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U.S. DEPARTMENT OF ENERGY

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TRANSMISSION GRID STUDY WORKSHOP

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PHOENIX, ARIZONA

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20 LOCATION: Phoenix Airport Marriott
1101 North 44th Street
21 Phoenix, Arizona 85008

22 DATE: September 28, 2001

23 TIME: 9:05 a.m. to 1:00 p.m.

24 REPORTER: Diana Ramos, Certified Shorthand Reporter

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1 P R O C E E D I N G S

2 September 28, 2001

3 (9:05 a.m.)

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5 MR. GLOTFELTY: Good morning. Thank
6 you all for being here. As you know, this is the
7 team from the U.S. Department of Energy and we're
8 conducting a National Transmission Grid Study and we
9 appreciate your participation today.

10 First, I want to thank Governor Hall
11 for being here. We really appreciate the friendship
12 and the leadership that she has shown in this issue.
13 We -- as many of you know, we have a partnership --
14 the Department of Energy and four other federal
15 agencies have a partnership with the Western
16 Governors' Association, of which Governor Hall is the
17 chairman.

18 We think this is a great platform for
19 solving a lot of these electric issues that face the
20 West and are eager to start putting issues into that
21 forum to -- and solving them in a timely basis.
22 Governor Hall has done a great job out here on
23 encouraging power plant development and learning the
24 issues and being a true leader on these issues.

25 She's been a great teacher because she

1 does understand the interrelationship between
2 generation and transmission and is a leader in trying
3 to solve problems, whether they be federal-state
4 issues or power plant development issues or
5 transmission siting issues, and we appreciate the
6 leadership and appreciate you being here today.

7 Just a few notes about how we're going
8 to operate. We're going to have the Governor come up
9 and speak first. She is then going to hand the
10 microphone over to Jim Souby, from the Western
11 governors, and then the Governor must leave to go do
12 state business, so we appreciate that.

13 And then I'm going to turn the
14 microphone over to Paul Carrier, who's really going
15 to moderate the day and tell everybody what the order
16 of speakers is and tell everybody how we're going to
17 ask questions and so forth.

18 So with that, I'd like to invite
19 Governor Hall to come up to the microphone and give
20 us her comments.

21 GOVERNOR HALL: Thank you, Jimmy. And
22 it's been a pleasure to be here with all of you
23 today.

24 I would only -- I would only question
25 the temperature in this room. Arizona has had a

1 program going on all summer on conservation. It's
2 called Snow, Sweat, Raise it Two Degrees, and somehow
3 I think this hotel missed that little -- that little
4 program that we've had or maybe I'm the only one that
5 thinks you can hang meat in here.

6 It's a real pleasure to welcome you to
7 the great State of Arizona and I thank you all
8 particularly for being here and coming. I know that
9 these are tough times for everybody and it's
10 difficult to move around and we all have a lot of
11 duties that are very important within our home
12 states, but I appreciate your being here. I
13 appreciate it. If you flew, I hope you flew America
14 West, but we do -- we are glad that you are here.

15 I also want to thank the President of
16 the United States, President Bush, and the Vice
17 President for all that they are doing right now in
18 this very, very difficult time that we're having. I
19 think it -- I always say that -- in the many talks
20 that I've given since September the 11th that times
21 have changed, priorities have changed, and certainly
22 we are at a -- in the most difficult time we have
23 ever seen.

24 But, again, their leadership has been
25 great for all of us and we will -- we will survive

1 and life will go on. And so today we're going to
2 talk about our National Energy Policy, something that
3 cannot be left to dangle. Some things in Washington
4 can be left, but certainly this National Energy
5 Policy is the most important thing that we -- that we
6 could talk about today.

7 I'm glad that this is a techy meeting
8 because I think we have the experts here to really
9 talk about it, and I'm looking forward to the results
10 of what you have.

11 I also want to thank Secretary Abraham
12 for recognizing the need of the Department of Energy
13 to better understand what the needs of the -- of the
14 West are.

15 Our transmission infrastructure is
16 different than that of some of the states on the East
17 Coast, and we appreciate the fact that you all are
18 all here to do this here to basically hear what we
19 have to say about the West. And I'm -- I'm pleased
20 to welcome James Glotfelty here to -- I better stop
21 calling him Jimmy, to represent Secretary Abraham.

22 Today I'm wearing two hats, that of
23 governor of the State of Arizona and Chairman of the
24 Western Governors' Association. I'm going to comment
25 a little bit from both perspectives and then I will

1 have Jim Souby, the WGA Executive Director, make some
2 comments.

3 The members of the Western Governors'
4 Association serve states covering the vast and
5 diverse part of North America. We are keenly aware
6 of the unique character of the nation's power grids,
7 but we also hold very common views on the principles
8 that should guide grid positions.

9 Last month, Western governors adopted
10 an energy policy roadmap for the West. This roadmap
11 reflects the intensive work on electric power issues
12 by Western governors over the past ten months. The
13 Western electricity crisis has illustrated the
14 limitations of unilateral action by single states and
15 by federal agencies.

16 The actions of Western governors are
17 built on the premise that cooperative action by those
18 that are affected by decisions is the most
19 appropriate course of action. States must take the
20 lead in shaping the region's electricity future, and
21 we urge the federal government to support us in this
22 effort.

23 It is important for our friends from
24 DOE to understand that they are not dealing with a
25 blank slate in the Western Interconnection. A solid

1 foundation for -- for ensuring the adequacy and
2 reliability of the Western grid is being laid.

3 The National Grid study would --
4 should support, not undermine, these efforts. The
5 electricity crisis in the West should not be used as
6 an excuse to gather powers for the federal government
7 and effectively disenfranchise those who pay the
8 costs and bear the consequences of grid decisions.
9 We are very sensitive to such efforts given the
10 wholesale power market debacle of the past year in
11 the West.

12 We note that there has not been a
13 Federal Energy Regulatory Commission commissioner
14 from the Western Interconnection in more than 20
15 years, and an agency without leadership from the
16 Western Interconnection and offices only in
17 Washington, D.C. will inevitably have a hard time
18 coping with the realities of the Western power system
19 that spans parts of these three nations. That's
20 another reason I want to thank you for being here and
21 for listening to some of the concerns that the West
22 has.

23 Western governors have taken a
24 leadership role in addressing electric power and
25 particularly transmission issues. We have developed

1 significant policy recommendations in meetings held
2 across the West since last December.

3 On May 9th, Western governors brought
4 together public and private sector leaders from
5 around the Western Interconnection to address three
6 key questions. What transmission enhancements are
7 needed in the Western Interconnection? How can the
8 needed enhancement for transmission be financed? And
9 how can needed transmission be expeditiously sited
10 and permitted?

11 The governors created a Working Group
12 and charged it with developing a Conceptual
13 Transmission Plan for the West in about 60 days.
14 Jack Davis, the CEO of Pinnacle West, and Marsha
15 Smith, commissioner with the Idaho PUC, chaired the
16 Working Group, and we cannot thank them enough for
17 their hard work and the quality report they
18 produced.

19 We followed up in August with the
20 adoption of a Western Governors' Association policy
21 roadmap resolution. We also executed a Memorandum of
22 Understanding with five federal agencies to provide a
23 framework for cooperative action with the federal
24 government on transmission and other energy issues
25 critical to the West.

1 We are engaged in an effort to develop
2 a multi-state protocol for the expeditious review of
3 interstate transmission proposals. In these, and
4 many other related efforts, we welcome the
5 contribution of the National Grid Study and of the
6 Department.

7 Finally, I want to offer observations
8 on some of the topics that will be discussed today.
9 The WGA Conceptual Transmission Plans report outlined
10 two central policy issues that need to be addressed
11 when deciding how much transmission is needed.

12 First, what is the value of increasing
13 fuel diversity, away from solely natural gas, in the
14 generation mix?

15 Secondly, what is the value of
16 building transmission to mitigate the exercise of
17 market power?

18 We would really appreciate DOE's help
19 in addressing those two issues today.

20 Regarding transmission siting and
21 permitting, we are dismayed at the approach some
22 along the Beltway are taking. To those who want to
23 grant FERC the power of eminent domain for
24 transmission, we urge you to carefully examine the
25 real hurdles to new transmission and look at the

1 track record in the Western Interconnection.

2 In the West, it is often the federal
3 government, through its land management agencies,
4 that present the greatest challenge to the
5 expeditious siting and permitting of new
6 transmission. In fact, the Western states have a
7 sterling record. No state in the Western
8 Interconnection has ever denied a permit for an
9 interstate transmission line on our lands.

10 We applaud the President's efforts
11 through the Council on Environmental Quality to get
12 the federal house in order. We support that effort
13 and we look forward to linking that effort with our
14 ongoing work. We oppose, as inappropriate and
15 unwarranted, federal preemption of state transmission
16 siting decisions.

17 Regarding models for transmission
18 investment and operation, we believe that the issue
19 of how to finance new transmission is a central
20 roadblock that needs to be addressed. The formation
21 of RTOs may break the logjam blocking transmission
22 investment. However, Western governors believe that
23 action is needed before the time when RTOs become
24 operational.

25 Regarding reliability management and

1 oversight, we are deeply concerned about the
2 Give-it-to-FERC approach to reliability that is
3 popular with some in Washington. We urge that --
4 that federal reliability legislation delegate those
5 responsibilities to the West. We also believe that
6 those who pay the bill and bear the consequences of
7 reliability decisions should oversee the process.

8 In my capacity as governor of Arizona,
9 I am confident in saying that we are doing our part
10 to contribute to the region's generate -- generation,
11 transmission and reliability needs.

12 Yesterday I had the pleasure of
13 starting up the Griffith Energy Plant in Kingman and
14 I would only say it's called the Griffith Plant, it
15 is actually a Duke Energy and PPL project. It is the
16 fourth major new plant in Arizona this year, adding
17 another 600 megawatts to our state energy supply.

18 We have now added a total of 1830
19 megawatts in the first nine months of 2001. We've
20 added more capacity than in the entire State of
21 Washing -- of California or of any other Western
22 state this year. All of these are clean-burning,
23 environmentally-friendly projects.

24 We're increasing generation and we are
25 conserving to meet our remarkable growth needs. At

1 this point, our estimate on conservation -- and it is
2 an estimate, I will say -- is about seven percent
3 that's been saved during this summer by
4 conservation.

5 I believe that doing both that we are
6 moving to a coordinated plan. Now we want to talk
7 more about the transmission. And it's extremely
8 important that we can generate lots of electricity,
9 but we don't store anything, as you and the experts
10 know.

11 We have, in Arizona, been making the
12 tough decisions. We've been working through the
13 public processes of line siting to ensure that we
14 have the lines that we need in Arizona to move the
15 additional thousands of megawatts that we have under
16 construction and that Arizona will need for our
17 extreme growth.

18 Again, I am very pleased that the
19 Department is holding this meeting in the West and
20 that the Secretary sent Mr. Glotfelty, a Westerner
21 himself, to listen to us. A Texan actually. I urge
22 you to focus on cooperative actions that will help
23 address the central questions Western governors
24 passed in May.

25 In this time of national crisis, each

1 of us needs to do what we can do best. The federal
2 government clearly plays a role in this. The federal
3 government must focus right now on the international
4 energy challenges that we face. The Western states
5 will focus on the energy needs of a robust western
6 economy.

7 Again, I want to thank you for
8 coming. I want to thank all of you on the Panel and
9 wish you the very, very best, and I am looking
10 forward to the end of the meeting and the report that
11 we will be given.

12 Thank you all very, very much.

13 MR. GLOTFELTY: Thank you, Governor.

14 (Applause)

15 GOVERNOR HALL: Again, I hate to
16 leave, but I am on my way to Yuma and I'm very proud
17 today to have the opportunity to introduce Jim
18 Souby.

19 He is the executive director of the
20 Western Governors' Association and has been such for
21 ten years. I think he has a great deal of experience
22 in the policy issues that Western governors deal with
23 and certainly I have learned a lot from his energy
24 expertise. Jim.

25 MR. SOUBY: Thank you very much,

1 Governor. Thank you, Mr. Glotfelty and Members of
2 the Panel.

3 I'm delighted to be here and my job is
4 to add a little bit of detail to the comments that
5 the Governor provided to you. There's not much to be
6 added. I thought she was pretty thorough.

7 So I'm going to start with my notes
8 and try to find the areas where I think I can
9 elaborate a little bit, but I'm also going to try
10 to -- I'm also going to be redundant and reiterate
11 some of the things she said, and the first is to
12 thank the Department for undertaking the National
13 Transmission Grid Study and for coming out to the
14 West to hear what we have to say.

15 This is incredibly important. The
16 Western governors, primarily because of the work of
17 you folks, are private-sector representatives and
18 nonprofit representatives who have been working on
19 this transmission issue for the last ten months,
20 really feel like we're ahead to some extent of the
21 rest of the nation, but that study conducted by you
22 folks and others in the Western states has also
23 indicated that there are a lot of questions that
24 remain to be answered, so we are really hoping that
25 the National Transmission Grid Study can shed light

1 on transmission issues and help us resolve our
2 problems in the -- in the West.

3 I have three documents that I'd like
4 to present to the panel for the record. And just to
5 make sure the audience knows what they are, the first
6 is a policy resolution adopted by the governors in
7 June of 2000, A Competitive and Reliable Western
8 Electric power system.

9 In this resolution, the governors
10 discussed how they think reliability issues ought to
11 be addressed and they discuss their support for the
12 formation of regional transmission organizations.
13 The primary reliability mechanism the governors
14 envisioned is a region-wide public-private
15 partnership that would work directly with industry
16 associations as they are now formed and RTOs in the
17 future to ensure that appropriate -- that standards
18 appropriate to the West are adopted and enforced.

19 We -- industry, working with the
20 Western Governors' Association, proposed the Western
21 Electric Coordinating Council to be a reliable -- a
22 reliability -- excuse me, a reliability mechanism
23 across the West.

24 And let me just start by thanking the
25 Federal Energy Regulatory Commission for adopting

1 that proposal two days ago in Washington, D.C. We
2 received word from Chairman Wood. I want to thank
3 Governor Hall for paying a visit to the Commission
4 just two weeks ago to strongly advocate the adoption
5 of that Council.

6 It is a major step in our region
7 toward getting our act together and operating as a
8 grid-wide enterprise. So we're very pleased and
9 we're very pleased that our resolution from two years
10 ago had some bearing on that. But primarily we thank
11 industry and the other organizations that worked so
12 carefully to develop that proposal.

13 The second document I want to present
14 to you for the record is a resolution that the
15 Governor referenced, which was adopted in August of
16 this year, a Western States Energy Policy roadmap.
17 This is a very comprehensive document. It's based on
18 six months' worth -- worth of workshops and
19 meetings.

20 The main recommendations within this
21 resolution came out of a energy round table Western
22 Governors' Association conducted in Portland in
23 February of 2001. I'm sure some of you were at that
24 round table. Over a thousand people came to the
25 round table, ten governors came, and we went through

1 a long, elaborate series of recommendations for our
2 region's energy future, not just electricity but
3 energy future.

4 I'm not to get -- going to get into
5 detail on that resolution now, but you can find both
6 these resolutions on the Western governors' website,
7 which is www.westgov.org, W-E-S-T-G-O-V, dot, O-R-G.

8 You can also find on the website the
9 third document I want to present to the Committee for
10 the record and, that is, the plan the governors
11 referenced. This is the plan that Marsha Smith and
12 Jack Davis shared the development of. It's entitled
13 Conceptual Plans for Electricity Transmission in the
14 West, Report to the Western Governors' Association.

15 This report was received by the
16 governors and adopted by the governors at our August
17 annual meeting. DOE and FERC were both present for
18 that -- for that presentation and I commend the
19 document to you and I'd like to provide both of these
20 to you now.

21 And I -- I obviously commend those
22 documents to all you here as well because they do
23 represent a consensus, bipartisan, public-private
24 point of view on how our region -- our Western states
25 and our citizens should address the energy problems

1 we face.

2 Now, let me be redundant and say
3 again, as the Governor said, the Western Governors'
4 Association believes that the electricity issues and
5 the energy issues in the West should be addressed
6 through a state-led effort with support, technical,
7 financial and otherwise, from our federal
8 government.

9 We believe that is the proper
10 allocation of resources and, particularly now, the
11 proper allocation of leadership resources to address
12 a host of issues, but primarily energy in today's
13 case.

14 Secondly, let me also reiterate that
15 in the West, the lack of transmission development is
16 not a product of siting or permitting problems. We
17 did a fairly exhausting -- exhaustive study of
18 transmission projects and learned that over the last
19 20 years the problem with the few transmission
20 projects that have been proposed have been related to
21 financing, investor uncertainty and questions along
22 those lines, not because siting or permits were not
23 granted.

24 I think, therefore, third, to
25 reiterate what the Governor said, the issue that this

1 National Transmission Grid Study needs to focus on or
2 devote a lot of attention to is the financing
3 question. And unless we can get this resolved and
4 unless we, working together, can convince Wall Street
5 and other investors to join us in building
6 transmission, we're not going to see the necessary
7 transmission lines develop.

8 Another comment. In the notice for
9 this meeting, the vision of a national grid was
10 referenced as a central focal point. I think that is
11 visionary and that down the road someday a national
12 grid is -- is probably going to become reality.

13 The Western governors, principally
14 those, of course, in the states that have bountiful
15 fuel, coal and other resources, strongly support
16 linking our grids across the nation. However, in the
17 present time, it's not -- it doesn't give us
18 appropriate guidance for resolving our current
19 transmission problems.

20 That's principally because our nation
21 is divided into very distinct energy markets. And if
22 we try to focus on a national grid solution, we're
23 going to miss resolving the problems that we have,
24 problems like Path 15, problems like the transmission
25 proposals here in Arizona and, more importantly,

1 strengthening our Western Grid Transmission System.

2 So while the governors view the
3 national grid vision as a suitable long-range view,
4 they believe we really need to focus in -- in the
5 immediate instance on our regional markets and on
6 solving problems within those markets.

7 Let me now go to the specific
8 questions that were in the notice. I'm just going to
9 try to give you some highlights from our -- from our
10 comments.

11 I've mentioned our support for RTOs.
12 Let me go to the -- to the notices, questions
13 concerning appropriate information. In our minds, in
14 the minds of the governors, this was raised at our
15 Portland meeting by a number of the industry
16 representatives, by nonprofit representatives and by
17 the governors themselves, one of the major problems
18 with our current grid management and with our current
19 energy management is the fact that we do not have
20 sufficient information for both producers and
21 consumers available to the public.

22 Your questions relate primarily to
23 power plant development and those types of issues.
24 The governors would say that's true. It also relates
25 to defined rates for natural gas, you know, fuel

1 issues and a whole host of other issues.

2 The governors would propose that we
3 work closely with both FERC and with the Department
4 of Energy to develop a large-scale, timely, recurring
5 information system that would provide plans to
6 (unintelligible) not proprietary information but, you
7 know, general information to both consumers and
8 producers across a wide variety of energy issues.

9 Now, we've proposed that to DOE. It's
10 a proposal that I've carried back and that Governor
11 Hall carried back two weeks ago to the Secretary, and
12 we are hoping that the Department will respond
13 favorably to that proposal.

