

STATEMENT OF
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BEFORE THE

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COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES

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Good afternoon and thank you. Madame Chairwoman and Subcommittee members, it's my honor to share what we, at the Western Area Power Administration (Western), are doing to ensure we play a vital role in meeting our energy challenges—today and tomorrow. Let me first give you a snapshot of how Western's expertise and assets fit into the energy picture today. I will share our strategic direction to position us to do more to help our Nation achieve a secure and renewable energy future—through use of our vast transmission system, our potential for integration of renewables and our strategic partnerships. Last, I will update you on the FY 2009 budget—what it will take to sustain our momentum toward our future.

Western today—power marketing, transmission and service area

Let's set the stage and look at Western now—in the year 2008—where we stand in power marketing and transmission and how our service area fits into the energy picture in the West.

Power Marketing—our core business

Marketing and delivering electricity—primarily clean, renewable hydroelectric power generated at Federally-owned dams—will continue to be our core business. 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—for 30 years. In providing affordable, reliable power to our customers who serve millions of consumers across 15 western and central states, we have decades of experience and well-established partnerships. We have built those partnerships by working through challenges and change together. Today, we are working with our customers as we face the funding and rate impacts from eight years of drought.

Transmission owner and provider—a central role

We deliver reliable, cost-based electricity over an integrated 17,000 circuit-mile,

high-voltage transmission system—an electrical Federal highway system—that spans most of the western half of the United States. Our role, as transmission owner and provider, is not only critical to the delivery of Federal power, it is integral to our Nation’s interconnected electrical grid and helps ensure reliable and secure delivery of our Nation’s power supply.

Open access—how we do business

We conduct transmission business in the spirit of our long-standing policy of non-discriminatory open access to our system. In 1998, Western voluntarily filed an open access transmission tariff with the Federal Energy Regulatory Commission (FERC). Now, 10 years later, we continue to build upon and reinforce a culture of open access. Our tariff is a living document, demonstrating our commitment to abide by the same rules as the rest of industry, except where we must deviate to avoid conflicts with Federal mandates and our statutory obligations. The most recent modifications to our tariff were to comply with FERC orders concerning standardization of large and small generator interconnection agreements and procedures and interconnection for wind energy.

Reliability—our record

I’m proud of our reliability record. Attention to reliability is nothing new to us as we continue to set the bar high. As a result, we have consistently exceeded the national system standards set by the North American Electric Reliability Corporation. The Energy Policy Act of 2005 (EPAct 2005) strengthened industry commitment to system reliability by giving FERC expanded authority to approve and enforce reliability standards. A recent readiness review and compliance audit in our Upper Great Plains Region revealed no compliance violations. The NERC audit team commented that Western runs the tightest operation they had audited to date.

We routinely go a step above to help restore neighboring systems. For example, in 2007,

we helped Lassen Municipal Utility District by dispatching maintenance personnel and equipment to restore service from Woodland Substation until a replacement transformer could be procured. In December of that same year, Western crews braved poor conditions to lend a hand to Nebraska Public Power District, in repairing miles of downed power lines due to severe ice damage. This January, after devastating storms in California, our crews helped Pacific Gas and Electric Company, Sacramento Municipal Utility District, and Trinity Public Utilities District make emergency repairs so that power could be restored to their customers in a timely manner.

We are also pursuing new technology and equipment enhancements to improve the capability, performance and reliable operation of existing infrastructure. These enhancements mitigate some constraints without adding new lines to the grid. For example, we continue to field test high-capacity composite conductors designed to significantly increase the transfer capacity of existing transmission lines without requiring new towers or rights of way. In 2006, in cooperation with the Department of Energy, we installed a new composite conductor on a 20-mile segment of our Topock-Davis 230-kV line in Arizona. The project increased the line capacity from 470 MW to 724 MW—a 54 percent increase.

While operations, maintenance and system enhancements are a critical part of the reliability and energy security picture, they are not enough. As we look at the emerging transmission landscape, we must also address the need for additional transmission and associated facilities.

Transmission—authorities and projects

Western has some existing authorities, through which we play critical roles in building new transmission projects and upgrading and expanding our Federal transmission assets. Generally speaking, our projects are developed cooperatively, in partnership with others, and

funded by non-Federal entities in support of our common interests—wholesale electricity markets and enhanced grid reliability. In partnership with the City of Roseville and the Sacramento Municipal Utility District, Western is moving forward to implement its preferred alternative on the Sacramento Voltage Support project to resolve transmission-related reliability issues in the Sacramento area. After publishing our final supplemental environmental impact statement/environmental impact report in February 2008 and issuing of our record of decision, Western is ready to initiate pre-construction activities on this project by late spring of this year. If all goes well, the project can be energized and ready for commercial operation in time to meet the demands of the 2011 summer season in California.

