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4 HEARING ON THE AMERICAN ENERGY INITIATIVE: ELECTRIC
5 TRANSMISSION ISSUES, INCLUDING TOPICS RELATED TO THE SITING,
6 PLANNING AND ALLOCATION OF COSTS FOR ELECTRICITY TRANSMISSION
7 INFRASTRUCTURE
8 THURSDAY, OCTOBER 13, 2011
9 House of Representatives,
10 Subcommittee on Energy and Power
11 Committee on Energy and Commerce
12 Washington, D.C.

13 The Subcommittee met, pursuant to call, at 9:38 a.m., in
14 Room 2322 of the Rayburn House Office Building, Hon. Ed
15 Whitfield [Chairman of the Subcommittee] presiding.

16 Members present: Representatives Whitfield, Shimkus,
17 Walden, Terry, Burgess, Bilbray, McMorris Rodgers, McKinley,
18 Gardner, Pompeo, Griffith, Barton, Rush, Dingell, Engel,

19 Green, Matsui and Waxman (ex officio).

20 Staff present: Charlotte Baker, Press Secretary; Ray
21 Baum, Senior Policy Advisor/Director of Coalitions; Anita
22 Bradley, Senior Policy Advisor to Chairman Emeritus; Allison
23 Busbee, Legislative Clerk; Patrick Currier, Counsel, Energy
24 and Power; Andy Duberstein, Deputy Press Secretary; Cory
25 Hicks, Policy Coordinator, Energy and Power; Dave McCarthy,
26 Chief Counsel, Environment and Economy; Jeff Baran,
27 Democratic Senior Counsel; and Caitlin Haberman, Democratic
28 Policy Analyst.

|
29 Mr. {Whitfield.} Good morning, and I want to call this
30 hearing to order.

31 Today we will focus on federal transmission issues,
32 including permitting, planning and pricing of electricity
33 transmission infrastructure.

34 Additional investments in transmission infrastructure
35 certainly will help our country meet anticipated future
36 energy needs. But there are hurdles, particularly for wires
37 that cross State lines and require agreement of multiple
38 stakeholders.

39 Two recent transmission-related developments will help
40 us evaluate the challenges facing the buildup of transmission
41 infrastructure in this country. First, the Department of
42 Energy recently considered whether to designate to the
43 Federal Energy Regulatory Commission certain authorities
44 granted to DOE by Congress in the Energy Policy Act of 2005.
45 The proposal would have delegated to FERC DOE's authority to
46 designate certain areas as National Interest Corridors. FERC
47 already has backstop siting authority to site transmission
48 facilities within those corridors, so the delegation would
49 have placed all of the National Interest Corridor authority
50 under FERC's jurisdiction. Secretary Chu's decision this
51 week to not delegate this authority to FERC is quite timely

52 because I noticed in my comments here, he had not made that
53 decision yet when they wrote this. So I have to change my
54 views.

55 The other transmission issue before us today is FERC's
56 recently finalized Order 1000, which outlines changes to
57 regional transmission planning and cost allocation. Although
58 many of the implications of Order 1000 cannot be fully known
59 or appreciated until compliance filings are made with FERC
60 next year, it is important to evaluate the potential impact
61 this final rule may have on stakeholders. Order 1000 seeks
62 to provide flexibility to regions with respect to how regions
63 should plan and pay for new transmission. There are a number
64 of issues. For example, my home State of Kentucky, we do not
65 have a renewable portfolio standard and I have some counties
66 in my district that are in a regional transmission
67 organization and others are not, so those counties could
68 conceivably get stuck paying the bill for renewable energy
69 transmission from States that do have a renewable portfolio
70 standard without any direct benefit.

71 So we have a great panel of witnesses this morning. We
72 have a lot of diverse views, as a matter of fact, on this
73 issue, but I certainly want to thank our first panel for
74 being here today, the Hon. Jon Wellinohoff, who is chairman
75 of the Federal Energy Regulatory Commission, and Ms. Lauren

76 Azar, Senior Advisory, Office of the Secretary, U.S.
77 Department of Energy. So we look forward to your testimony
78 as well as testimony of all of our witnesses as we set out to
79 explore this important issue and how it is going to work as
80 we move forward and what the impact is going to be and a lot
81 of different stakeholder interest.

82 [The prepared statement of Mr. Whitfield follows:]

83 ***** COMMITTEE INSERT *****

|
84 Mr. {Whitfield.} With that, Mr. Rush, I recognize you
85 for your opening statement.

86 Mr. {Rush.} I want to thank you, Mr. Chairman, and I
87 want to also thank Chairman Wellinghoff and Ms. Azar as well
88 as the other expert witnesses on the second panel for
89 appearing before this subcommittee today.

90 Mr. Chairman, today we are holding a hearing focusing on
91 federal transmission issues as they relate to siting,
92 planning and cost allocation for electricity transmission
93 infrastructure. The basis of this hearing is FERC Order
94 1000, which was finalized in June 2011, which addresses three
95 main issues: planning, cost allocation and the federal right
96 of first refusal for incumbent transmission provides. Order
97 1000 establishes three new requirements regarding cost
98 allocation. First, it requires that each regional
99 transmission planning process establish a regional cost
100 allocation method for transmission lines selected in the
101 regional transmission planning for the purposes of cost
102 allocation. This cost allocation method must satisfy six
103 principles: those who do not benefit from a transmission
104 project do not have to pay for it. That is the first
105 principle. The second principle is the cost allocation must
106 be at least, and I quote, ``roughly commensurate'' with

107 estimated benefits. The third cost allocation method is the
108 benefit-to-cost thresholds must not exclude projects with
109 significant net benefits. Fourthly, allocations of cost
110 outside a region are not permitted unless the other regions
111 agree. The fifth measure is the cost allocation methods and
112 identification of beneficiaries must be transparent. And
113 lastly, number six, different allocation methods can apply to
114 different types of transmission facilities.

115 The second requirement is that neighboring regions must
116 select a common interregional cost allocation method for new
117 interregional transmission lines based on the same six
118 principles that I have previously outlined.

119 The third and final requirement allows for participant
120 funding of new transmission lines where costs of a new
121 transmission line are allocated only to entities that
122 volunteer to bear those costs but under Order 1000 this
123 cannot be the regional or interregional cost allocation
124 method.

125 Mr. Chairman, many of the issues covered under Order
126 1000 are very technical in nature, to say the least, but I
127 applaud you for holding this hearing and understanding all
128 these technicalities. So we are going to hear directly from
129 many of the stakeholders who have been charged with
130 implementing and who would be most impacted by these

131 proposals. Many of these issues surrounding federal
132 electricity transmission break down by region rather than by
133 party. I look forward to the question-and-answer segment to
134 learn more about how Order 1000 will affect my State, the
135 State of Illinois, specifically, as well as the Midwest
136 region in general. So I am very eager to hear testimony from
137 Chairman Wellinghoff as well as the other witnesses, and I
138 look forward to a very informative, inspirational, education
139 and robust discussion on these very important issues, Mr.
140 Chairman. It is so good to be back in a hearing with you
141 once again.

142 With that, I yield back the balance of my time.

143 [The prepared statement of Mr. Rush follows:]

144 ***** COMMITTEE INSERT *****

|
145 Mr. {Whitfield.} Thank you, Mr. Rush. Mr. Rush always
146 complains we don't have enough hearings.

147 At this time I would like to recognize the chairman
148 emeritus of the full committee, Mr. Barton of Texas, for 5
149 minutes.

150 Mr. {Barton.} Thank you, Mr. Chairman.

151 It is very understandable that you may not have heard
152 the decision that Secretary Chu made since you have been
153 doing such good work on the Floor the last several weeks on
154 so many issues. It is understandable that you might not have
155 heard that he made the decision to keep the siting authority
156 at the Department of Energy. We want you to keep doing the
157 good work and we will send you notes as developments occur on
158 these other issues.

159 Let me say on the siting issue that I think the
160 Secretary made the right decision. While I think it is
161 reasonable for FERC to get the authority given the fact that
162 since the court case in Virginia several years ago the
163 Department of Energy has not exercised its authority that we
164 gave them in the Energy Policy Act of 2005. There was a
165 reason that we had a split responsibility, and I was the
166 chairman of the conference committee and we thought about it
167 quite a bit. We wanted the Department of Energy as an

168 independent agency to make a transparent decision that a
169 certain corridor needed to have new transmission and then we
170 wanted the FERC once that designation was made to be
171 responsible for working with the stakeholders and to develop
172 the actual permitting process and the specific siting
173 process. We thought it was best to have two different groups
174 do each part of the process. Since the court decision, the
175 Department of Energy has not really tried to designate any
176 new corridors, and I would encourage you, Madam Senior
177 Advisor, to work with the Secretary and the others in the
178 department. If you need additional legislation language, I
179 am sure we can do that on a bipartisan basis. But I think
180 the system and the current law will work if we start to try
181 to make it to work.

182 The one thing that I did question about the request or
183 the delegation is, I think it is Congress's role to make
184 those decisions and I don't think the Executive Branch can
185 just delegate the explicit authority given to it under law.

186 With regard to FERC Order 1000, as Mr. Rush indicated,
187 that is a fairly complicated piece of work. As a past
188 chairman of this subcommittee and also of the full committee,
189 I have been involved for over 20 years with these issues and
190 I can tell you folks here in the audience that it is no
191 surprise it is very complicated. My main problem with FERC

192 Order 1000 is that it appears that under certain conditions
193 an entity could be forced to pay for something that they
194 don't want to participate in, don't receive a benefit from
195 and yet they can still be forced to pay. I think that is a
196 problem and I think it needs to be looked at.

197 Overall, though, I think FERC Order 1000 is a noble
198 attempt to try to bring some order out of what has been a
199 somewhat chaotic system with all the various RTOs and MSIOs
200 and independent marketers and still some parts they are in
201 regulated markets. It is a miracle that anything ever gets
202 sited and anything ever gets done.

203 So Mr. Chairman, it is good for you and Mr. Rush to be
204 continuing these hearings. Hopefully we will shed some light
205 on the issue.

206 With that, I want to yield to Mr. Terry. I think he has
207 got a unanimous consent request.

208 [The prepared statement of Mr. Barton follows:]

209 ***** COMMITTEE INSERT *****

|
210 Mr. {Terry.} Thank you, Mr. Chairman Emeritus. I do
211 ask unanimous consent that I may submit for the record the
212 APPA letter report.

213 Mr. {Whitfield.} Without objection.

214 Mr. {Terry.} Thank you. Yield.

215 [The information follows:]

216 ***** COMMITTEE INSERT *****

|
217 Mr. {Barton.} And I would yield to Mr. Shimkus for my
218 final minute.

219 Mr. {Shimkus.} And just to welcome the first panel and
220 concur with Mr. Barton's analysis. I served on the
221 conference committee also in 2005. I know what our intent
222 was. I know what the courts have ruled, which is against the
223 intent of Congress, for expedited siting. Even if you
224 believe in the new green world, you need new transmission and
225 we need to be able to get across State lines. So I think
226 there will be a lot of folks in support of that.

227 Chairman Wellinghoff, good to see you again. I still
228 have concerns with reliability if you want most of the coal
229 plants in this country to be decommissioned. I also have
230 concerns, as you know, on the projection on the gigawatts,
231 yours versus the EPA, as we discussed last time, and the
232 transmission is another big key to this. If we want
233 reliability, we have to have transmission, so hopefully we
234 will be allies on this, and I yield back my time.

235 [The prepared statement of Mr. Shimkus follows:]

236 ***** COMMITTEE INSERT *****

|

237 Mr. {Whitfield.} The gentleman yields back his time.

238 I would also ask unanimous consent to enter into the

239 record the statement of the National Rural Electric

240 Cooperative Association. Without objection.

241 [The information follows:]

242 ***** COMMITTEE INSERT *****

|
243 Mr. {Whitfield.} At this time I would like to recognize
244 the ranking member of the full Energy and Commerce Committee,
245 Mr. Waxman of California.

246 Mr. {Waxman.} Thank you, Mr. Chairman, not only for
247 recognizing me but for working with us on today's hearing on
248 electric transmission.

249 This is a vital issue. One reason it is so important is
250 the relationship between transmission and renewable energy.
251 Renewable energy is one of the cornerstones of a clean energy
252 economy. Over the next decade, the global clean energy
253 market is going to be worth \$2.3 trillion and we cannot
254 afford to surrender this market to China or other countries
255 with aggressive clean energy policies.

256 But to compete effectively, we will need to increase
257 dramatically the amount of energy generated from renewable
258 sources. The good news is that our Nation has tremendous
259 renewable resources. There are excellent wind resources in
260 the middle of the country and substantial solar resources,
261 particularly in the southwest. In fact, every region of the
262 country has renewable resources that can be tapped to expand
263 renewable energy generation and reduce carbon pollution.

264 The challenge is that some of the best renewable
265 resources are often located in remote areas, far from the

266 cities and population centers that need clean electricity.
267 And that brings us to the issue of transmission. We are not
268 going to achieve our job creation and pollution reduction
269 goals without new transmission to connect our renewable
270 resources to the electric grid. There is no question that
271 transmission is not the only solution. Energy efficiency and
272 other methods of reducing electricity demand will play a
273 crucial role.

274 Distributed clean energy generation is important, but I
275 don't think anyone seriously questions the need for some new
276 transmission lines if we are going to dramatically expand our
277 use of renewable energy.

278 In approaching this issue, we need to preserve a strong
279 role for local and State interests and expertise but we also
280 need to ensure that important interstate transmission lines
281 aren't blocked for purely parochial reasons.

282 This is a tough issue. It is an issue that has been the
283 subject of spirited debate during the past several years.
284 The Federal Energy Regulatory Commission recently tackled two
285 key aspects of this issue in its Order 1000. FERC staff
286 submitted a separate proposal to the Department of Energy
287 related to FERC's authority to site certain transmission
288 lines when States fail to do so. This is commonly referred
289 to as federal backstop siting authority. Right now, the

290 Department of Energy conducts studies of transmission
291 congestion and then designates National Interest Electric
292 Transmission Corridors. Within those corridors, FERC has
293 authority to site lines if the State permitting agency fails
294 to act on a permitting application for one year.

295 I opposed this provision in 2005 and I think the last 6
296 years have demonstrated that it was the wrong approach. It
297 focused exclusively on congestion rather than on other
298 important factors like reliability and expanding renewable
299 generation. It was structured in a way that interfered with
300 the traditional authorities of State permitting agencies.
301 There was no link to regional planning, and the federal
302 backstop siting authority even applied to transmission that
303 didn't cross state lines. Under the prior Administration,
304 DOE also abused the process by designating massive corridors
305 that included whole States.

306 FERC staff proposed that Secretary Chu delegate DOE's
307 authorities to FERC so that FERC could breathe new life into
308 this flawed provision. Yesterday, Secretary Chu decided not
309 to delegate DOE's authority as FERC proposed. I think that
310 was the right decision. However, Secretary Chu and Chairman
311 Wellinghoff also announced that they will work together to
312 improve implementation of this provision. Today's hearing is
313 a good opportunity for the committee to better understand the

314 details of how this new approach would work.

315 A broad range of views is represented on both of today's
316 panels and I look forward to the perspectives of our
317 witnesses on FERC's efforts to improve transmission planning
318 and lower cost allocation barriers to building new
319 transmission.

320 Thank you, Mr. Chairman, and yield back the balance of
321 my time.

322 [The prepared statement of Mr. Waxman follows:]

323 ***** COMMITTEE INSERT *****

|
324 Mr. {Whitfield.} Thank you, Mr. Waxman.

325 We have with us today Hon. Jon Wellinghoff, who is
326 Chairman of the Federal Energy Regulatory Commission, and as
327 I also stated, Ms. Lauren Azar, who is the Senior Advisor,
328 Office of the Secretary at the Department of Energy. Welcome
329 to both of you. We look forward to your expert testimony,
330 and Mr. Wellinghoff, I will recognize you for your 5-minute
331 opening statement.

|
332 ^STATEMENTS OF HON. JON WELLINGHOFF, CHAIRMAN, FEDERAL ENERGY
333 REGULATORY COMMISSION; AND LAUREN AZAR, SENIOR ADVISOR,
334 OFFICE OF THE SECRETARY, U.S. DEPARTMENT OF ENERGY

|
335 ^STATEMENT OF JON WELLINGHOFF

336 } Mr. {Wellinghoff.} Thank you, Mr. Chairman and Ranking
337 Member Rush and members of the committee. Thank you for
338 having me here today. My name is Jon Wellinghoff and I am
339 the Chairman of the Federal Energy Regulatory Commission.

340 The development of an efficient electric transmission
341 system benefits consumers by reducing barriers to trade with
342 and among regions, thereby enhancing competition in wholesale
343 electric markets. With this goal in mind and recognizing
344 that significant transmission investment is likely to be made
345 in the foreseeable future, the commission recently issued
346 Order 1000. Order 1000 revisits the commission's
347 transmission planning and cost allocation requirements to
348 ensure that they are adequate to support more efficient and
349 cost-effective transmission investment decisions moving
350 forward. Through these changes, Order 1000 will foster
351 competitive markets to benefit consumers, strengthen our
352 national security and help revitalize our economy.

353 I would like to highlight three major points about Order
354 No. 1000. First, Order No. 1000 emphasizes regional
355 flexibility and regional action. Within a general framework,
356 each transmission planning region determines its own
357 transmission needs by building upon an open and transparent
358 process that is already in place and each region will propose
359 cost allocation methods. Order No. 1000 does not establish
360 preset regional boundaries not does it prescribe how those
361 regions plan their systems. Nothing in Order 1000 requires
362 either interconnect-wide plan or interconnect-wide cost
363 allocation. Second, Order 1000 states that those who do not
364 benefit from new transmission facilities should not pay.
365 Third, Order 1000 is about establishing effective processes
366 for transmission planning and cost allocation, not about
367 requiring specific outcomes of those processes. Order 1000
368 does not favor renewable energy resources nor would such a
369 preference be consistent with the Federal Power Act or the
370 commission's open access transmission policy. Order 1000
371 does not require or subsidize the use of green energy.

372 Order 1000 also recognizes the States' vital role in
373 protecting consumers. Order 1000 recognizes the unique
374 perspective that States can provide in regional transmission
375 planning processes. Nothing in Order 1000 is intended to
376 preempt or otherwise affect State laws or regulations with

377 respect to construction of transmission facilities.

378 Through the reforms adopted in Order 1000, the
379 commission seeks to ensure that the Nation's electric grid is
380 prepared to meet the challenges and realize the opportunities
381 of the 21st century. Order 1000 will reduce the
382 inefficiencies that exist today in today's transmission
383 planning processes and the uncertainty created by the lack of
384 clear cost allocation methods for regional and interregional
385 transmission facilities. Effective regional transmission
386 planning and interregional transmission coordination along
387 with cost allocation reforms as required by Order 1000 will
388 help improve reliability, reduce congestion, increase the
389 deliverability of existing power supplies, allow new domestic
390 power supplies to be developed, and help ensure that
391 consumers have greater access to efficient lower-cost
392 electricity at just and reasonable rates.

