 2003 Energy and Water Development Appropriations Act, Congress increased BPA's Treasury borrowing authority by another \$700 million for BPA's general capital requirements. Before passage of the ARRA, then, BPA's total Treasury borrowing ceiling was at \$4.45 billion.

Before passage of the ARRA, BPA projected that it would exhaust its capital resources some time between 2013 and 2016, depending on financial market conditions. BPA estimates that the additional \$3.25 billion could potentially extend its ability to meet its capital needs, including the initiation of the transmission system expansions I described earlier, for about another ten years, depending on capitol spending.

Treasury borrowing authority is a good deal for U.S. taxpayers.

All BPA costs, including repayments to the U.S. Treasury, are paid from the revenues BPA earns from selling Federal power and transmission services. As a self-financed agency, BPA receives no annual appropriations and is able to fund capital program expenditures through its Treasury borrowing in a business-like way. BPA repays the borrowing at interest rates slightly above Treasury's costs.

BPA's Treasury borrowing authority is a revolving fund, replenished as BPA repays the principal on its borrowing. Since 1978, BPA has borrowed a total of \$8.42 billion and repaid \$6.17 billion—nearly three quarters of all it has borrowed from Treasury. For 25 years, BPA has made its annual payment to the U.S. Treasury in full and on time. In 2008, it repaid Treasury \$963 million in principal, interest, and other payments.

Throughout its 72 year history, BPA has repaid Federal investments within the period prescribed by law. This history is strong evidence of BPA's financial stability, since the payments have been made through good, bad and truly terrible times, including the West Coast energy crisis of 2000-2001. BPA maintains very high credit ratings of AA- by Standard and Poors and Aaa by Moody's. Recently on March 4, 2009, Fitch Ratings upgraded BPA's rating from AA- to AA positive outlook based on BPA's significant financial management control and risk mitigation tools. Overall these ratings reflect the importance of maintaining sound BPA financial management. Such ratings allow BPA to conduct its financial business at lower cost.

BPA is grateful for a long and collaborative relationship with the Treasury Department that has allowed BPA to soundly and effectively manage the assets of the BPA fund.

This concludes my testimony, Madame Chair, and I welcome any questions from the Subcommittee.

Response to questions submitted for the record by Stephen J. Wright, Administrator, Bonneville Power Administration, U.S. Department of Energy

QUESTION FROM REPRESENTATIVE INSLEE

Q1. Please provide a list of ongoing multi-stakeholder regional transmission planning efforts that are focused on the construction of new or upgraded transmission infrastructure within your service area. Please describe which of these planning efforts in which you are currently engaged and/or working to help facilitate the construction of new or upgraded transmission infrastructure, particularly transmission infrastructure that is designed to deliver or facilitate the delivery of power generated by renewable resources.

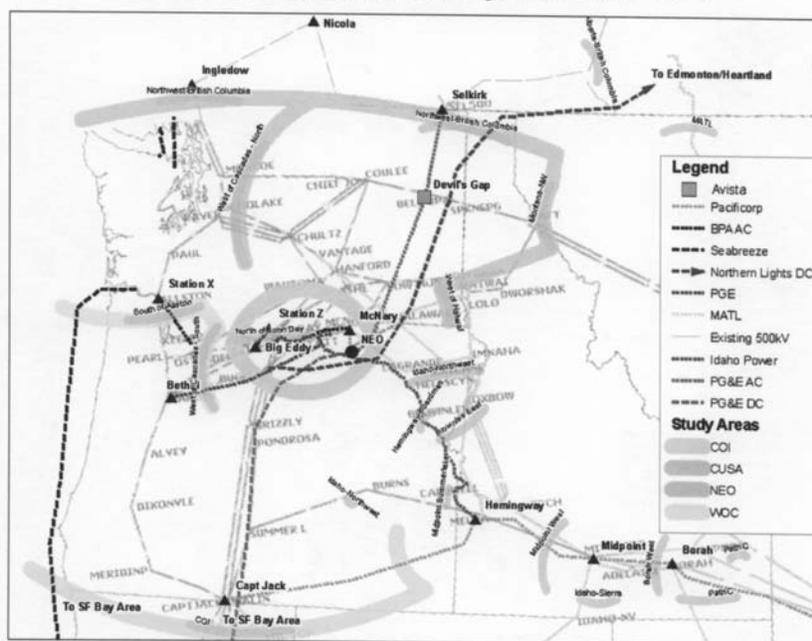
Answer 1. Currently there are ten new multi-stakeholder regional transmission projects, with multiple components, proposed for the Pacific Northwest. All project sponsors are committed to an open and transparent planning process. The list of projects, with sponsors name listed in parenthesis, is as follows:

1. West of McNary Reinforcement (Bonneville Power Administration)
2. I-5 Corridor Reinforcement (Bonneville Power Administration)
3. Energy Gateway (PacifiCorp)
4. Canada-Northwest-California (British Columbia Transmission Corporation and Pacific Gas & Electric)
5. Boardman-Hemingway (Idaho Power)
6. Northern Lights (TransCanada)
7. Southern Crossing (Portland General Electric)
8. Montana-Alberta Tie Line (MATL, Calgary-based energy transmission company)
9. Juan de Fuca (SeaBreeze)
10. West Coast Cable (SeaBreeze)

Several of the projects originate, connect or terminate in northeast Oregon (Figure 1). These projects will help facilitate the delivery of power generated by renewable resources (wind and new hydro) in British Columbia, Alberta, Oregon, Washington, and Wyoming to other parts of the Western Interconnection.

Figure 1: Transmission Projects Being Planned: 2010—2015 follows:

Figure 1: Transmission Projects Being Planned: 2010 – 2015



BPA is part of the Transmission Coordination Work Group (TCWG), which was formed to aid the project sponsors with coordinating the planning studies and project communications. The TCWG is a large work group with parties having different interests and objectives. This group will help project sponsors meet the Western Energy Coordinating Council's (WECC) path rating requirements.

Besides being actively engaged in the TCWG process, BPA also has held its own public process for its projects identified above as part of BPA's 2008 Network Open Season (NOS). BPA's 2008 NOS resulted in 6,410 MW requests for new long-term firm transmission service. Almost three-quarters of those requests are associated with wind generation, reflecting the region's momentum toward rapid development of renewable resources and the need to comply with state Renewable Portfolio Standards (RPS). BPA also completed its WECC Regional Planning Project Review process for the West of McNary and I-5 Corridor projects through ColumbiaGrid, a sub-regional transmission planning entity.

These processes are designed to be open and transparent, and to meet FERC's requirements under Order 890.

Q2. How is the Obama Administration's stated climate and renewable energy policy goals factored into your planning and public review processes for supporting energy efficiency and new electric transmission to facilitate the increased use of renewable energy resources? Are you considering any scenarios in which there would be a price associated with carbon dioxide emissions from fossil-powered electricity sources and the U.S. achieves a 15 percent greenhouse gas emissions reduction below currently levels by 2020? If so, what carbon prices are assumed under such scenarios? Are you considering scenarios in which U.S. utilities generate 25 percent of their electricity from renewable sources by the year 2025?

Answer 2.

- *Renewable Energy:*

Many of BPA's utility customers in the Northwest are already subject to state renewable portfolio standards of up to 25 percent by the year 2025. For that reason BPA is already engaged in understanding how we can support the climate and re-

newable energy goals of the Administration. We are, for example, engaged in a public resource program planning process wherein BPA is examining how it can use existing resources and support new renewables to help our customers meet their growing loads and their RPS requirements. It is our customers themselves who will be subject to the RPS requirement and will decide whether to purchase any renewables (beyond their current allocation of BPA's hydro resource) from BPA.

BPA also supports renewables development through its transmission construction program which will allow BPA's customers, as well other regional entities, better access to wind generation. BPA recently announced its decision to move forward with four transmission projects and one network upgrade that will provide transmission service to more than 2800 megawatts of wind generation. BPA's cross-agency Wind Integration Team is actively exploring what the agency can do to eliminate barriers to the wind development that will be needed for the regional utilities to meet RPS requirements.

Finally, it bears mentioning that the Federal Columbia River Power System (FCRPS) system that is the source of BPA's power supply is virtually entirely carbon-free as it consists of hydro and nuclear resources. Furthermore, BPA has integrated more wind than any other control area, on a percentage basis of peak load, in the nation.

- *Climate Policy/Prices*

When it comes to power and energy efficiency planning, BPA is statutorily obliged to look to the recommendations of the Northwest Power and Conservation Council (Council) and the 20 year regional power plans it develops. The Council is currently developing its 6th Power Plan and is examining the effect of a range of carbon prices on the optimal mix of future regional resource additions.

Consistent with the Council's Plan, BPA is also examining an average of carbon prices in its resource planning process, called the Resource Program. The Council is preliminarily using a range with central tendencies from \$8 per ton in 2012 to \$47 per ton in 2029.

The Council uses these carbon prices and probabilities as one of the many determinants of its designation of cost effective energy efficiency supply. BPA sets its efficiency targets and budgets based on the Council's estimate of cost-effective regional supply of energy efficiency.

For its transmission planning, BPA has and will continue to incorporate carbon prices in estimating regional benefits of proposed transmission construction projects. For its 2008 Network Open Season economic benefits study, a range of carbon prices were assumed from \$20 to \$50 per ton.

Q3. In your testimony, you stated that BPA currently budgets \$40 million for annual capital investments in energy efficiency. In light of the stated climate and renewable energy policy goals of the Obama Administration (see previous question), do you have any plans to increase that annual expenditure?

Answer 3. The \$40 million dollar capital projection is an estimate of capital spending that might be required for BPA to meet the program demand of our public power customer utilities in the region. The vast majority of the energy efficiency being achieved currently is being delivered by self-funding of utilities or the expense based funding offered through the BPA Conservation Rate Credit (CRC).

BPA's capital funding is available for those utilities who wish to acquire additional conservation beyond that achieved through self-funding or the CRC. For example, last year BPA set a regional target of 52 average megawatts (aMW) of energy efficiency based on the cost effective energy efficiency available in the region, and exceeded that target by obtaining 75 aMW. To achieve that, BPA only used \$8 million of capital funding. Thus, having budgeted \$40 million in 2009 will allow BPA to meet any additional demands for funding that go beyond current planned energy efficiency program activities.

Q4. Your testimony referred to the NW Wind Integration Plan, in which Northwest regional stakeholders agreed to 16 action items that would facilitate the integration of 6,000 MW of wind energy in the region. As you know, that plan was issued in March, 2007. BPA's commitment to help achieve several of these action items was reiterated in the BPA Wind Integration Rate Settlement Agreement. It is critical for BPA to implement these action items to facilitate the reliable integration of renewable energy projects. As of today, I understand that most of these action items have not yet been completed. Could you please explain how BPA intends to move forward with these action items in the near future? How many of these items can we expect to be completed this year? Please explain how can your expanded borrowing authority may be used to help achieve these action items more expeditiously.

Answer 4. In 2007, BPA, the Northwest Power and Conservation Council and other interested organizations completed an Action Plan that confirmed that adding 6,000 megawatts of wind generation in the Northwest by 2020 is technically feasible. The action plan recommends 16 actions the region should take to accommodate this level of wind development. The plan called for the formulation of a Northwest Wind Integration Forum to facilitate implementation of the action plan. The unexpected speed of wind's actual development has put a priority on resolving the technical issues the region identified.

In the two years since completion of the Northwest Wind Integration Action Plan, BPA and other entities in the region together have made considerable progress on the Action Plan items:

- Through the Pacific Northwest Resource Adequacy Forum, the region analyzed the capacity value of NW wind resources.
- In the current 2010-2011 power and transmission services rate case, BPA refined its study methodology and estimates of wind integration costs.
- The region funded development of a higher resolution wind data set for Northwest wind resources.
- The Resource Adequacy Forum convened NW regulators to discuss regulatory barriers to greater use of conditional firm transmission service.
- BPA implemented a re-dispatch pilot project and is in the process of making offers totaling 1200 MW of Conditional Firm Transmission Service. This re-dispatch project used non-Federal and Federal generation to relieve congestion.
- BPA developed and implemented its first Network Open Season which may result in a billion dollars of new transmission investment and beginning of construction of the McNary-John Day 500 kilovolt line, which will enable at least 700 MW of new wind generation and strengthen linkages to other renewable resource areas in Idaho and Montana. The added assurance of the additional Treasury Borrowing Authority gave us the confidence to move forward with this project and initiate planning and design for three others. In the process, we developed a new financing model for regional utilities to use.
- BPA is actively engaged in planning studies with Montana and other Northwest Parties on the Colstrip expansion which is geared towards tapping wind resources in Montana.
- BPA has joined a number of other Northwest utilities in implementing the Area Control Error Diversity Interchange, with the purpose of facilitating integration into the transmission system of more intermittent renewable resources.
- BPA, ColumbiaGrid, NTTG, and WestConnect—subregional transmission planning—entities—have initiated the Joint Initiative, which is addressing dynamic scheduling and intra-hour schedule changes to further facilitate renewable generation integration. BPA is now marshalling internal resources to help move this further towards implementation.
- BPA completed its WECC Regional Planning Project Review process for the West of McNary and I-5 Corridor projects through ColumbiaGrid, a sub-regional transmission planning entity.
- Finally, the Council is working hard to factor in the many different dimensions of the wind integration question into its 6th Power Plan.

It is important to understand that the action items developed for the Wind Integration Action plan were developed by a broad group of regional participants. Most of these efforts require ongoing improvements and enhancements and therefore do not neatly fit into categories of being finished by particular date. As the above points demonstrate, BPA has made good progress on those items it can implement in its own system, and is working with the region as it moves forward on a number of the other action items. Completing all of the tasks in the Action Plan requires the continued cooperation with other regional transmission planning entities and system operators. BPA is looking to the joint Wind Integration Study Team (WIST)

convened by ColumbiaGrid and NTTG to follow-up on the planning methodology recommendations of the Wind Integration Action Plan and to propose a study of the potential system constraints to greater use of dynamic scheduling. The WIST is also reviewing the remaining technical study recommendations of the Action Plan.

In addition to the actions defined in the Action Plan, BPA launched an internal Wind integration Team to tackle the grid operation, business practice, and institutional arrangements needed to make the most of the wind resource. Among other actions, this team is implementing following tasks that were defined in last year's wind integration rate case settlement: 1. Refine estimates of reserve requirements for wind balancing; 2. assess FCRPS capacity and flexibility to supply wind balancing; 3. define the criteria and process for procuring generation inputs for wind balancing from non-Federal entities; and, 4. clarify accountability and responsibility for wind generation forecasting and scheduling accuracy.

Mrs. NAPOLITANO. Mr. Steve Ellenbecker, sir.

STATEMENT OF STEVE ELLENBECKER, ENERGY POLICY ADVISOR, WYOMING, OFFICE OF THE GOVERNOR, CHEYENNE, WYOMING

Mr. ELLENBECKER. Madam Chairwoman and distinguished Subcommittee Members, I am Steve Ellenbecker, Energy Policy Advisor to Governor Freudenthal in Wyoming.

Governor Freudenthal has asked me to appear on his behalf to thank Congress for extending the Western Area Power Administration additional borrowing authority under the American Recovery and Reinvestment Act. I will explain the reasons that that is in the public interest, not only in the intermountain west but across the western U.S. And the rest of the service area served by Western Area Power Administration.

This is all about Wyoming's wind resource in terms of our interest in this proceeding. Wyoming has a truly prolific wind resource, but it is entirely dependent upon a major build-out of the interstate transmission backbone if it is to be delivered to load centers across the country.

Wyoming is home to more than two-thirds of the Class 7 wind resource in the United States. Wyoming is home to more than half of the Class 6 wind resource in the United States, and it is home to more of the Class 5, 6, and 7 composite wind resource than the other Western States combined in the western interconnect. We have an opportunity to be part of the solution to a national energy policy that focuses heavily on renewable energy and climate change initiatives.

There are seven high-voltage transmission projects planned to originate in Wyoming at this time. They are a combination of load-serving entity and merchant project facilities. Together, they could have the capacity to move 10,000 to 18,000 megawatts of new electric energy in major metropolitan areas. Each of them is focused on Wyoming wind at its core.

Several economic studies have shown that Wyoming wind can be delivered to major metropolitan areas at economic prices and, in some cases, at a lower cost than other available renewable energy resources.

We have our own concerns in Wyoming about protecting our natural resources as well, even in the face of the economic opportunity tied to development. Governor Freudenthal believes it is in Wyoming's interest to minimize the number of transmission corridors

that will be needed for those projects while maximizing the flow of electrons. This speaks to the opportunities and the need for larger projects within a corridor for partnership, and that is really where we come to this proceeding reaching out to Western Area Power Administration in partnership.

I have mentioned seven projects sponsored by private industry. There is an opportunity, as Wyoming sees it, in each and every instance for there to be a partnership role, an opportunity, with Western. We see this as a critical link, just as critical as the grids are linked as they are operated between public and private entities.

It has already been mentioned by the committee that there is an important understanding that must be had related to cost allocation. I agree with you completely. It is a critical matter that we get the cost allocation sorted out appropriately. It just may be that some of this development of the national backbone grid that is under consideration now by Congress is so important that it merits being spread across all consumers as a matter of public interest in this country and national security and to address climate change and to allow for the development of renewable energy resources.

We see our partnership here with Western. Western should not view the stimulus money as just a resource to meet the backlog of deferred investments to its system needed to provide service to its existing customers. Wyoming envisions an opportunity here through the Federal stimulus funding to develop a strengthened public-private partnership with Western in support of high-voltage transmission systems. Western is in a key position to help ensure that the projects are right-sized, that they are maximized, that they are built to deliver as much renewable energy as possible to major load centers.

We believe that it is appropriate that Western States and the Federal Government share the goal of fostering collaboration among transmission developers to achieve the maximum transmission capacity with the least possible number of lines and thus minimizing the number of required corridors. It would be inappropriate for these actions to be borne on the backs of the consumers of Western unless and to the extent that they are direct beneficiaries of the associated projects.