14 I will say that we met with both the
15 Chair and with one of the Commissioners at FERC, and
16 they strongly supported the development of this
17 information system. It is crucial to their vision
18 for competitive markets that this information
19 question, this lack of information, be resolved.

20 So I wanted to highlight that amongst
21 many of the issues. I want to caution the Department
22 that when we were meeting back there, we were
23 informed, and we have since learned that it's public
24 knowledge, that EIA has, in fact, been heading in the
25 opposite direction. That's the Energy Information

1 Administration.

2 They have proposed limiting access to
3 some information. This was raised to us by the
4 Secretary of the Deputy Secretary, and we commented
5 that we thought -- and, by the way, the Federal
6 Energy Regulatory Commissioners that we met with felt
7 also that that was a step in the wrong direction.

8 I'm sure there are good reasons for
9 that, but they're not reasons that couldn't be
10 overcome with some kind of confidentiality provision,
11 what have you. Information will be essential to
12 solving our problems.

13 Business models. Three interesting
14 ideas were raised in our transmission study report,
15 the conceptual plan that we would commend to you for
16 further review, and obviously there are others, and I
17 know that you're looking at them.

18 One is the -- adopting a model for
19 financing. These are related to financing
20 transmission now. One is adopting a model used by
21 the natural gas industry, which is the open season
22 approach, where a line is proposed and then bid on.
23 It's an auction kind of an approach. It apparently
24 works very effectively with natural gas lines. We
25 think that's -- that particularly is more

1 speculative, but reasonable projects, that might be
2 an interesting proposal.

3 A second major financing issue that
4 we're struggling with, we could use some help on, is
5 the -- is having some kind of a charge for the public
6 benefits that accrue from lines. Maybe this is a
7 system-wide charge for reliability.

8 This is an extremely difficult issue
9 to resolve, but if we are going to be expending large
10 amounts of money on additional transmission to make
11 sure that our system is reliable, it might be that
12 there is some additional, you know, blanket charge
13 that would be reasonable and that could be put to --
14 could be added to the -- to the financing package to
15 help finance these lines. So that's another idea
16 that we wanted to propose and to publicly lay out
17 here for your consideration.

18 And, of course, the -- I think the
19 most obvious one that FERC has been considering is
20 congestion rates. We are able to determine where you
21 have congestion. That congestion creates economic
22 value. Some portion of the value of reducing that
23 congestion could be used to finance additional
24 transmission or to finance enhancements around those
25 particular blocks in the system.

1 Regarding your question on operation
2 of interconnected transmission systems, there are
3 distinct differences between the way our industry
4 manages our system and the way industry in the East
5 manages theirs.

6 In the East, transmission loading
7 relief is used as a mechanism when lines become
8 congested. That wouldn't be an efficient and
9 effective way to manage our lines in the West, we are
10 told by industry.

11 We use a prospective system that
12 identifies prospective loads and then sets load
13 rates -- I'm sorry to get so technical on this. I
14 presume this is a technical audience, so I'm probably
15 sounding like a lightweight here, but, anyway, the --
16 let me say that I raise this specifically because of
17 the notion of having a national reliability mechanism
18 to oversee our transmission system.

19 The problem is it wouldn't work in our
20 region. The way we manage our system is different.
21 So, again, I want to make sure that that -- that that
22 regional deference is understood.

23 Siting -- and I'll wrap on this. The
24 Governor mentioned this. Let me say again, at our
25 August meeting and subsequently in our visit to

1 Washington, the governors have directed the Western
2 Governors' Association to develop an interstate
3 siting protocol.

4 The first meeting for the development
5 of that protocol will occur in Seattle October 31st.
6 We will be working with CEQ at that meeting, the
7 President's Council on Environmental Quality, and
8 we'll be working with other federal agencies as
9 well.

10 We intend to take the siting protocol
11 public next spring, in other words, seek advice from
12 a broad array of public interests, and the governors
13 intend to sign that protocol amongst all the Western
14 states next June 23rd. The protocol will create a
15 framework for how we are going to work with industry
16 and with developers to site transmission --
17 interstate transmission lines.

18 The notion is to create a simple
19 one-stop approach. A -- a transmission company or a
20 utility could propose a transmission line in one
21 state that would -- if it's an interstate line, that
22 would advocate the protocol. All the other
23 neighboring states would then convene. The siting
24 and permitting decisions would be streamlined and
25 would be operated under a common framework.

1 I hasten to add no state sovereignty
2 would be abridged in this process. Each state would
3 retain its authority for making its final decision,
4 but the idea is to make sure common values and common
5 interests and common information is examined so that
6 everybody has that same picture and everybody
7 understands what the benefits of this line are.

8 Remember that Western governors are --
9 are defining the public interest in terms of
10 reliability, in terms of fuel diversity, in terms of
11 reduction of undue market power, and in terms of
12 environment and economic benefits for their states
13 and for their citizens.

14 This -- this is a common set of
15 benefits. And my view, Mr. Glotfelty and Members of
16 the Panel, is that where you have had difficulties
17 siting transmission, and I understand you have in
18 several locations in the East, the individual PUCs
19 haven't been examining what those broader values are,
20 have been deciding on a narrow set of values that
21 are -- economic benefits available strictly to that
22 state or that immediate jurisdiction, and it seems to
23 me that that's the kind of question that the siting
24 approach has to resolve and that the idea of eminent
25 domain in effect skirts that question, leaves those

1 problems resident, and is likely to have them raised
2 either in an EIS triggered by the federal decision or
3 in litigation sometime during the decision, so
4 I -- I urge you to rethink the -- or to ask Congress
5 to rethink the notion of eminent domain and what
6 kinds of results you're really looking for and then
7 go after those results through the appropriate
8 mechanism.

9 Let me close again by reminding you of
10 what the Governor just said and, that is, that now --
11 it's so clearly defined now by the global issues that
12 we're facing that we have to divide our scarce
13 leadership resources and our scarce re -- human
14 resources and devote them to those tasks that we're
15 best able to accomplish.

16 I share the Governor's view that those
17 tasks for our federal government are now global
18 international energy security, OPEC type issues.
19 There are just a host of issues that our federal
20 government has to devote full attention to and very
21 competent attention to.

22 Our governors at the same time are
23 ready, willing and able to address our regional
24 energy needs, in this case, our regional transmission
25 needs, and it seems to me that's the ideal allocation

1 of those scarce resources.

2 So I commend that thought to you and,
3 again, I want to thank you, Jimmy, and the Members of
4 the Panel and the Secretary of the Department for
5 coming to our region and listening to our views.

6 Thank you very much.

7 MR. GLOTFELTY: Thank you. Jim, would
8 you mind taking a few questions?

9 MR. SOUBY: I am -- I would be
10 delighted.

11 MR. GLOTFELTY: If you don't mind --

12 MR. SOUBY: Answering them might be a
13 different --

14 MR. GLOTFELTY: If you don't mind,
15 I'll start, and it deals with your financing issue.
16 Having come from a state that had a lot of
17 transmission being built, I'm wondering if -- we're
18 thinking of new creative ways to use financing on --
19 we're trying to lower the financing costs for
20 transmission improvements.

21 And this probably isn't a question,
22 it's more of a statement, and I'd ask you to go back
23 and ask your governors, as I'm asking the Department
24 of the Treasury to go back and determine if there is
25 what's called private activity bond cap, which is

1 allocated to each state on a per capita basis.

2 We use that for student loans. We use
3 it for low-income housing. We use it for merchant
4 control bonds. Is that something where we might be
5 able to come to an agreement with the Department of
6 the Treasury, the states, the Congress to say that
7 transmission lines should be a vital project for
8 using those types of bonds?

9 MR. SOUBY: You know, that goes so
10 clearly to the public interest questions that you'll
11 find in our Conceptual Transmission Plan. It seems
12 to me that's very legitimate.

13 I mean, these are externalities and
14 issues that it's hard to build into a -- you know, a
15 commercial rate base directly. I mean, you can build
16 it in, but it's difficult because there are broader
17 benefits that may accrue.

18 If we're talking about reliability,
19 market power, environmental issues, whatever, if
20 there's a large public interest being addressed by a
21 transmission line, it seems to me -- this is my
22 opinion. The governors don't have a policy on it --
23 it seems to me that that then, a public financing
24 mechanism, some form of public subsidy, would be in
25 order.

1 I don't know. You know, there are
2 people from other governors' offices here who might
3 want to comment on that, but my initial take is that
4 it might well be an important feature if those public
5 interest issues are properly defined and the public
6 understands.

7 Quite frankly, first of all,
8 Legislatures understand directly what that public
9 interest is and that they're willing to support it,
10 so I think it's definitely an idea worth examining.

11 As a matter of fact, I'm going to --
12 we have a transmission financing working group that
13 we just formed this week and I will raise it to their
14 attention.

15 As a matter of fact, I believe I just
16 had eye-to-eye contact so...

17 MR. GLOTFELTY: Thank you.

18 MR. CARRIER: We haven't introduced
19 our technical representatives here for our study yet
20 today, but while you're up here, I would like to go
21 to questions and then we'll get back to the
22 introductions a little bit later on.

23 But if there are any other questions
24 from the technical team, I'd like to hear them at
25 this time.

1 MR. ALVARADO: I have --

2 MR. CARRIER: Yes, Fernando.

3 MR. ALVARADO: Yes. You brought the
4 issue of operation and that there are distinct
5 differences between the West and the East, and you
6 brought up the issue of TLR as being used in the
7 East.

8 My question concerns the fact that TLR
9 is not the only model being used in the East.

10 MR. SOUBY: Right.

11 MR. ALVARADO: There are other
12 models. And how would you compare what is being done
13 in the West with those other models, (unintelligible)
14 in New York and some of those and how they're
15 evolving?

16 MR. SOUBY: That's an easy question
17 for me to answer. I don't know the answer, but let
18 me just say that -- but the -- but the underlying
19 premise, policy premise, this is a perfect place
20 where it applies.

21 The Western governors would say that
22 is for our great managers to determine. They're the
23 ones that are interconnected. They're the ones that
24 ought to be designing what those, you know, load
25 factors and capacity factors ought to be, and they

1 will be unique to the way individual grids are
2 operated and managed.

3 And I didn't say this. It's in --
4 it's in my remarks that I'll leave with you -- with
5 the panel here, but, I mean, these are the exact
6 reasons why this regional market approach needs to be
7 adhered to at least in the interim and some national
8 guidance needs to be established.

9 I mean, we supported the NERC bill,
10 the National Energy --

11 UNIDENTIFIED SPEAKER: North American.

12 MR. SOUBY: North American Electricity
13 Reliability Commission or whatever --

14 UNIDENTIFIED SPEAKER: Council.

15 MR. SOUBY: Council, because they did
16 have deference. They were going to set a set of
17 national guidelines that everybody would apply to,
18 which is not -- which is something we need to move
19 toward over time, but they weren't going to not
20 recognize the complication that each grid and market
21 area had to deal with individually.

22 So maybe we're speaking of gradualism
23 here. If you -- if you believe the national grid
24 vision is going to come true, it's really maybe then
25 in your minds, as the proponents of that, how would

1 we get there, rather than, will we.

2 In our mind, it's a matter of
3 maintaining the integrity and reliability of our
4 grid, not damaging it as we move in whatever
5 direction we're going to go toward.

6 I mean, we are definitely in these
7 kinds of negotiations and discussions with Canada and
8 Mexico and all the other partners that we have just
9 in our grid, so it's not like these are alien to us,
10 but there are distinct differences, and that's why
11 the regional approach seems to make sense to us.

12 I think there are a number of industry
13 people who probably are going to speak today who can
14 speak to this directly and very competently, so I
15 don't want to use up any more of their time but...

16 MR. ALVARADO: Thank you.

17 MR. CARRIER: Shmuel?

18 MR. OREN: Will there be consideration
19 in your report on the feasibility, for example, of
20 having -- forcing at a state level consolidation of
21 (unintelligible) transmission so it creates some sort
22 of --

23 MR. CARRIER: Shmuel --

24 MR. SOUBY: The question was -- do
25 you want me to repeat it? The question was, will

1 there be any effort on the part of the governors or
2 our region to try to force consolidation of
3 transmission ownership, I presume, to -- to increase
4 reliability and to -- and to -- and for other
5 benefits.

6 I don't believe that is on the plate
7 for us. I can't say for certain. I think that the
8 governors have placed their faith by and large in
9 regional transmission organizations.

10 That -- I think the governors believe
11 that the RTO approach will, in fact, cause the
12 necessary operational integration of these systems.
13 The governors feel that by putting the WSCC -- this
14 is alphabet soup. I thought about giving you an
15 entire talk using nothing but acronyms, and it could
16 be done, and probably 50 percent of this audience
17 would understand.

18 But we believe that the Western
19 Electric Coordinating Council is the mechanism then
20 that can integrate our RTOs, at least the three that
21 are proposed, and that that -- that will be
22 sufficient.

23 Forcing in -- I mean, there may be
24 reasons for FERC and for the governors to impose
25 certain -- certain requirements. My view is if they

1 are going to impose requirements, it's going to be
2 those that help define the public interest, you know,
3 that we've kicked around here.

4 But that -- that's where FERC and the
5 DOE and the governors and the PUCs in the West are
6 going to have to -- are going to have to -- if
7 they're going to impose anything, it's going to be to
8 tell the RTOs that they have to consider these public
9 interest issues in a -- in what might otherwise be a
10 highly private deliberation.

11 So, you know, my answer is the RTOs
12 should be able to resolve that question. They are
13 the element we see as eventually planning and
14 financing transmission along with the WSCC for
15 seamless inter-RTO transmission and that those
16 questions will be resolved at that level and probably
17 won't require any intervention.

18 I can tell by Mr. Glotfelty's
19 nervousness that I've used up way too much time so...

20 MR. CARRIER: No. In fact, we have
21 some more questions.

22 MR. SOUBY: Fine.

23 MR. CARRIER: Okay.

24 MR. SOUBY: Go ahead.

25 MR. CARRIER: As long as you've got

1 the time.

2 MR. SOUBY: I have the time. I'm on
3 the same flight that Mr. Glotfelty is, I believe, so
4 if he's still at the table, I'm here. He could get
5 the car.

6 MR. CARRIER: Go ahead.

7 MR. GLOTFELTY: I'll do that.

8 MR. SEDANO: Good morning. I'm Rich
9 Sedano. And I'd like to ask you a narrow question
10 and a broad question. The narrow question is, on the
11 issue of siting, sometimes the issue is not so much
12 getting an interstate project built but deciding
13 where the burden of the costs should lie, how to
14 allocate the cost of a major project among the
15 consumers of different states.

16 What is it that your process does in
17 terms of how to accomplish that?

18 MR. SOUBY: Well, we are exercising
19 our model as we speak and, that is, five of our
20 states are doing a common cost analysis on a proposal
21 for a company that operates in those five states.

22 So our model is -- is not to infringe
23 on sovereignty but to collaborate and to -- you know,
24 to work together in a public-private way, not just
25 states, not just companies, to resolve information

1 issues, make sure everybody's being handed the same
2 information.

3 We do -- we have -- the governors have
4 this ultimate faith that if we're well informed,
5 we'll arrive at the right decision or we'll stipulate
6 things that do favorably protect the public interest
7 in order to get to the right decision.

8 We're not -- I don't think that
9 we're -- if we're wrong, this will all come out with
10 the wash down the road here, but our view is that
11 that's the appropriate mechanism here and so we are
12 testing that mechanism.

13 The governors asked for that mechanism
14 May 9th. It's been underway. I got an e-mail
15 report, very brief, just several weeks ago about how
16 that's going. I mean, the five PUCs are
17 collaborating on common information, with the
18 companies collaborating, and I think that that will
19 be a great test.

20 That -- this is soft. This is
21 process, I understand, but that's -- that's generally
22 what this is about is information and then making,
23 you know, a very informed decision. So I presume if
24 that company has its act together and is -- and that
25 information is valid and correct and it makes sense,

1 the right decision will be -- I believe the right
2 decision will be arrived at. It's facilitating it
3 and expediting it is our issue so...

4 MR. SEDANO: One other question, and
5 perhaps this will be brief. If the general sense of
6 the building transmission is a problem, some people
7 say is a function and a symptom of the general
8 uncertainty of the electric industry, people look
9 at -- there were a lot of approved projects in the
10 early '90s and then they dried up when restructuring
11 came because everybody put their hands in their
12 pockets.

13 Your plan seems to try to address that
14 uncertainty, to put a structure in place. What I
15 want to ask you is, are there things that go beyond
16 your plan, that are the responsibility of others,
17 that are required to create that level of uncertainty
18 that allows for construction to happen, in other
19 words, will eliminate the uncertainty that's causing
20 the problem?

21 MR. SOUBY: The thing that goes
22 beyond -- it's not beyond our plan, but the thing we
23 don't have -- and I've been on conference calls with
24 Wall Street several different -- and we -- the
25 governors, through their offices, are able to get

1 Wall Street to drop their proprietary, competitive
2 guard and just talk turkey with us on conference
3 calls and others, and they just flat said they don't
4 have enough information to, you know, entertain a
5 regular term, you know, and so they're not going to
6 invest. That's one set of investors, but, I mean,
7 you know, they're just very frank about this.

8 We brought -- we brought some
9 representatives out to a meeting we did in Denver and
10 they had said the same thing, you know, different
11 companies. Our reluctance to invest is we don't see
12 a rate of return and we, you know -- and quite
13 frankly, we don't necessarily see a defined need
14 yet.

15 And if you look at our conceptual
16 transmission plan, it has two scenarios. The
17 large-scale transmission development scenario is --
18 there is Mr. Schultz. He could probably say this
19 better than I from -- representing Mr. Davis, but --
20 who was in charge of this study, but the large-scale
21 transmission system is driven by public interest
22 concerns and private concerns.

23 I mean, concerns of our -- of all of
24 ours. If you -- if you went to the large-scale
25 transmission enhancement plan, it would be because

1 you wanted to get coal-fired power into the grid out
2 of the coal states in the Rocky Mountain area and you
3 would want to strengthen some of the lengths across
4 seasonal, you know, variations. In other -- and you
5 would want to get wind power.

6 The West has one of the most fantastic
7 wind regimes in the nation, in the world. And in
8 order to get that energy generally from the Rocky
9 Mountain states and even, to some extent, the Dakotas
10 and all into the grid, you would have to build
11 extensive additional transmission.

12 It is not necessarily transmission
13 that Wall Street would finance. This is -- this is a
14 fairly -- this is a -- this is -- the economics of
15 this are not yet understood. I think possibly they
16 exist because of the variability in gas prices and
17 the steady, you know, relatively low coal prices, but
18 that -- that hasn't been tested in a market test yet
19 that I know of.

20 The other -- that was one book end on
21 the study, as Mr. Davis likes to say. The other end
22 was business as usual, gas, distributed generation.
23 What Albertson's is doing, they're putting gas-fired
24 microturbines in all their supermarkets to run their
25 freezers so they don't have spoilage and this kind of

1 stuff.

2 That creates gas issues. It probably
3 creates higher volatility in the gas market. But for
4 transmission, if you -- if you agree that the public
5 marketing association's transmission plans are going
6 to be adopted -- that's BPA and WAPA. And we support
7 that, the funding for that, the bonding for that.