393 Thank you, Mr. Chairman.

394 [The prepared statement of Mr. Wellinghoff follows:]

395 ***** INSERT 1 *****

|
396 Mr. {Whitfield.} Thank you, Chairman Wellinghoff.

397 Ms. Azar, you are recognized for 5 minutes.

|
398 ^STATEMENT OF LAUREN AZAR

399 } Ms. {Azar.} Thank you, Mr. Chairman and Ranking Member
400 Rush. It is a pleasure to testify before you on an issue of
401 utmost importance: upgrading our electric infrastructure.

402 Today, I start my fifth month as Senior Advisor to
403 Secretary Chu. The Secretary hired me primarily to
404 accomplish one task: build new electric infrastructure.
405 Transmission and storage are my focus. As an attorney
406 involved with permitting of new transmission lines and a
407 former commissioner at the Wisconsin Public Service
408 Commission, I come from the trenches.

409 Transmission is akin to mortar in a foundation. This
410 Nation requires a robust and resilient grid to connect its
411 building blocks. You need look no further than your own
412 briefcases to understand that our Nation's demand for
413 electricity is changing and doing so dramatically. How many
414 gadgets do you carry that require charging on a frequent
415 basis, and when did you start carrying them?

416 To propel this Nation forward in the global economy, we
417 must build a grid for the 21st century and we must build it
418 fast. Everyone knows the adage that Thomas Edison could
419 understand the mechanics of our current grid but what most

420 don't realize is that our grid can be visualized as a plate
421 balancing on top of a stick. When something is placed on one
422 side of the plate, a weight of an equal amount must be placed
423 on the other side to ensure stability. If too much
424 counterweight is placed, then the plate topples. The plate
425 is the grid; the weights and counterweights are generation
426 and the demand for electricity. The placement of those
427 weights and counterweights happens second by second. For
428 about the last 130 years, we built the infrastructure
429 necessary to ensure the plate doesn't topple. While I will
430 talk about the need for more transmission generally, and it
431 sounds like this committee agrees with that, this Nation also
432 needs to develop a new type of grid, one that can't be
433 described by plates, sticks and weights.

434 While my written testimony discusses some of the
435 barriers to building more transmission, I would like to focus
436 my comments on three things the DOE is currently doing to
437 remove those barriers.

438 First, the power marketing administrations. The
439 department's PMAs are at the forefront of our transmission
440 authorities. Bonneville Power, or BPA, owns more than 15,000
441 miles of transmission, and the Western Area Power Marketing
442 Administration, or WAPMA, owns 17,000. The Recovery Act
443 provided both PMAs with resources to, among other things,

444 build new transmission. Both are moving forward
445 expeditiously yet with due diligence to do just that.
446 Section 1222 of EPOA 2005 granted authority to Western and
447 Southwestern to partner with the private sector to construct
448 and upgrade transmission facilities in their service
449 territories. Both the borrowing authority and Section 1222
450 allow the Secretary through the PMAs to help build
451 transmission.

452 Secondly, the backstop siting has already been discussed
453 in the opening statements. Earlier this week, Secretary Chu
454 and Chairman Wellinghoff have announced they have agreed to
455 collaborate in their implementation of the federal backstop
456 siting law, which was also created in EPOA 2005. After
457 vetting a proposal that he delegate his authorities to FERC,
458 Secretary Chu declined to do so but is working with the
459 chairman to develop processes to make the law more
460 effectively. In addition to its collaboration with FERC, DOE
461 recognizes that it can administer its 216(a) powers faster,
462 better, with more transparency and more efficiently.
463 Consequently, among other things, DOE will be doing the
464 following: identify targeted areas of congestion based on
465 the evaluation of existing information and on comments
466 submitted by stakeholders; identify narrower congested areas
467 than the broad areas that had been previously studied and

468 solicit statements of interest from transmission developers
469 while considering what national corridors to designate.

470 Number three, the rapid response team for transmission.
471 Just last week, the Obama Administration announced it would
472 accelerate the evaluation of seven proposed transmission
473 applications. The RRTT leverages a nine-agency collaborative
474 that was established through a 2009 MOU. As an aside, that
475 MOU was yet another authority based on another authority
476 granted in EPCRA 2005, Section 216(h). The nine agencies of
477 the 2009 MOU have agreed to do the following and agree to the
478 pilot projects: ID all federal agencies with jurisdiction
479 over transmission, coordinate the calendars of those
480 agencies, establish milestones and target dates for permit
481 evaluation, dedicate staff, and this may be one of the most
482 important aspects of it, dedicate staff that is going to
483 evaluate the transmission permit applications, and that staff
484 is going to be trained in transmission issues such as
485 transmission technologies, transmission economics and how
486 transmission is developed and to create an online dashboard
487 that will document the status. These seven projects will
488 serve as demonstrations of the streamlined federal permitting
489 and increase cooperation.

490 In closing, as someone who is passionate about the need
491 to modernize our grid, I look forward to answering your

492 questions.

493 [The prepared statement of Ms. Azar follows:]

494 ***** INSERT 2 *****

|
495 Mr. {Whitfield.} Thank you very much, and we appreciate
496 your testimony. We actually didn't have an opportunity to
497 read your testimony because it came in pretty late last
498 night, but thank you for going through it with us this
499 morning.

500 Mr. Wellinghoff, would I be correct in saying that one
501 of the reasons for issuing Order 1000 was a result of the
502 Illinois decision in the 7th Circuit Court of Appeals? Was
503 that one of the reasons that you all decided to issue Order
504 1000 or was that just one of the many reasons?

505 Mr. {Wellinghoff.} Mr. Chairman, I don't believe that
506 court case was a reason for issuing Order 1000. Certainly,
507 Order 1000 talks about costs and benefits, and the 7th
508 Circuit case talks about costs and benefits as well, but I am
509 not sure it was a reason for issuing Order 1000.

510 Mr. {Whitfield.} Well, one of the reasons I bring that
511 up, I was reading in that decision, and the court made some
512 references about the lack of analysis on benefits and
513 reliability and so forth, and as I was reading some of the
514 comments of the witnesses that will be on other panels, they
515 were also talking about the lack of clarity in Order 1000 on
516 establishing benefits and calculating benefits, and I was
517 curious from your perspective, do you feel like it is valid

518 to criticize Order 1000 on the lack of clarity of the way you
519 determine benefits or do you feel like that is something that
520 you will address before it becomes final?

521 Mr. {Wellinghoff.} The order is final, although it is
522 subject to rehearing. We certainly will look at those
523 comments with respect to clarity but it is sort of the glass
524 half empty, the glass half full. Some people think there is
525 not enough clarity, other people think there is not enough
526 flexibility. What we wanted to try to do is preserve as much
527 flexibility as possible for the reasons to ultimately
528 determine what they believed were appropriate benefits in
529 their bucket of benefits for that particular region. So
530 Order 1000 was structured in a way to give the regions
531 maximum flexibility. There are some people who are asking
532 for more clarity, but if we give more clarity, that means
533 more direction from Washington, more oversight from
534 Washington and more specificity by us, and there is a lot of
535 people who would then push back the other way on that. So it
536 can go either way on that.

537 Mr. {Whitfield.} Right. You are just trying to reach a
538 fine balance, right?

539 Mr. {Wellinghoff.} Yes.

540 Mr. {Whitfield.} Would you describe how Order No. 1000
541 will impact utilities and stakeholders in traditionally

542 regulated regions such as the Northwest and Southeast as
543 opposed to organized wholesale markets?

544 Mr. {Wellinghoff.} Well, I think it will be similar in
545 the sense that both of those areas, those distinct areas,
546 will have to have regional planning authorities, and in fact,
547 they do. Even in the areas that do not have organized
548 markets--the West, Northwest, that you talked about,
549 Southeast as well--they do have now regional planning
550 authorities that could qualify under Order 1000 as part of
551 the Order 1000 process. So I don't see that there will be
552 specific large differences between the two. Both areas will
553 have to comply with the premise of Order 1000. However,
554 Order 1000 as I mentioned before has sufficient flexibility
555 so that those regions can tailor their regional activities to
556 fit their regional needs.

557 Mr. {Whitfield.} Ms. Azar, you have been over there, I
558 think you said 5 months maybe. Is that right?

559 Ms. {Azar.} Just completing four.

560 Mr. {Whitfield.} When we talk about transmission needs
561 of the country, there certainly are a lot of different
562 studies about that, and what analysis have you seen since you
563 have been at the Department of Energy that would reflect
564 exactly how many transmission lines do we need, how many new
565 ones do we need and what is the condition of the transmission

566 infrastructure in the country in general, would you say? You
567 know, we hear some criticism that it is an old system, it is
568 outdated. What is your analysis just from your professional
569 experience in that area about where do we really stand today
570 on transmission needs in America?

571 Ms. {Azar.} There are a variety of needs, and, you
572 know, I don't rely on any one specific analysis because what
573 I can tell you is, any specific analysis is based on
574 assumptions that are guesses for what the future looks like,
575 and we know it is going to be wrong, right? But we need to
576 figure out a way in which to build the infrastructure that is
577 going to work in the most of our guesses with what the future
578 looks like, the most robust, the most resilient and the most
579 flexible.

580 Our needs are great, not just to build transmission
581 itself to convey the electrons but we need a lot of different
582 kinds of technologies for the grid to make it more resilient
583 against things like what happened in San Diego, and I don't
584 like to be an alarmist but what happened in San Diego with
585 regards to the blackout in Arizona, California and New Mexico
586 should never have happened. That was--you know, we plan the
587 electric grid to accommodate at least one bad thing
588 happening, and one bad thing happened but the grid went down
589 there and so that tells me that we do have issues more than

590 just meets the eye.

591 Mr. {Whitfield.} And that was a result of one
592 individual mistake being made, right?

593 Ms. {Azar.} That is correct.

594 Mr. {Whitfield.} Okay.

595 Ms. {Azar.} And he was not intending harm.

596 Mr. {Whitfield.} Okay. Mr. Rush, you are recognized
597 for 5 minutes.

598 Mr. {Rush.} I want to thank you, Mr. Chairman.

599 Chairman Wellinghoff, what role does Order 1000 provide
600 for as relates to State regulators in the regional
601 transmission planning process?

602 Mr. {Wellinghoff.} It actually provides for a robust
603 role for State regulators. In fact, includes in there a
604 provision for cost recovery for allowances for State
605 regulators to actually participate. So we are making every
606 provision we can to ensure that they are included as part of
607 the stakeholder process. They are included in the process in
608 regional planning. In fact, I have had discussions with
609 State regulators and I explained to them that they in fact
610 can decide what their region will look like. I mean, they
611 are the ones who really have the power. I have literally
612 told them, they have the power to determine how these regions
613 are formed and what the regions will consist of, and so as

614 such, they really can step up and take the ball and run with
615 it, and we have given them that opportunity in Order 1000.

616 Mr. {Rush.} So what has been their overall general
617 response? Are they generally in favor of Order 1000?

618 Mr. {Wellinghoff.} The ones I have talked to in the
619 West have been pretty enthusiastic about that idea because
620 they have sort of flexible regions in the West that have
621 changed over time, and so this is an opportunity I think for
622 some of the regulators in the non-RTO regions in the West to
623 take hold. In the East, they have already more established
624 RTO regions so usually those market regions are the planning
625 authorities, and in fact, in those areas in the East, the
626 regulators are participating in those RTO regions very
627 heavily already, so they seem to be okay with it.

628 Mr. {Rush.} And that would also include most of the
629 Midwest also?

630 Mr. {Wellinghoff.} Yes.

631 Mr. {Rush.} Order 1000 relies heavily on regional
632 transmission planning processes to develop and implement cost
633 allocation methods for new transmission facilities. How will
634 FERC ensure that it does not delegate too much authority to
635 regional stakeholders?

636 Mr. {Wellinghoff.} Well, through a number of ways.
637 Certainly by the overall guidelines that we have set forth in

638 Order 1000, by the review process that we have with respect
639 to the planning processes that will come back and the cost
640 allocation processes that will come back. We have to approve
641 those in a compliance order and also through the complaint
642 process where if any of the regions are engaging in this
643 planning in a way that goes outside of those boundaries,
644 anyone can come to FERC, file a complaint and we can resolve
645 the issue. So we ultimately have the ultimate decision-
646 making authority with respect to those activities, even
647 though we have given the regions all this flexibility. I
648 mean, we let them go off and hopefully they can solve their
649 own problems but if they can't, FERC is the ultimate arbiter
650 of the final activity there.

651 Mr. {Rush.} The courts have held that cost allocation
652 methods must satisfy, and I quote ``cost causation
653 principle.'' Can you explain what your understanding of that
654 principle is? How does the emphasis on beneficiaries in
655 Order 1000 meet that test?

656 Mr. {Wellinghoff.} Yes, I can. It is my understanding
657 that the D.C. Circuit and also the 7th Circuit case have
658 indicated that people who benefit can be in essence those
659 cost causers. So to the extent, and again, we have made it
660 very clear in the rule, to the extent that there are
661 benefits, then costs can be allocated to individuals that

662 benefits are determined but the determination of those
663 benefits, and this goes back somewhat to the clarification
664 question of the chairman, the determination of those benefits
665 and how those benefits will be structured will be up to the
666 individual regions of how they will determine what will
667 actually be benefits, but there can be that causation link
668 between costs and benefits, as I understand it from a number
669 of circuit court decisions.

670 Mr. {Rush.} Mr. Chairman, I want to thank you, and I
671 yield back the balance.

672 Mr. {Wellinghoff.} Thank you.

673 Mr. {Whitfield.} Thank you, Mr. Rush.

674 At this time I recognize Mr. Terry for 5 minutes.

675 Mr. {Terry.} Thank you.

676 Mr. Wellinghoff, help me, because I am uncertain what a
677 region is and how it is developed, and it is all interstate?
678 Is it allowed under the order for States to band together? I
679 just can't get my mind around the definition of region, so
680 work me through that.

681 Mr. {Wellinghoff.} Certainly. I would be happy to.
682 The way we have defined a region in the Order 1000 is pretty
683 open. It allows the States to determine what they want to be
684 a region. The minimum we have said, it has got to be at
685 least two utilities, so you can't just have one utility be a

686 region. You have to plan with more than another utility.
687 But ideally, it can be as large as PJM, which is a very large
688 regional transmission organization that goes all the way from
689 New Jersey to Chicago, extremely large, 133,000 megawatts of
690 power under control, or it could be as small as two utilities
691 in the Southeast. I believe that there is two or three
692 utilities in the Southeast that have decided to form
693 themselves into a region. I think South Carolina Electric
694 and Gas and one other utility, I believe, have decided to
695 form themselves into a region, and again, this is ultimately
696 with the approval and assent of their State public utility
697 commissioners. Those utility commissioners make
698 determinations--

699 Mr. {Terry.} But they can only do within the one State
700 so if it is multi-State, is that where FERC comes in and
701 organizes?

702 Mr. {Wellinghoff.} Well, no. If it is within one
703 State, it is still only related to interstate transmission,
704 and transmission in that State of a certain voltage--

705 Mr. {Terry.} And you are saying--

706 Mr. {Wellinghoff.} --and certain characteristic in
707 nature is determined to be interstate transmission. So you
708 could have, you know, within one State transmission that is
709 still interstate transmission under FERC's jurisdiction. But

710 with respect to a utility's participation in that particular
711 entity, a State commission is going to have a big say in that
712 as well.

713 Mr. {Terry.} Ms. Azar, does DOE have any concerns about
714 the unyielding nature of the definition of region?

715 Ms. {Azar.} DOE is supportive of the Order 1000. We
716 think it is a good step towards getting transmission built.
717 As the chairman has indicated, they had to weigh and balance
718 a lot of different interests in this and are trying to give
719 flexibility at the same time being prescriptive, and I think
720 we will be able to tell with time if they reached the balance
721 appropriately that allowed us to build transmission.

722 Mr. {Terry.} Mr. Wellinghoff, does FERC Order 1000
723 allow for a preference in energy depending on how it is
724 generated? For example, will clean energy have a preference
725 over, let us say, coal-generated electricity?

726 Mr. {Wellinghoff.} No.

727 Mr. {Terry.} None at all?

728 Mr. {Wellinghoff.} The regions will determine how to
729 plan for the transmission they need, and that transmission
730 will be driven by market forces. So whatever the market
731 forces are with respect to the particular resources that are
732 developed in that region, those will be the resources that
733 will get on those transmission lines.

734 Mr. {Terry.} Okay. So there is no mechanism to say
735 public policy requires that clean energy be used?

736 Mr. {Wellinghoff.} The market forces will be driven by
737 market things like fuel prices and other characteristics and
738 also will be driven by both State and federal public policy
739 determinations as they are in all the States in this country.
740 There are some 30-odd States that have renewable portfolio
741 standards, for example. Those are in essence market forces
742 that have been created by State legislatures that set forth
743 certain resource decisions in the markets.

744 Mr. {Terry.} Ms. Azar, any comment?

745 Ms. {Azar.} No. With regards to public policy, public
746 policy when it is required and mandated is used in
747 transmission planning to determine what sort of
748 infrastructure we need, and whether it be, you know, a
749 requirement that, you know, a certain State complies with a
750 renewable portfolio standard, that would be one thing that
751 the utilities have to comply with. So in order to predict
752 what the future looks like, you are going to assume that that
753 is true. The same thing that if, for instance, a State would
754 come up and say look, you need to assume that clean coal
755 technology is going to work and that is what our future is
756 going to look like, transmission planning would incorporate
757 that kind of public policy and Order 1000 requires that.

758 Mr. {Terry.} Thank you. Yield back.

759 Mr. {Whitfield.} Thank you, Mr. Chairman.

760 At this time I will recognize the gentleman from
761 Michigan, Mr. Dingell, for 5 minutes.

762 Mr. {Dingell.} Mr. Chairman, I appreciate your courtesy
763 and I commend you for this hearing.

764 These questions are to Mr. Wellinghoff. First, welcome.
765 Second, I hope you will answer these questions yes or no
766 because that will enable us to get a lot more on the record.
767 One, does Order 1000 provide subsidies for renewable energy
768 or transmission lines to carry renewable energy? Please
769 answer yes or no.

770 Mr. {Wellinghoff.} No.

771 Mr. {Dingell.} Does Order 1000 provide incentive rates
772 for renewable energy lines? Yes or no.

773 Mr. {Wellinghoff.} No.

774 Mr. {Dingell.} By the way, thank you for your
775 cooperation. No disrespect is intended here.

776 Mr. {Wellinghoff.} I am happy to answer for you.

777 Mr. {Dingell.} Does Order 1000 require anybody to pay
778 for transmittal for which they receive no benefit? Yes or
779 no.

780 Mr. {Wellinghoff.} No.

781 Mr. {Dingell.} Does Order 1000 require anybody to use

782 or build renewable energy generation? Yes or no.

