

STATEMENT OF TIMOTHY J. MEEKS

ADMINISTRATOR

WESTERN AREA POWER ADMINISTRATION

UNITED STATES DEPARTMENT OF ENERGY

BEFORE THE

SUBCOMMITTEE ON WATER AND POWER

COMMITTEE ON NATURAL RESOURCES

UNITED STATES HOUSE OF REPRESENTATIVES

OVERSIGHT HEARING ON THE PROPOSED

FISCAL YEAR 2008 BUDGET

MARCH 8, 2007

Good afternoon and thank you. Madame Chairwoman and members of the Subcommittee, I am pleased to be here today to testify on the Western Area Power Administration's (Western) goals and priorities for the coming year.

Western, as one of four power marketing administrations within the Department of Energy, markets and delivers electricity primarily generated at Federally-owned dams. Western has a long history of providing affordable, reliable hydroelectric power to customers who serve millions of consumers across the West. The transmission system owned and operated by Western is an integral part of the Nation's interconnected electrical grid, and helps ensure the reliable delivery of the country's power supply. As I lead Western into the future, we will continue to build upon the tradition of providing a vital and valued service.

In the coming year, Western will focus on three key areas covered in the Energy Policy Act of 2005 (EPACT): (1) transmission, (2) the integration of wind into our existing transmission system, and (3) expanding our partnerships with Native American tribes.

Transmission is central to Western's mission. Our reliable, cost-based transmission is an integrated 17,000 circuit-mile, high-voltage system spanning most of the western half of the United States. While utility regulatory changes and restructuring efforts capture most of the headlines, Western is pursuing initiatives to increase transmission capacity and reliability, to eliminate congestion points, to respond to increased interest in renewable resources, and to accommodate additional requests for interconnections to Western's system.

Western can play a role in expanding and modernizing transmission infrastructure to support wholesale electricity markets and enhance grid reliability. We can facilitate construction of additional transmission capacity and associated infrastructure. We are making incremental improvements to our facilities and partnering with customers, neighboring utilities, and others to jointly plan, develop and finance system enhancements. Robust regional planning processes, identifying both the economic and reliability needs of the grid, are in place in the West. Joint planning and development of transmission projects has resulted in a highly integrated system that has fostered extensive cooperation and coordination among transmission partners.

Western has certain existing authorities to build new transmission projects. For example, in 2004, we constructed the Path 15 Upgrade Project in central California to relieve a major transmission bottleneck. We are working with Trans-Elect and the Wyoming Infrastructure Authority to solicit interest in solving the TOT3 bottleneck. TOT3 is a transmission congestion point in southeastern Wyoming that limits power flows from resource-rich Wyoming to Colorado's growing Front Range communities. Western is also currently involved in one of the largest transmission additions in the country, expanding the regional transmission network in eastern Colorado and western Kansas in a partnership with the Tri-State Generation and Transmission Association. Funding for joint efforts is provided primarily by non-Federal partners.

EPACT expanded Western's authority to use 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. There are some areas

identified in Western's service footprint that are considered "conditional congestion areas," as outlined in the DOE's National Electric Transmission Congestion Study, where existing congestion is expected to worsen significantly if large amounts of new generation resources are developed without associated transmission.

Western is also pursuing state-of-the-art 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.

Western has a longstanding practice of allowing third parties to use available capacity on the Federal transmission system. That practice continues through use of our Open Access Transmission Tariff (OATT), which was first filed in 1998. Earlier this month, Western revised and filed an update to its OATT with the Federal Energy Regulatory Commission (FERC) to incorporate Small Generator Interconnection Procedures, a Small Generator Interconnection Agreement, and certain wind interconnection technical standards.

EPACT strengthens the industry commitment to transmission system reliability by giving FERC expanded authority to approve and enforce reliability standards. Western continues to participate in developing binding reliability standards that are effective in protecting the interconnected electric system. Western is proud of its reliability record. We consistently exceed national system standards set by the North American Electric Reliability Corporation.

Wind energy and other renewable energy options look promising to Western's customers who are driven by interest in clean energy supplies and reducing greenhouse gas emissions. The extension of the Production Tax Credit for renewable resources through 2008 continues to stimulate requests for transmission service and interconnection to Western's transmission system, mainly from wind generation developers. Reinforcement and system upgrades will be necessary to meet these requests and maintain grid reliability. In addition, Western is expanding renewable-friendly transmission services, such as long-term nonfirm service, and eliminating energy imbalance penalties associated with wind generation.