8 If they build up to their 1994 specs,
9 then the amount of additional transmission required
10 in our region is relatively small, something like a
11 billion, or two, dollars. That's -- obviously that's
12 not small, but it is -- it is ten times -- more than
13 ten times smaller than if you built the transmission
14 to get the fuel diversity equation resolved.

15 These are public interest as well as
16 private interest questions, and these -- and these
17 are the kind of things that the grid study and that
18 our study and that -- this is why this is a
19 public-private issue.

20 There are other issues I look at --
21 Wyoming's represented here -- and, that is, can this
22 nation get those wind and coal-fired resources and
23 take them back East?

24 You know, we have -- we are
25 relatively -- we feel relatively robust over the long

1 term about our gas reserves and about our ability in
2 the West to deal with these issues on the fuel side,
3 particularly when you think about Alaska, Canada and
4 these other areas, if we can get those issues
5 resolved on tariffs and all.

6 I don't know how -- how they feel in
7 the Eastern seaboard about this and it might be that
8 a DC line or some way to get Wyoming's fuel generated
9 and transported back East might be -- that might be a
10 much more relevant study for your -- you know, for
11 the National Transmission Grid Study, less relevant
12 for our region where we're, you know, working on our
13 internal grid problems now.

14 I don't even know if I was close to
15 answering that question. I got carried away.

16 MR. CARRIER: Are there any other
17 questions?

18 Thank you very much.

19 MR. SOUBY: Thank you.

20 (Applause)

21 MR. CARRIER: What I'd like to do now
22 is go on to the primary reason for us being here.
23 And as you probably understand from what we've been
24 doing so far here, our purpose here today is to hear
25 from you.

1 We have a lot of expertise in this
2 room. We have a lot of diversity and opinions in
3 this room, and we want to gain from that. We have
4 this National Transmission Grid Study that's required
5 by the National Energy Policy to be completed by
6 December 31st of this year.

7 Early on in the process, we decided to
8 conduct three workshops around the country to hear
9 what you have to say, your suggestions, your
10 recommendations for how this study could be conducted
11 and possible outcomes of this study as well.

12 And so I encourage you all, when you
13 come up to speak today, to give us your thoughts,
14 think out of the box if it's appropriate, you know,
15 give us comments, don't hold back.

16 And, as you know, we're going to have
17 some questions of you. And, you know, our
18 questioning will be to maybe draw out further details
19 or clarifications but, again, to take advantage of
20 your knowledge and your expertise so we can take it
21 back with us and incorporate it into our study.

22 What I would like to do now, a little
23 belatedly, but introduce our technical team here
24 today at this workshop and also to give you a little
25 bit more information about the process that we will

1 be using as we proceed.

2 Technical support for the Department
3 study is being coordinated by the Consortium for
4 Electric Reliability Technology Solutions, the
5 acronym is CERTS, which is a DOE -- which is a DOE
6 national laboratory, university, industry consortium
7 that is conducting research for the Department's
8 Transmission Reliability Program.

9 CERTS served the department in a
10 similar capacity two years ago for the Power Outage
11 Study Team. Specifically we commissioned CERTS to
12 prepare issue papers on each of the six topics of
13 today's workshop to complement the public input
14 process in assisting the Department in formulating
15 its study recommendations.

16 We have asked authors from the writing
17 teams to sit with the Department here in receiving
18 public comment and to ask relevant or clarifying
19 questions.

20 And I'd like to ask the CERTS
21 participants to introduce themselves at this time and
22 also I'd like to introduce -- ask Cathy to introduce
23 herself as well. We'll start over here.

24 MR. ALVARADO: Hi. I'm Fernando
25 Alvarado from -- a professor at the University of

1 Wisconsin. I'm also the vice-chair of the IEEE
2 Energy Policy Committee.

3 MS. TRIPODI: Hi. I'm Cathy Tripodi
4 and I work in the Secretary's Office at the
5 Department of Energy with Jimmy Glotfelty. Thank
6 you.

7 MR. ETO: My name is Joe Eto, and I am
8 a staff scientist at the Lawrence Berkeley National
9 Laboratory, and I manage the Program Office for the
10 Consortium for Electric Reliability Technology
11 Solutions.

12 If you would like to find out more
13 about the consortium, I will give you a website
14 address, certs.lbl.gov. Again, that's
15 certs.lbl.gov. And we are honored to have the
16 opportunity to support the Department in the content
17 of this study.

18 MR. SEDANO: Good morning. I'm
19 Richard Sedano, and I work with the Regulatory
20 Assistance Project, an organization that supports
21 states in developing and educating about policy
22 issues. I have 16 years in working in state
23 government.

24 MR. OREN: I am Shmuel Oren. I'm a
25 professor at the University of California at Berkeley

1 and I'm also the (unintelligible) for a Power Systems
2 Engineering Research Center.

3 MR. CARRIER: I guess I should
4 introduce myself as well. I'm Paul Carrier and I'm
5 with the Department of Energy's Office of Policy and
6 International Affairs.

7 I'd like to note that our workshop
8 today is being transcribed and we will make a copy of
9 the transcription available on our website probably
10 towards the end of next week, maybe a little bit
11 later, but I would note that, the website that we are
12 using for the study, where you can find out more
13 information about our progress as well as getting
14 copies of the transcript, and that website is
15 www.ntgs.doe.gov.

16 The process that we're going to use is
17 very similar to what we just saw with Mr. Souby.
18 We -- I will give an opportunity for any public
19 officials that might be among you to make some early
20 statements, and then we will go to those who have
21 registered to speak at this workshop.

22 And we will take speakers in the order
23 that they registered this morning. We ask you to
24 summarize your comments and also take advantage of
25 our website to submit more detailed comments.

1 Following the speakers and the
2 comments you make, we will go to questions from our
3 study team here to get more information from you,
4 hopefully. Following the list of registered -- those
5 who registered to speak at today's meeting, we will
6 kind of open it up.

7 A number of you expressed a desire to
8 speak, but to wait to hear what others have said
9 before they -- before they spoke, and we will give
10 you that opportunity. Also, there may be something
11 that you hear that you want to comment on, but we'll
12 kind of open it up a little bit and -- again with the
13 opportunity for some clarifying questions.

14 And with that -- oh, yes. Some of you
15 might have seen some of the material we've been
16 submitting prior to the workshops. We suggested that
17 we might take three topics in the morning and three
18 topics in the afternoon for discussion.

19 I think we've found, from our prior
20 workshops, that it's probably a little bit easier to
21 take all the topics together because many of the
22 speakers want to address multiple topics, so we
23 will -- we will take all topics together, all six of
24 the topics, also recognizing that there may be some
25 issues, you know, that overlap and cross borders

1 between these topics and other issues, and we
2 encourage you to address any issues that you believe
3 relevant to our study.

4 Okay. So with that, we'll get
5 started. Our first speaker will be Donald Kimball
6 with the Southwest Transmission Corporation, and he
7 will be followed by Doug Fant. And we ask you to
8 come up to the microphone. Thank you.

9 MR. KIMBALL: Thank you, Paul. Good
10 morning, Ladies and Gentlemen. I appreciate this
11 opportunity to speak to this group today about our
12 nation's electric transmission infrastructure.

13 For the record, my name is Donald W.
14 Kimball. I'm the chief executive officer of Arizona
15 Electric Power Cooperative, Sierra Southwest
16 Cooperative Services and Southwest TRANSCO, all
17 located in Benson, Arizona.

18 Today I am testifying on behalf of the
19 National Rural Electric Cooperative Association, or
20 NRECA, the Washington, D.C.-based association of the
21 nation's consumer-owned, not-for-profit electric
22 cooperatives.

23 These cooperatives are locally owned
24 and governed by boards that are elected by their
25 consumer owners. They're based in communities that

1 they serve and they provide electric service to over
2 35 million customers in 46 states.

3 Of the 930 systems, 60 are generation
4 and transmission cooperatives like those that I
5 represent. Kilowatt hour sales for the rural
6 electric cooperatives in this country amount to nine
7 percent of the total energy sales in the United
8 States.

9 Electric cooperatives comprise a
10 unique component of the industry. Consumer-owned,
11 consumer-directed electric cooperatives provide their
12 member consumers the opportunity to exercise control
13 over their own energy destiny.

14 At the onset of my presentation, I
15 would like to state clearly the principle that
16 underlies NRECA's approach to transmission issues,
17 and it is that the obligation of electric
18 cooperatives, and we believe that it's the obligation
19 of the Department of Energy as well, is to guarantee
20 consumers reliable, universal electric service at a
21 reasonable rate.

22 We believe that the test that needs to
23 continue to be made is to ask ourselves, are we
24 placing the consumers first?

25 Electricity is an essential public

1 service. Although some might argue that electricity
2 is a commodity that should be bought and sold and
3 traded, it can never be forgotten or ignored that
4 first and foremost electricity is a utility service
5 that's essential to the public health and welfare.
6 It's the foundation of our standard of living. It's
7 the foundation of our national and our local
8 economies.

9 I think there's little question that
10 the nation will need to expand and upgrade its
11 transmission system if we are to continue this
12 transition to a competitive wholesale market for
13 electric energy.

14 The transmission system that we have
15 today was simply not designed to move the large
16 volumes of power across regional markets. The
17 challenging question then is how best to get that
18 needed transmission built.

19 NRECA has proposed, and I support, an
20 approach that we believe will attract focused
21 investment in those new transmission facilities that
22 are most needed to ensure regional reliability and
23 efficiency at the lowest possible cost to the
24 consumers. We have entitled it the National Consumer
25 Transmission Reliability Enhancement Act of 2001.

1 The proposal basically works in two
2 ways: One, is it would require FERC to ensure that
3 anyone who builds critical portions of what we would
4 call an interstate highway-type electric transmission
5 system would recover their costs at a reasonable rate
6 of return from all the consumers who benefit from
7 those new facilities; and, second, by removing
8 certain state and federal barriers that block new
9 participants in the transmission business from
10 building transmission facilities.

11 We believe that this proposal could
12 bring enormous influx of investment into the
13 transmission sector from those investors who are
14 interested in low-risk, reasonable return -- rate of
15 returns.

16 And particularly today, with the
17 market as unsettled as it is, there are many
18 individuals and institutional investors who are
19 looking for a secure place for their money. Now, our
20 proposal is not to just give away money to anyone who
21 wants to build transmission.

22 In order to qualify for guaranteed
23 cost recovery under this proposal, a transmission
24 project must meet several important standards:
25 First, the transmission project must be constructed

1 after the enactment of this act. This act is
2 intended to encourage the construction of new
3 facilities as well as the expansion or upgrade of
4 existing facilities to provide significant new
5 regional benefits.

6 Secondly, the transmission project
7 must be controlled by an RTO that's approved by the
8 Federal Energy Regulatory Commission. That serves
9 two purposes. First, it ensures that the
10 transmission facility will be operated for the
11 benefit of the consumers across a broad region and
12 not just for profit for a single company. In other
13 words, it will be part of an interstate highway
14 system and not a private toll road.

15 And, second, because RTOs must submit
16 their rates to FERC for approval, it will provide a
17 mechanism for FERC to ensure that the transmission
18 project owner would recover his costs.

19 Thirdly, the RTO has to have
20 determined, through a joint planning process, that
21 this transmission project will enhance the reliable
22 and efficient operation of the interstate bulk
23 transmission system.

24 New facilities must contribute to the
25 interstate highway system to be ensured of cost

1 recovery. In other words, local roads do not
2 qualify. And, finally, the entity that constructs
3 and owns the transmission project must be willing to
4 accept a modest return on its investment.

5 In exchange for the assurance that he
6 will never lose money on the project, the investor
7 gives up the right to ask FERC for incentive rates,
8 performance-based rates or any other rate structure
9 that could pay more than the cost of the project plus
10 a reasonable return on equity.

11 Now, this proposal has taken fire from
12 some who have put forth an alternative approach.
13 Instead of reducing the risk to investors in new
14 transmission facilities, some have required FERC to
15 increase the rate of return on transmission
16 investments above current just and reasonable
17 levels.

18 They argue that higher rates of
19 return, perhaps as high as 30 percent, are needed to
20 attract capital away from other investments such as
21 new merchant generation plants.

22 We believe that these incentive rate
23 proposals will increase the cost of transmission
24 service and narrow generation markets without ever
25 perhaps even causing any new generation to be built.

1 NRECA has not taken sides in the debate in Washington
2 between differing competing models for RTOs.

3 In the Southeast, for example, we have
4 some cooperatives who are supporting proposals for
5 independent system operators who would not own any
6 transmission, and yet we have other cooperatives that
7 support independent transmission companies that would
8 own some transmission as well as operate the
9 transmission of others.

10 We have also not taken sides on the
11 issue of whether FERC should have the authority to
12 order transmission owners to join RTOs, but
13 nevertheless NRECA and its members have firmly
14 supported the movement toward the broad regional
15 operation of transmission system by independent
16 entities.

17 We believe that RTOs can operate the
18 transmission system on a regional basis to maximize
19 efficiencies. It can also significantly improve the
20 reliability and reduce the potential of market power
21 instability that can lead to price spikes.

22 In addition, we believe that the
23 monopoly status of an independent RTO must be
24 recognized at the outset and that the RTO's
25 transmission rate structure and associated cost of

1 service should be developed using traditional cost of
2 service regulatory principles.

3 In Arizona, we believe this should be
4 based on average system costs. Moreover, as we
5 explore different options for operation of the
6 transmission system, we believe that it's critical
7 that we keep in mind the duplication of efforts and
8 costs that are already being incurred.

9 The rural consumers of America must
10 not be burdened with an unfair portion of these
11 costs. NRECA believes that transmission planning
12 should be done on a broad regional basis. It makes
13 sense, therefore, that siting and permitting
14 decisions for interstate transmission facilities
15 should be made with broad regional needs in mind.
16 NRECA has not, however, adopted a formal position on
17 how that can best be accomplished.

18 We do believe, however, that if
19 Congress and the administration should choose to
20 shift siting and permitting decisions from the state
21 to -- states to the federal government, there should
22 be limitations established to ensure that the
23 facilities that are built with federal permitting
24 authority will truly provide benefits to all the
25 consumers in the region where those facilities are

1 being built.

2 Since 1968, the electric utilities of
3 the United States, Canada and part of Mexico have
4 worked together through the National Electric
5 Reliability Council, or NERC, to develop voluntary
6 standards that have provided North Americans with the
7 most reliable energy in the world. The introduction
8 with -- the introduction of restructuring, however,
9 is putting pressure on that voluntary system.

10 We believe that it's necessary that
11 Congress replace NERC with a self-regulated industry
12 organization that has the authority, under FERC
13 oversight, to develop and enforce mandatory
14 reliability standards.

15 For that reason, NRECA supported
16 S. 2071 in the 106th Congress. That language would
17 require FERC to approve a new North American Electric
18 Reliability Organization, NAERO, who would have the
19 power to ensure that the reliable operation of
20 interstate bulk transmission grid continued.

21 NRECA believes that similar
22 legislation needs to be enacted as soon as possible.
23 NRECA does oppose a competing proposal that would
24 grant authority over reliability directly to FERC.
25 The Commission lacks the experience and the resources

1 to address reliability on its own.

2 NRECA also opposes proposals to
3 delegate responsibility for setting and enforcing
4 reliability standards directly to RTOs. The same
5 company should not have a responsibility to set,
6 implement and enforce rules.

7 In summary, the underlying goal of the
8 Department of Energy, as it pursues the National
9 Transmission Grid Study, must be to guarantee
10 consumers reliable, universal electrical service at a
11 reasonable rate.

12 Secondly, DOE should press for the
13 development of an interstate highway system for the
14 electric transmission grid at the lowest possible
15 cost for consumers by lowering the risk to investors
16 in the transmission sector and by enabling new
17 entities to compete to build needed transmission.

18 Thirdly, DOE should support broad
19 regional operation of the transmission system by
20 truly independent entities to mitigate market power
21 and enhance wholesale energy markets.

22 Fourthly, if the transmission siting
23 and permitting authority is granted to the federal
24 government, that authority should apply only to those
25 facilities that will be operated by an independent

1 RTO to provide broad regional benefits at the lowest
2 possible cost for consumers.

3 And, lastly, DOE should support
4 legislation to replace the NERC with a self -- new
5 self-regulating industry organization that has the
6 authority, under FERC oversight, to develop and
7 enforce mandatory reliability standards.

8 I thank you for reaching out to us and
9 soliciting our comments and ideas, and I would
10 welcome any questions.

11 MR. CARRIER: Thank you very much.

12 MR. ALVARADO: Yes. In a different
13 hearing, in a different context, we heard about a
14 somewhat different view from -- from yours in the
15 context of risk assumption.

16 And if I can paraphrase it a little
17 bit, how the argument went from these presenters,
18 were basically that they did not want their customers
19 to -- exposed to the risk of the costs associated
20 with transmission expansion, that they would rather
21 have the industry absorb the risks themselves, and
22 in -- of course, that they opposed the fact that
23 these fixed costs, however decided, by consensus or
24 otherwise, would have to be passed in a mandated way
25 through their -- in this case, it would be

1 ratepayers, and they would prefer a model where, you
2 know, proper pricing and risk taking of industry
3 facilitated by the government would be a better
4 model.

5 How do you respond to those views that
6 have been presented to us?

7 MR. KIMBALL: Well, again, I think we
8 look at it from an interstate highway system model
9 and we look at our interstate highway system and
10 we're all, as American citizens, allowed to use that
11 system, we all pay for it on a comparable basis.

12 MR. ALVARADO: That is a good analogy
13 actually. What these people were basically doing is
14 arguing for the possibility of allowing, for example,
15 merchant transmission, private rails or private roads
16 that would not be paid by the public, they would be
17 paid by the use and all the risks would be borne by
18 those who build them.

19 That's, in effect, the argument, you
20 know, you will not pay -- you will not incur the risk
21 of building, we will do it and -- if it is
22 facilitated and we're allowed to charge for their
23 use. It's a different model.

24 How do you reconcile that or oppose
25 or -- or is it something that can be done in

1 parallel with your proposal?

2 MR. KIMBALL: I guess I think back
3 as -- and probably several in this room have been
4 involved with the distribution side of the business
5 and we have all been regulated by State Commissions
6 with territorial boundaries to avoid duplication of
7 facilities.

8 And it seems to me that if we don't
9 use a common system, that if we develop two separate
10 systems, we create duplication, if I'm understanding
11 your question correctly.

12 MR. ALVARADO: Yeah. In effect,
13 that's correct. I mean, we're seeing the same thing
14 in telecommunications. We're seeing various
15 technologies and duplication, if you will, of
16 telecommunications, but that would create something
17 else. It's creates a little more competition.

18 So there are people on the other side
19 that are arguing that that is a valid model. And,
20 again, I'm trying to see whether you think that model
21 is compatible or incompatible what you -- with what
22 you presented here.

23 MR. KIMBALL: I think not, and I think
24 not again, if I can go back to this simple comparison
25 of an interstate highway system, that if we had some

1 of our interstate highways that we did not allow some
2 people to travel on and we made them travel the side
3 roads, would that be the way we wanted to run our
4 highway system? And I think the same principle
5 applies to electric transmission system.