Western is also working cooperatively with the Trinity Public Utilities District in northern California to honor commitments that Congress made to the residents of this rural area when the Trinity Dam and Reservoir complex was authorized and constructed as an integral feature of the Central Valley Project. The new Trinity Substation was energized for commercial operation in December 2007, and work is moving forward on the Trinity PUD direct interconnection project, as Western issued its record of decision in January 2008. Based on the current schedule, Western could award its first construction contract on this reliability improvement project as early as the spring of this year. These projects will substantially improve the reliability of service to local consumers, who have routinely experienced 20,000 consumer hours in outages annually.

Reliability is also a key aspect of EPAct 2005, which expanded our authorities to allow use of limited non-Federal funding to construct, or to participate in the construction of new transmission that will relieve bottlenecks or accommodate future increased demand for transmission capacity. It also gives Western and the Southwestern Power Administration the

authority to work with others and obtain up to \$100 million in outside financing until 2015 for new and existing transmission facilities in national interest electric transmission corridors or to accommodate an increase in demand for transmission capacity.

The energy picture—our service area fits right in

Our service area fits well into the energy picture in the West in three ways. First, some of the fastest growing states, in population and energy consumption, are in the West. These areas present an urgent need for more generation. Second, 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. Third, some areas in our service territory are considered "conditional congestion areas," as outlined in the DOE's National Electric Transmission Congestion Study. These are areas where existing congestion is expected to worsen significantly if large amounts of new generation resources are developed without associated transmission. In addition, one of the national interest electric transmission corridors is in our marketing area. Conditional congestion areas and national interest corridors both point to reliability and security concerns.

We are working with Trans-Elect, a Path 15 partner, and the Wyoming Infrastructure Authority to solicit interest in solving the TOT3 bottleneck. TOT3, one of the three high-priority projects in the 2004 Rocky Mountain Area Transmission Study, is a transmission congestion point in southeastern Wyoming that limits power flows from resource-rich Wyoming to Colorado's growing Front Range communities. While the project is in an early phase of development, it looks promising since potential partners—including wind developers—have expressed potential interest in what may be enough capacity to justify the project.

So where do we stand today? The bottom line is, due to drought, less water is causing

reduced hydroelectric generation; load growth is pointing to the need for transmission expansion and attention on climate change speaks to the need for increased renewable resources. As you can see, there is a call for us to do more. As responsible stewards, we are looking hard at some possible future directions that will ensure we maximize our existing resources in order to meet growing requirements—to the best of our ability within our existing funding and authorities.

Strategic direction—potential for more in transmission and renewables through partnerships

Specifically, I believe that Western can play a pivotal role in meeting two of the major challenges we now face in the West—the need for transmission and the integration of renewables onto the grid. I also foresee many opportunities in the decades ahead to alleviate transmission congestion and to promote renewables through our transmission and marketing services, while ensuring we continue to deliver power to customers, at the lowest possible costs consistent with sound business principles. Therefore, in addition to taking care of today's business as I have described, I am strategically focusing on and preparing to respond to potential new opportunities and mandates through continued and expanded partnerships with customers and industry stakeholders.

Transmission—through authorities and partnerships

In the course of our regular transmission business, we continuously pursue initiatives to increase capacity and reliability, to eliminate congestion points and accommodate additional requests for interconnections onto our system. However, we continue to be asked to do more with limited resources.

The extension of the Production Tax Credit for renewable resources through 2008 continues to stimulate requests for transmission service and interconnection onto our system,

mainly from wind generation developers. As of January 2008, Western has interconnected 305 MWs of wind to our transmission system, with more than 69 additional requests in the study queue, totaling more than 14,000 MW of renewable generation. Representative projects include an 8.3 MW wind farm in Wyoming to a 50 MW wind farm in South Dakota, although occasionally there are larger requests. Reinforcement and system upgrades will be necessary to meet these requests and maintain grid reliability. The increases in interconnection requests strain our system planning resources. Therefore, we are working on how to improve our interconnection process to make interconnection to our system easier.

Using our authority previously mentioned under EPCRA 2005, we are working to identify a transmission congestion relief project which could be developed through industry partners. Right now we are defining a specific transmission project, after which we plan to issue a solicitation to find out the level of interest from industry in developing the project.

Renewable Integration—through authorities and partnerships

We are always looking for and finding ways to do more to support increased renewable energy integration onto the grid. Through studies and discussions with customers and industry stakeholders, we are exploring how we can help achieve renewable goals—given the laws and regulations we operate under and the commitments we have—to ensure that our rates for power resources and transmission services remain as competitive as possible.

Integration through rates - I'm proud that we are pioneers in offering transmission services that support renewable energy. We are the only known entity within the Western Electric Coordinating Council with three FERC identified ancillary services (Scheduling, System Control, and Dispatch Service; Energy Imbalance Service; and Regulation and Frequency Response Service) to address intermittent renewable resources. We revised our rates to be more

responsive to wind entities that need to change their schedules multiple times without added charges—enabling them to adjust wind forecasts throughout the day, as weather changes. Last year, we offered temporary balancing authority services to a wind energy developer to help them proceed with their planned interconnection to a Montana Dakotas Utilities' transmission system. We continue to look for more ways to refine our rates to accommodate the unique characteristics of renewable resources.

