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Subcommittees on Energy and Mineral Resources and Water and Power

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Thank you for inviting me to testify today before your subcommittees. I am Richard Walje, president of Rocky Mountain Power, a division of PacifiCorp, which is a wholly owned subsidiary of MidAmerican Energy Holdings Company. PacifiCorp is an investor owned utility serving 1.7 million customers in six Western states and owns and operates one of the largest transmission networks in the western United States. The transmission system comprises approximately 15,000 line miles, in 10 states, and has over 100 interconnections to other regional transmission systems.

PacifiCorp is regulated by six states and the Federal Energy Regulatory Commission (FERC) as an inter-state transmission provider. The company complies with and fully supports FERC's current policy of non-discriminatory open access to its transmission system. PacifiCorp believes that this policy assures the best societal outcomes related to providing for increased electric energy consumption, generation resource diversity, greenhouse gas emissions reductions and grid reliability.

PacifiCorp is the second largest utility owner/operator of wind resources in the United States; second only to its sibling utility, MidAmerican Energy Company. By 2010 PacifiCorp will own 1,031 megawatts of wind generation and purchase 705 megawatts of wind energy from third parties. These projects are located primarily in Wyoming, Oregon and Washington. These projects, combined with the company's existing generation portfolio of natural gas, hydro, geothermal, biomass, and coal resources, gives PacifiCorp one of the most complicated and diverse operating environments in the country.

This large increase in the company's renewable generation capacity has nearly all happened in the past three years. It goes without saying we are strong advocates for renewable energy development for the benefit of our customers.

As a regulated utility, our sole mission is to serve our retail customers with safe, reliable and affordable energy and our transmission customers with adequate and reliable capacity. We are required to make significant capital investments in electric infrastructure to meet our obligation to serve our customers. We are, of course, a commercial enterprise, but our investments are made solely for the benefit of our customers.

Over two years ago, PacifiCorp developed a transmission strategy and undertook an extensive construction program – called Energy Gateway – to add approximately 2,000 miles of high voltage transmission lines to meet our obligation to serve load growth and provide long-term benefits to our customers. This program coincides with the regional concern that insufficient transmission investment is taking place. Based on the existing inadequate grid and predating our announcement, previous regional transmission analyses called for transmission additions to improve reliability, relieve capacity constraints, integrate diverse generation resources that are geographically distant from customers, and promote renewable energy development. The proposed routes of our Energy Gateway transmission projects are very compatible with the development of wind, solar and geothermal generation resources in the West.

Since the announcement, PacifiCorp has permitted and begun construction on the first segment of the Energy Gateway project, a 135-mile, 345-kV transmission line from southeast Idaho to Salt Lake City, Utah. The construction phase began in October, 2008 and will be complete in December, 2010. The line will increase reliability and reduce capacity constraints on the existing system as well as integrate new Wyoming wind resources and other future generation resources into our system. The next segment is scheduled to begin in 2010, which is 100 miles of 345 and 500 kV transmission lines from central Utah to Salt Lake City. PacifiCorp is also actively permitting over 1,000 miles of a 500-kV transmission line from eastern Wyoming through to western Idaho.

PacifiCorp has gained extensive experience in all levels of federal, state and local permitting as well as in all phases of implementation, including planning, design, construction, operations and regulatory treatment. We have been a leader in and continue to be very active in local, sub-regional and regional planning processes. We have provided technical support and management leadership in these areas for many years. There are many different perspectives on the core issues that restrain new transmission lines from being built. Among them are: multiple regional planning efforts, siting and permitting challenges, cost and benefit allocation, the level of returns on these investments, and state and national policy inconsistencies. We believe all of these issues must be addressed to relieve the gridlock plaguing existing transmission planning and construction activities.

There are commercial wind and transmission projects being developed in the West to take advantage of market opportunities. When these projects are in the same geographic areas as our projects, we willingly and collaboratively work with those developers to the advantage of all citizens, projects and customers in the region.

