COMMENTS OF BASIN ELECTRIC POWER COOPERATIVE ON THE WESTERN AREA POWER ADMINISTRATION'S TRANSMISSION INFRASTRUCTURE PROGRAM

Basin Electric Power Cooperative ("Basin Electric") hereby submits comments on the Western Area Power Administration's ("Western") Notice of Proposed Program ("Notice") concerning its Transmission Infrastructure Program. In general, Basin Electric supports Western's proposal, including the principle espoused by Timothy J. Meeks, the Administrator of Western, that the costs of the Transmission Infrastructure Program should be borne by those who use the facilities. Western should modify the Program to ensure that the projects initiated pursuant to the Transmission Infrastructure Program are subject to adequate transmission planning and that the operational and cost impacts of the projects do not adversely affect Western's firm power customers or Western's existing transmission customers. Western also should extend the deadline for the submission of proposals in response to its Notice of Availability of Request for Interest in participating in new transmission projects until after it issues its final guidelines under the Transmission Infrastructure Program.

I. BASIN ELECTRIC HAS A DIRECT INTEREST IN THE TRANSMISSION INFRASTRUCTURE PROGRAM.

Basin Electric is a consumer-owned rural electric cooperative headquartered in Bismarck, North Dakota. Basin Electric owns and maintains approximately 1,900 line

miles of electric transmission facilities that are operated at voltages from 115 kV to 345 kV. Basin Electric operates electric generating power plants with a total capacity of more than 3,500 megawatts providing supplemental wholesale power to 125 rural electric member systems in Colorado, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, South Dakota and Wyoming, as well as to non-member customers. The member systems serve approximately 2.6 million customers in the Eastern Interconnection and the Western Interconnection. Basin Electric has outstanding debt with the U.S. Department of Agriculture's Rural Utilities Service ("RUS").

Basin Electric's transmission facilities are directly interconnected with the transmission facilities of Western. Western administers an Open Access Transmission Tariff that provides for service over the "Integrated System," which consists of transmission facilities of Western, Basin Electric and Heartland Consumers Power District that are located in Western's Upper Great Plains Region. Basin Electric's transmission facilities in the Western Interconnection also are directly connected to Western's transmission facilities that are included in the Loveland Area Projects' Open Access Transmission Tariff.

Basin Electric has a direct interest in Western's Transmission Infrastructure Program. The construction of transmission infrastructure in the regions where Basin Electric's transmission facilities are interconnected with those of Western will have an impact on loadings on Basin Electric's transmission system. Also, it is possible that the

cost of constructing the transmission infrastructure may affect the cost of transmission service to Basin Electric's native load customers.

II. BASIN ELECTRIC SUPPORTS THE GOALS OF THE TRANSMISSION INFRASTRUCTURE PROGRAM.

Basin Electric supports the construction of transmission facilities that will facilitate the delivery of clean electric energy. The nation's transmission system is not adequate to deliver the energy from clean energy generating resources to loads. Therefore, the nation's ability to utilize renewable energy is dependent on the construction of a transmission grid that connects renewable energy sources with the load centers where the energy is used.

III. THE TRANSMISSION INFRASTRUCTURE PROGRAM SHOULD NOT ADVERSELY AFFECT EXISTING RIGHTS AND RESPONSIBILITIES.

A. THE PROGRAM SHOULD NOT ADVERSELY AFFECT TRANSMISSION RELIABILITY OR OPERATIONS ON THE EXISTING TRANSMISSION SYSTEM.

Basin Electric urges Western to give strong emphasis to the criterion, stated in Section IV.B.3 of the Notice, that projects submitted in response to the Transmission Infrastructure Program should not adversely affect system reliability. The construction of substantial new transmission facilities is likely to have a significant impact on the existing transmission system. While in many cases the construction of new transmission lines may reduce loadings on existing transmission facilities, it is by no means certain that this will occur. This is especially true when a new facility experiences an outage. Also, as significant new generation capacity is connected to the transmission grid in order to take advantage of the new transmission infrastructure,

flows on both new and existing transmission lines will change. It is critical that Western ensure that the transmission projects that are constructed pursuant to the Transmission Infrastructure Program do not adversely affect system reliability. Western should carefully evaluate the impact of new transmission facilities and increased power flows on transmission loadings, transient stability performance, voltage control and sub-synchronous resonance.

Western also should add to Section IV.B. of the Transmission Infrastructure Program a criterion that new transmission projects and the dispatch of generating resources that are interconnected to those projects do not adversely affect the rights of customers on the existing transmission system, including the ability of existing network customers to fully utilize the capacity of their network resources to serve their network loads. It would be unfair to existing transmission customers if the Transmission Infrastructure Program were to create additional transfer capability on new transmission lines at the expense of the existing customers. Therefore, the calculation and allocation of transmission capacity in connection with the Transmission Infrastructure Program should preserve all existing contract path rights to transmission capacity under system intact and outage configurations. Also, the dispatch of generation that is interconnected to the new transmission facilities should not adversely affect the dispatch of generation resources pursuant to existing transmission rights. When the new transmission facilities are out of service, customers on those facilities should either adjust the dispatch of their generation accordingly or purchase transmission capacity on the existing system.