6 MR. ALVARADO: Thank you.

7 MR. CARRIER: Yes. Shmuel.

8 MR. OREN: I understood that so the --
9 some transmission corporations operate as a TRANSCO,
10 in other words, you have vertical integration of
11 operation and ownership of your transmission aspect.
12 Is that correct?

13 MR. KIMBALL: Yes.

14 MR. OREN: Do you see that model as --
15 do you see that model as being scalable to the
16 large -- you know, to increase the scope or -- it
17 sounded to me like you're supporting an RTO, which
18 would mean that you are willing to give up the
19 operation authority over your assets. Is that --

20 MR. KIMBALL: Well, I would -- I would
21 be less than honest if I told you that we were
22 perfectly comfortable in giving up the operation of
23 our transmission assets.

24 On the other hand, we recognize that
25 if this country is to be sufficient and reliable in

1 the transmission of electric energy, there has to be
2 a regional national approach to coordination in
3 facilitating the use of those facilities.

4 We believe that on a regional basis,
5 whether it's an RTO -- and an RTO is the model that
6 is being used -- participation in that RTO, I think,
7 is necessary to make sure that, in fact, your system
8 is being utilized to maximum efficiency and that you
9 are part of this regional planning process, that
10 again you -- you avoid duplication of facilities, you
11 avoid unnecessary investment and you maximize the
12 efficiency of the total system.

13 MR. OREN: So what do you think of the
14 other extreme, for example, trying to foster some
15 sort of mergers of a mega TRANSCO?

16 MR. KIMBALL: Certainly mergers have
17 their place. I -- you know, I go with the philosophy
18 that there are two things that keep individual
19 organizations from working together as though they're
20 one, and it's egos and trust.

21 And if you satisfy those two, two
22 companies can work together as well as one, and
23 probably maybe even more efficiently, but I'm
24 certainly not opposed to mergers if that's what it
25 takes to make it work.

1 Under the concept that we're looking
2 at is the RTO becomes the -- the oversight of this
3 transmission system of the -- and under the -- under
4 the direction of FERC and reliability falls under
5 what would -- we would refer to as the NAERO that's
6 being planned. That keeps control of that system.

7 How, in fact, those facilities are
8 owned, they are owned by one large company or several
9 numbers of companies, I think all fall within the
10 umbrella of the RTO.

11 MR. OREN: We've seen some conflicts
12 recently between -- resulting from the fact that
13 those who make the planning decisions are not those
14 who have to cough up the money for the investments.

15 And do you see any kind of -- this
16 kind of inefficiency and problems arising from the
17 vertical disintegration between the ownership and
18 operation?

19 MR. KIMBALL: Well, I guess that's one
20 of the underlying bases for our recommendation is we
21 take that factor out. The transmission system is
22 there, there is a return on your investment, not a 20
23 to 30 percent rate of return but a comparable return
24 that meets secure investment.

25 There's a security there that

1 there's -- that you get that return, plus cost of
2 service, and it takes the factor out of there whether
3 that's the most profitable thing to do or not. And
4 if it -- if it's not a particular utility that wants
5 to do -- make that, there are probably others that
6 would.

7 MR. OREN: One of the differences
8 between a highway system and a transmission system is
9 that in a highway system, when you build a new
10 highway, you don't really -- you don't have
11 externalities. You don't impact.

12 I mean, with a transmission system,
13 you have situations where you can build a
14 transmission line between the South and the North in
15 California and end up with a bigger transfer, for
16 example, that you increase the payment from consumers
17 to producers by the sheer fact that you have reduced
18 the congestion.

19 So you have all these anomalies of
20 good flow and the fact that by relieving congestion
21 you can actually harm consumers on the -- on the
22 whole.

23 MR. KIMBALL: I am not necessarily
24 following, I guess, of how you impact -- adversely
25 impact customers when you reduce congestion.

1 MR. OREN: Well, because once you --
2 what the reduction of congestion does, it basically
3 equalizes, so the average price that you may end up
4 with as a result of increasing the flow may be higher
5 than if each group was paying their own --

6 MR. KIMBALL: Well, I --

7 MR. OREN: -- so you may actually end
8 up with a situation where building a transmission
9 line actually increases the sort of -- payment from
10 consumers to generators.

11 MR. KIMBALL: I -- I guess my question
12 would be is, is that -- part of the situation that
13 occurred over the last year in California was related
14 to congestion on a transmission system.

15 I think you could build a lot of
16 transmission for the costs that were incurred by
17 the -- by California as a result of that
18 congestion. And if I -- unless I'm missing your
19 question now, congestion -- congestion is a cost to
20 the consumer.

21 Relieving that congestion, I believe,
22 is less costly than what the congestion will cause in
23 a -- in an open market.

24 MR. CARRIER: Thank you very much.
25 Rich, you have questions?

1 MR. SEDANO: Who decides what
2 facilities are critical?

3 MR. KIMBALL: The regional
4 transmission planning process through the RTO and
5 however that -- however that gets established.
6 That's who would -- and to qualify for this, it would
7 have to be a project that was approved and
8 recommended by that particular group.

9 MR. SEDANO: And would the RTO
10 consider non-transmission alternatives as it's
11 considering the needs that are existing in the grid
12 and considering transmission alternatives to satisfy
13 those needs? Would it also be considering
14 non-transmission solutions?

15 MR. KIMBALL: Oh, I would think so.

16 MR. SEDANO: Thank you.

17 MR. CARRIER: Any other questions?

18 Thank you very much.

19 MR. KIMBALL: Thank you.

20 MR. CARRIER: Our next speaker is Doug
21 Fant and he will be followed by Frank Buchanan --
22 Frank Burcham.

23 MR. FANT: Thank you, sir. Thank you,
24 Panel.

25 I'm going to read from comments that

1 we have submitted through the website, Power Up
2 Corporation, but also make some comments on some of
3 the issues that were raised here today.

4 My name is Douglas Fant. I represent
5 Power Up Corporation. Power Up Corporation is a
6 Midland, Texas-based merchant transmission company,
7 and Power Up is currently involved -- engaged in
8 planning three separate merchant transmission
9 projects which will impact transmission in the South
10 and Southwestern United States.

11 The initial nominal capacity of these
12 transmission projects will be 2100 megawatts, rising
13 to 3500 megawatts, and each of the projects will
14 alleviate congestion and help inexpensive power flow
15 into significant load -- load areas in these
16 regions.

17 And I might add this is a deviation
18 from my comments. We will also allow inexpensive
19 renewable energy to flow in the hundreds of megawatts
20 into the Western U.S., which, again, is a benefit for
21 major cities which have pollution problems under
22 their state implementation plans with NOx, CO, SO2
23 type increments, so it will be valued in that
24 fashion, too.

25 Power Up's concerns: Development of

1 transmission models, either locally or regionally,
2 the discouraging influx of new companies, new ideas
3 and new investment dollars into the transmission
4 industry.

5 These can be subtle or blatant efforts
6 to block construction of merchant transmission or it
7 can -- they can be impediments such as -- built into
8 the RTO models themselves or structural mechanisms,
9 which indirectly inhibit merchant transmission by
10 preventing customers access to available transmission
11 capacity on the extant system.

12 In my comments, I just raised one
13 specific example of those type impediments, and I
14 used the local regional transmission organization
15 D-Star, which is under construction currently, and I
16 pointed to Subsection P-3-H in Appendix P of the
17 Desert Star.

18 That particular draft appendix is an
19 example of incumbent transmission owners attempting
20 to use their power to lock in available transmission
21 capacity for use for their -- serving their own
22 resident and native load.

23 And this is not good, I think, for the
24 whole system on a long-term basis. But I would point
25 out that these types of provisions appear in a number

1 of RTOs, ISOs and for-profit TRANSCO models that are
2 currently extant, so we would recommend to the
3 NTG -- NTGS that they put an analysis of the
4 structural or systemic impediments that prevent the
5 involvement of new capital and new transmission
6 companies in this particular industry. Those are the
7 comments that I have submitted previously to the
8 website.

9 I would like to talk to three issues
10 that were raised here a little early -- a little
11 earlier. Number one, you asked the question of
12 whether it's good to unify ownership and operation
13 locally, regionally and nationally.

14 I think combining operational control
15 is good because it improves reliability in the
16 system. Combining ownership is not necessarily good
17 because you leave a single entity completely in
18 charge of the construction and build-out decisions,
19 which has been pointed out earlier may be good,
20 bad -- good or bad for the consumers on a long-term
21 basis.

22 Natural gas -- Jim Souby made a
23 comment about, in the terms of merchant transmission,
24 what sort of model should be used? And I don't know
25 if you've had time to study the Transenergie or

1 Neptune filings that -- FERC tariff filings, if
2 you're familiar with those. He suggested open season
3 approach as being a valid way for allocating capacity
4 in a merchant transmission mode.

5 One additional question, and this, I
6 guess, comes from some of Pat Wood's comments on his
7 September 26th meetings, is, do you want to use an
8 additional natural gas pipeline model which allows
9 presale of capacity to generators? That has good and
10 bad elements to it, but it's -- it's another model
11 similar to open access allocation of merchant
12 transmission capacity.

13 Finally, on financing, we have -- we
14 are ready to commit \$500 million in capital to our
15 initial two projects. We have additional capital to
16 commit. The bulk of our capital is private capital,
17 but if you're going to involve institutional capital,
18 Wall Street capital, then you're probably aware the
19 standard rate of return they look for is about 30
20 percent return on equity. And I would distinguish,
21 and I'm sure you're familiar with this, return on
22 capital for return on equity.

23 11 percent return on capital in the
24 transmission mode, if you adjust dead equity ratios,
25 you would have to move it up into the 14, 15 percent

1 range return on capital ultimately to get a 30
2 percent return on equity.

3 So that's what you're talking about if
4 you want to involve, I think, institutional dollars
5 from Wall Street investment banks to European
6 investment banks. And that's -- those are my
7 comments.

8 MR. CARRIER: Thank you very much.
9 Fernando?

10 MR. ALVARADO: Well, I am going to
11 have to digest this a little more.

12 MR. FANT: I'm sorry.

13 MR. CARRIER: I'll start with you.
14 Fernando wants to --

15 MR. ALVARADO: Well, I think
16 that's -- I'm set to go now.

17 MR. CARRIER: Okay.

18 MR. ALVARADO: Your comments stand in
19 stark contrast to the previous speaker's comments.

20 MR. FANT: That's correct.

21 MR. ALVARADO: And it's precisely the
22 kind of issue today that we're going to be facing and
23 we have to discuss. I'll ask you more or less the
24 same question I asked the previous speaker, which is,
25 what -- can you have both models coexist, which is

1 having merchant transmission on the one side or
2 privately-invested transmission on top of an
3 otherwise publicly-owned grid?

4 What would make it work? Is it
5 possible? Is it not possible?

6 MR. FANT: Sure. I'd say yes, they
7 can coexist side by side. The element, I think,
8 which has to be common is operational control and
9 some entity, whether it's an RTO, a national RTO,
10 regional, whatever fashion, WSCC needs control over
11 the entire system, whether it's public or private
12 capital which is involved.

13 Ownership doesn't necessarily have to
14 be unified. And I think there's room for investing
15 private capital, which risks itself at no cost to the
16 taxpayer, in the construction of the transmission
17 systems. And if you fail, you fail.

18 MR. ALVARADO: Okay. And if I may ask
19 one follow-up, which would be, how would a private
20 income concern recover their transmission
21 investment? Would you envision a tariff plus price
22 differential structures, open market approaches?
23 Would you envision some subsidy structures in
24 addition to the market mechanism?

25 How would you envision a private

1 concern recovering their 15 percent or 30 percent or
2 whatever?

3 MR. FANT: I can only speak to our
4 projects, and our projects will be interstate
5 projects which will require filing with FERC and
6 getting approval of our specific tariffs. Open
7 access model is not bad.

8 I think there may be some room for
9 presale of capacity subject to the requirements of
10 the local RTOs involved. The presale of capacity
11 makes it more likely that the public capital will get
12 involved in financing if you can show some future
13 cash flow locked in I would say within the terms of
14 the tariff itself, which would be regulated by FERC.
15 And the fashion in which you recover it, I think, is
16 less critical than the fact that FERC regulates how
17 it's recovered so...

18 MR. ALVARADO: Yeah, but some of the
19 global pricing mechanisms are counter to some of the
20 tariffs. And if you recover by a tariff, you are
21 deliberately creating a price differential that may
22 not exist in reality.

23 MR. FANT: Right. And that's the
24 Transenergie tariff, and I think that's a comfortable
25 tariff using the market price differential between

1 the two markets being served. I think that's a fair
2 model.

3 MR. ALVARADO: Thank you.

4 MR. FANT: Sure.

5 MR. CARRIER: Rich?

6 We've got some more questions.

7 MR. FANT: I was trying.

8 MR. CARRIER: We want to get all we
9 can from you.

10 MR. SEDANO: The fun just keeps
11 rolling. I just want to ask if you believe that
12 state siting statutes are going to be able to
13 accommodate successfully the kind of projects that
14 you're proposing. I'm specifically thinking about
15 need criterias.

16 MR. FANT: In your terms of eminent
17 domain and obtaining rights-of-way, we've personally
18 had no problems yet, but, of course, we lack the
19 power of eminent domain.

20 And a question which you often see,
21 when you're trying to obtain rights-of-way, working
22 with other energy companies they'll say, Sure, we'll
23 give you the right-of-way if you reserve X amount of
24 capacity for us on this particular line. But, no, I
25 think you could work around the right-of-way issue,

1 and there's various ways to do it without having the
2 power of eminent domain.

3 MR. CARRIER: Shmuel?

4 MR. OREN: Do you feel that the RTOs
5 should try to order, for example, transmission
6 expansion just for the sheer purpose of mitigating
7 market power, even if maybe you wouldn't have any
8 impact on reliability? And if yes, who should pay
9 for such a expansion?

10 MR. FANT: I don't think I -- I don't
11 think I want to get into that question. I mean,
12 that's -- that's not a question that affects us, but
13 that raises the question about common ownership.

14 If you have common ownership, you're
15 going to have those questions being raised and you'll
16 have whatever the entity is in a position to make
17 those investment decisions, which may not be based on
18 efficiencies for consumers.

19 MR. OREN: So it just would affect --
20 it may not be socially efficient, but it will just
21 affect the transfer between consumers and producers?

22 MR. FANT: Sure, which theoretically
23 should lower prices if you alleviate market power,
24 but it's like fighting in Vietnam. If you kill
25 thousands of troops and hold one small village, is

1 that -- you know, is that considered successful?

2 And that's a -- that's a policy
3 question, I think, which I couldn't answer.

4 MR. CARRIER: Joe?

5 MR. ETO: I want to go back to the
6 charge that DOE's given to the team in looking at
7 this study and ask you for your thoughts about how
8 the Department ought to go about identifying
9 transmission bottlenecks.

10 And to the extent that they're
11 identified, what actions would it be appropriate for
12 the government to take in addressing those
13 bottlenecks?

14 MR. FANT: The projects upon which
15 we're focusing are inter-RTO or inter-regional type
16 transmission projects, and essentially there are no
17 rules out there. The issues that come up are, do you
18 follow the requirements of RTO 1 or RTO 2, the two
19 regions between which you interconnect? And it does
20 raise a lot of sticky issues.

21 So yes, I think it's a very important
22 point. Jim Souby talked about developing an
23 interstate siting policy for interstate
24 transmission. I think that's a good idea.

25 I think some of these issues, these

1 inter-RTO -- inter-regional, inter-RTO type issues
2 should be reviewed by DOE because right now it's a
3 huge, open void. You can take your crayon and kind
4 of make the picture as you go along.

5 MR. CARRIER: Thank you very much,
6 Doug.

7 MR. FANT: Sure.

8 MR. CARRIER: Now you can sit down.

9 MR. FANT: Okay.

10 MR. CARRIER: What I'd -- what I'd
11 like to do at this point is take a quick ten-minute
12 break to give our stenographer here a little rest on
13 her fingers and we'll reconvene with comments from
14 Frank Burcham followed by Leslie James.

15 (Recess from 10:35 a.m. to 10:50 a.m.)

16 MR. CARRIER: We'll get started.
17 Frank?

18 MR. BURCHAM: Good morning. My name
19 is Frank Burcham. I'm with E-P-R-I, EPRI, the
20 Electric Power Research Institute. I didn't really
21 prepare any formal comments. I just took some notes
22 earlier this morning. I'll submit my written
23 comments later to your website prior to the October
24 10th deadline.

25 For those of you that have heard of

1 EPRI or have not heard of EPRI, let me give you the
2 real quick and dirty explanation of who we are.
3 We're headquartered in Palo Alto, California. We
4 have about 500 employees scattered around the world.

5 We've been representing and working
6 with the electric industry primarily for over 25
7 years. We were formed in the early '70s. We started
8 out as strictly the R&D arm of the electric industry
9 and have moved in -- more into the technology,
10 information, training activities as well as R&D.

11 Our membership includes probably 90 --
12 well, I know it includes 90 percent of the utilities
13 in the United States, representing 90 percent of the
14 kilowatt hours sold in the United States. We have
15 international membership as well.

16 And we have new market activity, which
17 I'm primarily involved in as the RTO ISO, Independent
18 Transmission Company market, as we see that being the
19 transition from traditional vertical utilities into
20 the -- a new market at least for EPRI.

21 This issue that you guys were talking
22 about this morning is not -- nothing -- it's not new
23 to us, obviously. We've been working with our
24 customers in this area for a year and a half when I
25 was reassigned to RTO ISO market development, and

1 we've developed several papers I'd like to share with
2 you later that I didn't bring with me.

3 One was the Summer 2001 white paper
4 that we did just a few months ago on the transmission
5 grid in the Western states, and it's been used also
6 by the Western Governors' Association as -- in some
7 of their references and their work.

8 And just a week and a half ago, your
9 Deputy Secretary of DOE, along with FERC Chairman
10 Wood and 25 -- at least 25 chairmen of IOs around the
11 country -- IOUs around the country, along with EEI
12 and EPRI, began work on a infrastructure security
13 paper and analysis, which will be done -- I'm not
14 sure exactly when the final product will be done, but
15 EPRI's part will be done, at least in the draft
16 format, by actually today, and I'm sure that will be
17 shared with -- with the different partners in the
18 activity, DOE and FERC primarily as -- and the IOUs.

19 What I want to talk about this morning
20 was one of the six issues that caught my eye on the
21 National Trans -- Transmission Grid Study, and that's
22 the new transmission technologies. I think it's the
23 last of the six issues.

24 There's one -- one item in particular
25 that I'd like to bring your attention to, and that's

1 activity that we have in the transmission reliability
2 initiative area. It started in the fall of '99 and
3 continues through this year and 2002. It involves
4 using software that we developed to analyze
5 bottlenecks in the United States, and it uses E-Tag
6 information supplied by the IOUs.

7 Now, E-Tag information, as most of
8 this audience probably knows, does not -- does not
9 represent a real live power flow, but it does
10 represent the contracts around the market and we use
11 NERC data for that, so you have a real-time analysis
12 capability of bottlenecks in the system.

13 We've done this in several areas of
14 the country, one in the Southeast with Southern
15 Company, one in the Midwest with AEP, and we've
16 worked some with the California ISO on this.