Thank you for this opportunity.

[The prepared statement of Mr. Ellenbecker follows:]

Statement of Steve Ellenbecker, Energy Policy Advisor to Wyoming Governor Dave Freudenthal; Wyoming Infrastructure Authority—Director of Governmental & External Relations

Introduction

Chairwoman, and distinguished members of the Subcommittee, thank you for this opportunity to provide testimony. I am here on behalf of Governor Freudenthal to thank the Congress for enacting legislation that provides the Western Area Power Administration (Western) with \$3.25 billion in borrowing authority under the American Recovery and Reinvestment Act of 2009 (ARRA). Moreover, to urge that this authority be used to assist in the construction and modernization of electric transmission facilities that are necessary to deliver renewable energy resources that meet our Nation's global climate goals in an environmentally responsible manner.

In recent years, I have had occasion to represent Wyoming and Western States in a wide range of public policy venues involving the energy and electricity industries. These include the representation of Governor Freudenthal in support of his recent tenure as Chairman of the Western Governors Association (WGA) as well as leadership roles in the Rocky Mountain Transmission Study (RMATS), the Com-

mittee on Regional Electric Power Cooperation (CREPC), the Frontier Transmission Line feasibility study, WGA's Clean and Diversified Energy Advisory Committee (CDEAC), and most recently, WGA's Western Renewable Energy Zone Initiative (WREZ). I also served as the Chairman of the Wyoming Public Service Commission, the state utility regulatory agency.

Wyoming in Context

Wyoming is the largest energy exporting state in the U.S. We produce in excess of 10% of the Nation's energy supplies. Wyoming is the largest producer of coal, the 3rd largest producer of natural gas and the largest producer of uranium. The vast majority of our energy resources are exported as commodities, and converted into value-added usable energy forms in distant markets. Our wind energy resource is just as prolific, but must be converted to usable electric energy on site, entirely dependent on a new interstate transmission backbone system to move this vast and emission free energy resource to the markets where it can be utilized.

According to National Renewable Energy Lab data, Wyoming is home to more than two-thirds of the Class 7 developable wind resource in the U. S., and over one-half of the developable Class 6 wind resource. Wyoming has more developable Class 5, 6 and 7 wind resource than all the other western states combined. These potential resources have a capacity factor in excess of 40%.

While it's true that Wyoming has a vested interest in an environmentally compatible new high voltage transmission network, it should be equally true that the U.S. has a societal and national energy policy interest in the same grid, if we are to meet the collective renewable energy targets set by individual states and now envisioned in emerging federal energy policy.

Six high voltage transmission projects originating in Wyoming are in various stages of development. Together, they could have the capacity to move 8,500 "16,000 MW of new electric energy resources to load centers. Each of them is focused around wind energy in Wyoming at their core.

Several economic studies have shown that Wyoming Wind can be delivered to Arizona Colorado, Utah, Nevada, Idaho and California at a competitive price and in most cases at the lowest price of any other renewable energy. The ARRA specifically directs the Western Area Power Administration (WAPA) to support remote solar and wind generation projects. Since the transmission grid in the west is essentially at capacity, new transmission would pave the way for remote abundant, economically developable wind generation from Wyoming to satisfy the renewable energy demands that are growing across much of the West.

To protect natural resource values in our state, Governor Freudenthal believes it is in Wyoming's interest to minimize the number of transmission corridors that will be needed for these projects while maximizing the flow of electrons. This leads to an optimum use of corridor and line capacity.

The Governor also believes it is necessary to reevaluate the regulatory process for approving transmission in western states. The current model is too cumbersome and time-consuming. In the Governor's opinion, it is unsatisfactory to many of the landowners affected by transmission construction. It favors protection of resources on public lands to the detriment of private lands. There shouldn't be a difference. As currently implemented, the regulatory process lacks "teeth" to address and balance private land concerns. Governor Freudenthal believes it is time to consider a streamlined, regulatory model for transmission similar to that presently employed by FERC to approve natural gas pipelines. Landowners should not have their concerns unaddressed simply because the issue is associated with private lands.

Past Constraints on the Western Area Power Administration

Western has struggled for several years without sufficient funds or borrowing authority to do much beyond maintaining its spider web of transmission lines that cross much of the West and Midwest. Many of these lines date from the Depression Era and were installed to deliver power from Federal hydroelectric plants to rural electric customers and municipalities. After decades of under funding, Western is now positioned to help tap some of the nation's best renewable resources to meet the needs of its existing customers and the needs of the nation, by helping to provide a transmission outlet for high quality renewable energy resources begging to be developed in the Rocky Mountain, Southwest and Great Plains states.

Western's long-standing financial limitations have largely left it by the wayside in the expansion and modernization of the nation's transmission grid. While it has been a valuable partner to the utility industry by providing operating services for many of the industry's transmission lines, including several in Wyoming, it has not been a viable partner in grid expansion or modernization. Armed with financial resources from the stimulus package, Western is now positioned to play a leadership

role in joining with other transmission companies to upgrade and expand the backbone transmission systems that are critical in order to connect remotely-located renewable resources with load centers.

New Era for Western and Private-Public Partnership

Western should not view the stimulus money as just a resource to meet the backlog of deferred incremental transmission upgrades to its system needed to provide service to its existing customers. The stimulus package enables Western to partner with the sponsors of major proposed high voltage, long distance transmission projects within its footprint. These transmission projects are designed to deliver to major metropolitan areas the nation's highest quality wind resources (and therefore most efficient for the ratepayers and taxpayers), which are located in the Rocky Mountain and Great Plains states, and the highest quality solar resources located in the Southwest.

As part of a comprehensive national energy strategy, Western must also have a responsibility to invest in transmission to meet national renewable energy and climate goals. Governor Freudenthal believes the role of the Federal Government is to stimulate private sector investment in transmission facilities, not to be the replacement for such investments. The Federal Government should be available as a partner to supplement and/or help finance the incremental cost of transmission that the private sector is either unable to provide or to obtain State regulatory commission approval to include in rates.

Wyoming envisions an opportunity through the federal stimulus funding to develop a strengthened public-private partnership with Western in support of high voltage transmission projects. Western is in a key position to help ensure that projects are "right sized", that is, built with a minimum of natural resource conflicts and a maximum of renewable energy transfer capacity. We believe that it is appropriate that western states and the federal government share the goal of fostering collaboration among transmission developers to achieve the maximum transmission capacity with the least possible number of lines, and thus minimizing the number of required corridors.

In the West, we have an unprecedented number of proposed major transmission projects. Not all of these projects will get built. Unfortunately, under a business-as-usual approach, the lines that do get built will be undersized and inadequate to meet the nation's long-term demand for low carbon generation. As a result, the nation and electricity consumers will not benefit from the huge economies of scale in transmission construction. Equally important, building undersized lines to areas rich in renewable resources today will lead to future proposals for more lines to those same areas, creating an unnecessary increase in natural resource conflicts. Even in the wide-open spaces of the West we cannot afford to squander the limited number of potential transmission corridors by building undersized lines to rich renewable resource areas.

Only the federal government is positioned to pay to right-size transmission to renewable areas. By doing so, a public-private partnership can be formed around increasing the societal value of major transmission projects. To this end, Western (and the Bonneville Power Administration) should seek opportunities to partner with major proposed transmission projects. Western (and BPA) should specifically use the stimulus authority to:

- Buy capacity on major proposed transmission projects that will enable the project sponsor to increase and/or appropriately "size" its proposed line to renewable resource rich areas; and
- Pay the incremental cost to preserve the option to increase transfer capacity in a new transmission corridor to an area of large renewable resources. For example, Western could pay the incremental cost of the larger capacity transmission towers needed to accommodate additional conductors on the same towers in the future. This investment will capture the economies of scale in transmission construction, limit the proliferation of transmission corridors, and provide load-serving utilities an option to quickly access more renewable generation when demand increases.
- Leverage the deployment of private dollars by creating the mechanism whereby private companies will acquire the transfer capacity preserved above, then repay Western so that the original investment is recovered. Properly executed, these dollars will be recycled to the next project with similar leverage to attract private investment to build out the grid.

There are several situations in Wyoming where this example would apply including the Wyoming-Colorado Intertie project (under development by the Wyoming Infrastructure Authority, Trans-Elect, and Western), PacifiCorp's Gateway projects, Anschutz's TransWest Express project, TransCanada's Zephyr project, and the High

Plains Express project (an unprecedented collaboration of 7 utilities including Western, three state transmission authorities, and Trans-Elect). Equally compelling examples exist throughout the Rocky Mountain West and the Upper Great Plains states.

The WGA's WREZ Initiative is a West-wide stakeholder effort to consider the benefits of multi-state transmission lines to tap the West's most prolific renewable resources areas including wind, solar, geothermal, biomass, and small hydro. We anticipate that WREZ will show that a West-wide expansion of transmission, much of it located within Western's footprint, will help to fully develop markets for renewables, reduce customer costs, and reduce the nation's dependence on carbon-emitting resources.

Conclusion

In closing, I would leave you with three points to consider:

- Through its role in marketing hydroelectric power and the new transmission borrowing authority in the stimulus package, Western is strategically positioned to make a significant contribution to the nation's renewable energy and climate goal; and
- Adequately sized transmission to access the nation's best renewable resources is less likely to be developed without the financial participation of Western.
- Making investments in a manner to leverage Western resources to attract private sector dollars will accelerate the construction of a more robust grid.

With careful, but expeditious action in the Executive Branch and with Congressional oversight, the new borrowing authority granted to Federal Power Marketing Administrations will create jobs and contribute to meeting the nation's long-term renewable energy and climate goals.

Thank you for this opportunity to provide testimony.

Mrs. NAPOLITANO. We will proceed to Ms. James.

I would like to indicate that Leslie has a plane to catch, so if you have any questions, direct it to her so she can then meet her flight.

She is Executive Director of Colorado River Energy Distributors Association, accompanied by Joel Bladow, Senior Vice President of Tri-State Generation and Transmission Association, Inc., of Westminster, Colorado. Thank you for being with us.

STATEMENT OF LESLIE JAMES, EXECUTIVE DIRECTOR, COLORADO RIVER ENERGY DISTRIBUTORS ASSOCIATION, TEMPE, ARIZONA, ACCOMPANIED BY JOEL BLADOW, SENIOR VICE PRESIDENT, TRANSMISSION OF TRI-STATE GENERATION AND TRANSMISSION ASSOCIATION, INC., WESTMINSTER, COLORADO

Ms. JAMES. Thank you very much, Madam Chairwoman.

I am Leslie James, Executive Director of CREDA. I will shorthand it here. I am pleased to have been asked to speak with you today regarding Western's borrowing authority provision contained in H.R. 1, the American Recovery and Reinvestment Act.

CREDA is a nonprofit organization representing consumer-owned electric utility systems that contracts for the delivery of Federal hydropower over the Federal transmission system of the Western Area Power Administration.

CREDA members are all nonprofit organizations serving over four million electric consumers in the six Western States of Arizona, Colorado, Nevada, New Mexico, Utah, and Wyoming. CREDA members include political subdivisions, electric cooperatives, State agencies, municipalities and tribal utilities. CREDA members are also members of the American Public Power Association and the National Rural Cooperative Association.

Western's customers have identified three general issues associated with this broad new authority:

First, the importance of transparency and accountability. Policies, procedures, and rate setting need to ensure a very clear firewall between this program and the existing projects and customers. The customers have a long history of working with Western to ensure that these renewable resources provide benefits to millions of end-use customers. The 1992 memorandum of agreement between CREDA, the Bureau of Reclamation, and Western, for instance, could be a good model going forward to ensure transparency and accountability between the agency and the power customers.

Second, the issue of cost allocation. Historically, as transmission and generation interconnections are planned, the issue of who pays for what is always present. Western must establish clear pricing and cost allocation policies adopted early in the program so that the customers, the renewable developers, and the taxpayers know the associated costs and benefits attributed to a new project. We applaud the provisions in Section 402 that set up this expectation.

Last, electric reliability is key. It is imperative that Western's planning and participation in these new facilities and systems be open to participation by others, including CREDA members, in order to minimize the impact on the environment, the cost of to local consumers, and local siding conflicts.

CREDA believes that this new borrowing authority that Congress has granted Western creates an opportunity to ensure integration of additional renewable resources and the development of required infrastructure. As implementation proceeds, we are confident that Western will work closely with the present customers to establish clear criteria on how the cost allocations will be treated.

It is also important that Federal-nonFederal partnerships develop and evolve. This will ensure that nonFederal funding is used to leverage the Federal investment and to minimize the local citing, environmental, and cost impacts associated with these new facilities.

Western customers have a long history of partnering with the agency, and we stand ready to be fully involved as the program unfolds and as Western meets the challenges it faces to succeed with this new authority while also ensuring that there are no adverse impacts to the existing project's rates and reliability.

Thank you again very much, and I will entertain any questions.
[The prepared statement of Ms. James follows:]

**Statement of Leslie James, Executive Director,
Colorado River Energy Distributors Association (CREDA)**

Madam Chairwoman, members of the Subcommittee, I am Leslie James, Executive Director of the Colorado River Energy Distributors Association (CREDA). I am pleased to have been asked to talk with you today regarding the Western Area Power Administration's Borrowing Authority provisions contained in H.R. 1, the American Recovery and Reinvestment Act (ARRA).

CREDA is a non-profit organization representing consumer-owned electric systems that contract for the delivery of federal hydropower over the federal transmission system of the Western Area Power Administration (WAPA) from the Colorado River Storage Project (CRSP). CREDA members are all non-profit organizations, serving over four million electric consumers in the six western states of Arizona, Colorado, Nevada, New Mexico, Utah and Wyoming. CREDA members include political subdivisions, electric cooperatives, state agencies, municipalities and tribal

utilities. CREDA members are members of the American Public Power Association (APPA), as well as the National Rural Electric Cooperative Association (NRECA). CREDA members (listing attached) purchase over 85 percent of the CRSP hydropower generation.

WESTERN AREA POWER ADMINISTRATION (WAPA) AND ITS CUSTOMERS

WAPA is one of the four federal Power Marketing Administrations (PMAs) and it markets at wholesale over 10,000 MW of federal hydropower generated by the Bureau of Reclamation and Army Corps of Engineers facilities in a 15-state region, utilizing 17,000 miles of transmission facilities. WAPA's wholesale customers in turn provide electricity to approximately 50 million end-use customers. In accordance with federal law, WAPA rates are set at the levels needed to recover the costs of the initial federal investment (plus interest) in the hydropower and transmission facilities. WAPA annually reviews its project rates to ensure full-cost recovery. None of the costs are borne by taxpayers. If a deficit is projected, rates are adjusted to eliminate any deficit. There are no profits involved in the sale of this power from WAPA to its customers, or in the sale of this power by the customers to their end-use customers. Power rates also help to cover the costs of other activities authorized by these multipurpose projects such as navigation, flood control, water supply, environmental programs, and recreation.

The federal resources were established under a multitude of authorizing legislative initiatives. WAPA markets the federal resources through 10 separate "projects", including but not limited to the CRSP, the Boulder Canyon Project, the Central Valley Project, the Parker-Davis Project, and the Pick-Sloan Missouri Basin Project. WAPA markets the federal hydropower resources in the following states: Arizona, California, Colorado, Iowa, Kansas, Minnesota, Montana, North Dakota, Nebraska, New Mexico, Nevada, South Dakota, Texas, Utah and Wyoming.

II. KEY ISSUES

WAPA customer concerns with the provisions contained in Section 402 of the ARRA may be categorized into three general areas:

First, accountability and transparency. WAPA's customers have been ensuring repayment of the federal investment for over 50 years, by entering into long-term contracts to purchase the hydropower generation and transmission resources and by paying all of the federal investment in generation and transmission facilities (with interest), all power-related operation and maintenance costs, and associated environmental costs. Each project's resources are marketed in accordance with individual marketing plans and contracts; ratemaking, accounting and repayment obligations and timetables are also different for each project. For example, the repayment obligation in the CRSP includes repayment by power customers of over 95% of the cost of the irrigation features—the costs that are determined to be beyond the irrigators' "ability to pay."

WAPA customers want to ensure that WAPA's original, core mission of delivering reliable, cost-based renewable hydropower resources remains intact. This new, congressionally authorized borrowing authority will stretch WAPA's human resources to the limit. It is important that WAPA and the preference customers work together to assure that resource conflicts are identified and mitigated. The customers have a long history of working with WAPA to ensure these critical energy resources provide benefits to millions of end-use customers. For example, since 1992, CREDA members, WAPA and the Bureau of Reclamation have participated in a joint review of agency work programs to better understand the agencies' critical needs, and provide funding support when needed. This process has afforded the customers the ability to understand, comment on, and provide input on programs, capital investments, and operational issues facing the agencies. The transparency and accountability that the joint review provides has been proven to be an important aspect of agency/customer relationships.

In addition, the customers, as U.S. taxpayers, strongly support transparency and accountability in the implementation of all aspects of the stimulus legislation, including the new WAPA borrowing authority program. The customers applaud the provisions in the WAPA provisions that require development of policies and procedures through a public process, to ensure the existing project rates are not increased through implementation of this program and that customers understand the criteria that will be applied to recruit, select and implement transmission projects.

A second issue that may prove to be quite a challenge for the customers and WAPA going forward is that of cost allocation. Due to the integrated nature of the U.S. bulk transmission system, there will be circumstances requiring upgrades to the existing transmission facilities in order to interconnect new transmission

facilities necessary to transmit renewable resources. There should be clear pricing and cost allocation policies adopted early in the program to ensure that the customers, the renewable developers, and taxpayers know the costs and benefits associated with a particular project. For example, if the facilities required are necessary solely for the transmission of new renewable resources, all costs (including associated overheads, operation, maintenance and rehabilitation) should be borne by the new project. If, however, the underlying project requires upgrades and there is a clear and direct benefit to the core mission of delivering federal hydropower to existing customers, then some cost-sharing may be appropriate.

