STATEMENT OF

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BEFORE THE

SUBCOMMITTEE ON WATER AND POWER

COMMITTEE ON NATURAL RESOURCES

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EXAMINING THE SPENDING, PRIORITIES AND THE MISSIONS OF THE BONNEVILLE POWER ADMINISTRATION, THE WESTERN AREA POWER ADMINISTRATION, THE SOUTHWESTERN POWER ADMINISTRATION AND THE SOUTHEASTERN POWER ADMINISTRATION

Thank you, Chairman McClintock and members of the Subcommittee. My name is Timothy Meeks. I am the Administrator of the Western Area Power Administration (Western), and I'm proud to be here today to represent Western and to tell you about who we are, and our role in delivering clean, renewable power to the western United States.

Who we are and what we do

On December 21, 1977, high gas prices and a concern over reliable energy supplies led Congress to create the Department of Energy, including the Western Area Power Administration—a new agency to market and deliver Federal hydropower within a 15-state region of the central and western United States. More than three decades later, our mission of delivering clean, renewable energy continues to be crucial in meeting today's energy demands. Federal hydropower has been

critical in providing reliable electricity to light homes and drive industry in small towns and large communities, and on Tribal lands and military bases.

As one of four power marketing administrations within the U.S. Department of Energy, we market hydropower generated at 56 multi-use Federal water projects operated by the Bureau of Reclamation, U.S. Army Corps of Engineers and the International Boundary and Water Commission. Together, these plants are capable of delivering approximately 10,000 megawatts of power. Western does not market this power as a single power system. Rather, Western takes the power generated by each Federally-authorized, multi-purpose water project, and markets it within the region served by that water project. As a result, Western has 10 power systems, each with its own marketing plan and rates.

To deliver this power to our customers, Western owns, operates and maintains more than 17,000 miles of high-voltage transmission line and about 300 substations throughout our 1.3 million square-mile service territory.

Our permanent full-time staff of about 1,400 employees works around the clock, maintaining the interconnected transmission system and ensuring that energy supply instantaneously matches energy demand to ensure power keeps moving through the system and electricity ultimately reaches homes and businesses throughout our marketing area.

As an essential part of our mission to deliver Federal hydropower, Western has a long history of constructing transmission lines. Western has played important roles in the construction of such major transmission facilities as the California-Oregon Transmission Project, the Mead-Phoenix Transmission Line, and the Path 15 Transmission Upgrade, among many others. Recognizing this capability, Congress amended the Hoover Power Plant Act of 1984 in 2009 to give Western

borrowing authority to construct new or upgraded transmission facilities that would deliver, or facilitate the delivery of, renewable energy.

How we conduct business—cost-based rates and the beneficiary pays principle

We sell our Federal hydropower according to Federal reclamation law, which requires our power be sold at the lowest possible rates to consumers consistent with sound business principles. This means we sell our firm power at rates designed to recover all the costs of providing this power. This includes not only our own costs, but also the costs of Federal generating agencies that are attributable to power generation. Operating expenses and capital investments are both repaid, the latter with interest. All the costs associated with the generation and transmission of electricity are paid by Western's customers, with essentially none of those costs borne by Federal taxpayers. In fact, in certain instances Congress has directed that power users pay non-power costs of multi-purpose Federal water projects that other project beneficiaries, such as irrigators, are unable to repay. In these cases, our power customers provide a subsidy to other project beneficiaries.

We operate in a business-like manner and we believe strongly in the principle that "the beneficiary pays." By this, we mean those entities that benefit from the use of these Federal resources should pay for the use of those resources. We design our rates so each power system pays only for its own costs. By law, we will ensure that transmission facilities built with our borrowing authority pay for themselves without relying on revenues from our core-mission projects.

Relationship with customers

Since our inception as an agency, we have worked to establish valuable partnerships with our customers to deliver affordable, reliable, renewable and clean Federal hydropower. We work diligently with our partners to ensure that our rates remain as low as possible. For example, in Western's Folsom, California, office, Western has implemented the Base Resource Displacement Program, resulting in avoiding significant transactional costs associated with delivering power between balancing authorities. Since its inception in June 2009 and through December 31, 2010, the Base Resource Displacement Program has resulted in over $3.5 million in cost savings.

Importance of cost control and cost control efforts

We have a strong culture of cost awareness and control throughout Western. It makes good business sense, and our customers expect it. Our rates are set through public processes for each project, ensuring involvement and transparency in the development of rates and understanding of the need for rate increases, when they occur. We meet regularly with our customers to review our capital improvement plans to ensure that we are concentrating our efforts on projects that meet recognized needs.

Western scrutinizes its expenses to minimize impacts to our core business units and to keep rates as low as possible. Western has a strong program to affirmatively practice cost containment via position management and looking for opportunities to streamline and improve business processes in both our administrative and core business lines.

We are reviewing and moving forward to maximize value from our procurement actions. Given the twin requirement of acquiring supplies and services in a cost effective manner while achieving agency targeted socio-economic goals, Western's procurement community has used a

number of different acquisition authorities and cost-avoidance strategies to ensure best value procurement buys. In the area of administrative support contracts, Western has aggressively moved to use performance-based contracts to reduce costs by reducing the number of contractor employees and increasing accountability and responsibility for performance on the part of the individual contractor.