17 So it's a tool that we have and we
18 think can be offered to not only the DOE but also the
19 nation in the future as a more -- as a real-time
20 snapshot of bottlenecks as they exist for an -- E-Tag
21 contracts and also allows you to do scenarios,
22 contingency analysis, depending on what kind of
23 scenarios you want to propose for the bottlenecks
24 or -- the (unintelligible) bottlenecks.

25 One of the other issues that has been

1 touched on briefly this morning is the information
2 and the data sharing between the areas. EPRI's
3 common information model, we've led the industry on
4 trying to get this implemented, and it has been
5 adopted by -- as a standard nationwide, but what it
6 will allow as it's implemented and used more and more
7 is that power flow analysis, available transmission
8 compat -- capacity calculations.

9 Contracts of all types can be shared
10 across not only an RTO, an ITO but also across IOUs.
11 That's something we don't have the capability to do
12 right now and it's critical to the proper operation
13 of the national transmission grid.

14 There's other technologies that we
15 have and we've worked with some of our customers with
16 on increasing power flow across existing systems.
17 One is very simple -- sounds very simple, but it's a
18 conductor sag monitoring where you put a simple
19 camera on a conductor.

20 And, as it sags, as it overheats or
21 heats during usage, if it sags too far, you know
22 you've got a thermal circuit problem, a rating
23 problem. It's real-time. It's based on physical
24 facts. It's not based on calculations. It's based
25 on wind flow or conductor size or temperature, but it

1 actually gives you real-time data that we think will
2 be a very good tool for use in certain areas of the
3 country.

4 You mentioned FACTS in your -- in your
5 write-ups. We obviously are involved with a lot of
6 FACTS applications, not only in Europe but the -- one
7 just at Eagle Pass in Texas, between Texas and
8 Mexico, we're involved with that. We were involved
9 with one with AEP up in Ohio and the one in New York
10 that just helped with one of their bottlenecks
11 (unintelligible) in the City of New York City.

12 So we have background there that we'd
13 like to be able to offer and work with DOE on in the
14 national transmission grid. One of the -- one of the
15 things also mentioned very briefly in some of the
16 comments this morning was power flow.

17 E-Tags and contracts honestly do not
18 represent the use on the -- on the grid. Power flow
19 does. And what we really, really need to understand
20 the system and any bottlenecks is good power flow
21 real-time analysis, and that is another activity EPRI
22 is involved in.

23 Another one is the white area
24 monitoring. That is a technology that we think that
25 ISOs and RTOs, as they form, can use in not only

1 anticipating bottlenecks but also evaluating
2 different scenarios and contingencies that they may
3 come across.

4 Last but not least, EPRI supports the
5 FERC RTO concept, whether it's four or six RTOs --
6 who knows right now? -- but what we would like to
7 make sure that people keep in mind is that there are
8 a lot of details to be -- to be addressed in the
9 formation of these RTOs and to rush ahead and create
10 these RTOs for the sake of creating RTOs, we would
11 urge there to be some caution taken here.

12 There's a lot of details -- a lot of
13 details that need to be addressed in the proper
14 operation of an RTO. And you've heard the saying
15 there's -- the devil hides in the details. There's a
16 lot of devils in those details in the creation and
17 operation of RTOs.

18 And we'd just like to add our word of
19 caution and support for RTOs, but make sure we don't
20 rush into the solution without being properly and
21 fully functional.

22 And last but not least, I have to do a
23 commercial for R&D being from EPRI. We hope that the
24 R&D issue on transmission grid systems is not lost.
25 I know everybody needs tools today that they can use

1 today to solve problems today, but we also have to
2 keep in mind the future and what we're going to need
3 two, three, five, ten years from now.

4 We can't stop and start R&D on a -- on
5 a dime. It has to be long term and we have to
6 recognize that. That's an ongoing need that will not
7 disappear. And, again, I will follow -- file these
8 comments on the web and also the papers we have
9 prepared.

10 MR. CARRIER: Thank you very much,
11 Frank, and I'm sure we've got several questions.
12 First of all, I'd like to -- you did raise the issue
13 of, you know, security in the transmission grid, and
14 I -- I just wanted to mention that, you know, the
15 events of September 11th, of course, affect -- it's
16 inescapable that it becomes -- you know, the
17 implication to that be addressed in our Transmission
18 Grid Study.

19 However, I did want to mention that
20 the Department of Energy does have a Critical
21 Infrastructure Protection Office, and we have been
22 working on doing vulnerability studies and
23 assessments and essentially avoiding sort of
24 terrorist-type activities or protection of the
25 transmission grid infrastructure.

1 And a lot of that work that we do is,
2 of course, very confidential and it's not generally
3 available, but this is an issue that we do intend to
4 cover in our study, but I wanted to let you know that
5 we are working in that area already as well.

6 MR. BURCHAM: Great.

7 MR. CARRIER: And let's go to some
8 questions. Joe?

9 MR. ETO: Frank, we would be very
10 interested in receiving the studies that you have
11 conducted for Southern, AEP and CISO, looking at
12 existing transmission bottlenecks. We would be
13 grateful if you could provide it to the study team
14 for use in our deliberations.

15 MR. BURCHAM: Okay.

16 MR. ETO: Secondly, I would also
17 request that you provide comments, either now or in
18 your written comments, about how to address that
19 lines are going to be declining private investment in
20 electric reliability R&D.

21 MR. BURCHAM: I wish we could figure
22 that one out ourselves. That would -- if we could
23 figure that one out, our problems -- a lot of our
24 problems would be resolved, but we have some ideas on
25 it we'll be glad to share with you.

1 MR. ETO: Thank you.

2 MR. BURCHAM: Now, should we use --
3 should I use Paul as the contact for information
4 there --

5 MR. CARRIER: Give me --

6 MR. BURCHAM: -- for the papers and
7 the --

8 MR. CARRIER: The best thing to do is
9 probably submit the documents to the website that we
10 have.

11 MR. BURCHAM: Okay. The studies as
12 well?

13 MR. CARRIER: Yeah, by October 10th,
14 if you can.

15 MR. BURCHAM: Okay.

16 MR. CARRIER: Yeah. If the studies
17 are large documents or something, you can send that
18 directly to me.

19 MR. BURCHAM: They're fairly large,
20 especially the scenario analysis.

21 MR. CARRIER: You can send that
22 directly to me then.

23 MR. BURCHAM: That's very large.
24 Okay. It also is available on the NERC -- on the
25 NERC website.

1 MR. CARRIER: Okay.

2 MR. BURCHAM: It's in limited
3 availability based on data.

4 MR. CARRIER: Okay. Thank you.
5 Other questions? Fernando?

6 MR. ALVARADO: Yes, two issues, and
7 both have to do with software tools, et cetera, that
8 you mentioned that either you have or you're
9 developing or you're willing to make available or
10 something of the sort.

11 One concern that you have is a tool
12 based on E-Tags for the analysis of snapshots of
13 bottlenecks. Now, NERC has something, you know, like
14 that on site.

15 MR. BURCHAM: We developed that with
16 NERC.

17 MR. ALVARADO: You developed that with
18 NERC?

19 MR. BURCHAM: Yes.

20 MR. ALVARADO: So is that what you
21 were referring to or is this something over and above
22 that?

23 MR. BURCHAM: No.

24 MR. ALVARADO: That's the one?

25 MR. BURCHAM: That's the tool we

1 developed in the last ten to 12 months.

2 MR. ALVARADO: The ITC calculator or
3 something with ITC, or whatever it is?

4 MR. BURCHAM: Yeah.

5 MR. ALVARADO: Okay. I'm familiar
6 with that. It is a useful thing and it's one of the
7 starting places in us looking at the grid.

8 MR. BURCHAM: Yeah.

9 MR. ALVARADO: The second tool you
10 mentioned is this -- the real-time power flow
11 analysis capability. Interestingly, the same subject
12 came up in Atlanta, very strongly, and I wanted to
13 find out from you the status of development, once
14 it's developed, its availability, the feasibility of
15 having -- you know, the question really that came up
16 then was the feasibility of a nationwide real-time
17 publicly-available flow, state estimator type
18 information.

19 Is that where you're headed and will
20 it be publicly available?

21 MR. BURCHAM: That's exactly where
22 we're headed, although the work has just begun on
23 that. When it's available, I'm not -- I can't tell
24 you right now. I would have to talk to some of the
25 project line managers.

1 But availability, that's always been a
2 question within EPRI, and that depends on membership
3 and relationships, like what will we have in some of
4 the labs, with California Energy Commission, CERTS,
5 DOE and our member utilities, along with RTOs, ISOs
6 that are members of EPRI?

7 I can't tell you how that -- how that
8 tool will be disseminated. Typically what we do is
9 we disseminate that tool, that software, immediately
10 to our members, the people who have participated in
11 the project.

12 Others that have not participated in
13 the project usually see some kind of time delay, a
14 time delay of six to 12 months before it's available
15 to those people.

16 MR. ALVARADO: Thanks.

17 MR. CARRIER: Rich?

18 MR. SEDANO: Do you or your
19 organization have a view on how much we're going to
20 see from DC projects in the next few years in terms
21 of the status of development and what you're hearing
22 from your members?

23 MR. BURCHAM: On DC versus AC lines?

24 MR. SEDANO: Yeah.

25 MR. BURCHAM: It's always a point of

1 discussion. In fact, we're having a large advisory
2 meeting starting Monday here in Phoenix that this
3 will be discussed at. But up to this point, we
4 haven't done any focused funding activities in the DC
5 area as far as lines.

6 Now, we do have some ongoing work that
7 we're considering for large users, like server farms,
8 where we could use a DC system internal to the -- to
9 a server farm, but that's not -- I mean, that's
10 underneath the grid.

11 We're not really talking too much at
12 the grid transmission level on DC activities, at
13 least in the United States. Internationally there's
14 some activity but not here.

15 MR. SEDANO: Thank you.

16 MR. CARRIER: Any other questions?

17 Is -- I do have one myself, and this
18 follows up on Joe's question a little bit. In, you
19 know, looking at ways to improve investment in
20 research and development in the transmission
21 industry, also, you know, looking at -- I was
22 wondering what your thoughts might be as far as ways
23 to improve the speed of moving new technology
24 development out into the industry.

25 You mentioned a minute ago that the

1 work that EPRI does goes first to its members and
2 then later on to the industry as a broad -- whole,
3 and I was wondering if there was maybe some mechanism
4 or some way to improve getting that out to the entire
5 industry at an earlier stage or going -- involving
6 the -- more of the industry in the initial decisions
7 on research and development.

8 Do you have any suggestions on how
9 this could be improved?

10 MR. BURCHAM: One of the things,
11 again, I just mentioned earlier today was some of
12 this public good activity and the funding behind it.
13 I think that has a lot of potential that we haven't
14 really -- at least internal to EPRI, haven't really
15 developed an approach toward -- with the public
16 good.

17 I think that -- if we can form some
18 partnerships with that kind of public good focus,
19 then those results and that software, those tools
20 developed using that public good funding, would
21 obviously be available to everybody immediately, so I
22 think that's probably the key to doing that as
23 opposed to just having members being -- having
24 certain tools available immediately with the public
25 getting it later.

1 MR. CARRIER: What about your --
2 EPRI's relationships with the Department of Energy in
3 coordinating the research and development efforts?
4 Do you have any suggestions there?

5 MR. BURCHAM: We -- we would really
6 like to --

7 MR. CARRIER: I know we coordinate
8 very closely, for those of you who don't already
9 know, but, you know, if you have any suggestions for
10 improvement or anything, we'd like to hear that as
11 well.

12 MR. BURCHAM: Well, internally we
13 recognize it as a problem because we work with DOE.
14 We work with FERC. We work with NERC. We work with
15 a lot of the state agencies, California Energy
16 Commission, groups like that.

17 And what we're internally trying to do
18 is create a single point of focus or contact to help
19 us understand that because we have some
20 vice-presidents out talking to folks, we have some
21 directors talking to folks, we have product line
22 managers talking to folks.

23 We don't have one person coordinating
24 all that so we understand all the discussions, all
25 the activities with the different agencies. That's

1 an internal problem to EPRI.

2 What we think that would help solve is
3 this coordination because sometimes our left hand
4 doesn't know what our right hand is doing. We're
5 just too big a company spread throughout the world.
6 And if we have a single point of contact, a liaison,
7 if you will, with DOE and FERC and NERC primarily, we
8 think that could help go a long ways in getting that
9 kind of more direct results and have a better
10 understanding what you need and what we can work with
11 you on. Bless you.

12 MR. CARRIER: Thank you.

13 MR. BURCHAM: Caught a sneeze there.

14 MR. CARRIER: That's right.

15 Any other questions?

16 Thank you very much, Frank.

17 MR. BURCHAM: Thank you.

18 MR. CARRIER: Leslie James -- James.

19 Thank you. And she will be followed by Robert
20 Johnson.

21 MS. JAMES: Thank you for the
22 opportunity. My name is Leslie James. I'm executive
23 director of the Colorado River Energy Distributors
24 Association or CREDA. CREDA is a not-for-profit
25 association composed of consumer-owned utilities,

1 political subdivisions, co-ops, travel utility
2 authorities within the Western states of Arizona,
3 Nevada, Colorado, Utah, Wyoming, New Mexico.

4 The common thread among CREDA members
5 is that all of our members are under contract with
6 the Bureau of Reclamation and the Western Area Power
7 Administration for delivery of federal resources
8 across Western Area Power Administration Transmission
9 Systems.

10 The Western Area Transmission System.
11 In reading the materials that were provided on the
12 website for the study, it became a bit obvious to me
13 that -- or unclear to me what involvement there has
14 been of the power marketing agencies, particularly
15 the Western Area Power Administration, with regard to
16 impacts on most transmission systems.

17 They were developed for a specific and
18 unique purpose of delivering federal power generated
19 at federal hydro facilities. These systems are
20 expansive. And here in the West, the Western Area
21 Power Administration Transmission Systems are a
22 significant part of a potential Desert Star RTO or
23 other RTO proposal.

24 Members of our organization, as I
25 mentioned, are under long-term, cost-based contracts

1 for delivery of these resources across these
2 transmission systems, and certainly we are quite
3 concerned about potential operational and financial
4 impacts of any decisions that would take into account
5 federal transmission systems.

6 And I think any study of this sort has
7 to involve and be in direct consultation with those
8 customers who will be the direct impactees of any
9 decisions made regarding Western transmission
10 systems.

11 We would support several of the
12 comments that were made by Don Kimball. We are quite
13 interested in looking at potential alternative
14 financing models because, as I said, currently our
15 members pay the costs -- any costs associated with
16 the Western transmission facilities.

17 And when we go through processes
18 such -- beginning with FERC Order 888, 889, RTO
19 development, the administrative and potential impact
20 costs just continue to rise without a real clear
21 picture of what the benefits are to these customers.

22 Our members serve nearly 3 million
23 consumers in the six states that I mentioned. And,
24 again, from our perspective, any involvement of
25 Western Area Power Administration in RTOs or in other

1 forms of transmission operation, there needs to be a
2 clear business case that such involvement will
3 benefit the consumers, that benefits will outweigh or
4 at least equal the cost to participate.

5 Just a -- one comment or two
6 specifically on the materials. On the business
7 models segment of the materials, there appears to be
8 quite or -- an inordinate amount of discussion on
9 function and structure as opposed to -- there is some
10 mention about clearly there needs to be cost
11 benefit.

12 But, again, in so many of the industry
13 restructuring and other process we see going on, we
14 ask the question, what's the benefit to the
15 customer? What's it going to cost? And those
16 answers just aren't there.

17 So to the -- to the extent that the
18 technical committee could -- could attempt to try to
19 refocus some of these -- some of these discussions to
20 looking at, what does this do for the customer, I
21 think that that would go a long way toward obtaining
22 support and trying to reach consensus on some of the
23 models.

24 Again, I think being a regional
25 organization, we would support the comments that were

1 made by Governor Hall in that our view of this effort
2 should and could be quite beneficial in terms of a
3 support role to what the region decides and makes its
4 decisions on regarding these matters.

5 Again, the financial model work, I
6 think we would support and would be very interested
7 in some type of process that would assess the costs
8 and support for new transmission to all of those who
9 benefit from that. Thank you.

10 MR. CARRIER: Thank you. Oops. We
11 might have a few questions.

12 MS. JAMES: Okay.

13 MR. CARRIER: You know, we like to get
14 the full benefit of your knowledge here.

15 MS. JAMES: Okay.

16 MR. CARRIER: Okay. Fernando?

17 I do not see any questions. I do -- I
18 do want to ask something, though. You know, you
19 asked about the impact on the Western transmission
20 grid, the Western Area Power Administration, and we
21 do have somebody from the Western Power
22 Administration here today, James Charters, and I was
23 wondering if he might want to say anything in
24 response to your question.

25 UNIDENTIFIED SPEAKER: He's right

1 outside the door.

2 MR. CARRIER: Is he outside?

3 UNIDENTIFIED SPEAKER: He's outside.

4 MR. CARRIER: Let me let Joe ask his
5 question while --

6 MS. JAMES: Okay. Could I also
7 comment? I was particularly interested in how much
8 involvement there had been in looking at the Western
9 system because I did notice mentions of TVA and
10 Bonneville, but I didn't see -- I didn't see a lot of
11 discussion about Western.

12 MR. CARRIER: The -- we have been
13 working, you know, and talking to the -- the
14 Bonneville and Western representatives in the
15 Washington, D.C. office. They have representatives
16 there.

17 And, like I mentioned, we do have
18 James Charters here from the Western Area Power
19 Administration, and maybe you want to direct your --
20 now that he's in the room, maybe you want to direct
21 your question directly to him and see if he can
22 respond.

23 MS. JAMES: Which one?

24 UNIDENTIFIED SPEAKER: Where were you
25 on the night of --

1 MR. CARRIER: Jim, you want to come up
2 here for a minute?

3 MR. CHARTERS: Probably not.

4 MR. CARRIER: He offered his
5 assistance during a break.

6 MS. JAMES: Jim, the questions and
7 comments that I made centered around how much
8 involvement there has been of Western in development
9 of this study, in particular, a comment that anytime
10 there is a process or a proposal such as this, those
11 customers that are paying all the costs of impacts on
12 Western, including administrative and transmission
13 system improvements, certainly have a keen interest
14 in ensuring that there's a lot of consultation and
15 that there needs to be a clear business case for
16 whatever involvement Western has in RTOs to ensure
17 that the costs are equal to or outweigh the ben -- or
18 the benefits outweigh or equal to the cost of
19 involvement. So I was basically expressing our
20 concern about --

21 MR. CHARTERS: That's about five
22 issues.

23 MS. JAMES: Yeah. Well --

24 MR. CHARTERS: Western's involvement
25 today, we found out at the Western Market Interface

1 Committee that y'all were having this, so that's our
2 involvement with this particular process right today.

3 The involvement with Western in
4 dealing with our neighbors and our customers across
5 the West is that we involve our customers a
6 significant amount in everything that we do.

7 And I'm sure that Leslie can -- excuse
8 me, Ms. James can attest to that, as being with
9 CREDA, and the fact that CREDA is one of our customer
10 groups that help us. And I want to emphasize help,
11 because it is. Help us with deciding how we can best
12 serve our customers.