A third area could be generally categorized as electric reliability. This includes ensuring the current transmission system is not negatively impacted from a reliability or load-serving standpoint by implementation of the new borrowing authority. The federal transmission system was designed and constructed to transmit renewable federal hydropower resources from the powerplants to load centers. WAPA does not have “load growth” responsibilities (i.e., providing additional power as demand increases over time). As loads have grown since the construction of the federal system, the customers, who DO have load-serving responsibilities have either built additional transmission facilities or contracted for transmission service with local transmission provider(s) to provide reliable electric service to their end-use customers. Because the transmission system, by its nature, is an integrated system, it is imperative that new transmission projects provide for public/private partnerships and joint use opportunities to ensure that customers are able to meet load growth reliably. Without joint participation, new lines could be constructed with no provisions to serve the local customers, resulting in the need to build additional facilities. It is imperative that planning and participation in these new WAPA constructed facilities and systems be open to participation by others also in order to minimize the impact on the environment, costs to local consumers, and local siting impacts.

III. IMPLEMENTATION PROCESS

The key to WAPA’s successfully implementing the new authority is its development of a process that identifies the issues, and then establishes the criteria that will be used so all parties—public power customers, renewable developers, and the taxpayers understand the benefits and costs associated with proposed projects. To that end there are two program areas that immediately come to mind and must be clearly defined:

- *Cost Allocation Criteria:* Presently NO criteria exist concerning how cost allocations will be determined between the existing federal system and the facilities that will be constructed under the new authority. WAPA must work closely with its customers to establish clear criteria on how the cost allocations will be treated. This will prevent significant problems and potential litigation as projects are constructed and repayment responsibilities established. In CREDA’s case, not getting it right could mean unnecessary electricity cost increases to the over four million end-use customers my members serve.
- *Partnerships:* It is important that proposed projects under this authority include the opportunity for local, load-serving utilities to participate in the new facilities to serve local customer needs. The project proposal and selection process needs to be well defined so that local utilities will understand the time-lines and can evaluate the economics of participating as a partner with WAPA in the new facilities. This will also ensure that non-federal funding is used to leverage the federal investment, and to minimize the local siting, environmental, and cost impacts associated with the new facilities.

There will undoubtedly be other issues raised as WAPA’s public process is conducted and it is important that adequate time be allocated to fully explore this complex topic.

IV. CONCLUSION

The new borrowing authority afforded WAPA creates an opportunity to ensure integration of renewable resources and the development of required infrastructure. WAPA customers have a long history of partnering with the agency and look forward to working with WAPA to make sure the critical role the federal system presently has is not compromised as WAPA meets the challenges it faces to succeed with this new authority.

**COLORADO RIVER ENERGY DISTRIBUTORS ASSOCIATION (CREDA)
MEMBERSHIP**

ARIZONA

Arizona Municipal Power Users Association
 Arizona Power Authority
 Arizona Power Pooling Association
 Irrigation and Electrical Districts Association of Arizona, Inc.
 Navajo Tribal Utility Authority (also New Mexico, Utah)
 Salt River Project

COLORADO

Colorado Springs Utilities
 Intermountain Rural Electric Association
 Platte River Power Authority
 Tri-State Generation & Transmission Cooperative (also Nebraska, Wyoming and
 New Mexico)
 Yampa Valley Electric Association, Inc.

NEVADA

Colorado River Commission of Nevada
 Silver State Power Association

NEW MEXICO

Farmington Electric Utility System
 Los Alamos County
 City of Truth or Consequences

UTAH

City of Provo
 City of St. George
 South Utah Valley Electric Service District
 Utah Associated Municipal Power Systems
 Utah Municipal Power Agency

WYOMING

Wyoming Municipal Power Agency

Mrs. McMORRIS RODGERS. [presiding.] Next, Scott Corwin, Public Power Council, based in Portland, Oregon.

**STATEMENT OF SCOTT CORWIN, EXECUTIVE DIRECTOR,
PUBLIC POWER COUNCIL, PORTLAND, OREGON**

Mr. CORWIN. Good afternoon, Madam Chairwoman, Ranking Member. My name is Scott Corwin. I thank you for inviting me today.

PPC is a trade association representing the consumer-owned utilities of the Pacific Northwest with statutory rights to the power marketed by the Bonneville Power Administration. Our members have service territories in portions of seven Western States. They are also members of the American Public Power Association and the National Electric Cooperative Association.

Because our members are consumer-owned and answer directly to their rate payers, they are very sensitive to the rates they pay for wholesale power and transmission of electricity and thus to the levels of debt that are a portion of those rates. By law, funds borrowed from Treasury by BPA are paid back by its customers with interest. Nevertheless, we have been strong supporters of the \$3-1/4 billion in additional borrowing authorities for BPA; and we believe that will meet key infrastructure needs, create jobs, and help integrate new sources of integration. And we appreciate Congress'

steps in that direction, especially Members of the Northwest delegation.

An important source of our support for that borrowing authority was this unique 35-year history that we have in this region with this arrangement with BPA. In fact, the Transmission System Act of 1974 states right within it that BPA should pursue its obligations at the lowest possible rates to consumers and consistent with sound business principles. So, PPC is grateful that Congress took a direction here where the actual language stayed with that current legal framework and with that 35-year history.

We also supported this because we see key need for electricity infrastructure in the West, especially with respect to the need to maintain reliability of the electricity grid, especially in our region where generation sources tend to be located very far from the load centers.

In addition, the authority complements BPA's role as the leader in integrating new sources of renewable generation capacity, especially wind power. It also further enables their historic investments in conservation, overhauling the existing generation assets, and fish and wildlife mitigation.

But the amounts borrowed are repaid with interest through revenues collected mostly from consumer-owned utilities. So, a key point for us is this distinction between borrowing or financing and the actual payment or cost recovery. It is one thing to raise a credit limit. It is quite another to ensure that the credit gets used very well and that there is someone standing there to pay it back throughout time.

Having just signed new 20-year power contracts with BPA, our members spend a lot of time and effort in the capital planning processes. They are run to determine the appropriate types and the location of investments for transmission and for the other statutory purposes that BPA uses its step for.

Our goal has been to have significant impact up front so that we are not merely arguing in the rate cases later over the allocation of costs that have already been incurred. With major infrastructure projects costing in the hundreds of millions of dollars each, BPA will continue to need to be very prudent in its expenditures. These projects must make both economic and engineering sense, because transmission projects, by their nature, have large costs in common with the level of risk. Customers on the hook for repaying BPA's debt will need to continue to have that assurance that appropriate reviews remain in place so they will not be left holding the bag for investments that don't pencil out or whose economics change over time with evolving technologies and markets.

For the most part, these capital planning and budgeting tools that have been in place at Bonneville have served the region and its customers well; and, recently, PPC has asked Bonneville to provide even more detail on its transmission capital programs: What is needed? What is planned? What is the status of projects in the pipeline? And they agreed to engage us even more and to provide additional information on a quarterly basis, and we appreciate that step.

We will stay involved as we move forward to implement this authority, and we appreciate the efforts of all of those involved who have created this tool.

Thank you very much. I appreciate the opportunity to testify today.

[The prepared statement of Mr. Corwin follows:]

**Statement of R. Scott Corwin, Executive Director,
Public Power Council**

Good afternoon, Chairwoman Napolitano, Ranking Member McMorris Rodgers, and Members of the Subcommittee. My name is Scott Corwin. I am the Executive Director of the Public Power Council. I thank you for the opportunity to testify today on this important topic.

The Public Power Council (PPC) is a trade association representing the consumer-owned utilities of the Pacific Northwest with statutory rights to purchase power that is generated by the Federal Columbia River Power System and marketed by the Bonneville Power Administration (BPA). Member utilities have service territories in portions of seven western states and serve over 41% of the electricity consumers in the region.

These utilities, some of the largest and some of the smallest in the Northwest, are committed to preserving the value of the Columbia River system in terms of its clean and reliable electricity for consumers. Because the utility members of PPC are owned by and answer directly to their ratepayers, they are very sensitive to the rates they pay for wholesale power and transmission of electricity and to the levels of debt service that are a portion of those rates.

The Public Power Council has been a strong supporter of the \$3.25 billion in additional BPA borrowing authority provided in the American Reinvestment and Recovery Act. When the idea came up last fall that borrowing authority could be extended as part of the economic stimulus package, we took it under very careful consideration. Before supporting the idea, we sent information to our membership and raised it on the meeting agenda before our 21 member Executive Committee to make sure that there was consensus.

Funds borrowed from Treasury by BPA are paid back by its customers with interest. So, decisions to support additional borrowing are taken very seriously by the customers. There were several aspects to the decision that bolstered support, including:

- There was a pre-existing construct for BPA borrowing authority under the Federal Columbia River Transmission System Act (that spells out the use and repayment of borrowed funds) that has worked well in the past to benefit the region.
- Customers have access to rigorous processes under the current construct to help ensure that capital spending is justified and ratepayer dollars are spent responsibly.
- While there is a strong public purpose focus, the law requires BPA to act in a business like manner and recover costs as appropriate.
- Without the additional borrowing authority, the array of infrastructure needs already identified—even for basic system reliability and maintenance—would have pushed BPA's authority to its limit in the near future.
- There will continue to be growing needs to facilitate new sources of generation in the region, especially renewable resources such as wind and geothermal.
- System stability and the economy of the region would benefit if work on these infrastructure projects moved more rapidly than it otherwise could.

We appreciate the steps taken on this issue by Congress generally, and by members of the Northwest delegation in particular. Added borrowing authority for BPA presents a helpful combination of advancing key infrastructure needs, promoting job creation, facilitating alternative sources of energy, and insuring actual return of the dollars with interest to the U.S. Treasury.

The Case for Additional Borrowing Authority for BPA

PPC is grateful that Congress chose to work within the current legal framework for BPA borrowing authority and not impose new requirements or limitations. With this in mind, PPC chose to support the proposed additional borrowing authority for the following reasons.

First, despite the existing extensive BPA transmission system that enables movement of wholesale power from 31 carbon-free federal dams, one nuclear plant and other nonfederal hydroelectric and wind facilities, there is a critical need for elec-

tricity infrastructure in the West, especially with respect to capability needed to maintain reliability of the electrical grid. We have faced bottlenecks for years as population and electricity loads have out-grown an out-dated system. It was only a matter of time before this caught up with us.

Second, enhancements to the electricity transmission system are required in order to add new sources of generation. BPA has been the leader in facilitating major additions to the region's renewable generation capacity from sources such as wind power. In light of the ever growing demand, accessing additional generation resources and moving electricity freely throughout the region becomes increasingly important.

Third, in addition to transmission facilities, other key infrastructure pieces that fall within BPA's existing statutory responsibility and are in need of funding include investments in energy conservation, refurbishment of existing generation assets at the federal projects, and fish and wildlife mitigation projects. These investments will help the region meet its environmental and power supply needs, and maintain the federal hydro-electric system's capabilities to serve loads.

Fourth, projects enabled with this authority have multiple economic benefits. For example, a single project like the John Day—McNary 500 kV transmission line calls for vast materials and supplies along with hundreds of jobs associated with the necessary engineering and construction. In addition to new construction activity, this infrastructure provides economic benefit by ensuring a clean, low-cost, and reliable electricity supply to millions of residents and businesses in our region.

Fifth, as noted above, any amounts borrowed from the U.S. Treasury by BPA are repaid with interest through revenues collected from electricity sales, mostly to consumer-owned utilities around the Northwest. So, aside from all of the benefits listed above, taxpayers receive a solid return on investment from a financial standpoint.

Ensuring Accountability and Defining Success

In representing those who will repay the cost of debt taken on by BPA, the customer view of this issue makes an important distinction between borrowing/financing and actual payment or cost recovery. BPA has an excellent record of payment on its obligations to the Treasury because of the cautious approach taken in the rate cases that set the amounts added to power and transmission rates. As the customers paying those rates, our members spend a lot of time and effort in the capital planning processes run by BPA to determine appropriate types and locations of investments for transmission and for the other statutory purposes.

In addition, customers are very active in the BPA budgeting processes. We have worked hard over the years to try to improve the timing and level of detail around information relating to BPA's budgets. Our goal has been to have significant input at the front end of these processes, so that we are not merely arguing in rate cases over the allocation of costs already incurred. Currently, an evolution of the budget process for BPA called the Integrated Business Review is further refining how and when customers get information on key spending decisions.

While \$3.25 billion is a lot of financing capability, major infrastructure projects cost in the hundreds of millions of dollars each. Therefore demand for these funds will continue to be high, and BPA will continue to need to be very prudent in its expenditures. It is critical that proposed projects pass rigorous review and that they make both economic and engineering sense. Transmission projects with large costs also come with a level of risk. Customers on the hook for repaying BPA's debt will need continued assurance that the appropriate reviews remain in place so that they will not be left holding the bag on investments that do not pencil out. This is an especially important point in light of the current economic situation facing the end users of electricity who pay the bills.

For the most part, the capital planning and budgeting tools in place at BPA have served the region well in order to maintain an effective and reliable electricity system. At PPC, we intend to stay engaged as the region moves forward to implement use of this additional borrowing authority in a manner that will best benefit the citizens of the Northwest. Again, we appreciate the efforts of all of those involved who added this key element for the region's economic benefit.

Thank you for the opportunity to testify today. I am pleased to answer any questions, and look forward to working with you on these issues in the future.

Mrs. MCMORRIS RODGERS. Next is Chris Crowley, President of Columbia Energy Partners.

**STATEMENT OF CHRIS CROWLEY, PRESIDENT, COLUMBIA
ENERGY PARTNERS, LLC, VANCOUVER, WASHINGTON**

Mr. CROWLEY. Thank you very much.

My name is Chris Crowley, and I am the President of Columbia Energy Partners. Our company is an independent developer of renewable energy projects, primarily wind power and mostly located within the Bonneville service territory.

We developed a 200-megawatt wind energy project in Arlington, Oregon, which is now interconnected to the market via BPA. We are also a major participant in Bonneville's recent network open season, which will be the focus of these remarks. We have some 1,800 megawatts of renewable energy in developments which we feel can play a vital role in bringing resource and geographic diversity to the Bonneville system and the regions's energy supply.

The increase in BPA's borrowing authority under the American Recovery and Reinvestment Act is an important step in the overall plan to distribute much-needed capital investments in our country and build a vibrant, green economy. BPA's role in this effort harkens back to the 1930s when BPA's and its sister agencies, the Corps of Engineers and the Bureau of Reclamation, built the Columbia Snake hydro system and the region's transmission grid. BPA was a major player in dramatically changing the energy landscape and the economy of the Pacific Northwest at the time.

Another historic moment is upon us now, and BPA can and should once again play a history making role in that effort.

Recently, we feel BPA showed that it can balance competing interests successfully in its network open season. Our company's direct experience in that process provides a good example for how BPA addressed some challenges and can address others better in the future.

In 2008, Bonneville launched a program to offer the customers an opportunity to articulate their service needs, signed precedent transmission service agreements and get service similar to the natural gas pipeline business model.

A little color I can add to that process is that our company, like others, stepped up and signed a stack of precedent transmission service agreements about four inches thick to participate in that process. We paid cash deposits of \$2 million and supplied letters of credit to back our PTSA's with \$12.4 million. For a company of our size, that was a huge commitment, but we knew that the network open season was a pay-to-play system, and we wanted to play.

Part of what we brought to the table in the network open season was a complex of wind energy projects outside of the constraints of Bonneville's system around the Columbia River Gorge with the winter peaking resource profile of the gorge area. These diverse resources have attributes that BPA's administrator recognized when he testified before the Senate last summer. He said in part that sites that are at some distance from the Columbia River gorge would add value if the wind regime is different. Overall, the power system would seem a much more constant production which would be better able to meet consumer demands. To take advantage of these opportunities, it may reduce costs and enhance reliability to

build transmission facilities to the more remote regions of the Northwest to capture their higher value and diversity.

Under its tariff, BPA opted to study system impacts from these new projects in clusters. Our projects were in a remote portion of BPA's footprint, which made developing a plan of service for them challenging.

In the interest of time, I will just say briefly that our projects did not advance in the process because of cost and complexity. However, we do hope that they are in a more collaborative problem-solving mode in the next network open season; and with increased borrowing authority we can work with Bonneville to achieve a result that works for both BPA and brings our diverse wind projects into the mix.

So, looking ahead, in order to make the best use of BPA's borrowing authority, we believe that BPA must more efficiently engage with their private-sector customers in the early stages of analysis and planning. It is often challenging for any government agency to move on private-sector time frames, and we understand that, but the ambitious goal set by Congress and the Obama Administration deserves no less.

We would like to see that BPA looks through to the local service providers that connect to the BPA network. Our projects will actually interconnect to a local co-op and then go out over BPA. Bonneville needs to provide guidance and leadership in that effort to help get the best results. Bonneville should also clear out its interconnection queue, as well as the transmission queue, in the next network open season, we hope.

And, last, and this is an important point with any regional transmission agency, they should make every effort to optimize existing transmission rights of way and permitting work already done, such as the National Energy Corridors Act, part of the Energy Act of 2005. Bonneville needs clear direction from this Committee and the Obama Administration that we are in a new day of aggressively moving forward with these efforts.

I want to be clear that we applaud Congress' work on the stimulus bill and the increase in BPA's borrowing authority, and we urge the Committee to stay active in their oversight and effective deployment of these efforts with WAPA and BPA and their partners in the public and private sector.

Mrs. McMORRIS RODGERS. Thank you.

[The prepared statement of Mr. Crowley follows:]

Statement of Chris Crowley, President, Columbia Energy Partners LLC

"Inaction is not an option that is acceptable to me and it's certainly not acceptable to the American people—not on energy, not on the economy, and not at this critical moment."