783 Mr. {Wellinghoff.} No.

784 Mr. {Dingell.} My home State of Michigan has a
785 renewable portfolio standard that must be met by in-State
786 generation. In other words, a wind farm in South Dakota
787 cannot be used to meet Michigan RPS requirements. Would a
788 regional planning evaluation under Order 1000 take into
789 account laws like that of Michigan? Yes or no.

790 Mr. {Wellinghoff.} It would be up--that is a hard yes
791 or no one. It would be up to the regional planning group to
792 make that decision.

793 Mr. {Dingell.} Okay. And wherever we get to the point
794 where we have some difficulty on this yes or no, I would
795 expect that you would submit some additional comments for the
796 record if you please.

797 Mr. {Wellinghoff.} I would be happy to do that, Mr.
798 Dingell.

799 Mr. {Dingell.} Now, in Order 1000, FERC notes that
800 after Order 890 was issued in 2007, conferences and requests
801 for comments were held in 2009. Did these conferences or
802 comments include discussions of issues that were ultimately
803 included in Order 1000?

804 Mr. {Wellinghoff.} I believe so but I will have to
805 submit something to you on that to make sure.

806 Mr. {Dingell.} And again, I apologize for this, but
807 time is so limited here.

808 Were public utilities allowed to participate in the
809 conferences or requests for comments?

810 Mr. {Wellinghoff.} I believe so.

811 Mr. {Dingell.} By delegating much of the responsibility
812 for transmission planning and cost allocation to multiple and
813 diverse regions, do you risk dilution of consistence and
814 supportable national energy policy? Is that a risk?

815 Mr. {Wellinghoff.} I don't believe so, no. I believe
816 that I have a lot of faith in the regions.

817 Mr. {Dingell.} And I in you and I hope that you will
818 feel free to add additional comments.

819 Order 1000 states FERC's intention was not to disrupt
820 the progress made with respect to transmission planning and
821 investment in transmission infrastructure. However, isn't
822 the act of requiring regions to develop inter- and
823 intraregional planning processes disruptive?

824 Mr. {Wellinghoff.} There is an assumption to your
825 premise of your question that is incorrect. Order 1000 does
826 not require interregional planning.

827 Mr. {Dingell.} Okay. And I don't want you to be
828 hesitant about disagreeing with me if you do.

829 Claims have been made on both sides of this issue that

830 the policies in Order 1000 will either greatly increase rates
831 on consumers or will help keep rates down. Which do you
832 think will be the case?

833 Mr. {Wellinghoff.} I think it will improve efficiencies
834 and keep rates down.

835 Mr. {Dingell.} Well, we have completed this in 1
836 minute--or rather we have 1 minute and 15 seconds.

837 Ms. Azar, do you have any comments to make on the points
838 that we have just had?

839 Ms. {Azar.} No. Thank you, sir.

840 Mr. {Dingell.} Mr. Wellinghoff, the statutory authority
841 for Order 1000, is that the Federal Power Act or is that
842 other enactments that we have made such as some of the
843 conservation energy legislation that we have passed in the
844 last couple years?

845 Mr. {Wellinghoff.} It is the Federal Power Act, sir.

846 Mr. {Dingell.} Only?

847 Mr. {Wellinghoff.} Yes.

848 Mr. {Dingell.} Okay. Do you need additional statutory
849 authority to make this work or to enforce that properly or to
850 see to it that the process goes forward?

851 Mr. {Wellinghoff.} I do not believe so.

852 Mr. {Dingell.} Mr. Chairman, I yield back 26 seconds.

853 Thank you.

854 Mr. {Whitfield.} Thank you very much, Mr. Dingell.

855 Mr. McKinley, you are recognized for 5 minutes.

856 Mr. {McKinley.} Thank you, Mr. Chairman.

857 I haven't had a chance to read your 620 pages of this
858 order yet, but from what I can gather, everyone else is going
859 to have trouble understanding that as well and some of the
860 questions that have already come up suggest there are still a
861 lot of questions, like the regional planning. In your
862 testimony, you say it does not establish regional boundaries
863 but yet in the testimony you said there has to be regional
864 planning. Who is going to set that? I am a little confused,
865 just like Congressman Terry, as to who sets these boundaries.
866 Are these going to be like the football conferences that they
867 keep changing all the time? Can we have overlapping regions?
868 I thought I gathered a little of that earlier. Can you
869 describe just a little bit about what those councils could
870 be, these planning groups? If it is not set up, who sets
871 them up? The companies themselves, these two companies?

872 Mr. {Wellinghoff.} To my knowledge, everyone in the
873 country, these are already set up. In some places, they are
874 part of the processes of the organized wholesale markets, the
875 regional transmission organizations or the independent system
876 operators. In other places where those don't exist and there
877 is six of those under our jurisdictions, where they don't

878 exist, which is primarily the Southeast and the West except
879 for California, they have the States and the utilities and
880 the transmission owners and other stakeholders have already
881 formed themselves largely into regions, but if the State
882 utility commissioners or other--

883 Mr. {McKinley.} So is West Virginia-which one are we
884 in? Which region are we in then if you say that they are
885 already--

886 Mr. {Wellinghoff.} I believe you are in PJM.

887 Mr. {McKinley.} And PJM would be?

888 Mr. {Wellinghoff.} A regional transmission organization
889 that goes all the way from New Jersey to Chicago.

890 Mr. {McKinley.} Okay.

891 Mr. {Wellinghoff.} It has been in place for many years.

892 Mr. {McKinley.} One of your answers I found was
893 interesting because it was back to Congressman Dingell's
894 question. You said there is no subsidy, but I am a little
895 confused about it and you can help me out here with this
896 because of the Caparden article that came out in July. So
897 what you are saying is that prior to renewables the cost is X
898 to the customers in West Virginia, but then when we bring
899 renewables on and it becomes cost X plus something else,
900 isn't that a subsidy?

901 Mr. {Wellinghoff.} I am sorry. I am not familiar with

902 the Caparden article

903 Mr. {McKinley.} Well, it was published on July 28th and
904 it said this is going to be the--that your ruling will be the
905 most progressive clean energy action the federal government
906 will take this year resulting in thousands of miles of new
907 line to bring renewable energy to your home. I am not
908 opposed to new energy but I think that we all have to--you
909 said there is no subsidy but it sure smells to me like in
910 these 620 pages that there is a subsidy in here somehow for
911 renewable energy because if the cost prior to renewables is
912 X, it is going to increase once we put a new transmission
913 line into a wind farm that that cost is going to increase, so
914 why isn't that a subsidy? Is that just Washington talk?

915 Mr. {Wellinghoff.} Mr. McKinley, I have read all 620
916 pages and I can assure you there is no subsidy in there for
917 renewables.

918 Mr. {McKinley.} If their cost goes up by having
919 renewables because we are putting a line in for a wind farm
920 and now I have to pay more, why is that not a subsidy?

921 Mr. {Wellinghoff.} Again, I take you back to the 620
922 pages. There is nothing in there with respect to one kind
923 of--

924 Mr. {McKinley.} Is this about the definition of
925 benefit?

926 Mr. {Wellinghoff.} No, it is not about the definition
927 of benefit at all. It is ultimately about what is in the 620
928 pages, which has nothing to do with a particular resource.
929 It has to do with planning and allocation of transmission
930 costs.

931 Ms. {Azar.} Congressman, can I weigh in here?

932 Mr. {McKinley.} Please.

933 Ms. {Azar.} I just wanted to point out in PJM alone,
934 the lack of transmission cost your constituents and the other
935 constituents in PJM, \$1.4 billion in 2010 alone, and by
936 building more transmission and getting the system to be more
937 efficient, we are not going to be letting that money on the
938 table anymore and so there is ways in which, you know, money
939 is going to be saved as we are bringing on new generation
940 that is moving us into the new economy.

941 Mr. {McKinley.} I am just trying to understand the
942 effect, what the likelihood of increased cost is going to be
943 under Order 1000 to the residents of West Virginia.

944 Ms. {Azar.} I actually think they will go down.

945 Mr. {McKinley.} Mr. Wellinghoff, can you tell me, is it
946 likely? What is the cost going to be to the residents?

947 Mr. {Wellinghoff.} I think as Ms. Azar has indicated,
948 to the extent that we can reduce congestion in West Virginia,
949 we can provide access to West Virginia to lower cost

950 resources, ultimately your costs will be lower.

951 Mr. {McKinley.} So Order 1000 you think is going to
952 lower utility costs?

953 Mr. {Wellinghoff.} Order 1000 will allow for the
954 planning and cost allocation of efficient transmission.
955 Efficient transmission can in fact lower cost.

956 Mr. {McKinley.} Do you think it will?

957 Mr. {Wellinghoff.} I can give you one particular
958 example in northern New Jersey, for example.

959 Mr. {McKinley.} I don't care about northern New Jersey.

960 Mr. {Wellinghoff.} Well, it is an example--

961 Mr. {McKinley.} I asked about West Virginia, the 1st
962 District of West Virginia.

963 Mr. {Wellinghoff.} Again, efficient transmission and
964 markets will lower your cost.

965 Mr. {Whitfield.} The gentleman's time is expired.

966 Mr. Griffith, you are recognized for 5 minutes.

967 Mr. {Griffith.} Our districts don't touch but I am in
968 the same neighborhood as Mr. McKinley, so I do have concerns
969 there because, you know, it is hard to cheaper than what we
970 used to have, and I understand some environmental concerns,
971 and I if understood you correctly, Mr. Wellinghoff, the 620
972 pages, and I, like Mr. McKinley, have not had an opportunity
973 to get through all 620 pages of it, but as I understand from

974 your testimony previously, the 620 pages doesn't have
975 anything to do with that, that has to do with public policy
976 decisions made at the State and federal level. Is that
977 correct?

978 Mr. {Wellinghoff.} I am sorry. I don't understand the
979 question.

980 Mr. {Griffith.} Doesn't the fact that if costs go up
981 because we are bringing in renewable energy and new sources
982 of energy, that is not because of your transmission line? If
983 I understood your testimony correctly, that is not because of
984 the transmission line or the 620 pages of Order 1000 but
985 because of other public policy decisions made by the State
986 and federal governments.

987 Mr. {Wellinghoff.} Any public policy decisions that
988 influence the markets will influence the costs in those
989 markets.

990 Mr. {Griffith.} All right. So let me ask you, if we
991 are building a small wind farm on top of a mountain in my
992 district, who pays for that electricity to get to the grid?
993 Is that something that is paid for by the developer of the
994 wind farm or is that going to be picked up by the region?
995 And I am also in--I always get the initials backward--but
996 PJM.

997 Mr. {Wellinghoff.} If it a gen tie line, a line going

998 from the wind farm into a particular transmission line, which
999 gen ties are not part of Order 1000, then the developer will
1000 pay for the line.

1001 Mr. {Griffith.} Now, apparently in March you stated
1002 that ``I believe that additional federal authority with
1003 respect to transmission planning, site and cost allocation
1004 would significantly increase the likelihood that those needed
1005 facilities would be constructed in a timely manner.'' In
1006 Order 1000, you assert that FERC already has this authority,
1007 and you indicated in answering to Mr. Dingell that the
1008 authority came out of the Federal Power Act, and I am
1009 wondering, just so I can save myself a lot of time, where
1010 will I find that authority in the Federal Power Act and was
1011 it there before and you hadn't stumbled across it, or what is
1012 different between now and March?

1013 Mr. {Wellinghoff.} I am sorry. What specific authority
1014 are you referring to?

1015 Mr. {Griffith.} Okay. Mr. Dingell asked you about the
1016 authority to do the things that you need to do.

1017 Mr. {Wellinghoff.} It is under the Federal Power Act,
1018 but I didn't understand the first part of your question. I
1019 am sorry.

1020 Mr. {Griffith.} Okay. I am looking at a statement here
1021 that was given to me that says that in March you testified

1022 that ``I believe that additional federal authority with
1023 respect to transmission planning, siting and cost allocation
1024 would significantly increase the likelihood that those needed
1025 facilities would be constructed in a timely manner,'' and I
1026 am just wondering, guide me through how I reconcile March to
1027 now.

1028 Mr. {Wellinghoff.} Okay. That is a fair question, and
1029 I am not certain--I will tell you quite frankly, I am not
1030 certain what my reference was there. I perhaps was referring
1031 to the issue of siting, which is not under Order 1000. Order
1032 1000 only relates to planning and cost allocation. There has
1033 been a lot of discussions about siting back and forth, the
1034 recent decision by Secretary Chu and others, so I may have
1035 been referring to siting specifically.

1036 Mr. {Griffith.} And maybe we can have a conversation
1037 later or maybe we can figure out how you can rectify that.

1038 Mr. {Wellinghoff.} I would be happy to.

1039 Mr. {Griffith.} I am not trying to get a ``gotcha.'' I
1040 am just trying to sort it all out because I am one of those
1041 people that, you know, I may not get to it today but I am
1042 going to read through the 620 pages at some point, and it
1043 would save me a lot of time instead of having to read through
1044 the whole power act and figure out what part gives you
1045 authority, if you could get somebody to get me a cite for

1046 that so I can read that as well.

1047 Mr. {Wellinghoff.} I would be happy to do that.

1048 Mr. {Griffith.} Thank you very much. I appreciate it.

1049 Mr. {Wellinghoff.} Thank you.

1050 Mr. {Griffith.} Mr. Chairman, with that I will yield
1051 back my time.

1052 Mr. {Whitfield.} Ms. Azar, I want to just ask you one
1053 question. You had made a comment about moving into the new
1054 economy, and could you just explain to us what is your
1055 perspective of the new economy?

1056 Ms. {Azar.} Well, the new economy includes things like
1057 this, that we are powering up and it is likely a dramatic
1058 increase in the use of electricity through electric vehicles,
1059 through continued development of gadgets like this, and also
1060 things like cybersecurity where we want to make sure that our
1061 grid is resilient and strong and that we are competing with--
1062 able to compete with the global economy. So we need a
1063 resilient grid. We need, you know, good resources and we
1064 need it to be at a reasonable cost.

1065 Mr. {Whitfield.} Thank you.

1066 Mr. Shimkus, you are recognized for 5 minutes.

1067 Mr. {Shimkus.} Thank you, Mr. Chairman. I apologize.
1068 I had to go to the Floor and spend 5 minutes talking about
1069 Yucca Mountain, which is another favorite topic of mine. I

1070 know, Mr. Wellinghoff, you understand that.

1071 Some general questions to the Department of Energy. Do
1072 you have any views on FERC Order No. 1000?

1073 Ms. {Azar.} Yes. In general, the Department of Energy
1074 supports FERC Order 1000 as a good step forward in trying to
1075 get transmission built. I think time is going to tell
1076 whether or not it is sufficient. They tried to balance some
1077 very difficult interest there.

1078 Mr. {Shimkus.} In your testimony, you identified that
1079 it takes about 10 years to build transmission and
1080 approximately 3 years to build new generation facilities. I
1081 have been a member 15 years. I have still got some general
1082 facilities that we are trying to get built, so I don't know
1083 where those--maybe that is after all the permitting.

1084 Ms. {Azar.} It just depends on what the generation is.
1085 I mean, natural gas and, you know, certain kinds of
1086 renewables can be built very quickly. Nuclear and baseload
1087 coal plants take much longer.

1088 Mr. {Shimkus.} What implications do the differing
1089 development periods have on resources planning? In other
1090 words, you have got 10 and 3--

1091 Ms. {Azar.} Significant differences. You know,
1092 transmission planning--usually when people are doing
1093 planning, it is a lot easier to plan in the near term than

1094 the long term, and so when you are thinking about some
1095 dramatic changes in, you know, how energy is going to move,
1096 how our populations are going to move, how our economy is
1097 going to move, it is a lot more difficult to predict where we
1098 are going to be in the future, and so when you are thinking
1099 about transmission, and it takes so much longer to build
1100 transmission, you are looking in the far term and so
1101 predicting with accuracy is not something that frankly is a
1102 goal predicting, you know, essentially designing a system
1103 that is going to accommodate a lot of different hypothetical
1104 futures is what we do in transmission. That is not what you
1105 do when you are trying to decide what kind of generation to
1106 build and where to build that.

1107 Mr. {Shimkus.} And why I am going down this line of
1108 questioning is that we do know with clean air, interstate
1109 transport rule or whatever the name of it is, that there is
1110 generation that is going to be retired. In fact, there was
1111 an announcement that two coal-fired power plants would go
1112 offline, about 600 megawatts in total that will not be
1113 available, as in the last hearing, baseload generation. I
1114 think it affects reliability concerns.

1115 But it sounds like we may be able to build at least some
1116 new generation in the near term but new transmission lines to
1117 connect this generation as you were just answering could be

1118 put off.

1119 Ms. {Azar.} No, no, I didn't say put off. There is a
1120 disconnect between the planning horizons which actually
1121 creates difficulties. It doesn't mean transmission should be
1122 put off. It is actually the exact opposite. Because
1123 transmission takes so long to plan and build, we need to do
1124 it now so that we can accommodate new generation.

1125 Mr. {Shimkus.} That is a better way to put it, and I
1126 appreciate. With that disconnect, that does affect
1127 reliability. I mean, if you have generation and you don't
1128 have transmission, I mean, the whole baseload debate--

1129 Ms. {Azar.} I think you and I are using the term
1130 ``reliability'' differently. With regards to how reliable
1131 the system is, that is exactly what we--what is why we do the
1132 planning.

1133 Mr. {Shimkus.} But the disconnect between the building
1134 of new generation and the transmission lines can cause
1135 problems.

1136 Ms. {Azar.} It can cause difficulties, correct.

1137 Mr. {Shimkus.} Do you believe the 9th Circuit decision
1138 in the California Wilderness Coalition versus DOE impaired
1139 DOE's ability to carry out its duties under Section 216 of
1140 the Federal Power Act?

1141 Ms. {Azar.} I think we need to do it differently, and

1142 we are doing it differently.

1143 Mr. {Shimkus.} And what do you believe are the primary
1144 barriers to building transmission in this country?

1145 Ms. {Azar.} How long do we have?

1146 Mr. {Shimkus.} I have 48 seconds.

1147 Ms. {Azar.} All right. There is a lot of different
1148 barriers. It depends on different regions, and I set forth
1149 just some of them in my written. I apologize that I didn't
1150 get it to you sooner but we didn't have enough notice for
1151 getting it in on time. With regards to the barriers, things
1152 like market power, things like, you know, the lack of
1153 willingness of load-serving entities to want to sign power
1154 purchase agreements for merchant generation for us to allow
1155 to do the proper planning is another one. Yes, you keep
1156 looking at the clock, which makes me more and more nervous.
1157 I would be happy to talk with you, sir, offline or submit
1158 further comments on the record.

1159 Mr. {Shimkus.} No, we appreciate it. Thank you for
1160 your time.

1161 I yield back.

1162 Mr. {Whitfield.} Thank you very much.

1163 Mr. Green, you are recognized for 5 minutes.

1164 Mr. {Green.} Thank you, Mr. Chairman. Welcome to our
1165 panel.

1166 Chairman Wellinghoff, Texas has led the way in
1167 identifying competitive renewable energy zones and ensuring
1168 the development of adequate transmission infrastructure to
1169 bring the new renewable resources from those renewable rich
1170 zones to the concentrated loads in our urban area. Is it
1171 fair to say that Order 1000 provides a structure for other
1172 regions of the country to likewise identify and build
1173 transmission infrastructure that is needed to bring new
1174 renewable resources online?