The preservation of contract rights to existing transmission capacity is particularly important with respect to constrained interfaces. For instance, the Transmission Infrastructure Program should not adversely affect the rights of the transmission providers in the region to the Total Transfer Capability on the transmission facilities that comprise the North Dakota Export flowgate ("NDEX") under normal operation or system outage conditions.

Western also should ensure that the new facilities do not increase transmission losses on the existing transmission system. If increased losses cannot be avoided, the customers who purchase the incremental capacity on the new transmission facilities should compensate existing transmission customers for their increased losses.

B. THE PROGRAM SHOULD NOT RESULT IN OTHER ADVERSE AFFECTS.

Western also should add to Section IV.B of the Transmission Infrastructure Program a criterion that projects should not adversely affect other existing rights and responsibilities. Three considerations are particularly important. First, Western should ensure that the projects that are constructed do not adversely affect either the rates for transmission service on Western's existing transmission facilities or the rates or service to Western's existing firm power customers. This criterion is consistent with the statement in Section V.B.1 of the proposed Program that projects to be constructed pursuant to the Program will be considered separately from the procedures and requirements for arranging for transmission service under Western's Open Access Transmission Tariff or interconnection agreements.

Second, customers who use the new facilities should be fully responsible for any ancillary services that are required in conjunction with that transmission service. Western's generating facilities currently are operating at near full capacity. Western should not be required to divert its generating capacity from the generation of energy to the provision of ancillary services. Instead, customers who purchase transmission service on the new facilities should acquire their own ancillary services.

Third, landowners' rights should be preserved, and they should be adequately compensated for any rights-of-way that they provide for the transmission projects. Third party transmission owners should not be permitted to utilize a minority interest of Western in a transmission project as a basis for exercising Western's right of eminent domain with respect to new transmission rights-of-way.

C. WESTERN CAN BEST ACHIEVE THESE OBJECTIVES THROUGH A COMPREHENSIVE, TRANSPARENT SELECTION PROCESS.

Western can best achieve the objectives of the Transmission Infrastructure Program by adopting additional evaluation criteria that ensure that it will utilize a comprehensive and transparent process for the selection of transmission projects. Consequently, it should modify Section IV.C.1 of the proposed Program to specify the other evaluation factors it will use, rather than proceeding in an *ad hoc* fashion. One of the key criteria that Western should add is a requirement that proposed projects be subject to regional reliability planning. Proponents of proposed projects in the Upper Great Plains Region should be required to participate in the MAPP Transmission Planning Subcommittee process, and projects should be subject to the approval of the

MAPP Design Review Committee. Project sponsors also should be required to make modifications to the projects and to the existing transmission system that are necessary to mitigate any negative impacts on the reliability and operation of the existing transmission system, including increased transmission losses.

In addition to a planning criterion, Western should adopt the following criteria for the evaluation of potential projects:

- The ability of the project to provide transmission from viable clean energy sources to significant load centers;
- The impact of the project on system reliability, operations and rates;
- The overall costs to consumers;
- The need for additional rights-of-way;
- The rights of existing transmission owners to own the facilities within their transmission footprints;
- The extent to which the project makes use of existing, successful partnerships and relationships;
- The extent to which the project provides for staged development in response to increased demand for renewable resources and the construction of additional renewable generation over time; and
- Input from a stakeholder process, with final decisions made by Western's Administrator.

Finally, Western should include in the Transmission Infrastructure Program a statement that the selection process will be transparent. Project proponents should be

able to review and understand the basis for Western's selection of projects so that they can better adapt their projects to Western's needs.

IV. THE COSTS OF THE TRANSMISSION INFRASTRUCTURE PROGRAM SHOULD BE BORNE BY THE CUSTOMERS WHO PURCHASE THE ENERGY.

Decisions as to the allocation of the cost of the Transmission Infrastructure Program are a critical part of the program. Basin Electric supports the position taken by Western's Administrator Timothy J. Meeks in testimony on March 10, 2009 before the House of Representatives Committee on Natural Resources, Water and Power. Mr. Meeks established two critical principles with respect to cost allocation for the Transmission Infrastructure Program. First, he stated that "Any projects constructed using this authority will be considered separately from procedures and requirements for arranging for transmission service or interconnection under Western's existing open access transmission tariff." Second, he stated that the costs of the transmission projects "will be paid by those who use the facilities."[1] Western should modify the statement in Section V.B of the proposed Transmission Infrastructure Program that projects will be considered separately from existing procedures and requirements to also include Mr. Meeks' testimony that the costs of the new transmission facilities will be paid for by the transmission customers who utilize the facilities.