—President Obama, U.S. Department of Energy, Feb. 5, 2009

Introduction

Good afternoon, my name is Chris Crowley, President of Columbia Energy Partners LLC (CEP). Our company is an independent developer of renewable energy projects, primarily wind power, mostly located within the Bonneville Power Administration's service territory. We have been in this business since 2000, which makes me a veteran and provides some experience I hope will be of interest to the Committee.

Thank you for the opportunity to address the Water and Power Subcommittee today regarding the recent increase in the Bonneville Power Administration's (BPA)

borrowing authority under the American Recovery and Reinvestment Act (Stimulus Bill). This aspect of the Stimulus Bill is an extremely important part of the overall plan to efficiently and transparently distribute much needed capital investments in our economy to build a vibrant “green economy.” Channeling public capital investment through the BPA toward real energy projects will provide the “capital lubrication” the economy needs to attract private sector investment and jump start the “green economy.”

BPA’s role today is analogous to its role in 1937 when it was first formed to market the power from the system of hydroelectric dams and associated electric transmission built through a partnership between BPA and its sister agencies, the Corps of Engineers and Bureau of Reclamation. BPA was a major player in significantly changing the energy landscape in the Pacific Northwest at that time. Since then, BPA has effectively deployed public capital to further build out both the Federal Columbia River Power System (FCRPS) and Federal Columbia River Transmission System (FCRTS) meeting Pacific Northwest energy needs and strengthening our economy.

A similarly historic moment is upon us now, but today’s situation is also different on several levels. BPA has had the ability to deploy capital in the past, but the need is greater than ever today. Because the need is so great, Congress was wise to increase BPA’s borrowing authority dramatically so the Administration can put more money to work. However, with the increased borrowing authority, BPA’s actions will also be scrutinized more closely and, so, the question will be, “how will such capital be deployed and for what purposes?” There are three key drivers in our economy to be balanced with BPA’s public goals which are:

1. building energy diversity and independence through renewable energy development and “green economy” initiatives,
2. injecting public investment into the economy to “unfreeze” our capital markets and leverage public and private investment in energy infrastructure, and
3. creating American jobs through productive public-private partnerships.

BPA’s borrowing authority has been expanded; however, BPA has many interests to balance and many stakeholders to listen to who are concerned about where BPA invests its capital and how it does so.

A key example of BPA balancing such interests successfully was in its recent Network Open Season. In that process, BPA managed to balance public and private interests to create a framework to finance and construct new transmission in spite of many challenges, including a changing load and resource topography, more complicated system operations and increased coordination with other electric systems across many states and systems. The recent Network Open Season (NOS) process provides an excellent model and platform for BPA and others to act in public-private partnerships, balance diverse interests with unique project attributes and implement creative and productive solutions.

A Unique Opportunity for BPA in Harney County, Oregon

Our company—and our direct experience with BPA in the recent Network Open Season—provides a good example for how new challenges have been and can be addressed by BPA. BPA has efficiently integrated 1500 MW of wind energy resources in a region east of Portland, Oregon known as the Columbia Gorge or “Gorge.” The Gorge wind regime is primarily a spring-summer resource, which coincides with BPA’s high hydroelectric production and “fish flush” time frame, creating challenges for reliable management of BPA’s power system.

BPA Administrator Steve Wright has expressed interest in connecting wind resources to the grid which may be at some distance from the Gorge and that have a wind regime different from the Gorge. BPA believes that such new wind resources, which have not been exploited to date, would help to balance the Gorge wind resource area, provide more constant production and add efficiencies to the operation of its power system matching consumer demand more optimally. In order to take advantage of these higher value opportunities and diverse opportunities, transmission facilities must be built to reach the more remote regions of the Northwest. It is recognized that the higher cost of building transmission to these remote regions could be offset by the value of the diverse wind regime and enhanced reliability.

We are in complete agreement with BPA on connecting diverse and remote wind resources to their grid and will be a key partner with BPA in this regard. On that point, CEP is developing a 600 MW wind energy complex composed of six separate projects in southeastern Oregon. CEP has a proven track record of developing wind resources and moving its power to market. There are several unique aspects of our wind project complex which make CEP an ideal partner for BPA to deploy public funds, including:

1. a “winter-peaking” wind regime, which is the exact inverse of the Gorge wind production profile;
2. the ability to optimize existing transmission and add significant new transmission, and
3. to bring public and private investment to hard hit rural communities where unemployment hovers at 20% and non-ranch jobs—outside the government sector—are almost non-existent.

In order to optimally integrate renewables into any electric grid, the unique attributes of each project’s wind regime, location, interconnection and transmission service plan must be factored into the plan to finance and develop the project. The interaction between a wind project’s production of energy on a variable basis and the transmission grid must be analyzed to capture all of the specific benefits and impacts.

How to Put BPA’s Stimulus Bill Funds to Work and Ensure Proper Oversight

It sometimes seems as if everyone is in agreement on the need to fund infrastructure to facilitate development of new, renewable energy projects, but people are in a quandary over how to get it done. The broad agreement that we need new infrastructure must be refreshing for the members of this hearing panel, including the BPA and the Western Area Power Administration (WAPA). President Obama has certainly made it a highlight of his economic platform, and Congress acted decisively, as the increased BPA borrowing authority in the Stimulus Bill makes clear. During the 2008 presidential campaign, Candidate McCain also spoke glowingly of his desire to boost investment in the renewable energy sector. Even when Congress was in Republican control, the 2005 Energy Act mandated development of “energy corridors” for transmission to bring new renewable energy resources to market. In addition, the Western Governors Association is being very proactive and is making “renewable energy zones” with transmission solutions a top priority.

And yet, now that it is time for the rubber to meet the road, there are many views on how to get us to the next level in connecting renewable resources to the grid but not much clear direction. So, now is the time to focus our leadership, support and oversight efforts to remove barriers in some key areas, including:

1. The time and risk involved in permitting new transmission projects, which adds significantly to the cost and is a strong disincentive for private parties to attempt it;
2. The de-facto veto power of “green mail” groups adept in suing federal agencies, which places undue pressure on transmission providers to seek routes over private lands;
3. Decades-old agreements on existing shared transmission systems, such as the Southern Intertie in our area, with unclear impacts on planning for new projects; and
4. Challenges to planning across interconnected energy markets and systems to address seams issues and optimize joint and larger-scale solutions.

Bonneville, to its credit, has overcome these obstacles with some notable success. In 2008, Bonneville launched a “Network Open Season” or NOS to offer customers the opportunity to articulate their service needs, sign Precedent Transmission Service Agreements (PTSA) and get service, similar to the natural gas pipeline business model. Since BPA’s Administrator Steve Wright is also here today to testify, I will let him detail the response to the Network Open Season. The “color” I can add to that is that our company, like others, stepped up and signed a stack of PTSAs four inches thick to participate in the process. We paid cash deposits of \$2 million and supplied letters of credit to back our PTSAs worth \$12.4 million. For a company our size, that was a huge commitment, but we understood that the NOS was a “pay to play” system and we wanted to play.

According to BPA’s accounting of the Network Open Season response, our company’s participation in the process was significant. Our transmission service requests accounted for:

- 3.5% of customer participation (1 of 29 companies);
- 18% of total PTSAs signed;
- 12% of total MW participation (800 MW);
- 16% of total wind transmission service requests;
- 14% of total LC (security) required for signed PTSAs (\$12.4M of \$90M);
- CEP was on the longer end of the contract term curve (30 years).

Under its Tariff, BPA opted to study system impacts from the new projects to its system as large scalable batches, or “clusters,” of transmission service requests. When the “cluster studies” were announced, our service requests were identified as the “Harney County Reinforcement Project,” in a remote portion of BPA’s footprint,

which made developing a Plan of Service challenging. However, with 50% of our energy production coming in the winter months and the stated interest in bringing new renewable energy resources to market from diverse areas, our projects were certainly of interest. We believe the diversity attributes our projects offer make them a natural fit, given the initiatives in the West, including renewable energy zones, BPA's expanded borrowing authority and the strong direction from Congress and the Administration to use such borrowing authority in a public-private manner to site and build new transmission infrastructure to reach new energy areas bringing diversity and efficiencies to the transmission grid.

Going forward—CEP Encourages Congressional Oversight and for BPA to Act under a Public-Private Framework to Efficiently Deploy Capital

We encourage BPA to apply our experience in the next Network Open Season as well as for other regional transmission service providers hoping to mirror—and improve on—BPA's important first effort. In order to make the best use of BPA's new borrowing authority, we believe the BPA must be more efficiently engaged with the private entities who are their customers. It is often challenging for any government agency to move on private-sector timeframes, but the ambitious goals set by Congress and the Obama Administration demand no less.

It is not only the BPA who must interact more closely with the private sector. The authority vested in public agencies with control over permitting and siting of energy projects, including the transmission lines to get the output to market, must be more action oriented, work on shorter time lines and coordinate more closely with private entities with the know-how to get the job done.

Again, our projects offer a relevant example. We have obtained a land use permit to build a 100 MW wind project in southeastern Oregon, but the county where our project is located is 77% publicly-owned land. There is simply no way to interconnect our project to the local electric coop without crossing federally-owned land. Period. In fact, our project requires an easement of less than 200 acres, in a county with 6.5 million acres of publicly-owned land, but to obtain an EIS permit for that short distance will take 2-5 years before legal challenges are exhausted. Surely, regulations must be changed so that such simple easements can be granted at the local level on an administrative basis, not appealed endlessly to the 9th Circuit and beyond, to kill projects.

In a similar vein, our project will eventually require an upgrade of an existing line through some 50 miles of mostly BLM-owned land. Where there is already a transmission line and the new line can be constructed in the same footprint, within one county (or state), that, too, should be something the local staff can do administratively or at least with a more reasonable period of review. We will not succeed in building a "green economy" if some we do not balance self-styled "green" advocates exploitation of the permit and appeals process to effectively kill good projects.

These points need to be taken into account in the efforts underway in various public and private forums to fund infrastructure to facilitate development of new, renewable energy projects.

We want to encourage Congress to actively encourage BPA to capitalize on the work which has been done in the 2005 Energy Act, which mandated development of "energy corridors" for transmission to bring new renewable energy resources to market. The Western Governors Association has made "renewable energy zones" a priority and so Congress and BPA can and should act decisively to coordinate work plans for immediate action.

We want to encourage closer coordination and action between public and private interests to achieve results for taxpayers and shareholders alike. We believe that BPA's role should be broader than just building infrastructure that benefits its existing customers. Transmission planning must be performed on a true "one-utility" basis, with proper oversight, controls and balanced public-private interaction to optimize the existing system and build new facilities. BPA must take a very active role in that effort, with support from Congress, to invest alongside private interests and to be the catalyst to provide investment when the balance is not always in true parity between public and private interests.

BPA is strongly encouraged to utilize its creativeness and flexible oversight structure to allocate public funds and lead funding of infrastructure, even if private capital has to catch up. BPA's borrowing authority and capabilities must be allocated to all projects alike. BPA is encouraged to pursue joint venture investment options available with varying percentages of lower cost public dollars used to augment higher cost private dollars. BPA is encouraged to fully reform both transmission service and interconnection-wide processes as it has done in its recent Network Open Season and along the lines that the Federal Energy Regulatory Commission (FERC) has promoted in other parts of the country.

Going forward, we hope that BPA and this Subcommittee work closely with its partners in the private sector on multiple fronts to bring new renewable energy sources into the grid and the market. Some of the overarching areas in which CEP wants to encourage further collaboration are:

1. Customized solutions to all funding and transmission project needs;
2. Transmission planning processes that plan for the holistic needs of the transmission grid and coordinate across multiple high and low voltage transmission provider systems;
3. Reformation of the interconnection and transmission service processes via more liberal use and implementation of open season process; and
4. Optimize the existing and future government environmental and permitting work to create "energy corridors" with derivative benefits on adjacent transmission rights of way.

First and foremost, and in more detail in line with the overarching goals above, Bonneville should continue and increase their efforts to engage private sector customers in the early stages of analysis and planning. In order for that kind of collaboration to work, BPA must increase information sharing and transparency with its customers, so that customers can understand the basis for decisions, respond with suggestions and criticisms, and work together towards solutions. In our view, that means focused attention to unique customer needs factored into the transmission planning process.

Second, Bonneville now has the expanded borrowing authority to revisit its calculation of the costs of projects and have the added experience to calculate the benefits to be factored into its rate making process. This is a key point for this committee: that Bonneville's long (and understandable) focus on protecting rate payers can now be balanced with private capital as well as this new and welcomed financial muscle. I hope the committee will make plain to Bonneville and any other agency, such as WAPA, who takes such federal funds that taking these dollars also means taking on the responsibility to do full due diligence on all project benefit and cost calculations on an equal basis for new and long standing projects. As the Administrator said last summer to the U.S. Senate, benefits such as regional and resource diversity should absolutely be weighed, in my view, all the more heavily now that the additional federal dollars have been added.

Third, our projects, like many others, will interconnect with a local service provider and then go onto the BPA network. We can point to many projects (planned and operating) in Oregon and Washington in the same situation. In these instances, Bonneville should provide both guidance and leadership to work with the local provider and the customer to achieve optimal solutions for all parties.

Fourth, while BPA did indeed clear out a great deal of "dead wood" in its transmission service queue, it left its interconnection queue intact. Effectively, that meant that presumably less than viable projects that did not "pay to play," still preserved their interconnection rights without proof of project viability, despite avowed policies that separate those two functions. Interconnection should also figure in future Network Open Seasons. A lesson for both BPA and WAPA may be taken from California to test project viability as part of the interconnection and transmission process. An added level of due diligence should be added to the expanded borrowing authority for both BPA and WAPA to "test" project viability to ensure capital and human resources are used wisely.

Fifth, BPA and any other regional transmission agency should make every effort to optimize existing transmission rights of way and permitting work already done, such as the Energy Corridors established as part of the Energy Act of 2005. BPA needs clear direction from this committee and the Obama Administration that we are in a new day of aggressively moving forward with these efforts, not defaulting to the same old approach in planning for and permitting vitally-important transmission infrastructure.

In closing, I want to be very clear that we applaud Congress' work on the Stimulus Bill, increasing BPA's borrowing authority and BPA's first Network Open Season and look forward to working with them in their efforts to reform and provide oversight to get to productive results for the American people ensuring energy supply diversity and independence. BPA has shown leadership and a willingness to think outside the box that bodes well for a dramatic increase in activity in the next few years, particularly when coupled with its expanded borrowing authority.

I thank the Committee for the opportunity to share these thoughts and experiences with you. I urge you to stay actively involved in the oversight and effective deployment of these new resources to help usher in a new era of economic prosperity spurred by our friends at the BPA and WAPA and their partners in the public and private sectors.

**Response to questions submitted for the record by Chris Crowley,
President, Columbia Energy Partners, LLC**

Questions submitted by Chairwoman Grace Napolitano

Question 1: How would additional oversight of BPA help improve the grid?

Answer 1: Currently, oversight of BPA is formally split between the U.S. Congress and the U.S. Department of Energy with informal / voluntary oversight by the Federal Energy Regulatory Commission (FERC) on specific issues BPA feels it is willing to subject itself to FERC oversight and jurisdiction. Under each oversight relationship, each decision is a negotiation without clear and defined recourse avenues for interested parties. It is Columbia Energy Partner's (CEP) belief that having a single authority as the final stop or arbiter on BPA issues would be beneficial to streamline and make decision making more effective for BPA and its constituents and power and transmission customers, alike. In addition, appealing decisions to a single authority with jurisdiction over BPA issues, similar to FERC or state public utility commissions over investor-owned utilities, is essential to the decision making, implementation and appeal process to ensure the grid is improved and efficiently expanded for all willing and capable participants.

While BPA does largely a good job in managing its affairs and being balanced in many of its decisions, it is primarily subject to political, constituent and key customer influences when making business decisions. The nature of BPA's business, recognizing the demographics of its constituent and customer base and organic statutes, means that decisions will likely never be divorced from such influences. However, BPA's footprint has changed dramatically with expanded and more diverse generation and transmission market entrants. Such change requires that BPA's governance structure be changed to balance BPA's statutory and non statutory obligations and obligations. For example, BPA must be required to explore a range of potential solutions in its transmission planning and cost allocation processes to connect all resources to the grid at various voltage levels on a reasonable cost and schedule basis providing the right fit for each customer and the BPA grid.

In CEP's opinion, there are several options for the best oversight authority. The simplest oversight authority would be to pull all the Power Marketing Agencies under FERC. Another option would be a joint Congressional and U.S. DOE committee composed of a representative handful of Senators, Representatives and a U.S. DOE representative with authority to make decisions over BPA issues. A third option for an oversight authority would be a regional oversight body with representatives appointed by the governors of the same states that the Northwest Power Planning and Conservation Council covers with authority over BPA issues. Each of these oversight authority options would have final decision making authority to properly balance the diverse and changing set of power and transmission-related interests within BPA's footprint. As noted above, such oversight structure would have final decisionmaking authority on BPA issues similar to FERC or state public utility commissions have over investor-owned utilities.

Changing BPA's underlying statutory authority and oversight structure to facilitate all viable and beneficial projects will create a more robust, efficient and open access grid preventing any potential discrimination. This will promote a larger amount of renewable energy resources to be provided access to the grid and drive America's energy portfolio diversity and independence. Any subsequent "Cap & Trade" legislation effects on the economic dispatch of the energy supply mix or "resource stack" would be muted through a more robust transmission grid to provide unfettered and open access for a more diverse set of energy resources than we currently enjoy. Concerns, whether real or not, of increased volatility in the power markets due to such legislation would be met through our robust energy and transmission system.

Question 2: How could the federal government do more to encourage the development of renewable energy resources?

Answer 2: The simplest answer is to institute a permanent national renewable portfolio standard (RPS) at a high enough percentage level to ensure promotion of renewable energy development and to enact legislation as contemplated in the Reid-Bingaman-Dorgan draft energy bills which clear the barriers in front of renewable energy development related to transmission planning, cost allocation and pricing and permitting / siting issues. Until RPS and transmission legislation is enacted, Congress must direct all governmental agencies to clear the hurdles and provide solutions for connecting renewables to the grid within commercially and environmentally reasonable parameters and on timelines to support President Obama's energy agenda.