1175 Mr. {Wellinghoff.} Mr. Green, I would agree that Texas
1176 is a great model. You have done a great job down there in
1177 Texas. Even though FERC has no jurisdiction with respect to
1178 transmission planning and cost all and Order 1000--

1179 Mr. {Green.} We are all familiar with ERCOT.

1180 Mr. {Wellinghoff.} --does not apply to Texas
1181 specifically, but certainly the types of things that Texas
1182 has done with building the \$5 billion worth of transmission
1183 in Texas are the types of things that other regions could
1184 look at. They will have that opportunity in planning
1185 processes and processes that are set forth and structured in
1186 Order 1000 for those other regions, yes.

1187 Mr. {Green.} Transmission development is done
1188 incredibly well, as you said, in Texas using your regional
1189 approach. Are you surprised by some of the criticism of the

1190 order?

1191 Mr. {Wellinghoff.} Well, there is always going to be
1192 criticism to anything that is suggested from a federal
1193 regulatory standpoint. Again, we are trying to give as much
1194 flexibility to those regions as possible, and sometimes
1195 giving flexibility, you get criticism coming back the other
1196 way, as I indicated from the question of the chairman earlier
1197 about clarity. If you give too much flexibility, people
1198 think you are not being clear enough, and if you give too
1199 much clarity, people think you are being too restrictive. So
1200 again, we are trying to strike a balance, trying to give
1201 those regions that balance they need to do what they need to
1202 do to ensure they get the transmission built to economically
1203 reduce costs for consumers.

1204 Mr. {Green.} Well, I know we have done great with
1205 growth of wind power in west Texas, but it doesn't do any
1206 good in west Texas. The customers are in Dallas-Fort Worth,
1207 Houston, Galveston, San Antonio, so that commitment there.
1208 Mr. Transeth, who will be testifying on our next panel on
1209 behalf of the Coalition for Fair Transmission Policy, writes
1210 that ``FERC Order 1000 is deficient not so much on what it
1211 says but more what it doesn't say. Under the Order, the
1212 commission delegates to regions the ability to determine how
1213 transmission planning will be conducted and how costs will be

1214 allocated with very little, if any, guidance on the
1215 parameters of such important decisions.' Mr. Transeth also
1216 writes, ``In particular, the order provides no guidance to
1217 regions on how benefits should be defined, thus leaving open
1218 the very real possibility regions can adopt extremely broad
1219 definitions and result in unfounded conclusions that everyone
1220 benefits from new transmission and should all pay, thus
1221 socializing the transmission costs.' What do you say to
1222 this criticism?

1223 Mr. {Wellinghoff.} Well, FERC will provide the ultimate
1224 guidance to the extent that a particular region can make
1225 decisions, can't arrive at their own decisions with the
1226 flexibility that we have given them. It will fall back to
1227 FERC to ultimately set forth a cost allocation methodology
1228 and make those decisions, and we have made that clear in the
1229 order. So again, I think the criticism is unfounded because
1230 again, we do try to give the regions the amount of
1231 flexibility and the amount of room that they need to do what
1232 they need to do for the regions, but again, if that clarity
1233 and preciseness is needed in the sense that they can't make
1234 the decision themselves within the structure that we have
1235 given in Order 1000, then ultimately when those compliance
1236 plans come in showing that they haven't made a decision, FERC
1237 will make the decision for them. I don't relish that. I

1238 don't think that is the best way to do it, but again, that is
1239 the ultimate end of the line where the buck stops with FERC.

1240 Mr. {Green.} For the most part our Texas grid is
1241 regulated under ERCOT, an RTO that is actually regulated at
1242 the State level and not by FERC. A small part of Texas falls
1243 in the Southwest Power Pool, though, and it is my
1244 understanding that SPP first began its process for
1245 determining its regional planning process shortly after FERC
1246 first proposed its regional planning and cost allocation rule
1247 in 2010. Was the SPP methodology approved by FERC?

1248 Mr. {Wellinghoff.} We set some parameters out in Order
1249 890 with respect to planning, so to that extent, and they did
1250 file a compliance plan for Order 890, so to that extent, we
1251 did review their planning process. We certainly haven't
1252 reviewed the one that would be under Order 1000 as of yet,
1253 and I believe you have got Nick Brown from SPP who is going
1254 to testify here before you today.

1255 Mr. {Green.} Have any other RTOs sent updated planning
1256 and cost allocation methodology to FERC for approval since
1257 the rule was first proposed in 2010, and if so, were those
1258 approved? Was there pushback in the region on the
1259 methodology, et cetera? First of all, I guess, were updated
1260 plans and cost allocation submitted to FERC?

1261 Mr. {Wellinghoff.} There have been some submitted.

1262 Some are pending before us, which I can't talk about because
1263 they are pending cases before us, but there have been some
1264 submitted.

1265 Mr. {Green.} Some have been approved?

1266 Mr. {Wellinghoff.} I believe some have been approved,
1267 but there are a number that are pending right now before us
1268 as well.

1269 Mr. {Green.} And the last thing, although I am out of
1270 time, Mr. Chairman, has there been pushback on the
1271 methodology?

1272 Mr. {Wellinghoff.} Certainly there has been differing
1273 sides on the methodology, and again, that is what FERC does
1274 is, we resolve those issues as to the differing positions on
1275 particular methodologies.

1276 Mr. {Green.} Thank you, Mr. Chairman.

1277 Mr. {Whitfield.} At this time I recognize the gentleman
1278 from Colorado, Mr. Gardner, for 5 minutes.

1279 Mr. {Gardner.} Thank you, Mr. Chairman, and thank you
1280 as well to the witnesses.

1281 Mr. Wellinghoff, a question for you. Are you familiar
1282 with the cap-and-trade legislation that passed the House a
1283 couple years ago?

1284 Mr. {Wellinghoff.} No, I am not.

1285 Mr. {Gardner.} Were you familiar with any of the

1286 amendments that were added to it in terms of transmission
1287 siting issues, the manager's amendment?

1288 Mr. {Wellinghoff.} I don't believe so, no.

1289 Mr. {Gardner.} There was an amendment that was added in
1290 the negotiations at the end of the process, and I will read
1291 you a summary of the amendment. It basically passed onto the
1292 bill. It provided FERC with siting authority for the
1293 construction of certain high-priority interstate transmission
1294 lines constructed in the western interconnection and amended
1295 the National Interstate Electric Transmission Corridor. The
1296 DOE/FERC delegation proposal, is that the same kind of idea?
1297 If you aren't familiar with that amendment, perhaps you could
1298 get back to me.

1299 Mr. {Wellinghoff.} I would be happy to get back to you
1300 on that.

1301 Mr. {Gardner.} Thank you very much. And then I will be
1302 asking this question later as well to some other witnesses,
1303 but it is my understanding that the order, the FERC Order
1304 1000, requires each public utility transmission provider to
1305 participate in the regional transmission planning process.
1306 While some regions of the country have regional transmittal
1307 organizations that could run such a process, others do not.
1308 Could you explain to me how the regional planning requirement
1309 would work for States like Colorado that aren't part of--

1310 Mr. {Wellinghoff.} Could you explain to me which ones
1311 don't have those--my understanding is everyone--Colorado, in
1312 fact, is in one of the western regional planning entities. I
1313 am not sure. There is a couple out there, I am not sure
1314 which one it is in, but in fact, they are already in one and
1315 they are already conducting regional planning.

1316 Mr. {Gardner.} Well, perhaps I can get back to you with
1317 further details of the question. It is my understanding from
1318 a number of the public utility providers that they are not
1319 right now in an RTO.

1320 Mr. {Wellinghoff.} They are not in an RTO but they are
1321 in a regional planning entity. There are regional planning
1322 entities. RTOs and regional planning entities aren't
1323 necessarily the same thing. A lot of RTOs do the regional
1324 planning but in other areas where they don't have RTOs, they
1325 just have regional planning entities that in essence are an
1326 informal group of utilities who come together with
1327 stakeholders including State commissioners and transmission
1328 owners and consumers and others that participate in these
1329 processes. There is one called West Connect and there is
1330 ColumbiaGrid, and there is a number of other ones in the
1331 West, and I know that Colorado--

1332 Mr. {Gardner.} Perhaps you could follow up with your
1333 office a little bit more with this question because there are

1334 some concerns from my constituents.

1335 Mr. {Wellinghoff.} Sure.

1336 Mr. {Gardner.} I yield back my time, Mr. Chairman.

1337 Mr. {Whitfield.} Thank you. At this time I recognize
1338 the gentleman from Texas, Dr. Burgess, for 5 minutes.

1339 Dr. {Burgess.} Thank you, Mr. Chairman, and thanks to
1340 our witnesses for being here.

1341 Mr. Wellinghoff, kind of following up on what Mr.
1342 Gardner was asking, the regional planning entity, Texas, as I
1343 understand it, is sort of its own regional planning entity.
1344 Is that correct?

1345 Mr. {Wellinghoff.} ERCOT is the regional planning
1346 entity, and in fact, they are again outside of our
1347 jurisdiction and not under Order 1000.

1348 Dr. {Burgess.} As it should be. And just to follow up
1349 on some of the stuff that Mr. Green was asking, are there
1350 implications for Texas about the rule that is being discussed
1351 this morning? So ERCOT is outside but there are other areas
1352 that will be affected?

1353 Mr. {Wellinghoff.} There is a very small piece. I
1354 believe that it is in SPP that is already part of the SPP
1355 planning process and participates and will be affected to the
1356 extent that they are part of what SPP already does and then
1357 what SPP needs to conform to vis-à-vis Order 1000.

1358 Dr. {Burgess.} Now, one of the things that we see
1359 happening in Texas is of course all of the wind occurs in
1360 places where people don't live and people live in places
1361 where the wind doesn't blow, so getting the power from the
1362 wind farms in west Texas to the population centers in the
1363 metroplex requires an east-west transmission line, which is
1364 essentially going to bisect my district. Now, the planning
1365 for that, is that all handled at the State level through the
1366 public utility commission?

1367 Mr. {Wellinghoff.} In Texas?

1368 Dr. {Burgess.} In Texas.

1369 Mr. {Wellinghoff.} I believe so but I am not that
1370 familiar with--

1371 Dr. {Burgess.} So FERC is not involved in the--

1372 Mr. {Wellinghoff.} No.

1373 Dr. {Burgess.} There is not a federal role in the
1374 siting of those transmission lines?

1375 Mr. {Wellinghoff.} No.

1376 Dr. {Burgess.} It occurs at the State level?

1377 Mr. {Wellinghoff.} That is correct.

1378 Dr. {Burgess.} Mr. Chairman, in the interest of comity,
1379 I am going to yield back the balance of my time.

1380 Mr. {Whitfield.} You are so kind. Thanks.

1381 Mr. Walden, you are recognized for 5 minutes.

1382 Mr. {Walden.} Thank you, Mr. Chairman, and I thank you
1383 for holding this hearing. I have got a couple of questions
1384 here.

1385 Picking up a bit on what my colleague from Colorado
1386 asked about the western regions, now, it is my understanding,
1387 non-jurisdictional utilities such as municipalities and the
1388 Bonneville Power Administration have raised various concerns
1389 on rehearing of FERC Order 1000. specifically, for BPA, the
1390 Transmission System Act of 1974 charges the BPA Administrator
1391 with determining what transmission investments are necessary
1392 and appropriate. BPA has also expressed concerns to FERC
1393 that this responsibility is non-delegable. Also, BPA's
1394 capital is limited. The Administrator is required to include
1395 proposed expenditures in his budget submission to the
1396 Congress. BPA has expressed concerns to FERC that
1397 obligations of its capital must be decided upon by the
1398 Administrator consistent with that statutory budget process.

1399 So Mr. Wellinghoff, can you assure me the commission
1400 will thoroughly consider and be responsive to these concerns?

1401 Mr. {Wellinghoff.} I can assure you of that.

1402 Mr. {Walden.} You can?

1403 Mr. {Wellinghoff.} Yes.

1404 Mr. {Walden.} Good. Thank you, sir. As you know, the
1405 Pacific Northwest had implemented extensive and transparent

1406 transmission planning processes that have identified several
1407 transmittal lines that need to be built to address
1408 transmission congestion and reliability issues. These lines
1409 are in the process of being approved and built. This is all
1410 being done without an RTO. Will the commission be flexible
1411 under its order and allow the existing regional planning
1412 processes in the West to address the transmission needs of
1413 all their utilities and customers?

1414 Mr. {Wellinghoff.} Those regional entities that are
1415 conducting that planning are certainly open to do that, yes.

1416 Mr. {Walden.} So your order will allow that to
1417 continue?

1418 Mr. {Wellinghoff.} I believe so.

1419 Mr. {Walden.} As a westerner, you know that 50 percent
1420 of the West is owned by the federal government--well,
1421 controlled by the federal government--and the single greatest
1422 obstacle to building transmission in the West is the
1423 difficulty of doing so on federal lands. What can FERC do to
1424 overcome this obstacle? Because a lot of these lines these
1425 companies are looking at putting in, they are just saying I
1426 am not even going to waste my time going over here on the
1427 federal ground. It is just too difficult, cumbersome to
1428 litigate it. So then they try and take it on the private
1429 ground, which of course causes a few issues with farmers who

1430 are having to give up a couple hundred feet on each side of
1431 this big lines of prime farm ground or they try and run it
1432 right in front of the Oregon Trail Interpretative Center
1433 windows. Can you give us some help here? Is the
1434 Administration open to doing anything to help on the federal
1435 land to expedite the issues we face there on siting?

1436 By the way, I am hearing the same thing on the fiber
1437 side with the BTOP grants. I met with a recipient of one of
1438 the grants to build out fiber, and it is the Forest Service
1439 and the permitting process and it is this and it is that. It
1440 seems like every intersection of the federal government
1441 becomes more dangerous and slow and congested.

1442 Ms. {Azar.} Congressman, can I answer that?

1443 Mr. {Walden.} You may.

1444 Ms. {Azar.} Wonderful. And thank you for the question
1445 because we have set up a rapid response team for transmission
1446 which is precisely addressing that issue, which is to make
1447 the federal permitting process for transmission lines much
1448 more expedited, and the application of the statutes are still
1449 going to happen but we can do it better, we can do it faster,
1450 and we are going to.

1451 Mr. {Walden.} All right. So if we have specific
1452 instances, we could contact you and--

1453 Ms. {Azar.} Absolutely. I can give you my cell phone.

1454 Mr. {Walden.} Excellent. Thank you.

1455 As a practical matter, utilities in the Pacific
1456 Northwest need to coordinate interregional transmission
1457 planning with the Bonneville Power Administration, a non-
1458 jurisdictional federal entity. Does FERC anticipate that BPA
1459 will fully participate in the interregional planning process
1460 under Order 1000?

1461 Mr. {Wellinghoff.} Certainly, they are encouraged to do
1462 so. I can't speak for Steve Wright or what BPA will actually
1463 do but they are certainly encouraged to do so, and we would
1464 hope they would.

1465 Mr. {Walden.} And will transmission projects that are
1466 taken through a regional or interregional cost allocation
1467 process be given special consideration by FERC for incentive
1468 rates?

1469 Mr. {Wellinghoff.} We have a pending incentive rate
1470 docket open right now. I can't say one way or the other.

1471 Mr. {Walden.} Okay. I have no bonus question for this
1472 round. Thank you, Mr. Chairman. I yield back the balance of
1473 my time.

1474 Mr. {Whitfield.} Thank you. Mr. Rush, I understand you
1475 have one additional question for Ms. Azar.

1476 Mr. {Rush.} Yes, and I want to thank you, Mr. Chairman,
1477 for your consideration.

1478 Ms. Azar, are you familiar with the two plants in
1479 Illinois that will be shutting down? I have been told that
1480 the two plants are 70 years old, have run sporadically over
1481 the last few years because they are the least efficient in
1482 Ameren's fleet and do not produce electricity cheap enough to
1483 sell in a weak power market. So do you agree that that is
1484 the real reason that they are shutting down?

1485 Ms. {Azar.} Ranking Member Rush, plants shut down all
1486 of the time, and a number of plants right now are being
1487 mothballed or there are folks waiting for the phone to ring
1488 and the phone doesn't ring because they are not economic.
1489 Ironically, it is oftentimes the owners of those very
1490 uneconomic plants that don't want transmission to be built,
1491 and the reason for that is, they can't compete in a
1492 competitive market. So as a consequence, you may hear it in
1493 terms of oh, the cost-benefit analysis can't be done
1494 appropriately or, you know, they are going to be socializing
1495 the costs. The bottom line is, if you really want real
1496 competition, some of these guys don't want it because they
1497 are going to lose, and, you know, I can't speak to the two
1498 plants in Illinois. I don't know them. You know, my home
1499 State is Wisconsin. I can tell you when I was a
1500 commissioner, we took a very hard look at some of the plants
1501 that needed to be shut down because they were uneconomic.

1502 Mr. {Rush.} Thank you, Mr. Chairman.

1503 Mr. {Whitfield.} Okay. That concludes the first panel.

1504 We thank you all again for being with us, and at this time I

1505 would like to call up the witnesses on the second panel. We

1506 have with us the Hon. Greg White, who is the Commissioner

1507 with the Michigan Public Service Commission. We have the

1508 Hon. Philip Jones, who is a Commissioner with the Washington

1509 Utilities and Transportation Commission. We have Mr. John

1510 DiStasio, General Manager and CEO of Sacramento Municipal

1511 Utility District, who is here on behalf of the Large Public

1512 Power Council. We have Mr. Steven Transeth, who is the

1513 Principal with Transeth and Associates, who is testifying on

1514 behalf of the Coalition for Fair Transmission Policy. We

1515 have Mr. Nicholas Brown, who is President and CEO of

1516 Southwest Power Pool, and we have Mr. Joseph Welch, who is

1517 Chairman, President and CEO of ITC Holdings Corporation.

1518 So I want to welcome all of you. We appreciate your

1519 joining us this morning and we look forward to your testimony

1520 and the information that you will provide.