13 I can also tell you that we have dealt
14 with transmission issues with all of our neighbors in
15 the area in planning groups, we're very careful, are
16 very significant members of the WSCC. In my group
17 alone in just the Desert Southwest region, we -- we
18 represent Western on the TSS, Technical Study
19 Subcommittee. Am I doing that right?

20 I'm as bad at acronyms as everybody
21 else. I use them. It's kind of a military thing.
22 We are also on the Reliability Subcommittee and we're
23 also on the SW -- SRWG. Anyway, so our -- we're very
24 active in WSCC.

25 The other thing that we're active in

1 is -- most everybody I can see, without a doubt,
2 every power utility in this room is probably buying
3 transmission from us in some way, shape or form, so
4 we have an open transmission system.

5 We look at that as being beneficial to
6 our customers inasmuch as by marketing the excess
7 capacity we can reduce the rates. We do not have a
8 profit motive. Sometimes it looks like we do, but we
9 don't, folks, really. We are trying mostly to keep
10 our rates down as low as they can be. And I think
11 you'll find in the Desert Southwest region that
12 our -- our rates are as low as -- are lower than
13 anybody else's.

14 What else did you want me to answer?

15 MS. JAMES: I think RTO was --

16 MR. CHARTERS: Oh, RTO.

17 MS. JAMES: I also talked about the
18 need and purpose for which the systems --

19 MR. CHARTERS: Okay. Let me first do
20 the RTO routine.

21 Western's position in RTOs is that the
22 RTO must have some benefit for the cost of the RTO.
23 The other thing, that Western is viewing an RTO as a
24 contractor to Western to operate our system and, as
25 such, we have not given up our federal mandates for

1 oversight.

2 And then what was the other one? Oh,
3 the -- our system was originally built and mandated
4 by Congress and the Legislation for delivery of
5 federal hydro power to our customers. And what we
6 are marketing as open transmission is that -- over
7 and above this.

8 And if you look at our open access
9 tariff, you would find in Attachment K that we very
10 carefully define what is open to other entities and
11 that we actually reserve all of the capacity for the
12 federal mandate and the fact that we will follow that
13 mandate because that's what Congress told us to do.

14 As the -- as the Desert Southwest
15 region, we are the steward over several projects,
16 Boulder Canyon, the -- Parker Davis, Southern Crisp,
17 Intertie, Selleny, Levee, several of them, so we have
18 in this area 3,012 circuit models and Western Area
19 Power Administration itself has about 17,000 in the
20 West and in -- it's being used with our neighbors all
21 over the place.

22 Did I answer all of those?

23 MR. CARRIER: Thank you very much,
24 Jim.

25 MR. CHARTERS: And I'm sorry I

1 offered.

2 MR. CARRIER: No. That was very
3 helpful. I did want -- and encouraged during a break
4 that Jim provide some comments. As you know, you
5 know, Western and Bonneville are both power marketing
6 administrations within the jurisdiction of the
7 Department of Energy and that they have a very
8 significant role in transmission issues here in the
9 West.

10 And I -- I wanted to encourage Jim
11 to -- to provide some of his thoughts to us. And I
12 do note, as I did a minute ago, that we are working
13 closely within the -- within the study group back at
14 the Department of Energy, we have kind of a steering
15 committee group for our study, and it involves not
16 only people within DOE headquarters but the power
17 market administrations and also the Federal Energy
18 Regulatory Commission. So we're trying to have a
19 nice overview here and involve everybody, but I did
20 want to hear from the Office of --

21 MR. CHARTERS: I have -- I have four
22 other commercial messages.

23 MR. CARRIER: Go ahead.

24 MR. CHARTERS: Western feels there's a
25 need for a comprehensive, uniform -- I got these from

1 the boss so... Comprehensive, uniform and effective
2 planning for dealing with enhanced transmission
3 facilities.

4 We believe that there's a need to have
5 someone focus on the operations and planning of poor
6 reliability, providing a balance to present market
7 focus on investment recovery rate of return. We feel
8 that in light of recent events, September 11th, from
9 a national security perspective, the need to have
10 transmission planning and operations functions
11 performed by those experienced in doing so but also
12 do not have a market motive.

13 Just in passing, we are very concerned
14 about what is happening in terms of market hubs and
15 what they are doing for the location of generation in
16 large quantities and the impact that that has on the
17 security of the nation.

18 We also feel there's a need to have
19 someone focus on large market issues and the role
20 that transmission may play without the connection to
21 individual market motives, and that's our commercial
22 message. Thank you, sir.

23 MR. CARRIER: Thank you very much.
24 What I would like to do -- Leslie, we do have a few
25 more questions for you and apologize for me

1 interrupting your --

2 MS. JAMES: No. That's fine.

3 MR. CARRIER: -- your time here.

4 Joe?

5 MR. ETO: Sorry to sound like a broken
6 record, but I need to just ask this question of all
7 the speakers.

8 Do your thoughts on the role of our
9 study in attempting to identify transmission
10 bottlenecks and identify appropriate federal actions
11 to address them, can you share some thoughts with how
12 you would suggest we go about those activities?

13 MS. JAMES: You know, I think that
14 there are probably -- there have probably been
15 several efforts along those lines. I know I had to
16 testify before the Congress earlier this year about
17 the impacts of -- or energy market impacts on these
18 federal resources.

19 And I -- I thought that -- through
20 political and other purposes, there have been several
21 efforts to try to identify -- the agencies had been
22 asked, identify what you can within your systems that
23 need some help, so I -- I guess I would -- I would
24 say that to reach out to the federal agencies and see
25 if a lot of that work has already been done, because

1 I know that the individual regional office probably
2 have put a lot of it together already and you
3 wouldn't need to re-invent the wheel.

4 And what was your other -- what was
5 your other? That was it?

6 MR. ETO: To the extent they are so
7 identified, what op -- can the federal government do,
8 if anything, about them?

9 MS. JAMES: Well, I think you're going
10 to have -- before -- I wouldn't rush to a decision,
11 but there does need to be -- I don't want to use the
12 word "incentive" either. There needs to be
13 consideration given to the best market model to get
14 some transmission built.

15 You know, we've heard this morning
16 that there is significant generation going on here in
17 Arizona. Probably other places, too. Why -- why is
18 there such a disincentive for transmission
19 construction in terms of financing when, in fact,
20 private generation is being financed?

21 You know, I -- I worked at a very
22 large utility here in Phoenix for about 20 years and
23 until 888, 889 standards of conduct and splitting
24 generation and transmission planning functions and
25 market functions, it was just always a given that if

1 you're going to increase generation, how are you
2 going to move it?

3 You know, there seem -- there seems to
4 be an economic picture out there that, well, it will
5 get there. Transmission is open. It will get
6 there. There needs to be wire. So it's kind of a
7 long-winded answer to your question, but the
8 financing -- the financing, I think, is real key to
9 this because that flows directly to the beneficiaries
10 and to the impactees. And until that is figured out,
11 people are still not going to be building
12 transmission.

13 MR. CARRIER: Rich, do you have a
14 question?

15 MR. SEDANO: I'd like to know if any
16 of your members are having problems now getting
17 adequate transmission service.

18 MS. JAMES: The -- let me be real
19 careful here. The federal resource piece of my
20 members' resource portfolio ranges. For some, it's
21 two or three percent. For others, it's up to as much
22 as 60 percent.

23 So I'm -- I'm representing those
24 interests that are delivered the federal resource
25 issues. And over some of the -- there are some totes

1 of some constrained paths that have been constrained
2 for a long time. That hasn't changed.

3 They are not being -- I would say they
4 are not being unable to get service, but with all the
5 new market participants coming in wanting to use some
6 of these paths, there is pressure. There is
7 pressure.

8 But as Jim Charters mentioned, under
9 Western's open access transmission tariff, which --
10 it very clearly identifies the statutory
11 responsibility they have to deliver these federal
12 resources. That comes first.

13 Whatever is left on their system then
14 is marketed to third parties. So within the Western
15 system, sure, there are some areas that could be
16 beefed up that could probably help, but it's not as a
17 result -- the resources they are marketing are
18 finite. They are -- they are not a power marketer.

19 They are there to market the federal
20 hydro resources. Those aren't growing. We aren't --
21 we aren't installing new dams. So the uses of their
22 system are being pressured, though, by the changing
23 markets.

24 MR. CARRIER: Thank you very much.

25 MS. JAMES: Okay. Thank you.

1 MR. CARRIER: Our next speaker is
2 Robert Johnson to be followed by Phil Carver.

3 Do I have Robert Johnson? Oh, there
4 you are.

5 MR. JOHNSON: Yes, that's me.

6 MR. CARRIER: Thank you very much.

7 MR. JOHNSON: Thank you, Panel,
8 Mr. Chairman. Appreciate the opportunity to speak
9 here today.

10 I am executive director of Electric
11 Consumers' Alliance, which is a umbrella group for
12 more than 275 consumer organizations around the
13 country. We work on issues of electric competition
14 and consumer protection. Our members include rural
15 groups, like the National Firemen's Union, senior
16 groups like Gray Panthers, National Council on Aging,
17 a number of low-income organizations, small business,
18 disability, residential consumer groups.

19 Basically I represent and am part of
20 the 99 percent of consumers in this world who aren't
21 nearly as smart as all of you sitting out here on
22 issues of electric transmission. But, just like all
23 of you, we are very much dependent upon the operation
24 of that system and we at least have a very cursory
25 understanding of the importance of that system in

1 fulfilling our goal, which is ultimately to get
2 reliable, affordable, predictable energy supply.

3 The tragic events of September 11th
4 have had a profound impact on all corners of the
5 society and economy and the electricity markets are
6 no exception, indeed, is the key infrastructure that
7 fuels the nation's stability, security and vitality.

8 The need to promote efficient markets
9 in energy is paramount. And for that reason, I
10 commend the Panel for proceeding forward this week
11 with -- with these discussions.

12 I know it was a decision that probably
13 was debated internally, but I think it is exactly the
14 right decision because, while it could be argued or
15 suggested that we can't afford to move forward with
16 these issues at least in the short term, I would
17 argue quite the converse, that we can't afford not to
18 go forward with these issues because now, more than
19 ever, the vitality and growth of the electric
20 transmission system is important, not just in an
21 economic basis, but I believe also is increasingly
22 important as an issue of national security.

23 Let me tell you just a little bit
24 about Electric Consumers' Alliance and where this
25 issue fits in. As I indicated, we represent common

1 folks who want to switch on the lights and have
2 electricity come to their house or their small
3 business, and who very much depend upon that.

4 We've been in existence for the
5 past -- for eight years. For the first seven years
6 of our existence, we thought the issues that mattered
7 to us were reliability and affordability and that was
8 pretty well it. Okay. That was our perspective and
9 we would address things from that.

10 Then came California and we added
11 predictability. And now comes September 11th and
12 we've added security. So it's not just reliability
13 and affordability, but it's also predictability and
14 security that drives the interests of the tens of
15 millions of consumers that we collectively
16 represent.

17 In addressing those issues, we think
18 there are three core components, and we're arguing in
19 support of these, in support of comprehensive federal
20 energy legislation. The first, as it may come as no
21 surprise as a consumer group, there are key consumer
22 protection education mechanisms that must be in
23 place. I'm not here to talk about that today.

24 Secondly, we support a diverse
25 resource mix that doesn't place an over-reliance on

1 any one fuel source but supports traditional methods,
2 like clean coal technology, extending licenses for
3 nuclear and hydro facilities, and that also
4 encourages the continued development of renewables
5 and the continued development of conservation, both
6 underutilized resources at this point in time. But
7 I'm not here today to talk about that either.

8 Thirdly, we believe that the
9 underpinning of how you get reliability,
10 affordability, predictability and security is
11 directly dependent upon a robust transmission
12 network, and we are very concerned that the
13 transmission network that we have today is not robust
14 and is not adequate to deliver the benefits of
15 wholesale competition to consumers.

16 Certainly there are a number of issues
17 as to why that is not the case. A number of those
18 are quite technical and have been discussed here
19 today in far more depth than I could hope to present,
20 but I believe there also is a core issue that does
21 touch consumers and, that is, particularly the issue
22 of siting.

23 And this is a little bit difficult for
24 us to say as a consumer group who have members who
25 individually and collectively are able to espouse

1 NIMBY principles ad nauseam when the transmission
2 facility is sited in their neighborhood, but we've
3 reached the point in this country where we believe we
4 have to look beyond that.

5 The public interest on a greater level
6 requires us to revisit siting rules and to
7 essentially revisit the process by which transmission
8 lines are sited in this country and understand that
9 if consumers as a whole are going to enjoy the
10 benefits of a robust electric network, there's got to
11 be a process in place that allows the timely siting
12 of necessary transmission facilities.

13 So we support, and indeed we have
14 spent a great deal of time in Congress talking with
15 staff members about the need to establish a new
16 paradigm for transmission siting.

17 I don't need to tell you that there is
18 a siting -- that there is a -- a problem with the
19 transmission system today, that the adequacy
20 certainly can be called into question. And
21 certainly, as we move on out into this decade,
22 constraints and congestion can be expected to
23 increase.

24 But I also think the need for
25 transmission doesn't lie solely on the old paradigm

1 and the constraints and congestion that that system
2 is going to envision, but also we need to look at
3 transmission systems and the siting of systems as a
4 way to encourage the development of new generation
5 and as the ability of getting that new generation to
6 market.

7 I spent the early part of this week in
8 South Dakota, in Pierre -- and I was quickly put in
9 my place. It's not Pierre, South Dakota. It's
10 Pierre, South Dakota. I still can't pronounce it
11 right -- in Aberdeen and in Sioux Falls, talking to a
12 lot of farm groups particularly about wind energy,
13 the potential there, and the potential is
14 tremendous.

15 And, in fact, it's interesting because
16 if you think back five years, the technology that --
17 you know, but for a few of the condo Cuisinarts out
18 in California, didn't really seem to have a
19 mainstream application, but now technology has
20 evolved to the point where clearly it will.

21 Now you can get an insurance policy to
22 hedge against the possibility that the wind won't
23 blow, so clearly that indicates how mature this
24 market has become. But those farmers out there are
25 concerned that they can -- now have a value not just

1 in what lies below the soil but in what lies
2 potentially above the soil, but their concern is if
3 we build the generation, how do we get it to market?
4 Where is the market? How does it get there?

5 So we see transmission and the need
6 for expanded transmission siting as an issue, not
7 just of shoring up an existing subset that perhaps
8 may no longer be adequate because of regionalization
9 of markets, but also as a step forward that can
10 encourage the development of renewable generation.

11 So what has to happen? Well, easier
12 said than done, but we believe that what has to
13 happen is we need to politically have the fortitude
14 to understand that just like Subex treatment plants
15 serve a greater public interest purpose, but nobody
16 wants to live next door to one, and just like
17 landfills serve that purpose and just like
18 interstates even serve that purpose.

19 The siting of an efficient
20 transmission line in the system on a regional basis
21 is something that we must have the political
22 fortitude to do.

23 To do so, we can't have a process that
24 requires ten years to site a line. Indeed, we must
25 have a process that is fair but that has an end

1 date.

2 Let me caveat these remarks by saying
3 I'm a local landowner. Every one of my members is.
4 Certainly individual landowners and municipalities
5 and localities have a very legitimate interest in
6 land use planning.

7 Those issues need to be taken into
8 consideration. Indeed, they must be taken into
9 consideration, but we believe they can't be allowed
10 to hold the entire process hostage. They must be
11 taken into consideration as part of a larger regional
12 effort to site transmission lines.

13 So we would propose a new regulatory
14 model for siting lines. We believe that
15 determination of need must be made on a regional
16 basis, and that determination of need must be based
17 upon the regional needs of how to most reliably and
18 most efficiently move power.

19 Certainly it must take into
20 consideration demand side responses also that may
21 obviate the need for new transmission facilities, but
22 I don't believe, even with my scant one percent of
23 the knowledge, that that's ever going to be
24 sufficient to meet the thirst of the nation for
25 energy on a regional basis.

1 So we've got to have a model that
2 essentially determines a need and then that provides
3 a recommendation as to where that line is sited and
4 how it's sited. From there, we believe a process
5 should be put in place -- frankly, we'd like to see
6 state compacts put in place where states would
7 collectively agree to this process and then have the
8 flexibility within a corridor and within a given
9 frame of time to site a transmission line and decide
10 the precise geographic location, again, within a
11 corridor for planning purposes.

12 And, finally, there must be a fixed
13 timeline on the review of this process. A ten -- a
14 process that takes ten years to site a transmission
15 line is not a process that serves the public interest
16 on any level. We think a timeline of 12 to 15 to 18
17 months is much more doable and certainly is
18 achievable.

19 Finally, one note on actually getting
20 these lines built. There has been some talk of
21 incentive regulation and we may surprise you a little
22 bit because frankly we need -- we believe there needs
23 to be a focus on incentivization of the construction
24 of transmission lines.

25 We don't think that necessarily has to

1 mean more cost, but we do think we -- the reality is
2 that dollars are pouring into construction of
3 generation and dollars are not pouring into
4 construction of transmission.

5 And without that transmission,
6 generation may well prove to be certainly less
7 economically efficient and it certainly won't drive
8 down costs to consumers in the way we hope it will.

9 So we believe that there needs to be
10 the flexibility to look at how one can incent the
11 building of transmission lines and reward lines that
12 are operated in an efficient, effective manner.

13 I appreciate your time here today. I
14 will post my comments on the DOE's site for this and
15 I very much appreciate the panel's willingness to
16 proceed with this, and we look forward to being part
17 of any solution as you move forward. Thank you.

18 MR. CARRIER: Thank you. We have some
19 questions? Yes, Shmuel?

20 MR. OREN: On the last point that you
21 mentioned on the incentive -- incentivizing
22 investment, can you elaborate? Have you had some
23 talk? Are you talking about increasing the rate of
24 return or having some more elaborate --

25 MR. JOHNSON: Well, I -- certainly

1 increasing the rate of return is the easiest way to
2 incent. I believe that if you're going to incent,
3 though, it needs to be tied potentially to
4 performance measures, project completion dates,
5 certain milestones that are within the control.

6 And we're somewhat waffling here
7 because I -- how and who constructs is somewhat open
8 to question and who controls that. But if there's
9 going to be an incentive, I believe it shouldn't be a
10 gift. It should be an incentive tied to
11 performance.

12 The performance may be simply the
13 timeline for construction. It may be efficiency of a
14 particular line. I am not an engineer so I can't
15 tell you, Here are the parameters by which I would
16 measure exemplary performance, but I would argue that
17 the incentives should come through creating superior
18 performance, not as simply a gift.

19 So, in other words, an investor is
20 incented by the opportunity to earn a great return,
21 not by a guarantee of earning a greater return.

22 MR. OREN: Okay. So when you talk
23 about performance, you're really talking about like
24 construction, not about operational facets?

25 MR. JOHNSON: No. I think it could be

1 operation of the assets, but I will stop there and
2 tell you I don't know enough about how much
3 flexibility and control there is in the operation of
4 those assets or the financier to actually have the
5 direct cause and effect to be able to control that
6 result.