The U.S. Government must communicate to all entities interested in connecting renewables to the grid, with special emphasis to environmental groups opposing projects, that barriers and opposition will be met with clear solutions and deadlines that will move projects ahead on President Obama's three (3) year timeline to increase renewables in the United States. This assumes renewable projects have credible plans that have been vetted within clear, defined and reasonable parameters.

Mrs. MCMORRIS RODGERS. Next is Edward Rahill, Vice President of Finance, CFO of ITC Holdings, Transmission Company, based in Novi, Michigan.

STATEMENT OF EDWARD M. RAHILL, VICE PRESIDENT OF FINANCE, CFO OF ITC HOLDINGS, TRANSMISSION COMPANY, NOVI, MICHIGAN

Mr. RAHILL. Madam Chairwoman, Ranking Member of the Subcommittee, and Members of the Subcommittee, I am Ed Rahill. I am Senior Vice President of Finance and Chief Financial Officer of ITC Holdings.

ITC is the Nation's largest independent transmission company. We operate in five States and own approximately 15,000 circuit miles of transmission. ITC has no corporate affiliation with any generation owner, marketer or distributor of electricity. Our sole business is to provide energy services to our customers. I appreciate the opportunity to be invited here to testify today.

I have two primary points to make.

The first, investor-owned utilities like ITC have been making significant investments in the transmission system in recent years. Second, the Power Marketing Administrations have a valuable opportunity to use the new borrowing authorities provided to them by Congress to engage in partnerships with third parties that are willing to leverage private investments to ensure a most efficient expenditure of limited taxpayer dollars.

With respect to investment levels, please refer to the chart on my left. As you can see from this chart, U.S. shareholder and owned utilities invested between 2004 and 2007 nearly \$7.8 billion transmission investments compared to \$700 million spent by all Federal utilities combined of which 75 to 100 million was invested by WAPA.

As the information provided by Edison Electrical Institute shows, shareholder-owned utilities have built far more transmission facilities than Federal entities have in that period. I should be willing to say that over that period ITC has invested over \$1 billion of that transmission.

The increase of borrowing authority granted to WAPA and BPA is intended to facilitate the construction of more transmission and delivered power generation from renewable resources which have often been located in remote locations far from population centers where the power is needed.

ITC supports this objective and is already working to make this issue a reality. In 2008, ITC interconnected 810 megawatts of new wind generation, representing roughly 10 percent of all the wind generation connected that year. We are actually working on products today to connect renewable-rich resources in the areas of the upper Midwest to customer loads.

ITC's projects are under way in Kansas to interconnect renewable generation and to prove for liability. And, recently, ITC announced the Green Power Express, a 3,000-mile state-of-the-art 765 kv super highway that, when fully developed, will transmit up to 12,000 megawatts and other wind energy from North Dakota, South Dakota, Minnesota, Iowa to load centers in the Midwest region and the mid-Atlantic States.

If I can draw your attention to a map, you can see the proposed Green Power Express in bright green in the upper left-hand corner along with other existing high-voltage plants that are in existence today.

The Green Power Express is a \$10 to \$12 billion project. Yet, even with the current economic environment, ITC has not found access to debt or equity markets to be difficult. I have attached in my testimony a letter from Credit Suisse Securities LLC informing ITC that it believes we have the financing necessary to finance all of the projects as we currently described.

ITC believes that its transmission-only business model combined with regulatory certainty affords, by its regulatory operating series, plays a critical role enabling our access to capital markets and facilitating the ability of ITC and its regulated operating facilities to achieve the main issue of maintaining investment-grade ratings.

Accordingly, ITC believes that financing is not the problem that needs to be overcome in order to build transmission and to connect to renewable resources. Rather, planning, citing, and costs for allocation issues present far larger obstacles.

In closing, ITC, the Nation's only independent transmission company, is eager to work with WAPA and other PMAs to settle the electric transmission challenges facing our country today.

Thank you for the opportunity to testify.

Mrs. NAPOLITANO. [presiding.] Thank you.

[The prepared statement of Mr. Rahill follows:]

**Statement of Edward M. Rahill, Senior Vice President of Finance
and CFO, ITC Holdings**

Chairwoman Napolitano, Ranking Member McMorris Rodgers, Members of the Subcommittee, I am Ed Rahill, Senior Vice President of Finance and Chief Financial Officer of ITC Holdings Corp. ("ITC"). ITC is the nation's largest independent transmission company, with transmission facilities in five states. ITC's transmission services an area comprised of nearly 80,000 square miles with 13 million people. Since its formation in 2003, ITC has invested over \$1 billion in transmission improvements. ITC has no corporate affiliation with any generation owner, marketer or distributor of electricity. Our sole business is providing transmission services to our customers.

I appreciate being invited to testify before you today regarding the increased borrowing authority recently provided the Bonneville Power Administration ("BPA") and the Western Area Power Administration ("WAPA") and our willingness to participate with the PMAs in the construction of new transmission facilities to enable the transmission of wind and other renewable generation to load centers. ITC is enthusiastic about the prospect of partnering with the PMAs to build the transmission needed to meet this nation's energy goals.

H.R. 1, the American Recovery and Reinvestment Act ("ARRA") recently enacted by Congress and signed into law contains two PMA borrowing authority provisions that will affect expansion of transmission infrastructure, especially in the West. Section 401 of ARRA provides \$3.25 billion in additional borrowing authority for the BPA; Section 402 provides a similar amount, \$3.25 billion, in new borrowing authority for the WAPA. The legislation also would permit WAPA to allow other entities to participate in the financing, construction and ownership of projects. Under the legislation, WAPA is required to seek Requests for Interest from entities interested

in identifying potential projects. I am pleased to note that WAPA has already begun this process by publishing a Notice of Availability of Request for Interest in the March 4, 2009 Federal Register.

The increased borrowing authority granted WAPA and BPA is intended to facilitate the construction of more transmission to deliver power generated from renewable resources, which often are located in remote locations far from population centers where the power is needed. ITC supports this objective and is already working to make it a reality. We are actively working on projects today to connect renewable rich resource areas in the upper Midwest to customer load centers. We have projects underway in Kansas to connect renewable generation and improve reliability and recently, ITC announced the Green Power Express, a 3,000-mile, state-of-the-art 765-kV green power “superhighway” that, when fully developed, will transmit up to 12,000 MW of wind and other energy from North Dakota, South Dakota, Minnesota and Iowa to load centers in the Midwest region as well as in the Mid-Atlantic region. The Green Power Express will not only facilitate the development of wind resources but it also will help improve reliability and significantly reduce transmission congestion. Attached to my testimony is a map depicting the proposed project.

ITC responded to a solicitation of interest for potential partners on transmission projects issued by WAPA last November and we remain very interested in working with WAPA to develop and construct transmission to support renewable generation. Despite the current and recent turmoil in the credit markets, ITC and its subsidiaries have been successful in every debt and equity financing related to ongoing operating company investments and acquisitions since ITC was founded in 2003. Even in the current environment, ITC has not found access to the debt or equity markets to be difficult. As attachment 2 to my testimony indicates, we are confident in our ability to finance the Green Power Express. ITC believes that its transmission-only business model and the regulatory construct in place at its regulated operating subsidiaries enable transmission investment by providing the regulatory certainty necessary to access capital markets and allowing ITC and its regulated operating subsidiaries to achieve and maintain investment grade credit ratings. Financing new transmission is not the problem that needs to be overcome in order to build transmission to provide greater market access for renewable resources. Rather, planning, siting and cost allocation are the real obstacles to building this transmission.

As you will note in attachment 3 to my testimony, shareholder-owned utility transmission investment has been steadily increasing since 1999. ITC and other members of the Edison Electric Institute (“EEI”) are planning to invest more than \$30 billion in transmission facilities in the three-year period from 2008 and 2010.

We are dedicated to expanding and strengthening transmission infrastructure. U.S. shareholder-owned electric utilities in 2007 spent nearly \$7.8 billion on transmission investments, compared to approximately \$700 million spent by all federal utilities combined, of which approximately \$75 to \$100 million was invested by WAPA. Indeed, in recent years, shareholder-owned utilities have built far more transmission facilities than federal entities, as shown in attachment 4.

Despite the fact that BPA and WAPA each received an additional \$3.25 billion in borrowing authority in the ARRA, this amount of money will not be enough to build all the transmission that is needed to link remotely located renewable resources with load centers, particularly within the WAPA service territory. Accordingly, ITC is advocating that the PMAs use this federal funding to leverage private sector financing and private expertise to maximize results. Federal transmission policy should support—not supplant—development of interstate transmission facilities through private enterprise, which has the construction and financial capability to build interstate transmission facilities for which siting approvals and permits can be obtained. Through creative partnerships with private transmission companies that have the expertise and financial capability to build and finance high voltage transmission lines, WAPA and BPA will be able to leverage the funding provided and move us closer to the day when we have a robust, reliable, high voltage grid connecting renewable rich resource areas with high population centers.

To ensure the most efficient expenditure of limited taxpayer dollars, Congress should encourage WAPA to target its spending under the new ARRA borrowing authority on transmission projects that, but for this new funding, would not likely be constructed in a timely manner and to encourage WAPA and BPA to enter into partnerships to develop needed facilities.

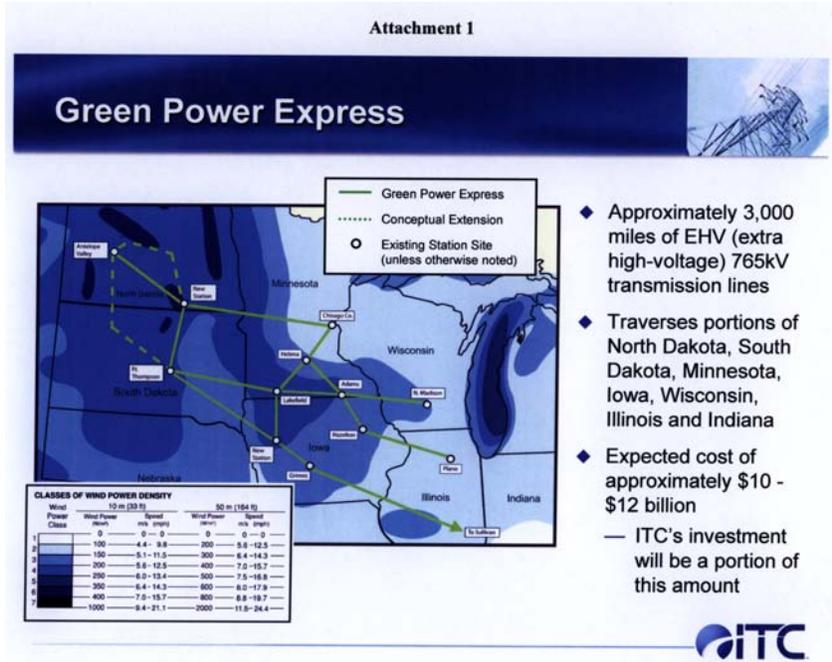
Specifically, we suggest WAPA should certify before committing funds to any project that: (1) no other entity is willing to participate in the financing, construction or ownership of the project in a timely manner; and (2) the project does not interfere with or duplicate an existing project being constructed by another transmission owner or operator.

Legislative precedent exists for imposing similar preconditions on federal utility transmission projects to avoid duplication or preemption of private-sector infrastructure investment. The Energy Policy Act of 2005 contains language designed to avoid duplication of functions of existing or proposed transmission facilities by certain joint transmission projects in which WAPA was authorized to participate (Sec. 1222 of EAct 2005).

In addition, any transmission expansion projects that WAPA plans under its new borrowing authority should be consistent with ongoing Western Electricity Coordinating Council ("WECC") planning processes, which identify a number of projects already being developed or on the way.

Notwithstanding the private-sector transmission investment numbers outlined in the charts attached, building interstate transmission lines continues to be challenging due to the need to obtain approvals from every state that a transmission line traverses. Building interstate lines, especially in the West, is further complicated by the difficulty of obtaining authority to build across federal lands. In addition to providing incremental borrowing authority for federal utility transmission construction, Congress should also address important siting and cost allocation issues that are frustrating the planning and construction of transmission lines. Congress should strengthen Federal Energy Regulatory Commission ("FERC") siting authority for interstate transmission lines and transfer to FERC the lead agency authority for permitting projects that cross federal lands.

Thank you again for the opportunity to testify before the Subcommittee on this important issue.



Attachment 2



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 New York, NY 10010-3029
 Phone: 1 212 353 3000
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February 28, 2009

Joseph Welch
 Chairman, President and Chief Executive Officer
 ITC Holdings Corp.
 27175 Energy Way
 Novi, Michigan 48377

Re: Financing of ITC's Green Power Express transmission project

Dear Mr. Welch:

You have requested our views regarding the availability of private sector equity and debt capital for ITC Holdings Corp.'s ("ITC") Green Power Express transmission project (the "Project"). We understand the Project will consist of the following:

- Approximately 3,000 miles of 765kv transmission line
- Facilities and lines which will traverse North Dakota, South Dakota, Minnesota, Iowa, Wisconsin, Illinois and Indiana
- An estimated cost of approximately \$10 to \$12 billion with ITC funding a portion of the Project including the portion to be situated in the company's existing service territory in Iowa and Minnesota.

We understand that you have asked us for this letter to support Congressional testimony, state and federal regulatory proceedings and other public forums.

Credit Suisse Securities (USA) LLC ("Credit Suisse") has served as a lead underwriter on several of ITC's equity, bank and bond financings since ITC was formed in 2003, as well as, bank and bond financings by its wholly owned operating companies: International Transmission Company ("ITC Transmission"), Michigan Electric Transmission Company ("METC") and ITC Midwest LLC ("ITC Midwest").

ITC and its former majority shareholder have raised \$1.4 billion in common equity from 2005 to 2008 in four separate equity offerings. These equity offerings were highly successful, with favorable trading performance and order books that were oversubscribed by investors. The ITC initial public offering in July 2005 was priced at \$23 per share. As of February 28, 2009, ITC has provided a 77.6% total shareholder return to investors including dividends. This is higher than the total shareholder return including dividends of each utility included in the S&P 500

Index^[1]. ITC meets the requirements of a “well-known seasoned issuer” as defined in the Securities Act of 1933 (“WKSI status”), which allows the company’s registration filings to be effective immediately upon filing with the Securities and Exchange Commission. Credit Suisse believes that such WKSI status combined with ITC’s successful track record will provide the company access to equity markets on an expedited basis. In June 2008, ITC entered into a three year agreement with BNY Mellon Capital Markets, LLC pursuant to which ITC may issue and sell up to an aggregate of \$150 million of shares of its common stock from time to time. This “at-the-market” issuance program to access primary equity capital is common in the utility sector and will further enhance the Company’s access to the equity markets.

ITC has also enjoyed access to the bank and bond markets. ITC has maintained an investment grade Baa3 rating from Moody’s Investors Service and a BBB and BBB- rating from Standard & Poor’s for its corporate credit rating and senior unsecured notes rating, respectively, since the company first obtained ratings in June 2003. ITC Transmission, METC and ITC Midwest are each rated A3/A-. Further, as recently as February 2009 Moody’s reaffirmed the ratings and positive outlooks for ITC and its regulated subsidiaries. The ITC operating companies are all higher than the US utility average rating of BBB^[2]. ITC and its subsidiaries have \$340 million of revolving bank loans with maturities in 2012 and 2013 bearing interest costs ranging from LIBOR plus 35 to 72.5 basis points (includes additional interest based on amounts outstanding under the facilities). ITC and the operating companies have raised approximately \$1.9 billion in the investment grade bond market since 2003 through twelve offerings with maturities ranging from seven to thirty years at interest costs ranging from 4.45% to 7.27%.

Based on our discussions with ITC, we understand that ITC will pursue the Project through its operating subsidiary, Green Power Express, LP, and that ITC anticipates a similar FERC regulatory structure and capitalizing Green Power Express, LP in a manner similar to ITC’s other operating companies. As you know, the form and structure of the Project’s equity and debt financings have yet to be finalized. Depending on a variety of factors, including without limitation those identified below, we believe it is reasonable to conclude that it is likely ITC and its subsidiaries, including Green Power Express, LP, should have access to capital via one or a combination of equity, bank or bond financing for the Project and similar projects that ITC and its subsidiaries may pursue. Our views are based on Green Power Express, LP receiving a similar FERC jurisdictional formulaic tariff like that of ITC’s other operating companies, successfully completing siting and cost sharing for the Project and our assessment of the current demand in the financing markets for investment opportunities similar to Green Power Express and ITC. Should ITC identify partners to share in the ownership and financing of the Project, it will improve ITC’s ability to finance its portion of the Project.

[1] The S&P 500 Utilities include: Exelon Corp, Southern Co, Duke Energy, FPL Group, FirstEnergy Corp, Entergy Corp., American Electric Power, PPL Corp, Edison Int'l, Progress Energy, Inc., Allegheny Energy, Pepco Holdings, Inc., Pinnacle West Capital, Questar Corp., NRCOR Inc., AES Corp., Constellation Energy Group, Dynegy Inc., Dominion Resources, Public Serv. Enterprise Inc., PG&E Corp., Sempra Energy, Consolidated Edison, Xcel Energy Inc, Ameren Corporation, DTE Energy Co., CenterPoint Energy, NiSource Inc., Integrys Energy Group, Inc., TECO Energy, CMS Energy.

[2] Standard & Poor’s report titled “U.S. Regulated Electric Utility Companies, Strongest to Weakest” published August 5, 2008.