The issue of cost allocation is extremely important to customers of transmission providers such as Basin Electric, which owns transmission facilities in regions that have

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[1] Testimony of Timothy J. Meeks, 2009 WL 609176 (F.D.C.H.) (March 10, 2009).

significant renewable energy potential but has a relatively small customer base. Due to the low density of customers on its transmission system, Basin Electric's unit transmission costs are already more than 300% higher than the costs of transmission on systems in the Midwest ISO that are more densely populated.[2] Basin Electric's transmission customers also will not be the principal purchasers of the renewable energy. Instead, the principal purchasers of the renewable energy will be customers in population centers that are hundreds or even thousands of miles distant from the generators, and whose transmission costs are much lower than the transmission costs paid by Basin Electric's customers. Basin Electric's customers will obtain no benefit from the transmission lines that carry the renewable energy from the generators to the load centers. Consequently, it would not be equitable to charge them for the cost of these transmission lines and drive up the cost of transmission service for those customers above its already-high level.

In making determinations on cost allocation, Western should not adopt the approach of those who oppose "pancaked" transmission rates. Pancaked rates are rates that are charged separately by each transmission provider on the path between a generator and the load that the generator serves. The FERC has encouraged transmission providers to eliminate the pancaking of transmission rates because multiple transmission charges serve as an economic disincentive to the transmission of

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[2] The lowest rates in MISO are Indianapolis Power & Light ($525/MW month), Columbia MO ($725/MW month), Ameren Missouri ($725/MW month) and Ameren Illinois ($875/MW Month). In contrast, the rate for transmission service on the Western/Basin Electric/Heartland Integrated System is $2,970/MW Month.

energy over long distances. Of course, since transmission providers must recover their costs from their on-system customers to the extent they do not recover them from pancaked transmission charges, the elimination of pancaked rates results in more of the costs of the transmission system being borne by the customers on the system where the transmission facilities are located. If the costs of the Transmission Infrastructure Program are allocated to the customers who use the Program facilities to obtain renewable energy, but those customers are exempted from paying for the pancaked costs of transmission on existing systems that are on the contract path between the generator and the load, the costs to customers on systems such as Basin Electric's system would increase as an indirect result of the Transmission Infrastructure Project. It is no more reasonable to raise the costs of transmission service for customers where the renewable generation is located by the indirect means of eliminating pancaking than it is to raise those customers' costs directly by allocating a portion of the Project costs to them.

V. WESTERN SHOULD EXTEND THE DEADLINE FOR SUBMITTING STATEMENTS OF INTEREST IN PARTICIPATING IN NEW TRANSMISSION PROJECTS UNTIL AFTER IT HAS ADOPTED A FINAL TRANSMISSION INFRASTRUCTURE PROGRAM.

While Basin Electric commends Western for its initiative in requesting comments on its proposed Transmission Infrastructure Program, Basin Electric is concerned that Western may be moving somewhat too quickly. Western's Notice of Availability of Request for Interest ("RFI") requests entities to propose constructing, financing, owning, operating or maintaining transmission projects in Western's service area by April 3,

2009 – the same date on which comments on the Notice of the Proposed Transmission Infrastructure Program are due. It is premature to propose specific projects in response to the RFI until the parameters on which the projects will be evaluated are finalized. If Western proceeds with the RFI without first finalizing the details of the Transmission Infrastructure Program, the proposals it receives will not address all of the criteria that ultimately are included in the Transmission Infrastructure Program. At best, the premature responses to the RFI will result in a delay in the process while proposals are re-tooled to meet the criteria of the Program. At worst, the premature submission of projects in response to the RFI will result in less-than-optimal proposals that fail to provide transmission service as efficiently and economically as would be the case if the projects are submitted after the Program is finalized. Therefore, Basin recommends that Western extend the date for submission of proposals in response to the RFI until the Transmission Infrastructure Program is finalized.

VI. CONCLUSION

Western's proposed Transmission Infrastructure Program is a critically important aspect of the United States' increased reliance on renewable energy. Western should modify the proposed Transmission Infrastructure Program to ensure that it enhances the country's ability to use renewable energy without adversely affecting the reliability or availability of transmission service on the existing transmission system. It also should adopt cost allocation principles that ensure that the cost of the Infrastructure Program, including the cost of upgrading the existing grid to accommodate the interconnection of the Infrastructure Program projects, is borne by the customers who purchase the energy

that is delivered over the new transmission facilities. Finally, Western should extend the deadline for the submission of Statements of Interest in response to its RFO until after it publishes the final version of the Transmission Infrastructure Program.

Respectfully Submitted,

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