Based on the company’s and my personal experiences to date, I offer the following observations and suggestions:

- Transmission Planning

- Many of the transmission lines in PacifiCorp's Energy Gateway program and lines being proposed by others have been identified in previous regional and utility planning exercises, some dating back to the 1970s. The industry has coordinated its planning activities for decades. Similarly, individual entities' transmission planners have identified vital transmission segments that need to be constructed to address a variety of regional and specific company needs over this same time period.

- We recognize that PacifiCorp is better positioned than many entities to consider a regional planning approach because of our (a) commitment to renewable energy, (b) need for additional capacity, (c) geographic footprint, and (d) transmission system configuration.

- Historically, transmission projects that have been identified through the various joint planning processes and analyses as needed to serve customers, to improve grid reliability or that are determined to be regionally economically valuable – have not been built. The lack of construction results from the fact that the planning activities did not result in more effective and efficient siting and permitting processes, or had multi-company, regional or multi-jurisdictional cost allocation or cost recovery issues, which could not be readily resolved through the existing regulatory framework.

- Broader stakeholder input, support of regional transmission planning activities and support for the resulting plans have been and continue to be issues. There is a difference between obtaining stakeholder input and pleasing every party who expresses a concern about some aspect of an analysis or plan.

- The stimulus package promotes initiatives to improve West-wide planning and could address a number of these issues; however, it is too early to determine whether or not the desired results will be achieved. PacifiCorp supports the new initiative provided:

    - It does not delay the company's current much needed transmission expansion program, and:

    - Stimulus-based planning activities should further consolidate existing planning efforts, not create additional planning processes or an oversight entity that will only create redundant work and distractions for the technical planners. These planners know their jobs and are already working to serve customers and meet reliability mandates from a regional perspective.

- Siting and permitting:
    - The largest problem impeding transmission project construction is related local siting and permitting requirements and public opposition to new lines. It is important to consider that gaining approval to build a line is as much a city and county level process as it is a federal (FERC, Bureau of Land Management, Forest Service) process.
    - The interplay between national grid security objectives, private property rights, eminent domain, states' rights and federal preemption is fraught with potential conflicts, which will lead to societal dissatisfaction and inhibit transmission expansion. Uncommon leadership at all levels of government will be required to effectively reconcile these often inconsistent objectives, values and rights.
    - Transmission development is overly expensive and the timelines uncertain because siting and permitting processes can be upheld or stopped by an individual or individuals within a permitting agency, influential landowners or competing interest groups. For example, a planning manager in a city can put a line that is absolutely necessary for improving reliability at risk by asking for unreasonable permit conditions. Often there is no adult supervision in evidence to manage this issue.
    - Federal land managers want as much of a line as possible to be built on private property. Private property owners want just the opposite to occur.
    - Though species and habitat protection policies make sense and are crucial, they create a line routing maze for developers. Many entities and individuals opposed to transmission line development will use these policies to challenge routing decisions, often with the objective of stymieing line construction.
    - Though well-intentioned, the Section 368 Programmatic Environmental Impact Study process left big gaps in the proposed corridors. It seems we could not even "connect the dots" in a largely intellectual exercise.
    - Multiple BLM field offices result in multiple mitigation standards and requirements.
    - I have not met one person who has welcomed a transmission line on his property, and I doubt I would find anyone who would say "Oh, the transmission line is only for renewable energy; in that case I'll take two."

- Reliability:
    - There are very few “economic only” or “reliability only” projects. Attempting to assign these categories for backbone transmission is very difficult, if not impossible. The best projects provide significant benefits in both of these areas.
    - Reliability standards, land use policy and environmental policy are in direct conflict. Mandated yet imprecise requirements to maximize corridor widths and line separations often exceed what most industry participants would consider necessary to achieve reliability goals.
    - A utility’s inclination to maximize line and corridor separation to minimize project cost risk inherent in the capacity rating process, while complying with both federal and regional reliability requirements, directly conflicts with states’ and other federal agencies’ objectives that seek to have fewer, narrower corridors and “supersized” lines.
    - There is no clear authority or guidance on transmission line and corridor separation requirements for reliability that can be used as a justification for siting transmission lines to meet these requirements when the route is opposed by the public.
    - Putting high voltage transmission lines underground is a very expensive mitigation for the sole purpose of removing the visual impact of lines that are often in sparsely populated areas in the West.
    - Intermittency of renewable resources is an actual problem, not an irrational negative response from unresponsive utility grid planners and operators in an effort to thwart the development of these resources. The size and diversity of the Western grid has allowed the inclusion of intermittent resources with a minimal impact. However, as the percentage of generation from these resources increase, the variable and sometimes unpredictable nature of the energy supplied will have to be explicitly considered in transmission plans and through the deployment of new methodologies and technologies.
    - Funding for technologies to improve the efficient use and reliability of the existing transmission grid will not fully supplant the need for adding significant transmission capacity to meet the country’s long-term needs.
    - Transmission projects underway needed to improve and maintain reliability and to serve customer needs should proceed as planned.