Our views are also subject to various conditions, including, without limitation, (i) receipt of all required regulatory and legal approvals for the development, operation and financing of the Project; (ii) satisfactory market conditions for the arrangement of the equity and debt financings; (iii) a reasonable timeframe for the marketing of the equity and debt financings; (iv) satisfactory finalization of the documentation of the regulatory construct of Green Power Express, LP; and (v) satisfactory negotiation of terms and conditions, including all appropriate documentation, of the equity and debt financings. Although subsequent developments may affect our views in this letter, we do not have any obligation to inform you of any change in our views or to withdraw or reaffirm this letter. This letter is not intended to be, and shall not constitute a commitment or undertaking by Credit Suisse to arrange, underwrite, place or otherwise provide any equity or debt financing either as a principal or an agent.

This letter has been delivered to you for your information only and is not to be, in whole or in part, summarized, excerpted from or distributed or disclosed to, or otherwise relied upon by, any other person without Credit Suisse's prior written consent (except that you may disclose this letter as part of your regulatory filings).

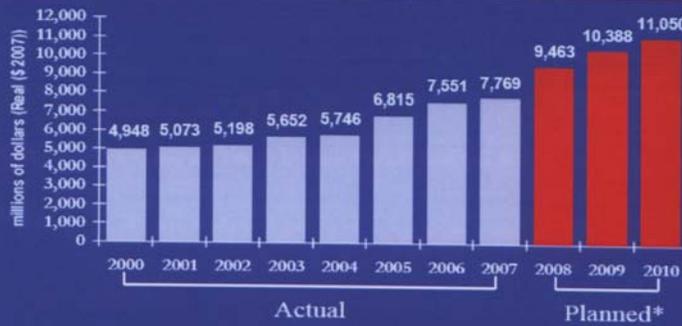
Respectfully yours,



John Cogan
Managing Director

Attachment 3

Actual and Planned Transmission Investment by Investor-Owned Electric Utilities (2000-2010)

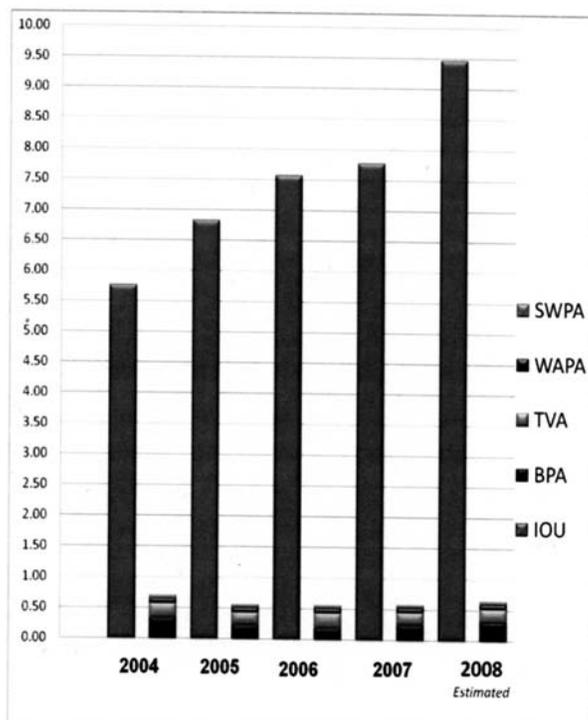


Note: Heavy-Midwest Index of Public Utility Construction Costs used to adjust actual investment for inflation from year to year. Data represents both vertically integrated and stand alone transmission companies. *Planned total industry expenditures are preliminary and estimated from 80% response rate to E.ON's October Transmission Capital Budget & Forecast Survey. Actual expenditures from E.ON's Annual Property & Plant Capital Investment Survey & Form 1s.

Attachment 4

Transmission Investments: Shareholder-Owned Utilities & Federal Utilities

2004-2008 (Billions)(2007 Dollars)



Mrs. NAPOLITANO. We will move on to the questioning portion of this meeting.

As I said before, Ms. James, I believe you have a flight to catch. We will go straight to Mr. Coffman.

Mr. COFFMAN. Thank you, Madam Chairman.

To Mr. Meeks and Ms. James, Western's historic mission has been to serve approximately 700 of its wholesale customers. It is my understanding that the relationship between the agency and its customers has been good, but I see in testimony that customers are concerned that they could end up subsidizing construction carried out under this new borrowing authority.

Mr. Meeks, can you assure the customers that they won't subsidize something they won't benefit from? And I would like Ms. James to follow that up from a customer perspective.

Mr. MEEKS. Thank you very much.

Western is no stranger to allocating their costs. Western currently has 10 rate-setting projects as we speak without even this new authority. So, we have the ability to separate the cost for one project to another. And I mean system projects, not just a transmission project. So, we have that capability today.

In the stimulus, we were given \$10 million in nonreimbursable start-up money in order to protect our preference customers from paying for something that they do not benefit from. The law is clear that we are to allocate the costs to the projects that we build under this, and we will do so.

Ms. JAMES. As I stated, I have every confidence that Western will comply with the law. I think that the issue is going to be that the devil will be in the details in working out in advance these cost allocation policies and procedures, and I would expect that Western would be undertaking this through their recent Federal Register notice that was published. It is a fairly short fuse for comments. It is a 30-day comment period.

I would also expect that there would need to be a lot of follow-up discussion following the formal close of comments on that Federal Register notice and possibly even development of some type of a customer Western—I hate the use the word “task force”—but some type of a working group that would help ensure the customers that the cost allocations are being done appropriately.

And, again, we have no doubt that they will be, but I think it is very complex in today’s arena with the existing projects. This just adds another level of complexity.

Mr. COFFMAN. Let me follow that up with Mr. Meeks.

It seems that this will require constant and consistent communication about how this new program will be carried out. Is there any opposition to Western setting up a task force or group of folks to ensure a dialogue?

Mr. MEEKS. I am not prepared to commit to that. I am prepared to commit to communication as we do today. We are in an open Federal Register notice process that helps. Where we are asking for comments on all parties involved on how we set up our policies and procedures, and any suggestion of that would be considered as parts of the process.

Currently today, as you have mentioned sir, that we have outstanding relationships with our customers, good relationships, if you will. And that is being done without a standing committee today. And so the reason I think why it is able to be done is because we do believe in visibility. And we do provide the data and everything necessary to our customers so we can have a dialogue back and forth without having a formal standing committee on this new authority on our existing authority.

Mr. COFFMAN. Thank you, Mr. Meeks. And I would certainly go on record to encourage you to set up that task force with those folks to encourage transparency and dialogue. Madame Chair, I yield the balance of my time.

Mrs. NAPOLITANO. Thank you Mr. Coffman. Mr. Grijalva.

Mr. GRIJALVA. Thank you very much, Madam Chair.

Ms. James, you mentioned wanting to preserve WAPA’s core mission of the distribution of hydroelectric power. Let me ask the question, won’t your customers need extra power that it will be able to

get from new providers or renewable energy by increasing that transmission capacity. I think the two factors population and energy demand and use will continue to grow in the west and our region of the country. So, don't you see that some point that that increased capacity for renewables will be part and parcel of the overall mission of WAPA.

Ms. JAMES. Yes, I certainly do. In fact, my numbers are all the individual customers or contractors with Western individually. None of them are served solely by the Federal hydropower all of them have a broad mix of resources. And certainly they are all engaging in and encouraging the addition of renewable resources. To that end, no doubt some of the existing backbone transmission system facilities are going to need upgrades and need additional capacity in order to interconnect these renewable sources. We understand that and that is why I said that the devil will be in the details in ensuring that where there is a benefit to the existing system, that the beneficiaries pay their fair share of those costs.

Mr. GRIJALVA. And on that point, I think the point that you reiterated on my colleague's question, I understand that the utilities that you represent there is a concern that there will be asked to subsidize infrastructure that WAPA will build for these new providers. I think our concern has to be the greater public good and public interest here. And I think the stimulus bill expands WAPA's core mission beyond hydropower to all possible sources of renewable energy.

It's not hard to foresee where WAPA's mandate to provide transmission capacity for new sources will conflict with I think the basic desire you spoke of that has been mentioned today to keep customer rates as low as possible. But there has been a precedent. I think fish recovery programs at WAPA participated in my home State in the upper Colorado, the Swan River in the past sets a precedent for the involvement of WAPA and the rate payers in a greater good project. And so would you care to comment about that precedent?

Ms. JAMES. Yes, I would. And again, we do believe there is a greater good. And where there is a greater good, possibly then that would be where the taxpayers would be insuring repayment of those provisions. I think that is probably what Congress had in mind when they included the debt forgiveness potential or the debt forgiveness provision in the stimulus.

You know, I think there is a role for the taxpayers, there is a role for the renewable developers, and then there is a role for the existing projects and customers. And those roles just need to be sorted out appropriately.

Mr. GRIJALVA. And you don't see it as an either or?

Ms. JAMES. No, I do not.

Mr. GRIJALVA. Thank you, Madam Chair. I yield back.

Mrs. NAPOLITANO. Ms. James, how would or could a rating or expanding the great compromise its reliability?

Ms. JAMES. It is pretty complicated. I think that that would depend on the type of resource, where it is cited, where it is interconnecting into the grid, and what the current operating restrictions on the grid are.

You know, electrons don't flow like you would like to see them on a map. Electrons, however, across the grid. So, Western is very actively involved in the various planning organizations, the reliability councils. And that role needs to expand I believe in this new authority. In fact, it needs to be even a stronger role to ensure that the existing operations are not impaired. I think they can coexist, but it is way beyond my pay scale to be able to explain some of the reliability issues that these planning engineers face as they are planning the transmission facilities.

Mrs. NAPOLITANO. How do you propose to partner with WAPA to help identify and mitigate the potential resource conflicts you mentioned in your testimony.

Ms. JAMES. I think we will be thinking about that. As Tim mentioned, the Federal Register notice is out and it would be appropriate for us to comment through that process to come up with some suggestions on how we can partner. I mentioned we call it the memoranda of agreement that we have had in place since 1992 at these agencies. That agreement has precluded frankly any rate litigation that we have had in our region because it allows the customers and the agencies to work collaborative, as Scott mentioned, before decisions are finally made and through the planning process so that the customers are involved and are aware what is going in up front and before final decisions are made. So, we will be working with other customer groups and develop some comments to the Federal Register notice.

Mrs. NAPOLITANO. Thank you for sticking with us this long.

Ms. JAMES. Thank you very much.

Mrs. NAPOLITANO. Now we move to our regular order of questioning.

I wanted to recognize Mr. DeFazio because he has to leave. Mr. DeFazio, do you have questions, sir?

Mr. DEFAZIO. Thank you, Madam Chair. To Administrator Wright, in your testimony when you are talking about the network open season process, it would be expected to be the largest driver of the increased capital program. Can you sort of explain that? Does that mean we have sort of a net or a market based investment program, that is where people are anticipating development they will bid, or they will bid higher in your network open season process. And therefore, you then change the priorities to accommodate that area rather than sort of a more traditional planning process of transmission enhancement? Do you get that?

Mr. WRIGHT. I think so. So, network open season was trying to take—we had a huge number of requests in our transmission cube.

Mr. DEFAZIO. How many, how much?

Mr. WRIGHT. I think we were over 20,000 megawatts, and we only had 20,000 megawatts of load in the northwest, so it is pretty clear that we had requested or exceeded the amount that would actually be sold.

Mr. DEFAZIO. So, this is like the old days when I can't remember the organization used to solicit every utility in the northwest to give its projected load requirements. And then one city would think they were getting this big new plant and the city next door would think they were getting it, and it both added in and in the end that is what drove us toward—you might remember. What was that

group that added things up that way? And there was no elasticity but go ahead. So, you similarly have 20,000 megawatts of request, which is an impossible number in the region.

Mr. WRIGHT. I think, the valuable thing about the network open season is that it separated the wheat from the chaff, and did so in the fashion that Mr. Crowley described.

Mr. DEFAZIO. Because people have to put up something to bid.

Mr. WRIGHT. They had to put money on the table. And that I allowed us to move from the large number of transmission requests, the 6,400 megawatts. Once we were dealing with the 6,400 megawatts, we could develop a plan of service and say, here is what it would take in order to be able to satisfy that amount of request. And then go back out to the region and say, OK, the folks who are going to pay for this are you willing to have us incur this kind of cost and embed it in our transmission rates. That public process gave us the opportunity not to just hear what the purchasers, that the folks who were interested in selling the resources, but also the buyers were interested in with the people who were serving loads.

Mr. DEFAZIO. What is the risk to establish rate payers, are those who are bidding on this going to carry the incremental cost of them accessing the system and also carry the cost for balancing their loads or are we unloading some of that onto the region for power which may be destined outside the region under contract?

Mr. WRIGHT. If I could, I would like to separate that into two questions. On the transmission side, we think that we have identified what the costs are of building the transmission and there will be some rate increases associated with this cost, more than the embedded transmission system. But our customers have said these look like worthwhile investments, and it creates more options for them because transmission is a relatively low cost or low portion of the total cost delivered power bill. It is worth it to them to make those investments in transmission.

The second piece of your question.

Mr. DEFAZIO. But there are benefits beyond just say one developer and their contract.

Mr. WRIGHT. That's right.

Mr. DEFAZIO. Because there are stability benefits for the system, et cetera.

Mr. WRIGHT. That's right, reliability. Plus if you are a customer you would like to have options in terms of where you can go to purchase resources, and it ultimately will lead to a lower price.

The second part of your question is the balancing services which, when you operate a transmission system, you are responsible for making sure that loads and resources balance in real time within the hour. And if you have an intermittent resource-like wind that is moving up and down frequently in an unpredictable fashion, then you have to provide the backup services to make sure you maintain reliability. That means you have to have generation available and there are costs associated with that.

This has been one of the most perplexing and difficult parts of this problem of the explosion of wind in the northwest is trying to make sure that we identify the cost effective solutions to provide balancing services and then the more difficult part is the cost allo-

cation to make sure that the right people are paying in an equitable fashion.

Mr. DEFAZIO. And you do that through rate case?

Mr. WRIGHT. Through rate case. So this year, 2009, for the first time, we charge a wind integration charge. And it is an issue in our 2010, 2011 rates which are in the midst of and I need to say we are in the next party process right now, so there is limit in terms of how much I can discuss.

Mr. DEFAZIO. Well, we can talk about 2009. And did 2009 make the system whole or was the system still carrying some burden from those who were generating?

Mr. WRIGHT. We have not done an after the fact evaluation.

Mr. DEFAZIO. OK. It seems like a prudent thing to do.

Mr. WRIGHT. So, what we have been doing is a lot of evaluation of where the costs are going for 2010 and 2011. Our proposal for 2010 and 2011 is a substantial increase in cost recovery. Now that is in part because we have a lot more wind in our system this year. It is incredible the amount of wind coming into our system month by month, so a lot more wind.

Mr. DEFAZIO. Right. And I assume as you add wind you have less flexibility and fewer options to balance that load.

Mr. WRIGHT. Yes. And there basically is a cost curve. The first megawatts of integrating wind are relatively inexpensive, and as you add more megawatts of wind you move up a cost curve.

Mr. DEFAZIO. Thank you. My time seems to have expired. Thank you, Madam Chair.

Mrs. NAPOLITANO. Ms. McMorris Rodgers.

Mrs. MCMORRIS RODGERS. I have a question for Mr. Meeks and this is to give me a better sense as to the time line that you envision as far as when you will be able to make some things happen, because this borrowing authority was included in the stimulus bill, as we all know it is touted as a job creation bill. And yet it is my understanding that it takes at least 4 to 6 years to begin construction on a major power line. And it is my understanding that you are still developing policies to carry out the new program and solicit comments on new transmission lines or upgrades to existing ones.

And then you will have to get work through the environmental impact statements and other regulations before you begin construction. So, I just wanted to ask if you could give me a sense as to how much of the 3.25 billion will be used and where and how many jobs it will create in the next 2 years?

Mr. MEEKS. It was good up until the last of the questions there. Basically as you know, the law requires us to go through this public process. And we are in the balancing the need to expedite to get the stimulus authority out there, as well as doing it right. And so what we're waiting to get back is what projects are people interested in us participating in. I do know that there are various projects with various states of readiness that people have contacted us in some form or fashion who have an interest in us participating with them.

Now you have laid out appropriately that transmission lines from inception to completion do run the gamut of time, there is a long lead time on that. But for example, if we receive a project where

the WAPA work has been done or they are looking for partnership in the financing which is allowed by law, then we can turn it over quickly. If we receive projects that are at its beginning stage. The thing about Western is we would turn money over in the form of land acquisition, environmental contracting work that would be done that we would contract out in preparation for these projects, geology work, surveying type work. So, there are various types and various degrees of the type of jobs that will be created under this new authority.

But again to say how much when and where, I cannot do that until the Federal Register process is closed and I am able to see who has responded to this.

Mrs. MCMORRIS RODGERS. I understand Majority Leader Reid has a new bill that is giving more responsibilities in the marketplace. I just wondered if you might comment on your thoughts to adding another mission. And if Mr. Bladow is here to answer that.

Mr. MEEKS. Basically my initial comments are we have a lot on our plate. My concern is insuring that what I call our core mission, that is the term we use for the Federal power program, the existing preference customers, that that is funded appropriately so that our existing infrastructure that we have today is kept up and running and in good repair. So, I have a concern about that to make sure that is, so we can continue to deliver low cost power to the consumers in the west.

With that said, we have a new program placed upon us. And again, that is one that does allow flexibility so we can have resource to implement this program, but believe me, we are a busy organization and we are not seeking anything necessarily else to do so—

Mr. BLADOW. From our perspective as a large customer of Western Area Power Administrations and actually co-owner on many projects, additional authority. Again, Mr. Meeks, I think, addressed the issue of the concern of how much can an organization absorb and still keep the lights on with over 17,000 miles of lines and dealing with lot of rural areas and a lot of the infrastructure is older. So, a concern we have is we can have the resources to continue the partnerships we have done in the past, jointly owned, jointly operated, jointly maintained. Kind of the responses that's needed to serve our real constituents in a lot of cases that we very much rely in Western to maintain their and us to maintain our system to make sure they have reliable service, so that would be a concern of ours is too much too fast.