7 MR. OREN: Thank you.

8 MR. ETO: I hear clearly your interest
9 in promoting regional determination for these --

10 MR. JOHNSON: I'm sorry. I can't hear
11 you.

12 MR. ETO: I hear very clearly your
13 recommendation for regional determination of needed
14 lines. In the context of supporting that activity or
15 augmenting it, do you see a role for -- a federal
16 role in either identifying transmission volumes or
17 taking actions to address them?

18 MR. JOHNSON: Unfortunately, yes, and
19 I say that because we're a group that has
20 historically been very pro states' rights, but while
21 I stand here and advocate that we would like
22 transmission issues to be developed and resolved by
23 the states on a compact basis, in reality I don't
24 think that's likely to -- I'm not willing to accept
25 that that is the end result.

1 I think there's got to be a federal
2 backstop. As well, I believe that DOE, and perhaps
3 the FERC, have a great deal of insight and
4 perspective that it would be unwise to not take
5 advantage of.

6 We would like to see ultimately a
7 cooperative federal-state, somewhat similar to --
8 those of you who are familiar with the FCC, with the
9 federal-state joint boards that exist that have
10 worked out issues of access charges, for instance,
11 because this is somewhat an issue that crosses both
12 state and federal jurisdictional boundaries and where
13 it's -- differing perspectives are important as
14 inputs to the end result.

15 MR. ETO: Thank you.

16 MR. CARRIER: Go ahead, Rich.

17 MR. SEDANO: You heard the
18 presentation of the Western Governors' Association
19 process. And while I can try to infer some of your
20 feelings about it, can you just give us a reaction to
21 the Western governors' vision of how they would like
22 to see the future unfold?

23 MR. JOHNSON: To be honest, I wasn't
24 in the room at the time so...

25 MR. SEDANO: So I'll just tease --

1 MR. JOHNSON: Sure.

2 MR. SEDANO: -- you with a couple of
3 elements. The notion --

4 MR. JOHNSON: Tell me just enough to
5 be dangerous and then I can respond off the cuff.

6 MR. SEDANO: Yeah. The notion of
7 bringing states together automatically upon the
8 filing of the petition in one state as an interstate
9 project, do you -- do you feel that that -- if that,
10 in fact, produced a significant state action of
11 contemporaneously reviewing interstate project among
12 the affected states, how far does that go to
13 addressing your problems?

14 MR. JOHNSON: That model has worked
15 effectively in my experience with, for instance, the
16 merger of multi-state utilities where states have
17 collaborated and got together and conducted joint
18 discovery, joint review, joint hearings even.

19 My concern in the transmission siting
20 scenario is that -- unlike the mult -- the merger of
21 multi-state utilities where each state had a defined
22 interest. In the siting of a transmission line, some
23 states are going to have decidedly different
24 interests depending upon perceived benefits.

25 So my -- my concern is that a

1 particular line may be regionally necessary,
2 regionally desirable, but an individual state, for
3 local political reasons or whatever, may not see that
4 benefit at least in the short term, and, therefore,
5 may become recalcitrant in approval.

6 That's why I say that I think --
7 regrettably, I think we would quickly devolve to a
8 scenario where there has to be a peacemaker, there
9 has to be an end result. So the Western -- if I
10 understand the WGA scenario, it works only if there
11 is agreement as to the need for a line and there is
12 an end game on the determination of siting, but I see
13 some holes that I think would quickly develop in that
14 concept.

15 MR. SEDANO: And one other question
16 about a specific time frame. The appeal of that is
17 obvious. The litigator might observe that there's a
18 potential for backing the state into a corner and
19 perhaps, in some cases, the states reject because
20 they are unhappy with being forced into making a
21 decision so quickly.

22 Are you worried about putting pressure
23 on the states? And I guess your answer might be,
24 well, the federal folks will take care of that if the
25 states feel that way, but are you worried about

1 creating a pressure that doesn't exist today in many
2 states that don't have the kind of --

3 MR. JOHNSON: Yes, I'm worried about
4 it, but, again, the -- where I start from is that
5 there is a greater regional and national public
6 interest at stake here and that -- I'm more concerned
7 about taking ten years to site a line than I am about
8 time pressure on a 15 or 18 or 24-month process.

9 Anytime you have a timeline, it's
10 going to be arbitrary, but at least you get an end
11 result. The problem today is we don't get end
12 results. And the consequence of that is I think a
13 far greater significance to the public interest as a
14 whole.

15 So, yes, it causes me concern, but,
16 like everything else, there's a trade-off and we're
17 certainly eager to look at creating ways of
18 protecting individual state rights and individual
19 landowner rights but within a process that is
20 defined.

21 MR. CARRIER: I have -- I have a
22 couple of questions as well. Something you just
23 touched on a little bit was the demand response
24 potential with the consumers.

25 And I know, you know, we -- we heard

1 demand response talked about as an alternative for
2 new generation frequently, but we recognize that it
3 may also be an opportunity to avoid building
4 transmission facilities as well possibly.

5 I had an interesting experience just
6 yesterday. I've got an uncle who lives nearby and I
7 was visiting him yesterday and he has real-time
8 metering.

9 I mean, this is a retired gentleman
10 who lives in his home and he was responding, very
11 obviously, to the price differentials during the
12 course of the day by pre-cooling his house when the
13 rates were low and turning up the thermostat when the
14 rates were high, and it was a very definite response
15 to that pricing.

16 And I was wondering if you see demand
17 response as -- you know, looking from the consumer
18 perspective, as something that consumers are
19 interested in.

20 And there are two aspects of this.
21 One is the avoidance of, you know, higher electricity
22 cost by avoiding using electricity during peak
23 periods or even conserving and using less electricity
24 overall.

25 The other thing is in considering it

1 as an alternative, new transmission, where you look
2 at investment in transmission and return to those who
3 invest, you'll see a mechanism -- a potential for
4 compensating consumers in a similar fashion, you
5 know, where there may be investment and conservation
6 measures.

7 MR. JOHNSON: You've asked me a micro
8 and a macro question. I didn't do well in either,
9 so -- but let me try. I believe that there is a
10 limited consumer interest in demand response.

11 Certainly California -- one of the
12 bright things that came out of the California
13 experience was 15 percent reduction in usage, as I
14 understand it, largely attributable to consumer
15 conservation through whatever means. Some of us
16 might cynically suggest the hot tubs were turned off,
17 but through whatever means there was a real demand
18 response.

19 The question is, you know, was that
20 demand response something that one could count on in
21 the marketplace or was it the product of, you know,
22 unprecedented events that certainly we don't want to
23 relive as a way to elicit future demand responses?

24 Our experience with the people we work
25 with is frankly that passive demand devices may have

1 support, but it's very difficult to get people to not
2 run the dishwasher at 2:00 in the afternoon if they
3 usually run it at 2:00 in the afternoon.

4 So I think there's some potential
5 there. I think the key is figuring out how we
6 make -- how we make it as passive as possible for
7 consumers. Understanding that there will be
8 exceptions, as you experienced, where people are, in
9 fact, interested and willing to immediately respond.
10 And I think, you know, computer technology, the smart
11 house has some real ability to get in that
12 direction.

13 On the macro question, I look at
14 transmission planning like we looked at generation
15 planning in the 1980s and continue to do so today as
16 a least cost planning concept, and that we ought to
17 look at the need for generation on a regional basis
18 within certain parameters and then look at how we can
19 meet that demand.

20 And if there are demand site actions
21 that can be taken, they're just as valuable as
22 building new lines. And in some ways, given the
23 issue that you're going to have over externalities
24 and political fallout, they may be more valuable than
25 construction of new lines, so I think there's

1 definitely a role for that and I think it should be
2 as part of a -- a least cost planning analysis
3 because, again, what we care about, and I think we're
4 quite indicative of virtually 98 percent of consumers
5 in this country, is that we've got reliable service
6 and it's affordable and it's predictable. There's
7 not wild price swings and that it's safe now.

8 So how we get that in the end,
9 creativity is our goal, and I think there's some room
10 to think of transmission siting and planning a little
11 bit outside the box, as we did with generation
12 planning a decade or two ago.

13 MR. CARRIER: Thank you very much.

14 I'd like to do a little check here.
15 We've gotten to the time that we would normally break
16 for lunch. I'm down to one more registered speaker,
17 but I know a number of you expressed an interest in,
18 you know, some follow-up opportunity to speak, and
19 I'd like to just ask for a quick show of hands if --
20 to determine whether we should continue at this point
21 and try and wrap up in the next half hour or 45
22 minutes or whether we should go ahead and break for
23 lunch because we have a significant number of people
24 who wish to follow up with some comments.

25 So I'd like to ask those who intend to

1 make some additional comments and follow-up comments
2 to please raise your hand just so we can get a
3 count. We've got one.

4 Okay. What -- if it's all right with
5 you, then what I'd like to do is continue on and try
6 and wrap up fairly soon here so that -- so that we
7 don't have to break for lunch and then come back, and
8 that way all of you get out of here a little bit
9 earlier.

10 But I -- I do, you know, want to
11 follow up with what I said earlier. We would like to
12 hear from as many of you as possible, and I -- I hope
13 that this will not discourage any of you from
14 speaking. Thank you.

15 Our next speaker then is Phil Carver.
16 I know some of you have to check out of the hotel and
17 I apologize for anything you might miss.

18 MR. CARVER: Thank you very much. I
19 think I'd probably prefer to have you all go to
20 lunch, not only because I'm standing between you and
21 lunch, which may not make you as receptive to remarks
22 as you might be, but also because you'd be sleepy and
23 there wouldn't -- the questions hopefully would not
24 be so tough afterwards after lunch, but we'll see how
25 it goes.

1 My name is Phil Carver. I work for
2 the Oregon Office of Energy. I've been doing that
3 for about 21 years. And my office, particularly
4 focusing more on my role, we help develop State
5 Energy Policy, along with the PUC and everybody else,
6 and mostly implement legislation.

7 We don't -- the Legislature does
8 policy and then we implement policy. We don't lobby
9 either. We're real clear about that on legislation.
10 We inform and try to be educational.

11 I am -- I'm staffed at the Oregon
12 Energy Facility Siting Council, so I'm deep in the
13 siting issues. I'm also active in the issues of
14 coordinating state siting plans, working with Doug
15 Larson and Jim Souby.

16 And I also advise the Oregon Attorney
17 General on civil antitrust investigations,
18 electricity, gasoline, things like that, pretty
19 informally. They do those investigations and I just
20 sort of help them understand how the industry works.

21 I want to state that I very clearly
22 support the remarks of Jim Souby and Governor Hall.
23 I think those are things that all the states have
24 worked on together and I think that's the view of the
25 states, not just a couple of individuals.

1 I'm going to focus my remarks on a
2 tiny subset of the issues that the DOE has asked us
3 to comment on, and I emphasize, these remarks are
4 tentative and I think dialogue is really the way to
5 achieve rationality, and so hopefully we'll move in
6 that direction.

7 And I'm going to focus just on the
8 mechanisms to get investment to relieve congestion
9 sort of from an economist's perspective. And I have
10 to admit, my name is Phil and I am an economist. But
11 I also encourage you to ask questions about siting or
12 market monitoring because I've been heavily involved
13 in those in the RTO process.

14 I'm on the RTO West content -- or
15 subgroups on congestion management -- on planning and
16 the mechanisms to deal with -- I'm not on the
17 congestion, but I'm interested in those issues. I'm
18 going to talk about that, but the siting and market
19 monitoring issues, I think, are interesting to me in
20 planning -- siting and planning issues, but I want to
21 address those very directly in my issues.

22 And so -- so I want to focus somewhat
23 on Joe Eto's question of how -- what do we do about
24 congestion? I mean, what is the answer to
25 congestion? And my answers apply to both the ISO or

1 the TRANSCO model, so I'm really not going to deal
2 with Subset 3, which is focus on those two models,
3 but try to burrow into an issue that really is, I
4 think, a question on both models, how do you get
5 correct economic signals to relieve congestion?

6 And the word is the new -- what kind
7 of new capacity do we get? And my basic thesis is
8 that congestion rents, that is, access to markets,
9 whether it's loads getting access to generation
10 markets or generators getting access to the load
11 markets, that those economic signals are very
12 strong.

13 And if you look at the actual numbers,
14 they're -- they're potentially too strong. And I
15 don't think that that's a concern right now. I don't
16 think that's a problem we need to regulate, but I
17 think that concerns in the RTO discussions have been
18 more on the free rider issue, that there won't be
19 enough economic participation. Everybody will wait
20 for somebody else to do it.

21 And I think that there's a
22 counterbalancing of economic force that's probably
23 stronger, or at least as strong, and my written
24 remarks will actually include a spreadsheet, a little
25 baby congestion problem, and show you the numbers,

1 and the numbers are pretty amazing.

2 We also -- the Office of Energy
3 supports a backstop mechanism to keep the lights on.
4 We think that that's something that -- at least --
5 even just for political purposes, people need to
6 understand we're not going to let that issue just go
7 and slide.

8 But I think if you're going to have a
9 backstop mechanism, you really have to make sure that
10 it's least cost and that it -- that it really
11 considers all mechanisms to keep the lights on. And
12 generally keeping the lights on with base load
13 transmission is probably not your first choice.

14 You don't want transmission -- you
15 know, a thousand-mile transmission line with five
16 percent loading factors. I think that's generally
17 not the economic answer to the lights going out. One
18 in a hundred year, one in 20 year kind of event,
19 that's not even a five percent loading factor. It's
20 like .0001 percent loading factor.

21 Now, in my little baby example, I'm
22 going to try to go through this slowly so that people
23 kind of understand, there are really four parties to
24 a congestion-relieving transaction -- or
25 congestion-relieving project, transmission project,

1 and there's -- there's two sides. There's -- think
2 of a dotted line -- I should have brought a slide for
3 this, but I didn't even plan to give these remarks.

4 Just think of a dotted line down
5 the -- down the overhead and there's a tight side on
6 the bottleneck and a loose side on the bottleneck.
7 And the tight side of the bottleneck has high prices
8 during this congested -- when the bottleneck is
9 congested and the loose side has low prices and so --
10 and then you have four different parties.

11 You have the generators on the tight
12 side and you have the loads on the tight side. And
13 similarly on the loose side, you have the generators
14 on the loose side, the surplus side, and the loads on
15 the surplus side.

16 Okay. Now, there's -- if you think
17 about the parties, they're going to instantly collude
18 if they're fairly smart, and I think they are, that
19 is, the loose side generators want to get to the
20 tight side loads, they want to get to that market,
21 but the tight side loads, the high-priced -- the
22 loads that are facing high prices, they want to get
23 to those low-priced resources on the other side of
24 the bottleneck.

25 And if you look at the benefits to

1 those two parties of changing the competitive
2 equilibrium prices, we're assuming kind of perfect
3 competition here, which may not always be in fact,
4 but if it's not perfect competition, the loads have a
5 lot more incentive to build the transmission.

6 And I have to say that I don't really
7 understand, and perhaps I need a lot of education, on
8 Issue No. 1, transmission planning and the need for
9 new capacity, Sub-Issue No. 7 says, The possible
10 effects of new transmission facilities on the ability
11 of some generators to artificially raise market
12 prices for energy, and I don't understand that as an
13 economist, but maybe I'm missing some essential
14 assumption -- essential assumption that goes
15 underneath that.

16 But, anyway, so you have the tight
17 side loads and the loose side generators. And if
18 they build that transmission line, they get a lot of
19 benefits. The -- the tight side loads get lower
20 prices and the -- and the loose side generators, they
21 get higher prices because you're kind of driving to
22 the middle. You're getting -- that price now is more
23 like the average of the tight side and the loose
24 side.

25 And so these -- there's a lot of money

1 here. And when somebody says it's only money, I
2 don't know, as an economist I tend to scratch my
3 head. That's kind of where I focus my attention
4 because that seems to drive behavior. Sometimes
5 people won't admit that's what they're talking about,
6 sometimes they phrase it in other terms.

7 But, now, getting back to the sort of
8 cost effectiveness of all this stuff, is it
9 beneficial to society, you know, are the market
10 values there? I'm looking only at kind of
11 market-driven costs and benefits.

12 The net benefit is actually the net
13 benefit to all four groups. It's the sum of the net
14 benefits to the -- these two groups we're talking
15 about colluding, the tight side loads and the loose
16 side generators, but you also have to look at the net
17 costs and benefits to the tight side generators and
18 the loose side loads, and they actually are harmed by
19 this transmission project potentially.

20 They could actually be worse off after
21 this transmission project is built, even if it's a
22 cost-effective societally-beneficial transmission
23 project.

24 Well, now, think about what I've just
25 said. We've got two parties who have an incentive to

1 have this project built and two parties who have an
2 incentive to have this project not built
3 potentially. Okay. And the net benefits are the sum
4 of all four, but we have only these two -- the two
5 benefitters, the two colluders, only have to come up
6 with enough money to pay for this project.

7 And if the other project people -- I
8 mean, the other two parties can't block it by being
9 NIMBYs or, you know, creating regulatory hurdles or
10 something, you potentially have too much money
11 chasing this project and you might build too much
12 transmission capacity rather than not enough.

13 Now, there's -- the other side is that
14 if there's, say, four tight side generators and six
15 tight side loads, they have to actually, you know,
16 get together. And the optimal strategy, of course,
17 for, say, the fourth tight side load is to have the
18 other three tight loads and the three loose side
19 generators build this project and him not pay for it
20 at all, and that's called the free rider problem and
21 that drives other problems.

22 And so a lot of the discussions in the
23 RTO are things that focus on this free rider issue
24 and maybe we won't -- free riders will prevent us
25 from getting cost-effective transmission investments,

1 but you also have what's -- this issue, and this
2 issue comes under the economic rubric of pecuniary
3 externalities. Pecuniary means money only.

4 And a pecuniary externality, as
5 opposed to a real externality, or an environmental
6 externality, is one in which the incentives are not
7 societal. You have externalities, but it's not a
8 societal externality. It's one in which it tends to
9 drive issues against the societal optimum.

10 And so let me also express a fear, as
11 it has been expressed by some, in terms of the
12 alternative method of building projects to relieve
13 congestion, and that's the peanut butter and jam
14 solution. And the idea is you take the cost for this
15 congestion-relieving project and you peanut butter it
16 over all the loads, and somehow you forecast the
17 benefits and the costs and you allocate and you
18 figure out who deserves these costs, and then you jam
19 it down their throat. So that's the peanut butter
20 and jam solution. We peanut butter the cost and we
21 jam it down the throats of the people who think they
22 don't want it.

23 Now, some of these people might have,
24 you know, pecuniary externalities, which makes them,
25 you know, want to oppose the societally-beneficial

1 project, but this is not exactly the solution
2 potentially to a commodious or very nice process. So
3 some people have expressed fear of peanut butter and
4 jam as a way to relieve congestion costs.

5 So that concludes my remarks and I
6 hope that they're taken in the spirit they're given.
7 I really appreciate the DOE coming all this way. I
8 know I've been on the airplane the other direction
9 and I know it's not a lot of fun. And I appreciate
10 the opportunity to be here.

11 And, really, if -- you know, if I've
12 said something that's offended anyone, then talk to
13 me either publicly or privately and I'll try to
14 rectify that or correct my understanding.