Integration through EPO Act 2005 Authorities - Section 2605 of EPO Act 2005 authorizes the use of hydro allocations for firming and reserve needs of tribal energy. Jointly with the other power marketing administrations, we completed the Tribal Power Allocation Study, also called for by this section of EPO Act, that looks at tribal use of Federal power and the barriers for use of that power. The study also identifies opportunities for removing barriers. Western intends to be flexible in allowing Tribes to use their Federal power allocations to meet firming and reserve needs for Native American energy projects.

Also called for in Section 2606 of EPO Act 2005, we are leading a joint feasibility study, including the costs and benefits and energy security—of a demonstration project to integrate wind into the Missouri River resources. Participants include DOE, the Corps of Engineers, the Department of Interior, National Renewable Energy Lab, Tribes and Western customers. We anticipate completing this study and forwarding it to Congress by the end of this fiscal year.

Integration through power marketing services and authorities - Through power marketing services and authorities, we also continue to look for partnerships with industry to promote renewables.

We issued a request, to customers, for expressions of interest in purchasing Native American wind energy, which could enhance economic development by creating revenues and

jobs. The request for interest resulted in four written responses, which could potentially materialize into a future wind project for which we could play a role in transmission.

One of the newer initiatives we are considering is to issue a request for interest, to industry, in entering into a long-term renewable energy purchase to firm project resources. A second is to further cultivate and partner with the renewable energy community to meet future needs by identifying ideal transmission system injection points for new generation onto Western's transmission system. Our intention is to help industry focus on promising areas for the addition of new generation and to address reliability issues.

Another promising area for growth is our "Renewable Resources for Federal Agencies Program," which assists customers and other Federal agencies to meet renewable energy goals set by mandates. To date, Western has facilitated the purchase of about \$1.4 million in annual renewable energy and renewable energy certificates, equal to about 498,000 MWH annually, for more than 27 Federal agencies and customers. As another example of future possibilities, we recently moved two on-site solar photovoltaic projects forward in partnership with the Department of Defense, Fort Carson, and with DOE at the National Renewable Energy Lab in Golden, Colorado. We are also participating in DOE's Transformational Energy Action Management Initiative to maximize installation of renewables at DOE sites and optimize affordable purchases of renewable energy.

We continue to evaluate how to make the integrated resource planning process more effective. We have proposed revisions to our IRP requirements to continue supporting customer efforts to consider renewables in their future planning efforts. The proposed changes include encouraging participation in regional planning by customers, who may not be part of a

member-based association, and making IRP information more readily available. Public comments received on this proposal are being evaluated.

Western's Budget request

We can't do any of this without the resources, including your support and the support of our customers. Our FY 2009 Construction, Rehabilitation, Operation and Maintenance (CROM) program request totals \$827 million, of which only \$193 million (23 percent) would be funded by appropriations. Sixty-four percent of our budget, or \$526 million, is for Purchase Power and Wheeling that we need, due primarily to the continuing drought in a large part of our service territory. We have requested \$328 million in offsetting collections and \$198 million in alternative financing to fund our Purchase Power and Wheeling request. Our budget also assumes that we can obtain \$104 million in cash advances from our customers to fund other program needs. And finally, we have requested the use of \$3 million in receipts from the Colorado River Dam Fund for Boulder Canyon Project activities.

As I said earlier, we have a great relationship with our customers, and their support of Western and our program is critical to our success. A good example is customer funding. In each of the past several years, our customers have provided increased amounts of funding to meet some of our urgent needs. I sincerely appreciate that together we have developed the mutual trust and shared commitment to the Federal power program that has allowed Western to request and obtain these critical funds.

The Administration supports reclassification of receipts from mandatory to discretionary (net zero appropriations) for the annual operating expenses of Western. Reclassification of receipts in this manner would allow Western to benefit from the alignment of their receipts with their annual (non-capital) expenditures provided by appropriations. This alignment would foster

increased planning certainty for Western, which would ultimately improve the reliability and operating efficiency of the Federal power system. The Administration will continue to pursue reclassification of receipts through changes to the existing authorizing statutes or by other means.

Summary

As a hydroelectric power and transmission 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 conduct business. Western is an essential part of the electric utility industry with important roles to play today and tomorrow.

As for today, we are getting things done—we are delivering reliable power even in the face of drought. We are active in regional planning; rebuilding and improving existing lines; constructing new infrastructure and integrating renewables into the grid in a cost effective manner even with limited and strained resources. We are making headway in solving transmission, reliability and security issues to maximize use of the transmission grid in the West.

As for tomorrow, with the support of our customers, Congress, and industry stakeholders, we have the potential to do more as a Federal agency, to play a more significant role in our Nation's energy future and in our Nation's energy solutions. Our potential is tremendous.

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