Mrs. MCMORRIS RODGERS. Thank you.

Mrs. NAPOLITANO. Thank you, ma'am. Mr. Grijalva.

Mr. GRIJALVA. Thank you very much, Madam Chair.

Mr. Meeks, what has Western done given the new borrowing authority that is in the package that talks about transformative investments in renewable energy, what has been done to ensure that there will be specific transmission lines planned for, designed and cited to serve this renewable energy source and not just use the borrowing authority to supplement the existing general grid system? Are there precautions that are involved or how have you it set up? I know there is some ambiguity in the language and we can talk about that back and forth, but let's presume that I am right.

Mr. MEEKS. All right, sir.

Basically, the law is ambiguous, as you have stated, and its delivery or facilitating the delivery of renewable energy. And that to me is one of the million-dollar questions that we have to answer. That is one of the things that I am looking for input in this Federal Register process as to at what part is it living up to that portion of the law?

If we partner with someone, does that mean the whole line is subject to this, does it mean that only the Federal share is subject to this? Does it mean what portion of the Federal share is required of this? And on top of that, oh, by the way, you have to ensure that it is economically viable. And so these are the things that we have to struggle with, as you have pointed out, that we ensure we meet the spirit and intent of the law.

Mr. GRIJALVA. One more question if I may. I have been concerned about the energy corridors that were designated under the authority of the Energy Policy Act. Many of them, in my opinion, were designed without regard to issues of tribal sovereignty, ecologically sensitive protective public lands or a potential location of renewable energy sources. Would you and Western support a re-drawing of some of these corridors to address the shortcomings that I just talked of that were done in the past?

Mr. MEEKS. I would leave that to the wisdom of Congress, but I understand your concern. I understand that that is what you see in many of the proposed legislation—the citing and planning of transmission—and connecting the renewable resources to load. And that is why I believe that Congress gave us this authority. If you look at our transmission system, we cross 15 western United States. Nine out of the 10 windiest States reside in Western Area Power Administration's footprint. So, there was a reason why we were chosen to do this. And as far as we do have certain authorities that allow us to bill transmission that may be attractive to entities looking to build renewable resources, and that is why I believe we were given this authority.

Mr. GRIJALVA. Thank you. Mr. Wright, your colleague next to you was asked by the Ranking Member about the impacts of the recovery package on job creation and projects. Mr. Wright, how does that translate for BPA? How many projects, job creation, do you have a response to that?

Mr. WRIGHT. So, we don't have a total at this point, because we also are trying to determine how we will best use the authority. We have initiated one transmission project, that is the McNary-John Day Project. We are using our existing borrowing authority to do that, but it would have been questionable as to whether we could have proceeded with that had we not had the new borrowing authority. That project we expect to produce about 700 jobs over the course of the next 3-1/2 years.

Mr. GRIJALVA. Mr. Ellenbecker, my last question, has the State of Wyoming made projections on its wind and other renewable energy industry growth? And if you have done that, when will the lack of transmission lines become a limiting factor in marketing renewable energy that Wyoming has? Do the think the current state of transmission infrastructure is discouraging or limiting the full

development of wind energy that otherwise could be happening right now?

Mr. ELLENBECKER. The transmission grid that is used to export power out of Wyoming today is already at near capacity. There is already a major impediment for renewable energy growth in Wyoming via the existing grid. The existing grid is far short of supporting any new major projects. All the projects I described in my written testimony and in my summary testimony are needed in some combination, one or more of those to enable another major wind project built to be built with an exit path out of Wyoming.

So, the circumstance is already dire. Here we are with a tremendous wind source opportunity to complement the other renewable resources being considered in the country. And by Western Governors in the Western renewable energy zone initiative, for example, a vast identification of resources, they are all in need, and acutely in Wyoming as well of new transmission projects to enable their development.

Mr. GRIJALVA. Thank you. Madam Chair, I have other questions, but I will submit those in writing to the Committee staff so they can get them to the witness.

Mrs. NAPOLITANO. We may have another round because I know Mr. Smith—

Mr. GRIJALVA. I might be departing.

Mrs. NAPOLITANO. Well, then we will take those into the record.

Mr. GRIJALVA. Thank you.

Mrs. NAPOLITANO. Mr. Smith.

Mr. SMITH. Thank you, Madam Chairwoman. Mr. Ellenbecker, I know in your testimony you talked about when it comes to eminent domain and private land versus public land, you pointed out that there is favorite protection of resources on public lands compared to private lands, especially in light of the transmission citing process. How do you think the approval process on Federal lands could maybe be streamlined I guess?

Mr. ELLENBECKER. The Federal agencies all need to look in the same direction in terms of achieving a common objective, starting with national energy policy. From there down agencies need to realign their efficiency and effectiveness to achieve those national goals. That is why Governor Freudenthal believes that we have to reform the permitting and citing process as a country and to enable the major projects in the west to be developed effectively. And furthermore, if we are going to build projects similar to that testified to by ITC, the green power express or other projects closer to home for me in the west. If we are going to build a new backbone of extra high voltage grid in the country, it is such a daunting task that it implies I believe strongly that it can only be accomplished through a much more effective and efficient permitting and citing process.

And I hope that is responsive. It is meant to be that it points toward a refinement and reforming the process, perhaps toward a model that has been proven to be effective for major interstate gas pipelines through the FERC. It seems to, in a much shorter time frame, a year, year and a half, deal with the difficult tasks related to permitting and citing. I don't mean to imply this isn't a huge issue, it certainly is. There are risks around our ability to build a new backbone, to promote the development of huge amounts of re-

sources otherwise available if we don't find a more effective way to permit and cite the facilities.

Mr. SMITH. Mr. Meeks, if you wouldn't mind responding how WAPA would work with landowners to ensure that their rights are protected and certainly adequate compensation would also be offered and I guess a smooth process you can probably appreciate it is a rather controversial.

Mr. MEEKS. Sure, absolutely. Western is a good neighbor, we try our very best to be a good neighbor. In the right of condemnation that I believe you are pointing to we rarely condemn land, we condemn land about 3 percent of the time. And some of those condemnations are friendly condemnations. We do offer fair market value for the rights of way that we obtain.

As I mentioned I used path 15 project earlier where we went through an orchard and what we did was we redesigned the structure that went through the orchard to have a smaller footprint than a normal tower. Basically a larger footprint allows less towers longer spans and therefore you create less towers and it is less expensive. But because of this situation, we felt the added cost was worth the benefit to us and the landowners. So, that is an example of how we tried to work with the landowner. We don't come in with a big hammer and say, give me your land or anything like that. We do try to provide market value.

Mr. SMITH. You said about 3 percent of the time?

Mr. MEEKS. Yes, sir.

Mr. SMITH. I certainly don't question that. I was wondering if you might have background information for the record on the incidence of condemnation authority on private lands.

Mr. MEEKS. Sure.

Mr. SMITH. Thank you very much. Thank you, Madam Chairwoman.

Mrs. NAPOLITANO. Doc Hastings.

Mr. HASTINGS. Thank you, Madam Chairwoman. And this hearing is about transmission, specifically it was in the stimulus package, but inherent in all of this or I should say implicit in all of this is the type of energy that we are going to be transmitting and the conversation, of course, has been around green energy.

For the record let me say that I am one that believes we should have as diverse an energy portfolio as we possibly can. Having said that let me qualify it by saying I think the best way to do it is to incentivize it rather than mandate it or subsidize it. So, that is the challenge you all face who are in that business.

Let me ask Mr. Wright and Mr. Corwin again in the northwest because that is what I am familiar with, we all know that renewable energies like wind and solar we wouldn't have any energy today here in Washington D.C., obviously because the sun is not shining. I haven't been outside, but there is not much wind. So, we wouldn't have much going on here today if we got our energy there.

So, what you have to have is a base resource. And we are lucky in the northwest because our base resource is hydro and nuclear specifically. I guess my question specifically because I alluded to this in my opening question, where would we be in the northwest if we didn't have the Lower Snake River Dams to supplement the

intermittent wind which is predominant in the northwest? Mr. Wright or Mr. Corwin, either one.

Mr. WRIGHT. Well, the Snake River Dams and the entire Federal home river hydropower system were absolutely essential to maintaining reliability. If you had an all wind system, you wouldn't be able to maintain reliability, it is that simple. Just because of the intermittent and random nature of the wind resource.

This is one of the great things that we are learning as we have the explosion of wind power in our system, how does it actually operate? It operates differently than we would have thought a couple years ago. We are trying to best figure out what resources we need in order to be able to handle all this wind. We actually are now reaching a point where the hydropower system is not big enough to handle the fluctuation of the wind power in our balancing authority. So, our challenge in addition to maintaining the existing output of the hydropower system is what resources will we need to add going forward in order to make sure that we do have reliable electrical power system.

Mr. CORWIN. Congressman Hastings, I would agree with that assessment, just the four Snake projects are about 3,300 megawatts of capacity, about 1,200 average megawatts. And indeed all of the dams, and the one nuclear plant in the northwest right now, we are bumping up against the limits of the capacity needed on the Federal system. It is a concern to the customers. It is a critical issue in integrating wind and other resources that are more intermittent as you pointed out. And it is not just as the conversation was discussed earlier it is not just a rate issue at that point, how do you allocate the cost. It is an issue of where does the extra capacity come from for the base load or to balance the intermittent resources, and that is one the region needs to work through aggressively over the next couple of years.

Mr. HASTINGS. Implicit also in that is the talk about the concept of cap and trade, huge concept, I know it is in the President's budget. So, I would like to ask all of you to comment on cap and trade and specifically how it would effect the operations that you have. I know my time is running out here, but I would like to ask all of you just to give me a brief summary of how cap and trade would effect your operation? Mr. Meeks, start with you and go down the line.

Mr. MEEKS. For us, as you know, our mission is different in the fact that we are not a load serving entity and that we are a transmission provider, we do serve wholesale, we market wholesale. So, I know it is an issue of concern to my customer group that they are worried about it, but I do not want to speak toward that at this point in time. I'll let Steve or some of the other ones with more expertise speak on that.

Mr. WRIGHT. Well, the Federal Columbia Power System starts out with a natural advantage. It is 90 percent hydro and one nuclear plant system. We are a non-CO₂ emitting system, so the cap and trade proposals as it directly impacts our current operations would be minimal. I think the critical question going forward is we have set up a new regime with our customers where they are responsible for load growth, but we will provide the services to the extent that they want them, and to the extent they turn to us for

those low growth services and we were purchasing resources then we would have to have the availability of being able to offset whatever carbon costs are associated with those new resources. So, it becomes part of the cost of the new resource. I think that will probably be the key place that we will be engaging in.

Mr. HASTINGS. Let me get off on a bit of a tangent, when you have to purchase power, for whatever reason like, for example, when we had the spill in August, which you know my position on that, but when you buy power it is generally carbon power; is that correct?

Mr. WRIGHT. That is a really interesting question that we are struggling to deal with. Electrons are not carbon coated. There is no way to tell whether an electron you purchased is directly from a carbon resource unless you buy from a particular identified generating resource, and I think it is one of the great challenges going forward. This has come up a lot in discussions about the western climate initiative. To the extent that we have balancing purchases, how will we track them back to the source and be able to identify whether they have carbon? And, if so, what offsets will we need to come up with? Today, we don't have a system that will do that.

Mr. HASTINGS. So, that could lead to another follow-on question. But why don't you briefly if you all would give me—

Mr. ELLENBECKER. One of the things I have admired about the Committee's questions is your concern for customer costs. As you know, huge changes are coming to the electric utility industry related to climate change implications. I would urge you to continue your focus on the implications in terms of what are the consequence in terms of costs for consumers on actions being considered. And with that maintaining the reliability of the grid.

Your great question about how can all of this work with intermittent resources and there have to be additional resources in play to make it all work to keep these lights on in Washington, D.C. Or anywhere else in the country in terms of major parts of the grid. So, your focus, in a sense, is the right place—unless now it is complicated as it is going to be extended to the climate change debate.

Mr. BLADOW. Yes, Tri-State operates a system over almost over four States, we have 44 members. As Administrator Wright pointed out, when wind being integrated into the system they have a different perspective today than they had a couple years ago. I couldn't tell you we have a real clue what cap and trade system with kind of a market based costing system how that would impact our generation dispatch. We can put numbers on it, assume a carbon cost, but when you get down to actually dispatching what resources are up, how is the wind blowing, what is the market price on Wall Street, I think it would be very difficult to gauge that in any accuracy. I think you will jump into it and your models may all blow up when you find out what reality and what people are doing.

I know from a customer perspective what we would prefer if you put some kind of carbon cost on there is some type of tax base system where you know the cost and you can factor that into what you are doing.

Mr. HASTINGS. I am way over my time here. I apologize for that. Can I?

Mr. DEFAZIO. You can have another round Doc, let me ask some questions.

Mr. HASTINGS. That is fine. I appreciate that, I do have to go.

Mrs. NAPOLITANO. Yes, Peter, go ahead.

Mr. DEFAZIO. Thank you, Madam Chair. Along that line I guess in the last gentleman who spoke pointed to a problem with the cap and trade system which is predictability. And the way I describe it to people is cap and trade as envisioned would instead of having a carbon tax set by the government would set a variable carbon tax set by hedge funds on Wall Street. That is probably not—given what happened with the high tech bubble and what happened with the financial bubble, we could look forward to the next new bubble, which would be the carbon bubble. A few people get rich, the rest of the people get screwed and then that one falls down and we go on to something else. I have been the pretty lone voice speaking against this from the side who does believe we have to deal very aggressively with our carbon emissions, but I now see some people, other like minded people are raising questions about this obsession with a market based tax.

Let's go back to the subject at hand. Anybody can address this, but I want to know as a developer comes along they have a place with a lot of wind, they want to build the wind development there. It requires obviously investment, there is a certain price involved with that, although I guess the price has been coming down a little bit. And then we have access a transmission. And in building the transmission and in particular, you were addressing this question from the perspective of Wyoming, I guess, do we take into account a serious analysis of least cost planning? That is, it may be, in some cases, rather than transmitting power a long way to a certain area that is renewable, yes, but has a cost of, say, \$0.10 delivered or \$0.09 with transmission costs and generation costs versus what cost effective conservation you could capture in that area to avoid the need for the transmission? Are we taking that into account or are we saying just because it renewable we are going to build and serve it.

Mr. ELLENBECKER. In a competitive market, you are absolutely correct in what is referred to commonly as an integrated resource planning strategy, considering all resources, including conservation efficiency, demand side management to reduce power use. And in the spectrum of supply side resources. Resources should, as has been hinted at by some committee members, continue to compete with each other in the mix and at the same time, that can be compatible with more aggressive renewable energy goals as a country since renewables, non hydro renewables still contribute such a small proportion of our power supply in the country. But they still should be measured against alternatives, the full spectrum of alternatives and costs. The Western renewable energy's own initiative of the Western Governors, but those cover the western interconnect is analyzing delivered costs. And as it relates to transmission, Congressman, delivered costs of power to urban load centers compared to closer proximity and other resource options, and rightly so, as I believe you suggest should be in an appropriate marketplace.

Mr. DEFAZIO. Is a comprehensive analysis of the western region being done that will sort of assess?

Mr. ELLENBECKER. I don't believe it has been done. It needs to be done, and I believe in early stages of groups, the Western Electric coordinating council is starting to focus on scenarios of how much CO₂ reduction at what price, how much renewable energy can we build into the grid, at what price. So, it is in the early stages of work by the Western Governors' initiative in cooperation with a group called the Western Electric Industry Leaders Group. The work is too early stage, but at least we are starting, I believe, to look in the appropriate direction to get it done. It is far from a finished project, but it several is one that needs to be accomplished.

Mr. DEFAZIO. Anybody else on that real quick before my time runs out?

Mr. WRIGHT. I would say I think the Northwest Power and Conservation Council is looking at that question as part of their 6 power plan, and that is an appropriate forum to have this discussion.

Mr. BLADOW. I would just add, part of the challenges without the rules of carbon what are they going to be is somewhat difficult. You can make certain assumptions, but is your model accurate because you really don't know the rules of game. I think that is slowing down some of these efforts.

Mr. DEFAZIO. Thank you. Thank you, Madam Chair.

Mrs. NAPOLITANO. Thank you, Mr. DeFazio, now it is my turn.

To Mr. Meeks and Mr. Wright, how are you working together or are you working together to translate BPA's success, its borrowing authority to WAPA?

Mr. MEEKS. I believe we are working good together. Actually our staffs have been talking at various levels as far as the arrangements that they have with Treasury trying to learn from that model. Steve and his senior staff was gracious enough to host me and a couple of my senior staff last week as we went over how they conduct business at utilizing their borrowing authority as was stated we are different in some ways, but bottom line is that I thank Steve for sharing his knowledge on this use of authority and we do hope to translate the lessons learned from them.

Mr. WRIGHT. I think Tim said it well. We are working together.

Mrs. NAPOLITANO. Great.

To Mr. Ellenbecker, we appreciate your testimony today and would like to thank Governor Freudenthal for his leadership in the Bush renewable energy resources, but what is the view of the Western Governor's Association on this grid issue?

Mr. ELLENBECKER. The Western Governors Association has recently communicated with Congress and with the new Administration in terms of supporting the dire need to build a true transmission grid that is a sufficient backbone to enable the development of the Western renewable energy zone initiative. The underlying renewable resources, not just wind which has received so much attention today, but all is importantly, solar, geothermal, the full spectrum of renewable resources.

That project, that initiative has a grand vision, which will fail unless it is accompanied by as grand a vision successfully implemented on new interstate transmission. These are all remote resources as you know. They have to be converted into an electric energy form on site to be usable by consumers, it is much different.