As of January 2007, Western had interconnected 278 MWs of wind to its transmission system, with 35 additional requests in the study queue, totaling more than 9,300 MW of wind generation. These projects range from a 7-MW project in Nebraska to a 500-MW wind farm in Arizona. This represents a 74 percent increase in wind generation capacity from the year before.

Western's role in supporting renewable energy requires that we cultivate and partner with the wind community to meet future needs. Western is identifying potential new initiatives in support of renewable resources that could be prioritized and pursued, if resources are available. We will avoid adverse impacts on our existing customers as new initiatives are implemented to promote the development of renewable resources in our marketing area.

Western continues to support renewable resources by encouraging customers to consider renewables in their resource mix. Integrated Resource Plans (IRPs) required of Western's customers by the Energy Policy Act of 1992 identify and compare all practicable energy

efficiency and energy supply resource options. Moreover, Western is proposing to encourage customers to join together in the preparation of regional IRPs. This approach would allow customers the opportunity to evaluate possible regional synergies, and would support regional transmission, generation and demand-side planning.

Western is also active in the “Renewable Resources for Federal Agencies” Program, which helps Federal facilities meet renewable energy goals set by Section 203 of EPACT. Western is meeting the President’s goals of using more renewable energy in Federal facilities by purchasing renewable energy credits for its own loads (such as office electricity use), while acquiring renewable energy or renewable energy attributes for Federal agencies upon request and at their expense. In August 2005, Western teamed up with other Federal agencies to purchase more than 117,000 MWh of renewable energy credits, or green tags. Each green tag represents the intangible environmental benefits associated with generating electricity by renewables.

Western’s actions promoting greater use of wind energy -- and our agency’s long history of marketing renewable, pollution-free hydropower -- are both key ways that Western is helping reduce pollution and carbon dioxide emissions that may affect global climate change.

Western has allocated clean, renewable and cost-based hydroelectricity to over 90 Native American tribes, providing millions in annual benefits. Western is furthering its pursuit of partnerships with Native American tribes to foster economic development on reservations. Western provides technical assistance to tribes looking for guidance on interconnection of wind to the power grid. Recently, Western has identified funds to undertake a study analyzing the

feasibility of developing a demonstration project that uses tribal wind energy to firm Western's existing hydro generation, as directed by section 503 of EPACT. Another study mandated by section 503 of EPACT will identify barriers that impede tribal access to the use of Western hydropower and describe how those barriers might be removed. In addition, Western intends to be flexible in allowing the use of Federal power allocations by tribes to meet firming and reserve needs for Indian energy projects.

In the FY 2008 President's budget, Western continues to disclose all of the funding sources required to accomplish its program. Western's FY 2008 Construction, Rehabilitation, Operation and Maintenance (CROM) budget request totals \$705.9 million, including \$201.0 million of appropriated dollars.

The CROM Account request includes \$258.7 million in offsetting collections for normal and drought-related purchase power and wheeling requirements, and the use of \$3.9 million in receipts from the Colorado River Dam Fund for Boulder Canyon Project activities.

The 2008 request also assumes \$242.2 million will be available from alternative financing methods, such as net billing and customer advances. In particular, cash advances from customers of \$15.8 million for Program Direction, \$12.0 million for Operation and Maintenance and \$47.9 million for Construction and Rehabilitation activities are assumed for FY 2008.

The FY 2008 Budget includes an initiative for all Western Area Power Administration hydroelectric systems to adopt a one-year cost recovery policy for certain emergency expenses.

Beginning in FY 2008, all emergency expenditures Western incurs out of its Emergency Fund for purchase power and wheeling costs will be recovered from ratepayers within one year. This change will assure the Treasury is repaid in a timely manner with minimal deficit impact if emergency costs occur.

The Budget continues implementation of a FY 2007 initiative providing that the interest rate for future obligations owed to the Treasury by the Western Area Power Administration for power-related investments be set at the rate Governmental corporations borrow in the market. This proposal will better align Western's interest rates with its investment risk and will be similar to the interest rates current law sets for Bonneville Power Administration's borrowing from the U.S. Treasury. This new policy will be applied to all power-related investments occurring after September 30, 2007, whose interest rates are not specified in law.

In conclusion, Western is "getting things done"... regional planning is occurring, existing transmission lines are being rebuilt, and new infrastructure is being constructed as we solve transmission and reliability issues to facilitate the use of the transmission grid in the West.

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