In addition, Western has undertaken a series of initiatives to identify and implement activities which reduce the cost of performing its core business. For example, Western's Operations Consolidation Project (OCP) is merging the operations of two regions into one, improving business efficiencies and reducing the overall cost of complying with mandatory industry-wide reliability standards. Consolidating the operations of two regions will also eliminate the need to support redundant backup alternative control centers, enable the use of a single computerized power control system, and optimizes transmission planning and administration of the Open Access Transmission Tariff over a larger geographic footprint. Western also has a program to consolidate and standardize Information Technology applications such as the Power Billing System to eliminate redundancies, avoid duplication, and reduce administrative support costs. Coupled with this initiative are ad hoc programmatic initiatives to automate to the extent practicable, manual processes which are unduly complex and burdensome.

Western continues to work collaboratively with our generation partners to maximize hydropower operations to the extent practicable to ensure that customers continue to receive their hydropower allocations in a timely, reliable, and cost-effective manner.

However, there are a number of factors that are exerting upward pressure on our rates, most of which are out of Western's control. Some of the factors that have caused Western's costs to increase include:

- increased environmental regulatory compliance costs, which have had the net effect of increasing expenses, while reducing the quantity and reliability of the hydropower product
- the need to replace aging generation and/or transmission-related infrastructure
- the higher cost associated with operating and maintaining aging generation and/or transmission-related infrastructure until it can be replaced
- the cost associated with ensuring ongoing compliance with industry-wide mandatory reliability standards (including critical infrastructure protection assets)
- the impact that drought has had on the available net hydropower generation in recent years.

Western's role in transmission

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.

Demand for transmission capacity has been on the rise over the past several years. Renewable generation such as wind power, which is typically located in remote areas away from load

centers, is increasing dramatically. Western's service territory encompasses nine of the 10 windiest states in the Nation, and developers are increasingly looking to our transmission system as the vehicle to move renewable generation to market.

However, a recent FERC study[1] indicates the current transmission system, nationwide, is nearing its capacity to accept new generation. Analyses point to key transmission constraints where reinforcements would allow lower-cost resources to flow toward higher-cost load areas. In addition, our transmission system is aging. It has become clear that additional transmission will be required to ensure a reliable supply of clean energy into the future.

Borrowing authority begins to provide solutions

Through the 2009 amendment to the Hoover Power Act of 1984, Western now has the authority to borrow from the Treasury to construct and/or upgrade transmission lines to help deliver renewable resources to market.

Western moved forward diligently to establish our Transmission Infrastructure Program (TIP) that implements this new borrowing authority. In less than nine months, we formalized our agreement to finance development and construction of the Montana-Alberta Tie Limited Transmission Project, or MATL, the first project financed with our new authority.

MATL is a 230-kilovolt, 214-mile transmission line that will run from a substation near Great Falls, Montana, to one near Lethbridge, Alberta, and allow energy flow in both directions. Northern Montana and southern Alberta are home to some of the best wind energy sources in North America. The MATL line will enable the development of new wind-energy projects by

[1] *Use of Frequency Response Metrics to Assess the Planning and Operating Requirements for Reliable Integration of Variable Renewable Generation*, Lawrence Berkeley National Laboratory, December 2010

linking this renewable and emission-free source of power to consumers across North America. Construction is now underway, and we expect the line to be in service by January 2012.

With MATL and other TIP projects under consideration, we strive to maintain flexibility in our approach as we use our borrowing authority to maximize use of the authority while keeping costs at a minimum. Three models—financier, customer partnership and public-private partnership—allow us to select the right tool for the job.

The concept of "beneficiary pays" remains a cornerstone of our Transmission Infrastructure Program. Each project funded under this authority will 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 and protects existing projects and customers. This fits well with our existing business practices and principles, so we are able to use our normal business systems and tools, as appropriate, to track and report cost and performance information.

Western's Budget request

We can't do any of this without resources, including Congress's support and the support of our customers. We plan to continue using collections from the sale of power and transmission to offset the appropriation for our annual expenses, keeping our net appropriations down and providing greater planning certainty for the annual expense portion of our program. Our FY 2012 Construction, Rehabilitation, Operation and Maintenance (CROM) Appropriation Account request totals $863 million, of which only $96 million (11 percent) would be funded by appropriations. This appropriation request of $96 million is down $13 million from FY 2010.

Much of Western's 17,000 miles of integrated high-voltage transmission infrastructure was constructed in the 1950s and 60s, with an anticipated useful lifespan of 50 years. The $96 million of appropriations requested will fund high priority capital rehabilitation and maintenance replacements and improvements across our 15-state service area. In addition, we are working with our customers to obtain $93 million in customer funding to keep the power system properly maintained and to address additional high priority capital rehabilitation needs in FY 2012. It's important to note that we can't use our new borrowing authority to replace or upgrade our existing transmission facilities unless it facilitates delivery of power from new renewable generation sources.

Purchase Power and Wheeling is another large component of our annual budget that does not require any appropriations. FY 2012 expenses for Purchase Power and Wheeling are estimated at $472 million. The program is down slightly from the prior year reflecting improving hydro conditions in the Pick-Sloan Missouri Basin after many years of drought.

As we look to the future

I'm proud of the role Western is playing to provide clean, renewable power to the West at the lowest possible cost, and I'm excited about the progress we've made in enhancing our transmission system to meet our customers' needs and to begin to realize the promise of renewable energy. Working together with our customers, we repay our expenses with interest, ensuring that the beneficiary pays and keeping costs down through sound business and project management practices to be good stewards of the public's resources.

We appreciate your continued support and confidence, and together with the support of the Administration, our customers and industry partners, we will continue to move as quickly as

possible to do our part for economic recovery and energy independence as we build the electrical grid of tomorrow while continuing to fulfill our core mission.

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