There is no option but the transmission grid, can there be closer to load center renewable opportunities? Of course. Should they be developed? Of course. In some cases they will be the least cost openings. Should we stop there and avoid places like Wyoming where we have some of the world's richest wind resource in terms of its potential and capacity factor? We shouldn't stop there and avoid that if we truly have a national commitment to develop as much renewable resource as the grid can reliably handle. So, the WGA is supportive of the renewable energy development—and insistent upon it only succeeding with a rebuild of the grid.

Mrs. NAPOLITANO. And you did mention sufficient backbone. I would tend to agree with that because if you are not able to have sufficient capacity to be able to transfer that and you are right, there is more than just wind. Look at biomass and solar and the other forms of energy.

The question brings up, I know Mr. T. Boone Pickens made a presentation to one of our caucuses not too long ago about the west part of the central belt that he was planning on rebuilding a huge infrastructure of wind energy. And my question at the time to him was whose going to pay for that infrastructure. Have you heard anything on what is going to happen? Because if somebody is thinking of setting up wind farms from the bottom of the State to the top and the west part of the central part of the country, is anything being taken into consideration of what he's planning on doing or has he been in touch with you to let you know that he's planning on doing that?

Mr. ELLENBECKER. This question implies, it goes right to the heart of who is going to pay. A massive investment that approaches so many billions of dollars to achieve its objective has to include a determination of who are the project developers, are they load serving entities or are they merchant power providers that have contracts with load serving entities, therefore would induce customers. If so it should be those consumers who pay the cost of the project.

Is it part of a national interest backbone development that supports the reliability of an entire interconnection, whether it be the eastern interconnect or the Western interconnect. If so, it may be appropriate to devise a new cost allocation and cost recovery mechanism tied to all the work being done in Congress now and early stages on how are we going to get this permitted and sited. Who will do the interconnection wide planning?

I believe, Chairwoman it goes to those questions of if we are moving toward interconnection wide planning, certainly larger regional scale planning, it implies we have to develop cost recovery mechanisms yet to be developed where there are not regional transmission organizations yet to be developed, like in the west where public private partnership has to work together and investor owned and public utilities. And merchant project developers and load serving entity developers together, all inclusive to sort out—it is achievable because these companies have been allocating costs to consumers through cost allocation principals for a long, long time. I was blessed with a 15-year career as a State utility regulator. They know the business, will this be more complicated than

what they are accustomed to? Yes, can they accomplish it? Yes, but we are not there yet.

Mrs. NAPOLITANO. You are very, very right on point with my assessment that the taxpayer would probably end up paying for that infrastructure tie and that to me is not acceptable.

Mr. Crowley, do you believe that BPA's barring authority will help to expand the private sector growth in the renewable energy area?

Mr. CROWLEY. Yes, Madam Chairwoman, I do believe that will. I think that when BPA goes into the next round of the network open season, I think there will be an opportunity to sit down with the people who have been looking at the cluster studies and figure out a way to leverage the private investment that the long-term service contracts will drive. And so I believe that when BPA looks back to the resources of their customers to do these enhancements of the system, that they will see they have the ability to do more transmission building than they currently are doing.

It is a matter also of for so long they needed to do so many things, so the things that are getting taken care of in the first round of the network open season it is absolutely logical and appropriate that they do that. We are hoping they will be able to expand their horizons and look at other things again with the borrowing authority to bring on a second tier of projects.

Mrs. NAPOLITANO. Thank you, I certainly hope that as we move forward in the job correction and your contracting and subcontracting that you pay close attention to assisting minorities, especially Native Americans that do need that economy. Mr. Smith.

Mr. SMITH. I just thought I might allow anyone else to respond to Mr. Hastings' question regarding the impact of a cap and trade proposal? Anyone else?

Mr. CORWIN. Sure, I guess we could head on down the line here. Again, Scott Corwin, Public Power Council. For us any carbon regulatory scenario that would come in the bottom line issue is cost to the end consumer, and so we go in to any of those proposals wanting to make sure the consumer is protected.

The issue with markets that Congressman DeFazio mentioned has been one we have raised for a long time in the Western interconnection we had an experience with markets several years ago that we are not properly regulated and cost consumers a whole lot at that time.

Having said that we come within a relatively clean portfolio in the northwest. We have members with carbon to start with, but we have more members that are concerned about how they meet their load growth in the future, and because of some of the issues we were just talking about of firming intermittent resources, even though we have a big emphasis on renewable energy in the northwest to meet load growth, you still have to balance that power out and the most natural resource right now looks like gas-based generation, and so you are going to have additional carbon exposure. So, we want to make sure, as we meet our loads, we are not hit with additional costs that hit the consumer.

Mr. SMITH. Right. So, the bottom line is cost to consumer?

Mr. CORWIN. Yes, absolutely.

Mr. SMITH. Mr. Crowley.

Mr. CROWLEY. You are out of my pay grade here, Congressman. I am a lowly developer and we just try to make economical projects that fit into the markets.

Mr. SMITH. OK. Speak from a consumer standpoint then.

Mr. CROWLEY. From a consumer standpoint, sir, I think it is fair to say, however, that there is pretty unanimous view that there has to be something done to address the issues of global warming and the challenges that we all face there.

So, Congressman Hastings, I think was asked earlier about where the costs or added costs for renewable energy might be accounted for and whether you do that on the backs of the direct rate payers or you look at a more of a national model. My limited understanding of this effort is that it might be a way to broaden the costs over a wider base nationally, as opposed to looking at individual consumers like Scott's members or something like that. And maybe in that way, it might be more equitable to look at it. However, how you administer that, sir, is not something I can comment on.

Mr. SMITH. Would there be concern, however, that some volatility would be added to the whole market on top of what I would characterize as highly volatile until already?

Mr. CROWLEY. Again, not my area, I apologize. I don't mean to be evasive, but it truly is not my area.

Mr. SMITH. OK. Anyone else?

Mr. RAHILL. If I may, from ITC's perspective, because I just wanted to have the distinction in the sense there is a little bit of what Mr. Meeks said, from our perspective under our FERC charter, we are not allowed to participate in any or owning any marketing of energy at all, we are strictly a transportation company. So, from our company's perspective, we would not have a direct impact that we would notice at all. From a public policy perspective, we do have ramifications, and would I echo some of the comments made here by that. I just want to make the distinction ITC is strictly in the transportation of energy business, so that is a distinction.

We did have an observation that I just would bring to the Committee's attention is that if we do focus in on developing the most energy intensive wind areas in the country, in this case, green powered express focusing on the North and South Dakota, and I think Wyoming may have the same situation, we find the total cost of that energy actually economically displaces a significant part of hydrocarbon-based generation so that you would have a mitigating effect on the cost of cap and trade to customers which will be real because you have to pay for something, but optimization of your transmission grid to access the most energy intensive wind zones in the country should have theoretically a mitigating effect.

We employ the Battle Group to do that work for us. I think that study is available. So, that is the only other comment I would have from an observation perspective.

Mr. SMITH. Thank you. I yield back.

Mrs. NAPOLITANO. Thank you, sir. Mr. Meeks, how does WAPA intend use its borrowing authority to partner with the private sector?

Mr. MEEKS. Thank you, as was mentioned, as I said in the early on that 3.25 billion is a lot of money. But again, as Mr. Grijalva has pointed out the one transmission line was, I believe, 12 billion for one transmission line. It is a big one and it is high voltage and high capacity. So, in order for us to make the best use of the authority given to us, we have to partner with other entities. And again, as I said, as we balance the need to get money out there to create jobs with the long-term maturity of this program I would like to see obviously on this front initial asking of projects against the goal would be shovel ready, renewable resource, intensive and economic, economically sound, electrical reliability.

Those are things we know we have to have on the initial round. As the program matures, what I would like to see is the coalition of several entities together. And we will see it hopefully as we get the responses back where we can see some synergies being created by like projects, and that again goes to maximizing the resources, not only ours, but the resources of the country limiting corridors and things that were being brought up. I believe, again, using Steve and Bonneville as a model with the open season and what they did and the ability to again build synergy and design a system per the needs that are out there. That is an efficient way to do things. And as we mature in this program we will be able to get there.

Mrs. NAPOLITANO. Thank you for that. Mr. Corwin, does BPA's collaboration with the stakeholders help to keep power rates low and to ensure repayment of the borrowed funds?

Mr. CORWIN. It helps. Yes, Madam Chairwoman, it helps to keep rates lower than they otherwise would be. We have had a good collaboration and a lot of information back and forth between the Agency and its customers, it has been increasing all the time. And I think its going to be enhanced even more in light of this current authority. And so I am hopeful about that. We do have a rate increase coming at us in the next year, and that is for various other reasons, but it puts an exclamation on the need for customers to be able to review these costs that they are going to be accountable for in the future.

Mrs. NAPOLITANO. Thank you. Mr. Meeks, how nearly or broadly will WAPA define its new authority?

Mr. MEEKS. You said how broadly?

Mrs. NAPOLITANO. How narrowly or broadly?

Mr. MEEKS. Right. Again, that is something, as I stated, that the big questions are, you know, at what point is it facilitating the delivery of renewable energy. That is something I am looking for direction through this Federal process, the Federal Register notice and obtaining input from all the various entities that are interested in this program.

Mrs. NAPOLITANO. Please let us know if this Subcommittee can be of any assistance.

If there are no further questions, this concludes the Subcommittee's oversight hearing on the Federal Power Marketing Administration Borrowing Authority: Defining Success.

I would like to thank all of the witnesses for being so generous with your time and holding with us and also for appearing before the Subcommittee and testifying today. Your testimony and exper-

tise have been very enlightening and very helpful, and your answers to your questions have been an additional insight into the workings of our authority and how this new stimulus is going to be able to help us address some of the concerns that we have had. And, later, we may end up having another hearing with regard to climate change and how it is going to affect your ability to do hydropower.

Under Committee Rule 4(h), please submit any additional material for the record within the next 10 business days. The cooperation of all the witnesses in replying promptly to any questions submitted to you in writing will be very greatly appreciated.

And I would like to add that Mr. Jay Inslee, Congressman Inslee, was supposed to be here. Somehow his schedule was unable to permit him to do so.

There will be questions for the record, and they will be submitted—I am not sure to whom—and some material will be submitted.

And, without any further ado, this meeting is now adjourned. Thank you.

[Whereupon, at 4:32 p.m., the Subcommittee was adjourned.]

[Additional material submitted for the record follows:]

[A statement submitted for the record by the American Public Power Association follows:]

**Statement submitted for the record by the
American Public Power Association**

The American Public Power Association (APPA) is the national service organization representing the interests of the nation's more than 2,000 state and community-owned electric utilities that serve over 45 million Americans. These utilities include state public power agencies, municipal electric utilities, and special utility districts that provide electricity and other services to some of the nation's largest cities such as Los Angeles, Seattle, San Antonio, and Jacksonville, as well as some of its smallest towns. The vast majority of these public power systems serve small and medium-sized communities, in 49 states, all but Hawaii. In fact, 70 percent of publicly-owned electric utilities are located in communities with populations of 10,000 people or less.

APPA's membership not only own hydropower facilities, but also purchase and receive power from others in the industry who own/operate these facilities, including the federal Power Marketing Administrations (PMAs). Public power systems own approximately 10.1% of the total installed electric utility generating capacity in the United States. Hydroelectric projects comprise nearly 19% of public power's total generating capacity. However, in addition to their own hydropower facilities, approximately 580 public power systems in 33 states purchase all or some of their power supply from one of the four PMAs. The PMAs provide millions of Americans served by public power and rural cooperative electric systems with cost-based hydroelectric power produced at federal dams operated by the United States Army Corps of Engineers and the Bureau of Reclamation. The PMAs market federally-generated hydropower to not-for-profit entities, including public power systems and rural electric cooperatives, at rates set to cover all of the costs of generating and transmitting the electricity as well as repayment with interest of the federal investment in these hydropower projects.

APPA's concerns with implementing Section 402 of the American Recovery and Reinvestment Act (ARRA) relating to Western Area Power Administration's (WAPA) new borrowing authority are identical to those expressed in the testimony presented today by Colorado River Energy Distributors Association (CREDA), which also represents members of APPA. The crux of our concern is that, as WAPA implements this new authority, its core mission of providing clean, renewable, reliable, cost-based federal hydropower is maintained. One of the ways that this can be achieved is through the continuation of an open dialogue between WAPA and its existing cus-

tomers. This can also be achieved through the public process envisioned by the new authority, whereby WAPA customers will be able to comment on WAPA's new role, the proper allocation of resources to achieve the goals laid out by Congress, and the procedures to be implemented by WAPA to balance its new role with its core mission, including clear guidance on cost allocation. Finally, the underlying mandate of load-serving electric utilities, including public power utilities, is to "keep the lights on." As WAPA implements its new authority, therefore, it must constantly consider any ramifications that the use of intermittent resources might have on the reliability of the transmission system it operates and take the appropriate steps to mitigate any potential reliability concerns that occur.

APPA's members have been leaders in the development of non-hydropower renewable resources, and will undoubtedly seek to partner with WAPA as it uses this new authority to access those resources. We also urge WAPA to consider those partnership opportunities as they arise.

[A statement submitted for the record by Mr. Grijalva follows:]

Statement of The Honorable Raúl M. Grijalva, a Representative in Congress from the State of Arizona

Thank you, Madame Chairwoman, for holding this hearing today on the power marketing administrations and renewable energy in the West.

This hearing is scheduled at an opportune time. With the recent passage of the American Recovery and Reinvestment Act of 2009 we can look to the power marketing administrations to play a critical role in increasing our country's supply of clean, renewable power and helping our economy recover. The bill provides power marketing administrations Bonneville Power Administration (BPA) and the Western Area Power Administration (WAPA) with \$3.25 billion each in new borrowing authority to be used to upgrade or construct transmission to help increase the development of renewable energy resources. This expenditure of federal funds will help the country reduce greenhouse gas emissions, thereby protecting the global climate and ecosystems, create jobs, and decrease our dependence on fossil fuels.

In coming years, large sums will be spent to build transmission infrastructure in energy corridors designated by the Department of Energy under the Energy Policy Act of 2005. Unfortunately, many of these corridors were designated without regard to tribal sovereignty, ecologically sensitive protected public lands, or access to regions of abundant renewable natural resources. This process needs to be revisited so that the specific mandate to increase the development of renewable energy sources contained in the stimulus provisions for BPA and WAPA will be fulfilled, and fulfilled in a manner respectful to one of our greatest national treasures, our public lands.

The energy corridors designated by DOE in December have the following major problems, which must be addressed:

- Failure to support renewable energy development and transmission—The designated corridors do not prioritize supporting renewable energy development, even though many western states, counties, and other groups have made commitments to developing additional renewable energy production through Renewable Portfolio Standards and other efforts. For instance, the Western Governors' Association's (WGA) Western Renewable Energy Zones (WREZ) project is aimed at utilizing those areas in the West with vast renewable resources to expedite the development and delivery of clean and renewable energy. The goal of the WREZ is to generate: 1) reliable information for use by decision-makers that supports the cost-effective and environmentally sensitive development of renewable energy in specified zones, and 2) conceptual transmission plans for delivering that energy to load centers within the Western Interconnection. The WGA has continued to advocate for incorporation of this information into federal planning and draft zones are already available for use in improving the designation of West-wide Energy Corridors;
- The analysis of environmental impacts is limited to individual, separated segments on federal lands—the agencies have refused to analyze or even acknowledge the inevitable impacts to both federal and non-federal lands once the "dots and dashes" on maps of the current designations are connected (or to show the likely path of these corridors), which also limits their ability to develop ways to reduce or avoid impacts;
- Failure to avoid public lands with important conservation values and sensitive wildlife habitat—Places such as Grand Staircase Escalante National Monument, Snake River-Birds of Prey National Conservation Area, and the Desert

and Sevilleta National Wildlife Refuges are crossed by corridors, and a large corridor (miles wide) was designated immediately adjacent to Arches National Park and the town of Moab, Utah, placing improper stresses on the values and experience of these places;

- Inadequate consultation with state, local and tribal governments—the outreach and opportunities for input were very limited, so that important information on local plans and priorities were not incorporated; and
- Failure to consult on impacts to threatened and endangered species—despite an official request from the National Marine Fisheries Service, the agencies have not engaged in the consultation required under the Endangered Species Act.

I have stressed that meeting the requirements and goals of the Energy Policy Act of 2005, while also protecting America's treasured public lands, should not be mutually exclusive. As a model example, the Renewable Energy Transmission Initiative (RETI) convened by the State of California identified, with the input of all relevant stakeholder groups, siting for low-conflict corridors and renewable energy plants that can potentially provide 74,300 GWh/yr of green energy, more than enough to meet the state's needs. By including environmental stakeholders in the planning process, California has greatly reduced the likelihood of conflict and litigation, an outcome that all parties would prefer to avoid.

Finally, I would like to provide my observations on the contrasting attitudes of BPA and WAPA. BPA and their customers are excited about the opportunities the additional borrowing authority brings them. The customers of BPA are seemingly forward-looking and are willing to bear some additional expense now to receive the inevitable benefits of building for the future. In stark contrast, it appears that WAPA would prefer not to even get the extra money, and its customers' main concern seems to be avoiding even the tiniest additional cost. However, WAPA is a Federal agency, and it is the obligation of the Federal government to act in the public interest. In fact, in the past, WAPA and its customers have borne part of the cost of projects enacted for the greater good. For instance, P.L. 106-392, Upper Colorado and San Juan River Basins Endangered Fish Recovery Programs, required WAPA to pay up to \$17 million for fish recovery programs. WAPA likes to think of its "core mission" as providing hydroelectric power from existing sources to its existing customers, but the economic recovery act specifically expands WAPA's mandate. Even WAPA's existing customers are going to need new sources of energy as the population of some areas in the West may come close to doubling their 2000 levels by 2050.

Again, I appreciate the subcommittee holding this hearing to bring much needed attention to the role the power marketing administrations play in energy production and development. I look forward to continuing to work with my colleagues on the subcommittee and in Congress on the issues of transmission siting and renewable energy development as our country addresses global warming and economic recovery.