1521 Each one of you will be given 5 minutes to make an

1522 opening statement, and so Mr. White, we will call upon you to

1523 begin. You are recognized for 5 minutes.

|
1524 ^STATEMENTS OF HON. GREG WHITE, COMMISSIONER, MICHIGAN PUBLIC
1525 SERVICE COMMISSION; HON. PHILIP B. JONES, COMMISSIONER,
1526 WASHINGTON UTILITIES AND TRANSPORTATION COUNCIL; JOHN
1527 DISTASIO, GENERAL MANAGER AND CEO, SACRAMENTO MUNICIPAL
1528 UTILITY DISTRICT, ON BEHALF OF LARGE PUBLIC POWER COUNCIL;
1529 STEVEN A. TRANSETH, PRINCIPAL, TRANSETH AND ASSOCIATES, PLLC,
1530 ON BEHALF OF COALITION FOR FAIR TRANSMISSION POLICY; NICHOLAS
1531 BROWN, PRESIDENT AND CEO, SOUTHWEST POWER POOL, INC.; AND
1532 JOSEPH WELCH, CHAIRMAN, PRESIDENT AND CEO, ITC HOLDINGS
1533 CORPORATION

|
1534 ^STATEMENT OF GREG WHITE

1535 } Mr. {White.} Thank you very much. Chairman Whitfield,
1536 Ranking Member Rush and members of the subcommittee, thank
1537 you for inviting me to testify regarding issues of critical
1538 importance to the citizens of Michigan. I am grateful to
1539 have this opportunity to present the views that the Michigan
1540 Public Service Commission has expressed concerning the issues
1541 surrounding cost allocation proposals for transmission
1542 projects and the Federal Energy Regulatory Commission, FERC
1543 Order No. 1000 and the impacts to State planning processes.
1544 Let me begin by emphasizing our recognition of the

1545 importance of the development of strategic transmission
1546 resources as critical to the further development of markets
1547 and the reliable operations of the Nation's transmission
1548 system. My State has committed thousands of hours in staff
1549 time and in commissioner time working in various regional
1550 planning processes. We are in the MISO, Midwest Independent
1551 System Operator, RTO. We are also in the PJM RTO,
1552 Pennsylvania, Jersey, Maryland, and we have committed again
1553 thousands of hours of staff and commission time.

1554 My testimony today can really be boiled down simply to
1555 the concern that the allocation of costs to utility customers
1556 properly reflects the benefits the customers may receive. In
1557 other words, the costs allocated must be aligned with the
1558 benefits. Under Sections 205 and 206 of the Federal Power
1559 Act, the FERC is charged with ensuring that the rates, terms
1560 and conditions for transmission of electricity and interstate
1561 commerce are just, reasonable and not unduly discriminatory
1562 or preferential. This has been interpreted by the FERC and
1563 the courts to mean that the costs of transmission facilities
1564 must be allocated in a manner that satisfies the cost
1565 causation principle that all approved rates reflect to some
1566 degree the costs actually caused by the customer who must pay
1567 them. The U.S. Court of Appeals for the 2nd Circuit
1568 explained that compliance with this principle is evaluated by

1569 comparing the costs assessed against a party to the burdens
1570 imposed or benefits drawn by that party. The Michigan
1571 Commission does not believe that the cost allocation
1572 proposals considered in our region satisfy the cost causation
1573 principle and we are very concerned that the allocation of
1574 costs to Michigan could far exceed any benefits that the
1575 State would receive from most of these projects.

1576 In particular, it is important to recognize Michigan's
1577 unique peninsular geography and therefore its limited
1578 electrical interconnection to the rest of the MISO and PJM
1579 transmission system. As a result of geography and limited
1580 interconnections, it is likely that Michigan will realize
1581 minimal benefits from distant transmission expansion projects
1582 constructed in other States. However, on the basis of
1583 electric load, Michigan will be exposed to a disproportionate
1584 share of approximately 20 percent or more of all of these
1585 costs. It is clear that my State will not benefit from the
1586 construction of all transmission lines in the Midwest or that
1587 Michigan receives benefits that are commensurate with such
1588 allocation of costs.

1589 The Michigan Commission's concern with FERC Order 1000
1590 is again that the method used for determining the allocation
1591 of costs for these transmission projects selected to fulfill
1592 interregional planning is just and reasonable and reflective

1593 of the benefits that would be ascribed to Michigan's unique
1594 circumstances. In addition, the Michigan Commission believes
1595 individual transmission projects should be periodically
1596 reviewed in order to enable the FERC to strike an appropriate
1597 balance between consumer and investor interests.

1598 The final item I would like to bring up, my testimony
1599 was filed at 10 a.m. on Tuesday morning. At about 1 p.m. on
1600 Tuesday afternoon, the announcement came out that the DOE had
1601 elected not to designate the FERC with the responsibilities
1602 for the national corridor designation, and so I would just
1603 like to point out that the announcement in that joint
1604 statement between the DOE and the FERC, we view that as a
1605 positive development. While the details of this proposal
1606 will be critical, we appreciate that Energy Secretary Chu has
1607 given strong weight to the concerns raised by the States and
1608 numerous other parties. State public service commissioners
1609 understand as much, if not more, than anyone else about the
1610 importance of modernizing our Nation's electrical system. We
1611 are working across State boundaries to ensure that needed
1612 transmission is built in a timely manner to benefit all
1613 customers and consumers and that everybody has a voice.

1614 So this is a welcome development and we look forward to
1615 working with the Department of the Energy and the FERC.

1616 [The prepared statement of Mr. White follows:]

1617 ***** INSERT 3 *****

|
1618 Mr. {Whitfield.} Thank you.

1619 Mr. {Rush.} Mr. Chairman?

1620 Mr. {Whitfield.} Yes.

1621 Mr. {Rush.} Mr. Chairman, before we go to the next
1622 witnesses, I have a UC request. Mr. Chairman, Ms. Matsui is
1623 not on the subcommittee but she is interested in asking
1624 questions of this second panel, and one of her constituents
1625 will be testifying, so my unanimous consent request is that
1626 Representative Matsui be allowed to participate in the
1627 questioning of witnesses.

1628 Mr. {Whitfield.} Well, without objection, and of
1629 course, we have the rule of the committee that she will have
1630 to wait until all the members of subcommittee ask their
1631 questions, and we would be happy to do that.

1632 Mr. {Rush.} She will comply with that.

1633 Mr. {Whitfield.} Thank you, sir.

1634 Mr. Jones, you are recognized for 5 minutes.

|
1635 ^STATEMENT OF PHILIP B. JONES

1636 } Mr. {Jones.} Thank you. Chairman Whitfield, Ranking
1637 Member Rush. Former Ranking Emeritus Chairman Dingell, good
1638 to see you again. Members of the subcommittee, I appreciate
1639 the opportunity to testify today on federal transmission
1640 issues and transmission issues affecting the Western
1641 Interconnection in general which have been mentioned in the
1642 previous panel and the Pacific Northwest region and my State
1643 in particular.

1644 During my 6 years as a commissioner, I have been active
1645 in energy issues in the Western Interconnection and as a
1646 member of the Committee on Regional Electric Power
1647 Cooperation in the West, an entity which I describe in my
1648 testimony which has a long history of 3 decades of
1649 voluntarily cooperating to enhance electric power cooperation
1650 in the West.

1651 In my testimony, I include a map of the NERC
1652 interconnections. You may want to look at that.
1653 Representative Gardner, there have been some questions about
1654 regions and NERC and electric reliability regions, planning
1655 regions and other regions. It is a complicated area and each
1656 kind of reliability and economic and this new Order 890 have

1657 created new planning entities and they are all a little bit
1658 different. But I think the bedrock of the planning is the
1659 reliability organizations that are governed by NERC.

1660 As I said, this CREPC, this Committee on Regional
1661 Electric Power Cooperation, has been active in the West for
1662 years. It is voluntary. We think we are doing a good job in
1663 the West because outside of California and the Cal ISO we are
1664 generally what we call a vertically integrated market where
1665 the generation and transmission is owned by the same utility.
1666 The western region has been planning for renewable energy
1667 generation and integrating that into the grid. The WREZ, the
1668 Western Renewable Energy Zones, which I describe in my
1669 testimony, have been active for years. We have been working
1670 on integrating that renewable energy into the grid, and we
1671 commend the DOE and the FERC, both commissioners and staff,
1672 attend our meetings. And now of course, we have the
1673 interconnection-wide-funded effort by DOE to look at the
1674 interconnection-wide efforts, so there is a maze of acronyms,
1675 there is a maze of planning entities, and I would be happy to
1676 clarify on questions what they all do.

1677 The role of Bonneville as was described earlier, and
1678 maybe if Congressman Walden comes back we can get into that,
1679 that is critical in our region. Bonneville owns 75 percent
1680 of the high-voltage system in our region but under Bonneville

1681 we have two what we call two sub-regional groups,
1682 ColumbiaGrid and the Northern Tier Transmission Group, what
1683 we call NTTG, and that have been engaged in planning for the
1684 region since actually Order 890, so again, this is not new.
1685 Order 890 required even Colorado and all the regions of the
1686 country to start planning.

1687 The other development is WECC. This is what I showed
1688 you on reliability. Our reliability organization came out
1689 with a 10-year plan just 2 weeks ago for transmission. The
1690 bottom-line summary conclusion of that was no new
1691 transmission in the WECC region is needed by 2020 either to
1692 meet demand or to meet RPS needs. So again, transmission, as
1693 you know, can be driven by reliability issues, RPS needs or
1694 load. The WECC study indicated that no new transmission is
1695 needed. However, they are now conducting a 20-year plan to
1696 look at the needs way into the 2030 time frame and that
1697 investigation is underway now.

1698 A couple more points on Order 1000 and siting. Order
1699 1000, I think, has struck a good balance, as Chairman
1700 Wellinghoff said, between regional deference and the federal
1701 needs. He listened to us. We all submitted a lot of
1702 comments, and I think the FERC listened. Yes, on some issues
1703 like cost allocation, I would argue that FERC punted. FERC
1704 punted some of the issues down the road. There is nothing

1705 wrong with that. We live in a federalist system. So these
1706 cost allocation systems are going to be critical. One is in
1707 our region. Our region is participant funding, bilateral
1708 deals. We are not in an RTO region so participant funding is
1709 mentioned in Order 1000 as a possible way of funding
1710 transmission but you cannot use it for regional cost
1711 allocation mechanism. It has to be different than
1712 participant funding. But in my view, the order is a little
1713 bit fuzzy on the difference between participant funding by
1714 the transmission provider and whatever the new interregional
1715 cost allocation system is going to be, let us say between PJM
1716 and MISO. This is all to be worked out.

1717 The siting issues, just let me say a word on that. The
1718 States obviously felt very strongly about that. As many of
1719 you know, we weighed in quite strongly in--how should I put
1720 this--in opposition to the chairman's proposal on delegation
1721 of authority under Section 216. We think there are a number
1722 of reasons for doing that. I think it is kind of in the past
1723 now. But we are grateful for that decision but I can assure
1724 you on behalf of NARUC and member States in the West that we
1725 look forward to working with both the chairman and Lauren
1726 Azar on trying to get some of this stuff sited. The big
1727 issue in the West is federal agencies. As Congressman Walden
1728 said, whether it is BLM or the Forest Service, transmission

1729 projects in the West are being held up by federal siting
1730 delays.

1731 So Mr. Chairman, with those remarks, thank you.

1732 [The prepared statement of Mr. Jones follows:]

1733 ***** INSERT 4 *****

|
1734 Mr. {Whitfield.} Thank you very much.

1735 Mr. DiStasio, you are recognized for 5 minutes.

|
1736 ^STATEMENT OF JOHN DISTASIO

1737 } Mr. {DiStasio.} Thank you, Mr. Chairman, Ranking Member
1738 Rush and members of the subcommittee. Thank you for inviting
1739 me to address you today.

1740 My name is John DiStasio. I am the General Manager and
1741 Chief Executive Officer of the Sacramento Municipal Utility
1742 District, or SMUD, as we are called. SMUD has been powering
1743 California's capital region for 65 years. We have a
1744 population of 1.4 million customers, and I am testifying on
1745 behalf of also the Large Public Power Council. The Large
1746 Public Power Council is an association of the Nation's 25
1747 largest municipal and State-owned utilities. LPPC members
1748 own approximately 35,000 miles of transmission lines in the
1749 United States. We are not-for-profit systems and we are
1750 directly accountable to consumers. We are pleased to serve
1751 consumers in seven States represented on this subcommittee.

1752 I speak from the perspective of a utility that is among
1753 the most aggressive in the Nation in integrating renewable
1754 resources into its portfolio and an implementing demand-side
1755 management programs. Currently, 24 percent of SMUD's
1756 electric supply portfolio is renewable, and we plan for that

1757 figure to increase to 37 percent by 2020 and exceeding State
1758 mandates.

1759 FERC Order 1000 was designed to encourage greater
1760 regional transmission planning and the more efficient
1761 construction of new transmission facilities. The planning
1762 features of the order and the funding mechanism for the
1763 development of new transmission facilities that FERC directs
1764 utilities to develop in the planning process have been
1765 championed by developers of renewable resources that are
1766 located far from customers and require the development of
1767 long-line transmission facilities in order to be commercially
1768 viable. I am concerned that burdening ongoing planning
1769 discussion with debates over allocation of costs will
1770 undermine existing planning processes that are actually
1771 working fairly well. I am also concerned that the cost
1772 allocation mechanism that Order 1000 contemplates will
1773 provide a subsidy for remotely located renewable generation.

1774 Speaking for a utility that has invested heavily in
1775 local renewable and demand management resources, this subsidy
1776 calls for a form of double payment for renewable resources
1777 that my customers have already funded. Looking ahead, I am
1778 concerned that this subsidy will severely curtail the
1779 development of local renewable resources.

1780 I want to note that SMUD and other LPPC members have

1781 been active participants in existing regional planning
1782 processes. The requirement in Order 1000 that system
1783 planners now develop transmission cost allocation mechanisms
1784 based on a determination of so-called benefits calls for
1785 system planners to make highly subjective judgments. The
1786 commission fails to articulate a definition of such benefits,
1787 and I am concerned that controversy over the identification
1788 and associated allocation of costs will throw a wrench into
1789 planning processes that are now functioning effectively.

1790 As to cost allocation, Order 1000 requires that each
1791 region of the Nation develop a transmission plan that
1792 includes a cost allocation methodology meeting the
1793 commission's specified criteria. Although the order provides
1794 the planning region some flexibility in deciding how to
1795 allocate costs of new facilities, it clearly prevents
1796 planning regions from relying on participant funding. This
1797 term describes current practice, which calls for entities
1798 that take service over new transmission lines to pay for
1799 them.

1800 We are further troubled by language in Order 1000
1801 suggesting that costs may be allocated to entities even where
1802 no service relationship exists. This is a significant
1803 departure from historical FERC practice, which has always
1804 required an entity to agree to take service under a contract

1805 or a tariff before charges could be assessed. FERC's
1806 proposal seems to me a little bit like a restaurant which
1807 charges its customers for a list of items on its menus
1808 whether the customers choose to order them or not. In filed
1809 comments, we have expressed our belief that the commission
1810 lacks legal authority to allow developers to recover costs in
1811 this manner. We believe that allocating transmission costs
1812 broadly based on claimed benefits will subsidize transmission
1813 used to access remote resources. This may result in long,
1814 expensive transmission facilities being constructed to access
1815 remote resources even where there are no customers with a
1816 need to take service over them. We are concerned that this
1817 will result in the construction of unnecessary or
1818 underutilized facilities, the cost of which would be borne by
1819 consumers.

1820 SMUD owns and operates 102 megawatts of wind facilities
1821 with plans to more than double that capacity next year. We
1822 also operate one of the Nation's largest utility-sponsored
1823 solar programs that is going to be approaching megawatts in
1824 the next couple of years. These local generation investments
1825 have required only interconnection to local transmission. No
1826 new transmission lines have been needed to date. We believe
1827 that relying on these resources is a more efficient and least
1828 expensive way to meet the renewable policy established by our

1829 board and our State. These efficiencies will be lost if we
1830 are required under Order 1000 to pay for transmission we do
1831 not use.

1832 Thank you again for the opportunity to speak with the
1833 committee, and I look forward to your questions.

1834 [The prepared statement of Mr. DiStasio follows:]

1835 ***** INSERT 5 *****

|
1836 Mr. {Whitfield.} Thank you very much.

1837 Mr. Transeth, you are recognized for 5 minutes.

|
1838 ^STATEMENT OF STEVEN A. TRANSETH

1839 } Mr. {Transeth.} Good morning, Mr. Chairman, Ranking
1840 Member Rush and fellow committee members. It is an honor to
1841 appear before you today to talk about this very important
1842 issue that faces our country today. My name is Steven
1843 Transeth. I am a Principal Partner of the law firm of
1844 Transeth and Associates, which provides legal services and
1845 consulting services on energy issues. I am a former member
1846 of the Michigan Public Service Commission, and I have had
1847 over 25 years dealing with energy issues.

1848 I am here today to testify on behalf of the Coalition of
1849 Fair Trade Policy, which is a group of geographically and
1850 structurally diverse investor-owned utilities that have
1851 joined together for the purpose of promoting legislative and
1852 regulatory policies that will lead to a customer-focused
1853 development of the Nation's electric transmission system in
1854 support of the growing demand for clean generation resources.
1855 I would like to also stress the coalition is supportive, as
1856 has been stated many times today, in upgrading the grid and
1857 improving the grid to make sure that it meets our growing
1858 needs as we go forward. However, the coalition does have
1859 certain concerns on some of the progress that has been made,

1860 especially what has been done under Order 1000.

1861 The coalition believes that the costs of transmission
1862 must be allocated proportional to the measurable benefits the
1863 customer receives and an accurate cost allocation process is
1864 critical to ensure that the right price signals are sent and
1865 that the consumers are receiving clean energy at the lowest
1866 possible rates.

1867 The coalition believes that there are many deficiencies
1868 within the order but today I just want to talk really about
1869 three. The first is, we believe that too much delegation has
1870 been made to non-governmental regional entities to determine
1871 transmission planning and cost allocation. We must
1872 understand that these regional entities aren't necessarily
1873 continuous groups of entities that have a commonality of
1874 interest but many times have diverse types of interests and
1875 needs, and consequently you have regions such as RTOs, which
1876 was mentioned earlier, which may or may not necessarily be
1877 meeting the needs of each of its individual members vis-à-vis
1878 what we are talking about in terms of transmission today, and
1879 in fact, many of these regions, such as RTOs, have a
1880 contractual duty to the transmission operators and generators
1881 and do not have the legal responsibility or accountability to
1882 the customers to make sure that the rates imposed upon them
1883 are just and reasonable.

1884 Two: FERC has failed to provide limitations and
1885 parameters on what is going to be defined as a benefit and
1886 who are the beneficiaries. By allowing benefits to be
1887 defined very broadly and costs to be spread very widely, it
1888 is going to be possible to ensure that those two are
1889 commensurate, and consequently, you are going to have
1890 incidences--and I will speak to Michigan's situation in a
1891 minute--where customers are going to be forced to pay for
1892 benefits they do not receive.

1893 Finally, we believe that the Order 1000 does not go far
1894 enough in ensuring that States and localities do have a say
1895 in how these decisions are made. Michigan is another example
1896 where we are put into a situation where the RTO has made
1897 certain policy decisions in terms of how they are going to
1898 progress in terms of their transmission planning that we
1899 believe is detrimental to our State. By failing to require
1900 this bottom-up planning process, FERC has effectively
1901 eliminated consumers from the decision-making process. These
1902 concerns are not speculative but are currently being played
1903 out in the 13 States that make up the Midwest RTO. FERC last
1904 December approved a cost allocation system method that
1905 provides for new transmission called multi-value projects, or
1906 MVPS, and then allow for the socialization of those costs
1907 across all members of the RTO. The multi-value within these

1908 programs is the additional benefit factor of meeting public
1909 policy requirements but whose public policies are going to be
1910 advocated?