- Cost allocation and cost recovery:
    - The lack of regional, and in some cases inter-regional, cost allocation mechanisms for main grid transmission projects spanning multiple states, regulatory jurisdictions, and regions is a significant inhibitor to transmission development, particularly for major transmission projects designed to deliver economically attractive, but location-constrained renewable resources to distant load centers.
    - Allocation of costs is not the only issue – a primary issue behind this is the recovery of costs and return on investment for the transmission developer.
    - Regulated entities must have certainty that prudently incurred costs will be recovered and a reasonable return can be achieved or else insufficient transmission investment will continue to be a problem.
    - Even prior to recent economic events, cost and benefit allocation has been the most significant impediment to major backbone transmission additions that serve customers in multiple states.
    - The recent economic events make this need for regionalized cost recovery, and associated allocation of these costs, even more necessary.

No single entity or group of entities currently has ultimate responsibility for the issues presented in my testimony. The solution to these complex issues will require support and collaboration from all levels of government – federal, state and local – and, just as importantly, the public. PacifiCorp recognizes that state and local processes must rightfully exist but also believes that under limited and appropriate circumstances, a single body is required to resolve inter-state and inter-regional planning, siting and investment roadblocks to assure expansion of the grid. That does not mean that regional solutions should be ignored or superseded when planning, siting and permitting, meeting reliability requirements or allocating costs based on the region's unique circumstances. PacifiCorp, along with our parent, MidAmerican Energy Holdings Company, believes the role of the federal government should be focused on the following areas:

<u>Siting:</u>

- One federal agency should act as a one-stop location for all federal permitting and determination of the routing across federal and tribal lands, with a deadline to act and with sufficient human resources to meet the deadline. We believe this agency should be the Federal Energy Regulatory Commission.

- All other federal agencies and departments should coordinate through the lead agency and should be required to provide their input early in the process and complete reviews in a timely fashion. Coordination among federal agencies is as significant a problem as coordination among states and localities. Faster execution of all activities, with associated meaningful milestone dates, is necessary to support project plans.

- State siting jurisdiction over local lower voltage facilities should continue.

- We support federal backstop of state siting processes only if it offers a full robust solution to both federal, state and private lands and only as it applies to transmission lines and associated facilities for projects sized at 500 kV and larger, which also cross state boundaries or multiple jurisdictions.

- Federal backstop actions should only be undertaken if property owners' basic rights to due process are reasonably maintained. This can be done by requiring transmission project sponsors to first undergo siting proceedings at the state level before exercising any rights to pursue federal backstop. The federal processes should incorporate the local information gathered in these state processes to make its determination as opposed to setting up a separate siting process.

Planning:

We support broad regional planning, but only if the following features are part of the process:

- One federal agency should have the ultimate responsibility for interconnection-wide, extra high voltage inter-state transmission planning. We think this entity should be the Federal Energy Regulatory Commission.

- Once interconnection-wide plans are approved, lower voltage transmission facilities should be planned via existing FERC Order No. 890 planning processes that do not require explicit FERC approval.

- Approval of projects in interconnection-wide plans for transmission lines sized at 500 kV and larger that cross state boundaries should automatically trigger a determination of need regarding such lines that is binding on all affected states.

- Interconnection-wide plans should only:

    - Apply to facilities associated with 500 kV transmission lines and above;

    - Be based on a 20-year or longer view of needs;

    - Recognize that extra high voltage (EHV) transmission benefits a wide base of customers over a broad region or geographic area; and

- Require analysis on efficient long term use of transmission corridors as part of the planning process.