1911 Michigan recently, in fact 4 years ago, passed
1912 legislation to embark on a very aggressive program to make
1913 renewable energy as a driving mechanism of revitalizing our
1914 economy. Mr. Welch in the near future is going to be
1915 breaking ground on 500,000 megawatts coming out of our thumb
1916 to bring wind onto the market. Consumers Energy has built
1917 new wind farms in the Ludington area, and we are looking at
1918 putting offshore wind in our Great Lakes.

1919 You contrast that to what is occurring in some of the
1920 plains States of Minnesota, Iowa and South Dakota where they
1921 have adopted what seems to be the public policy that is going
1922 got be pursued by the RTO called MISO. That is building
1923 large wind farms and exporting that wind across long-distance
1924 transmission to the East. Those are both valuable and have
1925 merit in their own pursuit, but when you have a policy in
1926 place that promotes one to the expense of the other, you are
1927 going to have trouble. If the MISO tariff is allowed to
1928 stand as it is, it will eliminate Michigan's ability to
1929 pursue public policy as it has determined is best for its
1930 customers, and most importantly, we will end up paying for
1931 the cost of the transmission and receive little or no

1932 benefits in return. Michigan is not alone in this. We just
1933 happen to be first out of the barrel on this. This is
1934 something that could happen across the board as these RTOs
1935 develop their policy.

1936 We are not alone in our concerns, and the evidence is
1937 more than evident by the fact that over 60 petitions have
1938 been filed requesting a rehearing on Order 1000. We believe
1939 it is entirely appropriate and timely for Congress to conduct
1940 this hearing and consider the broad implications of Order
1941 1000.

1942 Once again, I thank you very much for allowing me this
1943 opportunity to testify, and I look forward to your questions.

1944 [The prepared statement of Mr. Transeth follows:]

1945 ***** INSERT 6 *****

1946

Mr. {Whitfield.} Thank you.

1947

Mr. Brown, you are recognized for 5 minutes.

1948 |
1948 ^STATEMENT OF NICHOLAS BROWN

1949 } Mr. {Brown.} Thank you, Chairman Whitfield, Ranking
1950 Member Rush and members of the committee. My name is Nick
1951 Brown. I am President and Chief Executive Officer of
1952 Southwest Power Pool, whose mission is helping our members
1953 work together to keep the lights on today and in the future.
1954 I want to emphasize helping our members work together. We
1955 don't do it for them, we don't do it to them; we help them
1956 work together to resolve these issues.

1957 We are a FERC-recognized regional transmission
1958 organization and in fulfilling our mission we administer an
1959 open-access transmission service tariff and we do serve as
1960 the planning for our members who serve customers in all or
1961 parts of the States of New Mexico, Texas, Oklahoma, Kansas,
1962 Nebraska, Missouri, Arkansas and Louisiana, 370,000 square
1963 miles service territory, over 57,000 miles of high-voltage
1964 transmission lines interconnecting over 850 generating units.

1965 We appreciate the opportunity to visit with you today
1966 about Order 1000. It has been our experience in fulfilling
1967 our strategic plan over the last several years of building a
1968 more robust transmission network that the single largest
1969 impediment to building a robust transmission network is how

1970 to allocate costs for needed transmission expansion in a fair
1971 and equitable way, and we have met that challenge in multiple
1972 ways. Last year, we received approval from the Federal
1973 Energy Regulatory Commission on a completely new integrated
1974 transmission planning process that looks at our needs on an
1975 iterative basis focused on a 20-year period, then a 10-year
1976 period, then a near-term period, and we have coupled that
1977 transmission planning process with cost allocation
1978 methodologies that do in fact pair the costs with the
1979 beneficiaries through a new highway-byway cost allocation
1980 methodology where the extra high-voltage facilities, the
1981 costs for which are shared very broadly across the entire
1982 footprint because our studies have shown and our States have
1983 agreed that everyone benefits from that extra high-voltage
1984 transmission. The lower-voltage facilities are paid for more
1985 on a local basis.

1986 It is important to note when we were approved as a
1987 regional transmission organization in 2004 that SPP delegated
1988 to our regional State committee the responsibility for
1989 determining the methodology to allocate costs for new
1990 transmission. The regional State committee consists of a
1991 commissioner from each of the States in which our members
1992 service. We brought them together. We determined how to
1993 calculate benefits for new transmission. Once that

1994 methodology for calculating benefit was determined, we ran
1995 studies, and the cost allocation methodology that we have in
1996 place that was approved by the FERC last year is a result of
1997 all of that very collaborative approach.

1998 Our experience again is that the single toughest issue
1999 is dealing with cost allocation, and our view of Order 1000
2000 is that the commission got it right with the requirement for
2001 regional planning. It is just not sufficient to build the
2002 type of transmission infrastructure that our country needs on
2003 looking at an individual company basis. So the requirement
2004 for regional planning was right on the mark.

2005 We also strongly support Order 1000's requirement that
2006 links cost allocation with transmission planning. It is a
2007 necessary step to move forward.

2008 We also strongly support Order 1000's requirement to
2009 construct transmission considering federal and State public
2010 policy needs, and we appreciate the flexibility that Order
2011 1000 gave regional planning authorities to consider the
2012 diverse needs of those public policy requirements within each
2013 region. We also strongly support Order 1000's requirement
2014 for interregional coordination and cost allocation, and while
2015 many believe the commission went too far, our region believes
2016 the commission could have gone further to allow little
2017 guidance on how to allocate costs for transmission facilities

2018 that have interregional impacts will just cause more delay
2019 and more confusion. We had to tackle that within our own
2020 region, and to expect that it can be voluntarily tackled on
2021 an interregional basis I believe will take a much more
2022 significant time than the 18 months in which we were given.
2023 The stakeholders within each region are diverse and the
2024 regions are diverse. It will simply take longer than 18
2025 months to work through a collaborative process to reach
2026 consensus on those issues.

2027 And I look forward to your questions.

2028 [The prepared statement of Mr. Brown follows:]

2029 ***** INSERT 7 *****

|

2030 Mr. {Whitfield.} Thank you very much.

2031 Mr. Welch, you are recognized for 5 minutes.

|

2032 ^STATEMENT OF JOSEPH WELCH

2033 } Mr. {Welch.} Mr. Chairman, Ranking Member Rush and
2034 members of the subcommittee, thank you very much for the
2035 opportunity to appear here today. My name is Joseph Welch
2036 and I am the CEO and President of ITC Holdings Inc.

2037 Mr. {Whitfield.} Do you have your microphone on?

2038 Mr. {Welch.} I do.

2039 Mr. {Whitfield.} Okay.

2040 Mr. {Welch.} Do I need to get it closer here?

2041 Mr. {Whitfield.} There were people in the audience
2042 quite upset that they didn't hear what you were saying.

2043 Mr. {Welch.} Well, I am glad to hear that.

2044 ITC, which is headquartered in Novi, Michigan, is the
2045 largest independent transmission company in the United
2046 States. ITC owns, operates and maintains transmission assets
2047 in Michigan, portions of Iowa, Minnesota, Illinois, Missouri,
2048 Oklahoma and Kansas, spanning both the MISO and SPP RTOs.
2049 Unlike most utilities, ITC is independent, meaning we are not
2050 a market participant. We do not generate, buy or sell power.
2051 We move electricity across our wires under a federal tariff
2052 at a regulated rate.

2053 It is no secret that our transmission grid is outdated

2054 and never has been designed to be a regional-serving grid.
2055 Today, 70 percent of the transmission lines are 25 years old
2056 or older, 70 percent of our large power transformers are 25
2057 years or older, and 60 percent of our circuit breakers are
2058 more than 30 years old and the interconnection between
2059 utilities are generally weak. Per capita consumption of
2060 energy has doubled in the same time period, and our
2061 population has grown by 50 percent. To add to the stress,
2062 the aging infrastructure energy demand is expected to
2063 increase by 25 percent by the year 2030.

2064 A quick history of the ramifications of underinvestment
2065 in transmission. In 2003, at a cost of nearly \$10 billion,
2066 the power went out for nearly 50 million people in the
2067 Midwest, the East Coast and Canada and highlighted the
2068 frailty of the interconnected grid. More recently, we have
2069 seen the effects of an outdated and stressed transmission
2070 system where southern California, Arizona and Texas have
2071 experienced blackouts. Not one of these instances was caused
2072 by lack of generation. The Department of Energy estimates
2073 that the major power outages and power quality disturbance
2074 costs the economy between \$25 billion and \$150 billion
2075 annually. In addition to blackouts, lack of investment leads
2076 to inefficient markets, energy curtailments, higher
2077 congestion and pockets of generation market power, all of

2078 which lead to higher energy prices. In response to the 2003
2079 blackout, this committee worked to pass the Energy Policy Act
2080 of 2005 and included provisions to help facilitate the
2081 investment in new transmission.

2082 FERC has been working with the regions to address the
2083 challenges that planning and cost allocation present to
2084 transmission expansion. Order 1000 is not perfect but it is
2085 an important incremental step forward. Regional planning has
2086 been going on for decades to some degree. It is not a new
2087 concept. The problem with regional planning is that the
2088 participation of regional transmission organizations is
2089 voluntary. Not surprisingly, that leaves these organizations
2090 hostage to competitive interests of market participants. If
2091 an RTO is considering a decision that will impact a market
2092 participant above market generation, they threaten to leave
2093 that RTO. The RTO then developed a suboptimal regional plan
2094 to retain the members.

2095 Order 1000 incrementally improves the regional planning
2096 process by requiring stakeholders to determine in advance
2097 what criteria the RTO will be using in the planning and
2098 requires RTOs to establish a process for interregional
2099 projects which do not exist today. Order 1000 also addressed
2100 the issue of paying for transmission projects that provide
2101 for regional benefits. The commission allows the regions to

2102 make proposals following six governing principles designed to
2103 protect consumers.

2104 FERC has an obligation to ensure that rates are just and
2105 reasonable, that they do not have anti-competitive effects.
2106 Rhetoric that FERC is mandating certain methodologies or
2107 forcing customers who do not benefit to bear costs is
2108 blatantly inaccurate and clearly intended to mislead this
2109 committee. In fact, Order 1000 specifically states, and I
2110 quote, ``Costs may not be involuntarily allocated to entities
2111 that do not receive benefits'' and must be roughly
2112 commensurate with the estimated benefits received from the
2113 project. More plainly put, if you do not benefit, you do not
2114 pay.

2115 I understand that those who are opposed to the regional
2116 transmission are seeking legislative ratemaking through S.
2117 400 or other legislation but I encourage that this committee
2118 consider their motives. They want Congress to undermine the
2119 agreements the regions, which are comprised of voluntary
2120 members, have spent years developing and federal government
2121 to impose transmission costs on small groups of users to make
2122 transmission costs prohibitive, retain captive markets and
2123 eliminate competitors. These results do not benefit
2124 customers.

2125 I would note that a number of utilities who comprise the

2126 transit coalition have some of the highest average retail
2127 rates in the region and they are here today opposing FERC's
2128 efforts to encourage transmission development and more robust
2129 competitive wholesale markets. I would suggest to this
2130 committee that this is more than a coincidence.

2131 Let me also make note to dismiss the notion that the
2132 transmission drives up electric bills. According to the U.S.
2133 Energy Information Administration, transmission costs account
2134 for only 7 percent of an average residential customer's bill
2135 while generation accounts for nearly 68 percent in Michigan,
2136 and in Michigan, the transmission portion of the bill is
2137 lower than the national average. It is only between 4 and 5
2138 percent. Let me say again, in Michigan, where over 8 years
2139 ITC has invested \$1.2 billion in the transmission system, we
2140 remain below the national average in terms of percentage of
2141 delivered energy cost to retail customers. Basically, this
2142 is because Michigan is one of the highest electric rates in
2143 the region.

2144 This may lead you to ask, if ITC has made such a
2145 significant investment in transmission in Michigan, how can
2146 we have the highest wholesale rates in MISO if in fact
2147 transmission lowers the cost of energy to customers. I want
2148 to close with this because the answer highlights the value of
2149 independence and explains why rational, independent, regional

2150 transmission planning and cost allocation mechanisms that
2151 allow these projects to be identified to be built are so
2152 vital.

2153 First, the \$1.2 billion was needed to just bring the
2154 system to reasonable standards. Next, the State sits on a
2155 seam between PJM and MISO, and there is no cross-border
2156 planning to identify the projects that would provide for the
2157 access of the most competitive generation in either RTO. And
2158 finally, the actual transmission projects that would be built
2159 to bring more competitive generation into the State lie
2160 outside the State of Michigan. The utility that we need to
2161 build the transmission to benefit Michigan will not if they
2162 do not see value for their customers that they have to
2163 charge. This is the perfect example of the problem that FERC
2164 Order 1000 addresses.

2165 My time is expired and I look forward to questions.
2166 Thank you.

2167 [The prepared statement of Mr. Welch follows:]

2168 ***** INSERT 8 *****

2169 Mr. {Whitfield.} Thank you very much.

2170 I am going to follow Mr. Dingell's admonition of trying
2171 to answer yes or no for the first question. How many of you
2172 believe that the cost allocation policy in Order No. 1000 is
2173 necessary to build new transmission lines in the United
2174 States? Mr. White?

2175 Mr. {Welch.} I do.

2176 Mr. {White.} I am going to say no.

2177 Mr. {Whitfield.} No?

2178 Mr. {Jones.} No.

2179 Mr. {DiStasio.} No.

2180 Mr. {Transeth.} No.

2181 Mr. {Brown.} Absolutely yes.

2182 Mr. {Whitfield.} So we have four nos and two yeses.

2183 Okay. Now, one of you, it may have been you, Mr. Transeth,
2184 or maybe it was Mr. DiStasio, stated that you do not believe
2185 that the commission has the legal authority to permit
2186 transmission developers to recover costs from entities with
2187 which they do not have a contract or a service relationship.
2188 Was that you, Mr. DiStasio?

2189 Mr. {DiStasio.} It was me, and while I am not an
2190 attorney, our attorneys have advised in looking at this that
2191 it is a pretty big departure from past precedent of how FERC

2192 has looked at this as well as the aforementioned case around
2193 cost causation. This really does create at least the
2194 opportunity for costs to be allocated to people that don't
2195 have a service need or relationship or a contract or a
2196 tariff.

2197 Mr. {Whitfield.} So you are obviously concerned about
2198 that?

2199 Mr. {DiStasio.} Yes.

2200 Mr. {Whitfield.} Okay. Now, Mr. Welch, you are a
2201 transmission developer. Do you think that they do not have
2202 the legal authority to permit that? I am assuming you do.

2203 Mr. {Welch.} They do have the legal authority to permit
2204 that.

2205 Mr. {Whitfield.} And your two lawyers have talked to
2206 each other about it, I guess, right?

2207 Mr. {Welch.} I try not to talk to lawyers.

2208 Mr. {Whitfield.} Now, I guess it was Mr. Transeth, you
2209 said that the commission's failure to limit--I asked the
2210 question to Mr. Wellinghoff about the lack of clarity on
2211 determining what is the benefit in calculating benefit and
2212 developing these cost allocations, and you say in your
2213 testimony that the commission's failure to limit in any way
2214 what individual regions may consider as benefits is a fatal
2215 flaw of the rule, and also that regions under the rule would

2216 presumably be allowed to assert that certain types or classes
2217 of projects have certain environmental or social benefits and
2218 that that might be used and therefore really socializing the
2219 cost. Do any of the other members have the same concerns
2220 that Mr. Transeth has on that issue?

2221 Mr. {Brown.} I do not, and primarily because of the
2222 governance structure within our organization. We are driven
2223 by our members. The members and the regional State committee
2224 are the stakeholders who are making the decisions on how to
2225 calculate the benefits. Some benefits are extremely easy to
2226 quantify. Other benefits are much more soft but either way,
2227 the stakeholders are working together to identify those
2228 benefits and that can occur in every region in the country.

2229 Mr. {Whitfield.} Mr. DiStasio?

2230 Mr. {DiStasio.} I agree with Mr. Transeth on that issue
2231 from the standpoint that once we commit to a regional
2232 planning process, we may not know what the calculation of
2233 benefits will be until we are already committed to cost
2234 allocation that could come out from the stakeholders that we
2235 would be on the losing end of that argument and ultimately
2236 get imposed costs that we otherwise would not have signed up
2237 for. So because we don't know the benefits up front, they
2238 may be very difficult to calculate, and if they get to FERC
2239 with all good intentions, it could end up being for benefits

2240 that we wouldn't agree exist.

2241 Mr. {Whitfield.} Well, it seems to me that this Order
2242 1000 certainly lends itself to considering so-called benefits
2243 that have never been considered before in order to pursue a
2244 social objective or environmental objective or whatever. Mr.
2245 Welch?

2246 Mr. {Welch.} Let me state too that I agree with Mr.
2247 Brown that Order 1000 really gave the flexibility to the
2248 regions, and I want to emphasize this one more time, which
2249 are voluntary organizations where people have got to come
2250 together and they sit at a table and the process in MISO I
2251 will talk about which Michigan is a member of, the process
2252 took in excess of 2 years for them to come to an agreement of
2253 any sort of how to allocate costs. Once you start talking
2254 about allocating costs, no one ever wants to pay the bill,
2255 but when you can get general agreement, that is as good as it
2256 is going to get, and I believe that Order 1000 absolutely
2257 sends the message to the regions to come together and do this
2258 on your own and gave them the flexibility of what to consider
2259 or what not to consider.

2260 Mr. {Whitfield.} Well, yes. It just seems to me that
2261 this certainly expands the Federal Power Act of just and
2262 reasonable and can go much further than was anticipated at
2263 one time, so that is one of the issues we are trying to deal

2264 with here.

2265 Mr. {Welch.} Can I just add to this? But the fact
2266 still remains, whether they consider that or not, there still
2267 has to be a benefit-to-cost ratio that exists before you can
2268 charge for it. So the fact that you consider the renewable
2269 resource or you can further expand that to think about
2270 integrating it into the grid. That is one issue. But the
2271 second issue is how the cost allocation is allocated, and
2272 that cost allocation cannot be allocated unless there are
2273 benefits commensurate with the cost. We can sit here and
2274 argue about that, but the fact is, it has got to be clear
2275 that the benefits line up with the costs.

2276 Mr. {Whitfield.} Well, you know, that is what the
2277 hearing is all about because FERC has issued this order, and
2278 maybe Congress may decide that it needs to do some
2279 legislation because maybe we don't view it the same way that
2280 FERC does. But that is why we have the hearings.

2281 Mr. Rush, you are recognized for 5 minutes.

2282 Mr. {Rush.} Thank you, Mr. Chairman.

2283 My question is directed to both Mr. White and Mr. Jones.
2284 In the comments made to my office by the Illinois Commerce
2285 Commission, the commission noted that FERC did not define the
2286 role of State regulators and did not provide a means for
2287 States to fully participate in transmission planning as

2288 stipulated in Order 890. The question to both of you is, are
2289 you satisfied that State regulators will be able to
2290 participate in a meaningful way in the planning process as
2291 outlined in Order 1000 or do you share the belief that FERC
2292 made a mistake in not prescribing a more substantive role for
2293 the States?

2294 Mr. {White.} Thank you, Mr. Rush. I do believe that
2295 the States and State commissions will have a substantive role
2296 in the planning process. However, in my view, more of the
2297 decision-making authority has been given to the RTOs to the
2298 regional process that, you know, should have been better
2299 defined, should have more clearly deferred to the States'
2300 authority. At the end of the day, we are the ones who have
2301 to ensure that the bills that our customers receive are just
2302 and reasonable and demonstrate the benefits, and I think that
2303 without that better clarification in the order, that is not
2304 evident, but I do believe that we will be actively and
2305 substantially involved in the planning process.

2306 Mr. {Jones.} Mr. Rush, I think the tension here is a
2307 delicate balance between being very prescriptive and giving
2308 flexibility. I think Chairman Wellinghoff really struck it
2309 right. I think there is a lot of flexibility to regional
2310 organizations in the Midwest, the West and elsewhere, and it
2311 is not that prescriptive. As I described in my testimony, I

2312 can just speak for the West, we have been doing this, as I
2313 said, for 3 decades voluntarily, and so we are used to it.
2314 The transmission providers do consult with us. We have these
2315 sub-regional groups that have filed open-access transmission
2316 tariffs with FERC. FERC has approved them. State
2317 commissions are involved in the planning processes for NTTG
2318 and ColumbiaGrid, the sub-regional groups.

2319 The only area where I would ask the subcommittee to be
2320 mindful of is DOE through taxpayer dollars has funded this
2321 very ambitious interconnection-wide planning effort, and the
2322 schedules are set to be done by the end of 2013. Taxpayer
2323 dollars are being spent. We commissioners are flying all
2324 over the country, I can tell you, the Western Interconnect,
2325 Texas in ERCOT, we are spending a lot of time in planning
2326 processes to take into account renewables, energy efficiency,
2327 nuclear, coal, you know, the whole gamut of possible
2328 generation technologies, and then integrating those into the
2329 modern grid. So the question I would urge the subcommittee
2330 to be mindful of is, how do those processes fit into Order
2331 1000 and the compliance filings. Right now, the timelines
2332 are 12 months and 18 months, as you know, so 12 months, the
2333 transmission providers have to file with FERC on the regional
2334 plans, 18 months, they have to file on the interregional cost
2335 allocation schemes. That is before they finish all these--

2336 before all these plans are rolled up, interconnection-wide
2337 and ISPC and in the West in ERCOT. So I would just hope that
2338 we are being consistent here. We State commissioners are
2339 spending a lot of time, effort and resources going to all
2340 these meetings and I just hope the federal government
2341 agencies, DOE and FERC, as you saw on the first panel really
2342 coordinate on this.

2343 Mr. {Rush.} In my discussions with Chairman
2344 Wellinghoff, he indicated that he wants to stress competition
2345 in the market in order to ultimately help reduce costs to
2346 customers, and this is a question for the panel. Does anyone
2347 want to comment on this and either agree or dispute the idea
2348 that the approach outlined by FERC will indeed increase
2349 competition and keep down consumer costs?

2350 Mr. {Welch.} I truly believe that it is going to spur
2351 competition, as I said in my prepared remarks. Number one,
2352 we don't have a grid that was designed to be truly
2353 interregional. Number two, we can't get the low-cost power,
2354 especially from Michigan into Michigan because the
2355 transmission developments lie outside the State, the things
2356 that we need to do to get that import capability. You know,
2357 there has been a lot of discussions here about, you know,
2358 whether we are going to integrate renewables and how that all
2359 figures out, but just imagine that--and we will change the

2360 discussion now to a different market. Let us talk about
2361 something like grain, and you read in the paper that there
2362 this is bumper crop in Argentina of wheat and all of a sudden
2363 you look at the commodities future in the United States and
2364 the price of wheat drops, and why is that? Because there is
2365 a low-cost supply coming into the marketplace and it is
2366 displacing other entities. And so when these other States
2367 start to develop these renewables, they are mandated in those
2368 States to come in, but it has the effect of displacing their
2369 low-cost generation that was otherwise used to serve their
2370 customers and makes it available to the marketplace to be
2371 bought. Michigan being a high-cost producer is the first
2372 State to benefit from such a marketplace if we can get the
2373 transmission built.

2374 Mr. {Rush.} Thank you, Mr. Chairman. I yield back.

2375 Mr. {Whitfield.} Thank you.

2376 Mr. Shimkus, you are recognized for 5 minutes.

2377 Mr. {Shimkus.} Thank you, and I really appreciate the
2378 panel. For electricity geeks like you all are and some of us
2379 have become, this is something we have talked about for a
2380 long time going back to the bills and, you know, electricity
2381 generation and the public utility commissions were in essence
2382 controlled within State lines and we did intend in the 2005
2383 energy bill to expedite siting and transmission, to start

2384 having a more vibrant market. Now we have evolved, and this
2385 green movement, which I would argue would bring high-cost
2386 electricity in, and now we have the debate on how are we
2387 going to pay for that and who is going to bear the cost when
2388 we as a public policy-wise push green and solar, which is
2389 high-cost electricity, and I have said this numerous times.
2390 It is credible. I am not making this stuff up. It just
2391 costs more.

2392 So now, who is going to pay for that? And then how do
2393 we define benefits and who is going to define the benefits?
2394 I would--if you stayed with the simplistic financial
2395 decision, low-cost power without government bureaucrats and
2396 politicians intervening and deciding what is good for the
2397 world, then you could do a basic market analysis and price
2398 calculation and drive for lower cost. But when we get
2399 involved and say we have got to go solar, we have got to go
2400 wind, we start taking some cheap coal power offline, we are
2401 intervening.

2402 So I think--so the point is, if the definition of
2403 benefits is vague, how do we really move forward? Does
2404 anyone want to take a shot at that?

2405 Mr. {Welch.} Well, I would go first, but I see Nick
2406 wanted to grab the microphone, and since he is on the side
2407 that has to--I don't think that the benefits are vague. They

2408 are cost benefits, plain, pure and simple in the end. You
2409 can't do a cost-benefit analysis with everything being
2410 quantified as a dollar bill, and in the end, it is simply
2411 money. The question becomes--

2412 Mr. {Shimkus.} But the policy at the State level
2413 intervenes with renewable power, that is more expensive, I
2414 mean, a mandate of a 10, 15 or 20 percent renewable power
2415 position.

2416 Mr. {Welch.} Who am I, and candidly, who are you, to
2417 tell each State what they want to have for their own--

2418 Mr. {Shimkus.} Who am I to determine on the
2419 transmission grid if we have to intervene, you can't define
2420 benefits and then you pass it on to States who don't want
2421 that.

2422 Mr. {Welch.} No, but at the State level, these people
2423 are passing laws in their State that they are going to have
2424 renewable portfolio standards. My job isn't to dictate
2425 whether that is a rational law or an irrational law. My job
2426 is to facilitate the marketplace in a way that makes it cost-
2427 effective, and when they put those facilities online, those
2428 people in that State have made the decision they want that.

2429 Mr. {Shimkus.} And those people in those States should
2430 be able to bear the higher utility costs and understand from
2431 whence it comes.

2432 Mr. {Welch.} And they are paying for that renewable
2433 energy. They are paying for that renewable energy. That is
2434 not being passed on to some amorphous people.

2435 Mr. {Shimkus.} But if you are in a regional
2436 transmission organization and you are expanding the
2437 transmission grid, and I think part of this debate is, I
2438 mean, really, this is about cost allocation or participant
2439 funding.

2440 Mr. {Welch.} No, it is about the cost allocation of the
2441 transmission--

2442 Mr. {Shimkus.} All right. You disagree. I have some
2443 nods that might agree with my position. Mr. Jones, I need
2444 some help here.

2445 Mr. {Jones.} Mr. Shimkus, I will--

2446 Mr. {Shimkus.} Bring in the cavalry.

2447 Mr. {Jones.} I am a State regulator and I am here to
2448 help you.

2449 Mr. {Shimkus.} Just like the government.

2450 Mr. {Jones.} Let the transmission--just let me make
2451 three points. Let the transmission planners do their work.
2452 These guys are good, the engineers. We have all these sub-
2453 regional plans. SPP is doing work, we are doing work in the
2454 West. These are good guys. They know how to quantify the
2455 cost-benefit analysis, what we call CBA, but incorporate all

2456 these new things that are a little more difficult to quantify
2457 but they can do it. So that is number one.

2458 Number two, a State like mine is an--we do 20-year plans
2459 called integrated resource plans, and those require least
2460 costs, so I am here to make sure that both transmission and
2461 generation is provided to my ratepayers at least cost. We
2462 update those plans every 2 years. I can tell that for my
2463 utility, Puget Sound Energy, the first 300-megawatt wind
2464 plant that they put in our State was least cost.

2465 Mr. {Shimkus.} And also have huge hydroelectric, which
2466 is very helpful.

2467 Let me go to Mr. White real quick, I mean, just making
2468 sure that for full disclosure, Mr. White.

2469 Mr. {White.} Yes, Mr. Shimkus. Thank you very much. I
2470 think you hit the nail right on the head. I think the
2471 definition of benefits is critical here. The devil is in the
2472 details. There are assumptions used by certain parties as to
2473 what constitutes a benefit, and that may not be shared or may
2474 not be accurate across the system.

2475 To Mr. Rush's question, there is no question in my mind
2476 that strategically developing transmission will facilitate
2477 markets and can deliver tremendous benefits to customers at
2478 the State, local, regional level. At the same time, if we
2479 are simply focusing on transmission as the answer to all, we

2480 are precluding a lot of other more strategic local options
2481 that could in fact be significantly less costly because they
2482 can connect directly to the distribution system, thereby
2483 bypassing the need for very, very expensive long-haul
2484 transmission systems, and so my point is, the devil is in the
2485 details and I think you are exactly right. The benefits is
2486 critical here.

2487 Mr. {Shimkus.} I want to thank the chairman.

2488 Mr. {Whitfield.} His time is expired, but I am going to
2489 let you two respond.

2490 Mr. {DiStasio.} I just wanted to respond with an
2491 example. First of all, if you look at my State and the
2492 States of many of the LPPC members, California has a
2493 renewable energy standard that envisions it will be developed
2494 in State, and our Governor just added another 12,000-megawatt
2495 requirement for distributed generation. So when we look at
2496 our resource planning, which we do bottom up, by the way, to
2497 get to least cost, we don't see a need to have long line
2498 transmissions paid for by our consumers because it really is
2499 in conflict with State policy. That said, we have certain
2500 occasions right now. We are connected to the Pacific
2501 Northwest and northern California, more so than southern
2502 California, and so we have a line that was built to access
2503 hydro from the Northwest and for us to transmit power when it

2504 is cold in the winter there and they transmit down to us when
2505 it is hot in the summer in California, but we did it on
2506 participant funding and we actually have people that operate
2507 on that line with different market models. So there are
2508 examples of this occurring, especially in the West, where we
2509 effectively don't need additional cost allocation mechanisms
2510 to make these kind of investments work.

2511 Mr. {Jones.} Mr. Shimkus, we do share that low-cost
2512 cheap hydro with our friends in California.

2513 Mr. {Transeth.} Just to answer the question about this
2514 whole concept of benefits and the lack of definition, I think
2515 it goes even further than that. It is not just the benefits,
2516 it is who the beneficiaries are that need to be also included
2517 in this process. A good example, like I said in my
2518 testimony, this is a lot of speculative. We have a case
2519 study going on right now with the MISO--that is the Midwest
2520 RTO--and what is going on in our--how does Indiana, who does
2521 not have an RPS, it doesn't need the value of renewables that
2522 are going to come out of these MVP projects yet they are
2523 going to be forced because they are part of the region to pay
2524 for the cost commensurate to whatever it is that their load
2525 is for that new energy. If you don't connect those two,
2526 benefits and beneficiaries, you can never have a commensurate
2527 measure. You have to decide is this a defined benefit that

2528 we can measure, and plus, is those who are going to actually
2529 see the benefits receiving it commensurate to what costs you
2530 are imposing upon them.

2531 Mr. {Shimkus.} Great panel, Mr. Chairman. Thank you.

2532 Mr. {Whitfield.} Thank you.

2533 Mr. Engel, you are recognized for 5 minutes.

2534 Mr. {Engel.} Thank you very much, Mr. Chairman.

2535 I want to direct a few questions to Mr. Transeth because
2536 I understand you are testifying on behalf of the Coalition
2537 for Fair Transmission Policy.

2538 Mr. {Transeth.} Yes.

2539 Mr. {Engel.} And includes Con Edison of New York--

2540 Mr. {Transeth.} Yes.

2541 Mr. {Engel.} --as a member. I represent a lot of New
2542 York City and Westchester County, and I want to make sure
2543 that we understand your concerns. Firstly, do you agree with
2544 Chairman Wellinghoff and NERC that we will need significant
2545 expansion of our power lines by 2019?

2546 Mr. {Transeth.} I am going to go back to one of the
2547 comments I made during my original testimony, and that is,
2548 this it not about an obvious need, as Mr. Welch talked about,
2549 in terms of improving and upgrading the system and making
2550 sure that we are going to be able to meet our energy needs as
2551 we are going forward. The question involved in this whole

2552 debate is, you know, where are we going to build this
2553 transmission, how much are we going to build and who is going
2554 to pay for it, and that last one is really the key that we
2555 are going to keep stumbling upon as we have got to make
2556 decisions, and that is going to my comments just a few
2557 minutes ago is deciding what are the benefits, who are the
2558 beneficiaries, and somehow or another coming up with some
2559 meaningful and supportable proposition of how those are
2560 roughly commensurate, as the 7th Circuit put forth in their
2561 case.

2562 Mr. {Engel.} Let me give you a chance to expand and
2563 talk about cost allocation, because that is what everyone is
2564 concerned about here. I understand the current law, once a
2565 transmission is approved, I understand the grid operators
2566 have fairly broad discretion in determining who ought to pay
2567 for the line. It could be all regional customers. Am I
2568 correct? Or it could be a subset of consumers directly
2569 benefiting from the line? Am I correct about that?

2570 Mr. {Transeth.} Maybe one of the--

2571 Mr. {Brown.} It depends on the region and the
2572 provisions in each regional tariff.

2573 Mr. {Engel.} Okay.

2574 Mr. {Transeth.} I guess I assume that if MISO, which is
2575 what we are asking, we would like them to designate Michigan

2576 as a separate sub-region. I see no reason why they couldn't
2577 amend their tariff and do that, and that is what we are
2578 seeking and looking for. So yes, I guess the answer to that
2579 is, if they determine that in fact Michigan is not receiving
2580 sufficient benefits to warrant 20 percent of the cost of
2581 these MVP projects, that they could designate us as a
2582 separate sub-region.

2583 Mr. {Engel.} Let me give you a chance to add on to some
2584 of what you said.

2585 Mr. {Transeth.} That is always dangerous.

2586 Mr. {Engel.} Only on our side it is.

2587 In your opinion, does Order 1000's cost allocation make
2588 transmission cost determinations more or less fair than the
2589 current system?

2590 Mr. {Transeth.} The potential is--as I said many times
2591 about Order 1000, it is not so much what it says, it is what
2592 it doesn't say. I think that the basis is there. It is all
2593 going to kind of come out in how this is finally determined.
2594 At some point or another, some decisions are going to have to
2595 be made, at rehearing or as they go through the compliance
2596 filings. That is going to somehow or another wash out and we
2597 are going to know more about where they are coming, and I
2598 guess it is coming from the chairman's question that I
2599 disagree with Chairman Wellinghoff's statement. I think that

2600 there is a problem with clarity with this order, and that is
2601 what we have to get to. We need to start inserting some
2602 clarity into Order 1000 if we are going to get to the point
2603 that you are asking.

2604 Mr. {Engel.} Am I right in saying that Order 1000,
2605 according to my interpretation of it, the costs need to be
2606 allocated at least roughly commensurate with the estimated
2607 benefits and those who don't receive benefits should not be
2608 allocated costs and no costs should be allocated to another
2609 region unless that other region agrees to it?

2610 Mr. {Transeth.} That is the principles in which they
2611 establish in Order 1000. I don't know if as you read the 620
2612 pages that that necessarily comes out in the wash in the
2613 process, but that is a principle that they stated, and by the
2614 way, much of that language comes directly out of the 7th
2615 Circuit case, so I assume that that was one of the factors in
2616 which why they issued some of the language they did in Order
2617 1000.

2618 Mr. {Engel.} In your testimony, you testified that
2619 Order 1000 does not define the term ``benefits.'' Mr. White
2620 recently mentioned the benefits. What definition of benefits
2621 do you think is appropriate?

2622 Mr. {Transeth.} Well, a \$64,000 question I guess.
2623 Well, that is going to be--I suppose if I knew the exact

2624 answer to that, I should be sitting on FERC, but I think at
2625 the very minimum, we have to make sure that whatever benefits
2626 that we are looking at, that they are going to be somewhat
2627 measurable. We have got to be able to say this is a benefit
2628 and somehow or another this is going to have some measurable
2629 impact on certain parties, and that gets to the second part
2630 that I talked about where you need also to be able to find
2631 who the beneficiaries are.

2632 Mr. {Engel.} Let me ask you a final question under the
2633 wire with the chairman's benevolence. Will Order 1000 in
2634 your opinion result in New York City residents have to pay
2635 more for their electricity, and if so, why?

2636 Mr. {Transeth.} I wouldn't want to speculate on that.

2637 Mr. {Engel.} No hunch?

2638 Mr. {Transeth.} In and of itself, Order 1000 would not
2639 do that. It is how that gets implemented is whether that
2640 happens or not. If it goes the way that we are afraid, it is
2641 probably going to raise your cost. If on the other hand some
2642 of our concerns are addressed and there is some clarity
2643 brought into the process, no, then I think we get into some
2644 of the situations that Mr. Welch was talking about in terms
2645 of actually making some kind of meaningful impact with
2646 transmission and competitive markets.

2647 Mr. {Engel.} Thank you, Mr. Chairman.

2648 Mr. {Whitfield.} Mr. Pompeo, you are recognized for 5
2649 minutes.

2650 Mr. {Pompeo.} Thank you, Mr. Chairman.

2651 Anybody on the panel--by way, Mr. Shimkus said he is an
2652 electricity geek. That must make me an electricity geek in
2653 training.

2654 Does anybody on the panel think that Order 1000 favors
2655 or disfavors any type of power generation either
2656 intentionally or in its effect?

2657 Mr. {Jones.} I would say no with the exception that it
2658 has a heavy emphasis on public policy requirements State by
2659 State, and you know what has been going on in the States. It
2660 is no secret. Thirty States have RPSs.