- Interconnection-wide plans should incorporate all existing projects associated with transmission lines sized at 500 kV and larger and directly associated facilities which are currently underway in the construction or siting processes by load-serving entities or regional transmission organizations or independent system operators. The development of interconnection-wide planning should not impede the development of needed transmission projects already well underway.

- The possible regional transmission planning processes supported through Department of Energy stimulus funding could help with effectuating transmission, but they also have the adverse potential of creating an entirely new, mostly redundant separate planning process. We are concerned this approach will only complicate the resolution of existing issues. All transmission planning processes – local, sub-regional, regional, and interconnection-wide – should be subject to Federal Energy Regulatory Commission jurisdiction and follow FERC Order 890 principles.

- Interconnection-wide planning should not create yet another planning entity and redundant processes and overhead costs, but consolidate existing processes for EHV facilities that cross state and regional lines. Congress designated FERC with oversight of transmission planning processes associated with inter-state commerce.

- Interconnection-wide planning processes should be more than just a comparison of existing plans to ensure "compatibility." There are many lower voltage projects identified in current local and sub-regional plans that could form a backbone for increasing capacity for the greater long-term benefit of customers.

Cost allocation for new facilities identified in interconnection-wide plans:

- One federal agency should have "backstop" ability to assign cost allocation for transmission projects identified in approved plans. Again, we think this agency should be the Federal Energy Regulatory Commission.

- Determination of cost allocation for projects should only apply to projects developed through plans which been developed through a FERC Order 890 stakeholder planning process and meet FERC Order 890 and 890-A planning principles.

- FERC backstop authority for cost allocation review should only apply to transmission planned at 500 kV and above and include any facilities directly associated with the integration of these facilities into the existing grid.

- Cost allocation by Federal legislative action should only be done if it is ensured these costs are recovered at the retail level or state regulation as appropriate.

- Cost allocation should be supported by an approximation of benefits of facilities to the assignees; however, this requirement cannot be a burden proof to show explicitly measurable or implied benefits for multiple entities or society at large. To expect transmission project developers to justify transmission projects and then assign costs to the projects based solely on an assessment of future societal benefits or environmental impacts, for very expensive projects that take years to site, permit and build; and which are directly affected by evolving energy and environmental policies, diverse generation additions, complex operations, more challenging reliability requirements and other factors, is unrealistic and arguably unworkable. This requirement is often a "red herring" used by those entities whose parochial interests or objectives are threatened by additional access new generation sources have to new inter-state transmission lines.

The United States main grid transmission system has been called the largest and most complex machine in the world. A strong, secure and robust high voltage transmission system is vital for national security and the future economic well being of the nation. Adding capacity and improving the reliability of this machine is a daunting task under the best of circumstances, but it is even more challenging under the current regulatory regime and the competing and often incompatible national, regional and state energy and environmental policy objectives.

Nearly all of our nation's existing transmission system was built piecemeal for the purpose of serving geographically situated retail customers. As a result, it often does not support broader regional needs and public policy objectives. New inter-state transmission projects must negotiate a maze of federal, state and local siting and permitting processes, nearly always accompanied by strong, emotional public opposition. To promote national security, energy and environmental policies while assuring the strength of the grid, sole ultimate responsibility for planning, siting and permitting and cost allocation decisions should reside in one federal agency. We contend that FERC is the agency best situated to fulfill that role, while showing appropriate deference to local needs, processes and property rights.

In summary, we understand that a robust electric transmission infrastructure that meets environmental policy objectives is a national priority, and we support the need for improved transmission coordination and collaboration among the multitude of entities and organizations that have a stake in the successful expansion and operation of the transmission grid. We believe that providing open access to all new generation sources, coupled with the deployment of new transmission technologies, best assures that this expansion will be accomplished while delivering the most economic and environmental benefits and improving the reliability and security of this vital national asset. Finally, as a sales pitch for our Energy Gateway project, it is important for

the Western United States that the company's and others' needed and beneficial projects that are already in progress are completed without delay.

This concludes my testimony.