2661 Mr. {Pompeo.} Including Kansas.

2662 Mr. {Jones.} Pardon?

2663 Mr. {Pompeo.} Including Kansas.

2664 Mr. {Jones.} Including your State.

2665 Mr. {Pompeo.} And so you are saying then that it
2666 benefits or it is designed to try and take account for and
2667 acknowledge those public policies that those States have
2668 created?

2669 Mr. {Jones.} Correct.

2670 Mr. {Transeth.} Representative?

2671 Mr. {Pompeo.} Yes.

2672 Mr. {Transeth.} I guess I would word it as Order 1000
2673 allows for the opportunity which it did not before to States
2674 to establish a public policy that says we want renewables and
2675 so it will be developed that way.

2676 Mr. {Pompeo.} Thank you.

2677 You know, I think things work pretty well in the
2678 Southwest Power Pool. I think we have actually done a pretty
2679 good job, as I have now had a chance to learn more about it.
2680 How many of these--we talked about these interregional
2681 planning. How many interregional lines would have been built
2682 in 2010? Do these happen once a decade? Do we have one
2683 every couple hours? How many of these are we really talking
2684 about?

2685 Mr. {Brown.} Well, without knowing how to allocate the
2686 costs for those lines, I would agree with Mr. Welch, none.
2687 In our region, since the Energy Policy Act of 1992, very,
2688 very little transmission has been built because no one really
2689 knew how to allocate the costs and who was benefiting from
2690 the expansion of the transmission network, and so when we
2691 tackled the issue of cost allocation and our footprint, now
2692 all of a sudden we have notices to construct to our members
2693 that exceed \$5 billion worth of transmission over the next 10
2694 years. It clearly was an impediment in our region. I can't
2695 speak for the West, because I seem to think they are building

2696 all the transmission they need. We were not. We are now.
2697 And in terms of understanding the benefit from an engineer's
2698 perspective, it is a very simple calculation of adjusted
2699 production cost savings, and all of our States are used to
2700 dealing with that particular type of calculation. Everyone
2701 has used it in regulatory proceedings for decades and it is a
2702 very simple calculation. It has worked in our region.

2703 Mr. {Transeth.} Representative, I think that the answer
2704 to that is, we have long neglected our transmission system
2705 for too long and we are now on the verge of I think seeing a
2706 new, I don't know what you want to call it, a renaissance,
2707 but we are going to see a lot of transmission built in the
2708 coming years. I think that the way we generate, transmit and
2709 use energy is going to look completely different 10, 20 years
2710 from now, and all of that is going to come into play with
2711 some of the decisions like we are making today.

2712 Mr. {Pompeo.} Great. I have heard some concerns, Mr.
2713 Welch, I will direct this to you, that Order 1000 creates the
2714 risk over the overbuild of transmission lines and it will
2715 create excess capacity either as a national matter or in
2716 particular localities or regions. Do you have any thoughts
2717 on that?

2718 Mr. {Welch.} I do, and as a matter of fact, in my pre-
2719 filed testimony, I give to the committee members a couple of

2720 maps. One map shows the high-voltage grid in the United
2721 States and the other map shows the interstate highway system
2722 in the United States and another map shows the interstate gas
2723 pipelines in the United States and look at them and ask
2724 yourself, especially in States like Kansas, if you think that
2725 you are going to have a levelized electric access to
2726 competitive markets with totally the absence of a high-
2727 voltage electric grid, the map is stark by its own realities
2728 that there is none there, so much so that in Kansas when we
2729 first came there to do business, we were asked by the State
2730 legislature to come and help them out because they were
2731 frustrated because in Nick's area, they were still wrestling
2732 to the ground this issue of cost allocation, and there were
2733 lines there that had such huge benefits to Kansas, they said
2734 well, hell, we will just pay for them ourselves, we have to
2735 get somebody to build them. Huge price disparities across
2736 the State of Kansas. In fact, if memory serves me right, 6
2737 cents a kilowatt-hour difference between the east side of the
2738 State and the west side of the State, so if you are on the
2739 west side of the State, you are not too happy.

2740 Mr. {Pompeo.} Yes, I am familiar with that.

2741 Mr. {Welch.} And as a result of that, we need to get
2742 that regional transmission built, and you have people there
2743 that aren't large enough to enjoy the benefits of large power

2744 plants. As you know, they are trying to build a large power
2745 plant there. Without that transmission system that lets it
2746 get to other small regional users in Oklahoma and other
2747 States, it won't exist and again you will be captive to that.

2748 So look at the map and ask yourself if this is--if those
2749 maps that you see there is the road, the map gives us the
2750 future of what is going to be a competitive energy market.
2751 It is stark. I don't think in my lifetime based on
2752 everything I have seen today, I don't think in my lifetime we
2753 can overbuild a transmission grid. It is just virtually
2754 impossible by all the things--just to get to the cost
2755 allocation, we have been at this about 10 years. Now we are
2756 going to address siting. We are worried about giving FERC--
2757 first we don't want FERC to say anything or we want them to
2758 say everything about the benefits so we can pinpoint that but
2759 we don't want them involved in siting, and so this is a
2760 system that just isn't set up for us to get where we need to
2761 be.

2762 Mr. {Pompeo.} Great. Thank you. We would love to
2763 build that power plant in western Kansas. My time is
2764 expired.

2765 Mr. {Transeth.} Mr. Chair, could I just give a counter
2766 answer to that, I guess to a certain extent, if I could have
2767 just a few minutes?

2768 Mr. {Whitfield.} Then Mr. DiStasio will want to make a
2769 comment.

2770 Mr. {Transeth.} I just want to say, I guess I think
2771 that there is the potential of overbuild with this because
2772 you are removing a lot of the traditional economic factors
2773 that would go into decision-making. You don't have a best
2774 practice sometimes in play if you are socializing cost over a
2775 broad system so I think that there is the potential. We
2776 would have to be very careful to make sure that that doesn't
2777 happen, but that would be one of the fears I would have that
2778 you have gold-plated transmission systems as opposed to what
2779 might be that which is adequate.

2780 Mr. {DiStasio.} And I would just echo that in that if
2781 the need is not clearly identified and the benefits test
2782 isn't clearly articulated, you could end up with a
2783 circumstance where there is really not a need for
2784 transmission if you go through a typical resource planning
2785 process. Clearly, transmission is part of that but some of
2786 the cities we represent--Sacramento, Orlando, Phoenix--we
2787 don't need additional resources nor do we need additional
2788 transmission. The Western Energy Coordinating Council study
2789 that was talked about says there is no new transmission
2790 needed in the West until at least 2020, and then frankly,
2791 they are doing a 20-year study that will look out beyond

2792 that, but we have no load growth in our system. We still are
2793 struggling with a difficult economy so if some of these lines
2794 were to get built under other public purposes, we could end
2795 up with stranded investment that would actually compound the
2796 issues that are happening in our communities right now by
2797 adding cost to consumers for facilities they don't need.

2798 Mr. {Whitfield.} Thank you very much.

2799 Mr. Bilbray, you are recognized for 5 minutes.

2800 Mr. {Bilbray.} Thank you very much, Mr. Chairman.

2801 It is interesting to hear some of the discussions from
2802 the different parts of the world, and clarification, Mr.
2803 Jones, we do not in San Diego, southern California may get
2804 the hydro but San Diego doesn't, and I just want to make sure
2805 that Mr. Walsh understands that southern California and San
2806 Diego were blacked out. We never want to be mixed up with
2807 Los Angeles, okay? In fact, our slogan is ``Better north TJ
2808 than south L.A.``

2809 But seriously, Mr. Jones, I am going to get down into
2810 the grass here if not right into the dirt on some of this
2811 stuff because I think it is important. I think we all--and
2812 this is one thing Democrats and Republicans should be able to
2813 agree on. Conservation avoidance of cost is the most
2814 efficient way of providing services as a base, and one of the
2815 things that Mr. Jones brought up that I think we need to talk

2816 about now while we are talking about who is going to pay what
2817 and where is this, you know, immense cost caused by
2818 obstruction of the federal government in siting alignments.

2819 Now, the Sacramento area may be able to go to
2820 renewables, because let us face it, you go out in your
2821 suburbs, you have got old farmland, you have got areas to
2822 convert. You are not surrounded by gnatcatcher habitat. You
2823 do not have to go over mountains to be able to get out of the
2824 area so you can legally site some of these facilities. What
2825 about the fact that we don't seem to see real general
2826 planning or intricate planning on the siting of these
2827 alignments to start with?

2828 I will give you an example. You can't go through a
2829 national forest. You can't go through an Indian reservation.
2830 To get out to our solar farms in the Imperial Valley, our
2831 lines have to be three times longer than the freeway that
2832 drives out there. Now, we are a country that says it is fine
2833 to run a freeway through an Indian reservation and a national
2834 forest but not a power line going out to a clean energy
2835 source. Now, Mr. Jones, wouldn't you agree that maybe
2836 Democrats and Republicans ought to be talking frankly and
2837 openly about what we need to do to change the system to make
2838 it easier and most cost-effective to start siting those lines
2839 before we even start talk about building them?

2840 Mr. {Jones.} Yes, absolutely, and I think you need to
2841 direct these questions to Lauren Azar. I think she is a
2842 troubleshooter and she is supposed to be heading up these
2843 rapid response teams dealing with these federal agency issues
2844 that really impede the development of transmission in the
2845 West.

2846 But your other point on energy efficiency and demand-
2847 side management is well taken too, and I can assure you that
2848 the commissioners and the governor representatives were all
2849 looking at different scenarios in the West so that we may not
2850 have to build that \$5 billion transmission line that connects
2851 San Diego with the Columbia River or with wind in Wyoming or
2852 wind in Alberta.

2853 Mr. {Bilbray.} We would just like to get out to our
2854 desert.

2855 Mr. {Jones.} So my point--

2856 Mr. {Bilbray.} By the way, let me point out that we
2857 have been trying for 25 years with about eight different
2858 alignments to run the gauntlet through the federal government
2859 to get to be able to make that connection, but go ahead, Mr.
2860 Jones.

2861 Mr. {Jones.} My only point is that we do have NGOs and
2862 stakeholders that participate in our processes who feel very
2863 strongly about these public values in our national lands, so

2864 if we are going to build those transmission lines through
2865 these public sensitive areas, as a State regulator, my
2866 biggest concern is that they are least cost.

2867 Mr. {Bilbray.} Okay. Let me stop it right now and just
2868 say this. If you run a city and a county, a city basically
2869 has a fiduciary responsibility to site easements for water,
2870 gas and electric, but when you get outside of the
2871 unincorporated areas, we have not required under the Johnson
2872 Act for local council of governments, counties, the regional
2873 governments to do the same type of siting for transmission
2874 lines that every city does, every municipality does in this
2875 country, and we have approached it that well, that is the
2876 private sector or somebody else's problem. Is there any
2877 reasonable argument against the federal government finally
2878 saying under the Johnson Act we require you to do this, this,
2879 this but we are also now going to require that you sit down
2880 and figure out where the appropriate easements are and start
2881 pre-siting these and be a participant in it preplanning like
2882 we do with zoning right away for these alignments like we do
2883 other things. Go ahead, jump in.

2884 Mr. {DiStasio.} Can I answer that? First of all, I
2885 want to comment because we have been somewhat critical of
2886 Order 1000 but specific to siting, we have been very
2887 supportive of the efforts. In fact, several lines have been

2888 identified just under the same types of conditions that you
2889 are suggesting where corridors have been identified. We
2890 supported FERC getting backstop authority if the States
2891 couldn't act within a year for FERC to go ahead and assist
2892 with siting those lines.

2893 Mr. {Bilbray.} Stop, stop. FERC doesn't know the land
2894 use, doesn't know the easement, doesn't know endangered
2895 species, doesn't know the terrain, and the trouble is, FERC
2896 comes in an outsider when you already have local governments,
2897 cities and counties serving as a body that could be making a
2898 decision on this, they make it on everything else. They make
2899 it on military bases, they make it on all kind of easements.
2900 Why is this different than what we would do with our roads?
2901 We do it with freeways. Why don't we do it with our power
2902 lines?

2903 Mr. {DiStasio.} Understood. I was just commenting on
2904 the fact that we are very supportive if something does need
2905 to get done about siting. Our issues have been relatively
2906 narrow to cost allocation when it comes to Order 1000, and I
2907 would also like to say, your comments about energy efficiency
2908 are very well taken. We have 15 percent energy efficiency we
2909 are doing over 10 years, and we are doing that before we look
2910 at any other investments.

2911 Mr. {Bilbray.} Mr. Chairman, I appreciate that, and I

2912 just wanted to point out that if we built our freeway system
2913 the way we are trying to put our interlinks not just
2914 electricity but also gas and water and a lot of other things,
2915 we would still be driving on two-lane roads around this
2916 country. We don't ask the private sector or the locals to
2917 decide and lay all these out. These are all preplanned and
2918 done comprehensively regionally and State-wide, and we need
2919 to be aggressive about that, and that is something Democrats
2920 and Republicans should be able to work on because it is our
2921 fault we have taken leadership there, it is not theirs. I
2922 yield back.

2923 Mr. {Whitfield.} Well, you know, transmission cost
2924 allocation brings out the passion in all of us.

2925 Ms. Matsui, you are recognized for 5 minutes.

2926 Ms. {Matsui.} Thank you, Mr. Chairman, and thank you
2927 for allowing me to ask questions on this panel.

2928 I am fast becoming a geek too. This has really been
2929 very, very interesting, and I had a bunch of questions I want
2930 to ask you but most of them have been talked about. I really
2931 want to get to the nub of what we are talking about here. I
2932 am from California. SMUD is my local utility and has been
2933 having great customer satisfaction, according to J.D. Powers,
2934 for at least 9 years. So we understand in a sense SMUD and
2935 what SMUD has been trying to do with energy efficiency and

2936 renewables and so forth, and sitting here today listening to
2937 what you have gone through the Northwest in sharing and
2938 helping each other, that to me is a solution to many of the
2939 situations that we encounter in the western part of the
2940 United States. I guess what I saying is that when we have
2941 local solutions and we have policy that actually advocates
2942 for energy efficiencies and investments in them and you have
2943 cooperation, it is working, and I think what I am looking at
2944 from that side is the sense that you still need this national
2945 type of outlook on transmission, which I think is important
2946 also. But some of it I am looking at is also that it might
2947 be something that we generally look upon as something we do
2948 historically in the past as we laid out the freeways and the
2949 railroads and things of that nature, which may not work out
2950 today.

2951 So I guess what I am going to ask you is that I guess
2952 the four of you or so on this side who have a wish list about
2953 what you would like to see as far as some flexibility moving
2954 forward from FERC and from the other side what you can accept
2955 from this side because I think there is a solution here, and
2956 I think it is how you go about is what we are talking about
2957 today. So kind of quickly, what would you like to see as far
2958 as FERC and this order we are talking about moving forward
2959 and implementing it?

2960 Mr. {White.} Thank you very much. I do believe, and we
2961 are supporter of FERC Order 1000 in the sense that it does
2962 move the ball forward. It helps better focus the planning
2963 objectives and the construct for decision-making. What we
2964 would like to see is that greater flexibility be given so
2965 that we can be part of that decision-making process in terms
2966 of how these projects will be paid for and so that there is
2967 clearly measurable benefits. We have no problem paying for
2968 projects for which we benefit, even if they are located
2969 outside of the State that I work in. But the way some of
2970 this construct has been developed, it perhaps overgeneralizes
2971 or assumes level of socialization of the costs and benefits
2972 in a way that creates almost a one-size-fits-all mentality,
2973 therefore precluding the ability of local solutions including
2974 efficiency, including more strategically placed generation.

2975 Ms. {Matsui.} Do you agree also, Mr. Jones and Mr.
2976 DiStasio?

2977 Mr. {Jones.} Yes, I agree with that. I think the Order
2978 1000 struck the balance properly in the execution of it. It
2979 is important to continue these regional planning processes
2980 that we have in the West between California, the desert
2981 Southwest and the Northwest. I think those will continue.
2982 The proof in the pudding, though, is going to be in the
2983 regional planning, compliance filings in 12 months and then

2984 as all of us has mentioned, cost allocation is a key issue,
2985 interregional cost allocations. Between California and the
2986 Northwest, we have traditionally funded those on participant
2987 funding where the benefits are clearly identified and the
2988 beneficiaries pay through a long-term contract.

2989 Mr. {DiStasio.} And I agree with that. I think to put
2990 a finer point on it, I think Order 1000 was a well-
2991 intentioned order but we do need to have beneficiary pays as
2992 one of the permissible options for people to share the costs,
2993 a willing seller and a willing buyer determining that there
2994 is a need for that line.

2995 Mr. {Transeth.} There is not really much I could add
2996 other than to once again say this is not really a question.
2997 I think we all can agree that we need to be looking at a
2998 robust transmission system that is going to meet our future
2999 needs but this is really coming down to once again, you know,
3000 where are we going to build this, how much and who is going
3001 to pay for it, and that is where the difficulty is occurring
3002 between--

3003 Ms. {Matsui.} Can you help us out there?

3004 Mr. {Brown.} The process that Southwest Power Pool has
3005 in place takes all of those things into account. The
3006 beneficiaries do pay. They are involved in the planning
3007 process to ensure that we don't overbuild or underbuild, and

3008 the States have total control of the cost allocation
3009 methodology.

3010 Ms. {Matsui.} So you think that is a model? Do you
3011 agree?

3012 Mr. {Jones.} Yes. That works well for SPP, and
3013 actually SPP has been up in the Northwest talking about an
3014 energy and balance market for integrating wind, so we like
3015 what they are doing.

3016 Ms. {Matsui.} All right. I am over, but am I allowed
3017 one more comment here? Thank you.

3018 Mr. {Welch.} Well, I will just go back to what I said
3019 in my prepared comments, and I am going to quote one more
3020 time from FERC's order: ``Costs may not be involuntarily
3021 allocated to entities that do not receive benefits.'' End of
3022 statement. I mean, that is pretty direct. And I said that I
3023 supported this, and at the end of the day, I would be remiss
3024 to say that, you know, I would never support something to be
3025 allocated to the customers that I am entrusted to serve that
3026 they didn't get benefits from.

3027 Ms. {Matsui.} Thank you very much, and I find this very
3028 interesting, Mr. Chairman, because in California we do have
3029 these huge water fights too where we talk about the
3030 beneficiary and who pays. Thank you very much. I appreciate
3031 it.

3032 Thank you, Mr. Chairman.

3033 Mr. {Whitfield.} And thank you all very much. We
3034 appreciate your time and your expertise, and I would like to
3035 say that Mr. Dingell had to leave but that he did want me to
3036 let all of you know that he intends to submit some additional
3037 questions to you to answer and get back with us, so we would
3038 appreciate that.

3039 Mr. {Rush.} Mr. Chairman, I just would like to ask that
3040 you keep the record open for the requisite amount of time.

3041 Mr. {Whitfield.} You may keep it open for 10 days. We
3042 will keep it open for 10 days.

3043 And we look forward to working with all of you as we
3044 move forward, so thank you very much, and that concludes
3045 today's hearing.

3046 [Whereupon, at 12:28 p.m., the subcommittee was
3047 adjourned.]