15 MR. CARRIER: Thank you very much,
16 Phil. Questions?

17 MR. ALVARADO: Yes. When we were in
18 Atlanta, we had a very -- you know, one of the
19 telling comments we heard there was the one you kind
20 of excluded from your discussion, which has been very
21 interesting, but the one you excluded was -- we were
22 told before you do anything and evaluate anything,
23 make sure you're working with the correct prices, and
24 you basically said you weren't going to address the
25 pricing issues.

1 MR. CARVER: Right. I -- I do not
2 have a specific mechanism to get the prices right,
3 but as an economist, an unreformed economist, I have
4 to say that I do believe. And prices right -- if you
5 don't get the prices right, you're going to drive
6 this society off a cliff. And it may be a small
7 cliff and we'll land fine and bounce with our --
8 bounce on our all-terrain bicycle or we may just
9 not -- nose dive and not do well.

10 But if you get prices really wrong,
11 then I assure you that the outcomes will likely be
12 really wrong.

13 MR. CARRIER: Shmuel?

14 MR. OREN: I'm trying to understand
15 your position. So did you say that if you price --
16 if the prices are right, if you price congestion or
17 you have the right (unintelligible) range, then
18 somehow there is a market solution to transmission
19 expansion, the market will produce the resources
20 and --

21 MR. CARVER: That's the potentially
22 best outcome and that's the challenge. There's a
23 number of different congestion models out there.
24 They used to have the locational marginal pricing,
25 the kind of node-based pricing that is, you know,

1 driven by decisions, models and bids that come into
2 the RTOs.

3 And in the West, they're experimenting
4 or looking to use firm transmission rights and
5 allocating those and having a market -- a liquid
6 market in firm transmission rights as a way to get
7 congestion pricing and investment correct.

8 And I'll be real honest with you. I
9 don't know if either will work, but I think we should
10 try. And I think it's good to try different things.
11 You know, try LM -- locational marginal pricing on
12 some places, try FTRs or financial rights or -- you
13 know, you can have a zone model with the financial
14 rights that are sold and -- bought and sold,
15 protection against high congestion rents.

16 So there's many different models out
17 there, but the key thing is if you get those
18 congestion costs being paid for by the generators and
19 the loads, and you get differential prices on
20 different sizes of bottleneck in real-time, hourly
21 prices, then that -- those real costs will drive
22 people to do, hopefully, rational things.

23 Now, there are -- you have the
24 pecuniary externality on the one hand and you have
25 the free rider issue on the left. You know, it's

1 kind of like Ulysses with Scylla and Charybdis, you
2 know, you have to avoid both.

3 But I don't think -- I don't think --
4 I think it's a navigable channel and that sort of --
5 and, again, that comes probably from my belief
6 structure --

7 MR. OREN: Well, the question --

8 MR. CARVER: -- rather than the
9 command and control model.

10 MR. OREN: The question then is -- you
11 know, I mean, we've had deregulation now for quite a
12 few years and we see quite a response on the
13 generation side, so why haven't we seen a similar
14 response on the transmission side? Is that because
15 we don't have the right pricing?

16 MR. CARVER: No, because it's an
17 inherent monopoly. You can't have -- I mean,
18 especially since electrons in an AC system will flow
19 based on Ohm's law, you can't have a competitive --
20 purely competitive -- I'll build this transmission
21 line and I'll figure out what I get for it, because
22 you could actually decrease the transfer capability
23 across a key path by building the wrong transmission
24 line.

25 So the question is, how are we going

1 to integrate an inherently monopolistic -- and by
2 "inherently monopolistic," it has the economies of
3 scale, it has constrained corridors, it has
4 lumpiness, all the things that drive -- inherent
5 economies of scale drive a inherently monopolistic
6 system so you can have a regulated monopoly or you
7 can have a government-owned monopoly.

8 You can have a nonprofit entity that
9 sort of manages this, but the transmission system has
10 to be sort of regulated in some way, but you -- if
11 you can get generation, if that is a competitive
12 industry with declining -- with costs that don't
13 decline with the economies of scale relative to the
14 kind of decisions that are made, and we're hopeful
15 that resources are like that, then -- and that
16 there's available fuels, then -- then you really have
17 to integrate these two almost alien systems, a
18 regulated transmission system and a competitive
19 generation system, but both are alternatives to the
20 same problem.

21 Transmission can solve the problem
22 potentially or generation or demand side, and you
23 have to see that all these three opportunities have a
24 fair chance in the marketplace.

25 MR. CARRIER: Rich?

1 MR. SEDANO: This is a synthesis
2 question. Where there's congestion doesn't
3 necessarily mean that there needs to be a proposal to
4 fix it if the societal benefits in fixing it aren't
5 sufficient to overcome the costs?

6 MR. CARVER: You pass. I'm sorry. 20
7 years ago, I was a professor. I still fall into
8 that.

9 MR. CARRIER: Any others questions?
10 Thank you very much for an
11 entertaining talk.

12 MR. CARVER: I hope so.

13 MR. CARRIER: Yes. And we have
14 someone else who would like to speak. Thank you.

15 MR. SMITH: My name is Jerry Smith.
16 I'm employed by the Arizona Corporation Commission.
17 As a staff member, I would like to offer a few
18 remarks regarding some of the questions you've
19 asked.

20 Let me begin by saying the remarks I
21 offer today are not necessarily the reflection from
22 the Arizona Corporation Commission but they're my
23 own.

24 I'm offering them as a staff member
25 that is actively involved from the front line dealing

1 with siting and permitting of transmission lines and
2 power plants in this state. I serve as a key witness
3 for staff in those matters and I'm also actively
4 involved as an ex-officio board member for Desert
5 Star RTO.

6 I would like to provide some remarks
7 in three categories. The first would be reliability,
8 the second in terms of planning, and, third, siting
9 and permitting.

10 Regarding the reliability, I would
11 suggest that one of -- one of the things that you
12 heard earlier is that the West transmission system
13 does function and operate differently than the rest
14 of the nation and that, for that reason, there is a
15 deference for the West regarding reliability
16 standards.

17 However, what I can tell you is that
18 the West does have a model that I would encourage the
19 Eastern Interconnection to take a close look at and,
20 that is, the WSCC does have the reliability
21 management system with compliance requirements. And
22 as a result of that, reliability measures are being
23 enforced and we are having better reliability
24 performance as a result of that -- those measures
25 being in place.

1 And I understand that the Eastern
2 Interconnection has been slow to see the value of
3 that type of approach, but I would encourage you to
4 rethink that issue and it certainly aligns with the
5 push for forming a NAERO organization with some
6 enforcement requirements for reliability for the
7 nation.

8 Regarding that reliability compliance
9 issue, I need to also acknowledge that given the
10 plight of California's experience, that there have
11 been forces that would suggest that we need to relax
12 reliability criteria, whether we're talking about
13 reserves or whether we're talking about criteria on
14 transmission lines, from a rating perspective.

15 And I am -- I am not sure this is the
16 right time to be relaxing criteria simply because of
17 the financial hardship that's envisioned those
18 reliability requirements imposed on parties. But
19 more importantly, I think there is, maybe just
20 beginning to emerge, some recognition that maybe in
21 the West not only do we need deference regarding
22 reliability on transmission, but maybe it's time we
23 give the same thought to deference regarding natural
24 gas pipeline operations.

25 My reason for offering that view is

1 this state has approved the siting of 12,000
2 megawatts of generation, all being proposed to be
3 served from the same pipeline because there is no
4 other alternative for the pipe -- connections to
5 these pipes.

6 We work hard on the electric
7 reliability side to make sure we stand the loss of a
8 single plant. What are the implications of a
9 pipeline rupture that takes out 12 plants (inaudible)
10 for the State of Arizona?

11 I would suggest we would have a major
12 blackout in the West. There's no question that there
13 are close parallels in the gas infrastructure in the
14 West and the transmission infrastructure. They
15 functionally are both sparse in comparison to what
16 exists East of the Rockies, and I am suggesting that
17 maybe what we need is to give some thought to --
18 instead of electric reliability, maybe we need to be
19 talking about energy reliability, not only in terms
20 of the deliverable commodity but in terms of the fuel
21 reliability issues that accompany that same product.

22 I mentioned that we have been
23 approving a lot of power plants in the state, but I
24 can also tell you we are now beginning to see some
25 transmission line projects surface. We have

1 approved, in the past year, a merchant transmission
2 line across the Northern part of the state on the
3 Navajo Reservation.

4 We also have another project that has
5 been pending and likely will be filing for the siting
6 process for a merchant line that would connect
7 Arizona to California. We actively have underway two
8 power line projects that address transmission
9 constraints in this state. One of those projects is
10 a project that has the capability of becoming an
11 international tie line between Arizona and Mexico.

12 We also have another transmission line
13 that's being proposed to connect from the Palo Verde
14 hub to the Phoenix metropolitan area addressing not
15 only the load serving requirements for Arizona but
16 addressing the constraint for a large commercial hub
17 in Arizona.

18 And, in fact, one of the things that
19 is emerging in my view, due to our siting experience,
20 is the emergence of large commercial hubs that end up
21 having connected to the transmission infrastructure
22 such large quantities of generating sources that we
23 become very vulnerable from a national security
24 perspective.

25 And it's for that reason, as a staff

1 member, I have recommended a moratorium on expansion
2 of that hub beyond what we have currently approved
3 until we can address, what are the proper reliability
4 and security measures that need to be attended to
5 those types of hubs?

6 And, finally, I'd like to talk a
7 little bit about the siting process for transmission
8 lines. It's my experience that delays in
9 transmission lines do not come to the siting
10 process. In fact, in Arizona, the siting process by
11 statute runs roughly six months.

12 The delays come in terms of paying the
13 right-of-way or doing the environmental assessments
14 when it involves federal lands. And certainly there
15 are needs and opportunities to streamline that
16 process to bring federal, state and local processes
17 more in -- in line, in coordination, and a way to
18 streamline the full process required to implement
19 transmission lines.

20 But the underlying -- the underlying
21 premise for all of my remarks really comes back to
22 the planning topic because, frankly, what is going on
23 right now is we have a planning crisis -- at least in
24 Arizona, I would call it that -- because what we have
25 is utilities that are having to devote all of their

1 planning resources, personnel, to doing
2 interconnection studies for power plants for which
3 there are no transmission facilities to accommodate.

4 And, in fact, it's taking the effort
5 of -- from those utilities of devoting the proper
6 time and attention to planning their own facilities.
7 And the consequence of that is power plants that get
8 cited and interconnect in accordance with FERC rules
9 but without the ability to deliver to market. Given
10 the energy crisis in the West, that is not a good
11 scenario to see perpetuated for any length of time.

12 I'm glad to report that, at least in
13 Arizona, we have some extensive joint transmission
14 planning efforts underway in which we are seeing the
15 transmission providers and the generation community
16 come together in looking at the needs for the future
17 expansion of the EHV system, the extra high voltage
18 system, in Arizona.

19 That is also a precursor to what is
20 needed for the Western Governors' Association
21 conceptual transmission plan and it will need to
22 occur on a regional basis.

23 And in terms of addressing the
24 planning for RTOs that are forming, you've asked the
25 question, should -- the RTOs, what should their role

1 be in planning? And I think the answer to that is
2 answered when you define, what is the nature of that
3 particular RTO?

4 The RTOs being proposed for the West
5 are truly transmission organizations. They do not
6 have power poles necessarily under the -- under the
7 jurisdiction and control of the RTO and, as such,
8 they should be functioning purely as managers of a
9 transmission system.

10 If that is their role, they should
11 have the responsibility and authority to plan and
12 implement transmission solutions. And it's my belief
13 that that is where Desert Star RTO is moving, and I
14 believe that's probably an accurate characterization
15 of the Northwest RTO.

16 Does that mean that non-transmission
17 solutions should not be considered? No. I would say
18 they should be. But I think it's other than the RTO
19 that needs to propose the non-transmission solutions
20 as an alternative to the transmission plan that's
21 offered up by the RTO.

22 If the non-transmission solution is an
23 effective solution and is implemented in a timely
24 fashion in such a way that it can be called upon to
25 resolve the transmission constraints and concerns,

1 then I would suggest that is the scenario that should
2 be pursued.

3 In conclusion, I think the West is
4 doing a lot of extensive work that is going to face
5 some of the real benefit in terms of RTO formation
6 and in terms of ultimately addressing the
7 reliability, planning and siting issues that are in
8 force in the West.

9 I do agree with the general policy
10 statement made by Governor Hall this morning and
11 that -- we would suggest it is the Western states
12 that need to embody that effort and put forth the
13 proper solutions for the West and we need the support
14 of the federal government and the federal agencies to
15 enable us to get to those solutions as quickly as we
16 can. Thank you.

17 MR. CARRIER: Thank you, Jerry.

18 And do we have any questions?

19 MR. ALVARADO: Yes.

20 MR. CARRIER: We do.

21 MR. ALVARADO: You have indicated
22 here, you know, that a -- the fact that there is now
23 a little more integration into planning and what's
24 going on in the transmission and the generators that
25 are coming together.

1 Thinking as a -- let's say if I put a
2 hat of a -- of a potential investor in generation,
3 putting forth my plans at the wrong time could kind
4 of ruin the economics of, you know, my plans. I'm
5 tipping my hand.

6 What is the incentive? What -- why
7 should somebody bring the -- their -- their
8 generation plans to the table on a timely fashion?

9 MR. SMITH: I think there is a real
10 easy answer to that question. If you fail to do so,
11 the transmission is not going to be there to
12 accommodate you to be able to deliver to market.

13 And, in fact, Arizona Legislature
14 just, in this past year, revised our siting statutes
15 to require the generation industry to file annual
16 ten-year plans with the Arizona Corporation
17 Commission just like transmission providers must do.

18 The transmission providers provide
19 those plans on an annual basis in January. The
20 provision for merchant plants -- excuse me, for
21 generating plants is that they must file at least 90
22 days in advance of applying for the siting process.

23 And accompanying all plans, whether it
24 be for transmission or generation, there is now a
25 requirement they must have transmission -- excuse me,

1 power flow and stability studies accompanying the
2 filing of that plan.

3 It is my belief that the intent of
4 that new language was to encourage the advanced
5 planning between the generating community and the
6 transmission community.

7 I can tell we're not there yet. We
8 are moving, I think, in the right direction. But
9 certainly without the advanced planning between --
10 the coordinated planning between the generation
11 community and the transmission community, we are
12 going to have bottlenecks and stranded generation
13 resources.

14 MR. ALVARADO: Okay. One more?

15 MR. CARRIER: Sure.

16 MR. ALVARADO: The -- actually I heard
17 you say in effect that some of the techniques being
18 used, particularly for operation or congestion
19 management in the West, would do well to be exported
20 (unintelligible), that it's actually an effective way
21 and all that. Now -- and this actually argues for
22 the regional -- for the desire to keep a regional
23 solution to the West.

24 How would you address the integration
25 if, in fact, it turns out that ten years down the

1 road the East and the West would like to be more
2 strongly interconnected, DC, AC, whatever technology
3 becomes feasible? What would happen then?

4 MR. SMITH: That is a little difficult
5 to predict at this point given that they're going
6 down two different roads at the present time.

7 It's my sense that if you have some
8 overriding principles that you're trying to achieve
9 irrespective of the solution that you are using and
10 implementing to achieve that objective, that that
11 transition will be easier to achieve at some future
12 date.

13 If, on the other hand -- I mention,
14 for example, large commercial hubs. It may be that
15 that type of a topic from a reliability standpoint is
16 more critical to the West at this point because of
17 the sparsity of our transmission topography --
18 topology. Excuse me.

19 That may not necessarily be true of a
20 large portion of the Eastern Interconnection.
21 There -- their transmission system may be robust
22 enough to not have the need for as much concern about
23 large commercial hubs and special provisions for
24 those types of interconnections.

25 So I think, again, it's one of those

1 type of questions where we have to look at, what are
2 the real issues -- technical issues that are driving
3 the need for policy? And, again, as long as you're
4 moving to a common policy objective, what is proper
5 and prudent in one location may not necessarily be
6 proper and prudent in another.

7 MR. ALVARADO: Thank you.

8 MR. ETO: What, if any, role do you
9 see for the federal government in identifying
10 transmission bottlenecks? And to the extent that
11 they are so identified, inappropriate federal actions
12 to address them?

13 MR. SMITH: I would offer -- I would
14 offer this comment from the context of being the
15 coauthor of Arizona's first biannual transmission
16 assessment for the State of Arizona.

17 It's very difficult for a regulatory
18 body to necessarily do an effective assessment of
19 transmission assessment without the very close
20 cooperative effort of the transmission industry that
21 it's trying to report upon.

22 The challenge that I had and my
23 coauthor had in doing that for the State of Arizona
24 was that we had limited access to information. We
25 had the inability -- we did not have the ability to

1 actually model and do the study work ourself because
2 of lack of computer facilities, manpower, data.

3 All of those things can be overcome,
4 but is it necessary to take those steps if you have a
5 transmission industry that is openly sharing the data
6 in a non-confidential manner so that the industry and
7 consumers' interests are known and can be acted upon
8 in a public manner.

9 So I would -- having said all that, I
10 guess what I'm suggesting is I think the federal
11 government's role is not unlike that of a state
12 regulator.

13 We need to ensure that the public's
14 interest is being attended to and take whatever steps
15 are necessary to ensure that there are not market
16 power events taking place. And we need to recognize
17 that in exploring those issues, we may not
18 necessarily have all of the necessary facts to make
19 good detailed quality recommendations.

20 The best we can do is sort of look at
21 trends and look at direction in the industry and
22 project and forecast policies that would contend with
23 those types of issues.

24 MR. SEDANO: I'll go first. You heard
25 Mr. Johnson from the Electric Consumers' Alliance

1 talk about the need for a backstop, and I asked him
2 about his reaction to the WGA.

3 I guess what I'd like to know is
4 how -- what your general response is to the concern
5 that the states really aren't up to the cooperative
6 efforts in interstate projects. That seems to be the
7 Electric Consumers' Alliance conclusion.

8 MR. SMITH: Well, if -- if I thought
9 we were experiencing that in the West, I might be
10 sharing some of the same views he espoused. However,
11 my experience in the West is the West is working very
12 effectively to address interstate issues.

13 I gave some examples of interstate
14 transmission lines that are being sited in this
15 state. We have not -- as the Governor said in her
16 opening remarks, we have not denied one transmission
17 line project in the West.

18 That doesn't mean all the projects
19 that need to be coming to the table are, so that gets
20 back to, what's the incentive to build and the
21 financing to accomplish and enable that?

22 In terms of a backdrop, there's no
23 question. I think we need FERC to help us get a gas
24 pipeline built in the West. If we're going to be
25 dependent -- more greatly dependent upon gas as the

1 fuel for new power plants, we definitely need some
2 support from FERC in those cases where they can
3 require transmission to be constructed and built.

4 But I'm not seeing at this stage a
5 need for the federal government necessarily to play a
6 backdrop role regarding the siting process because I
7 have not seen evidence in the West that we are not
8 effective in resolving those concerns.

9 MR. SEDANO: One other question about
10 the alternative. You suggested that having the
11 planning effort include the idea of alternatives was
12 good, but you didn't think that it would be the RTO's
13 responsibility to advance non-transmission
14 alternatives. I think I heard you say that.

15 And if that is what your view is, can
16 you outline the process against those alternatives
17 into the public's discussion and how do those
18 alternatives actually get considered and implemented
19 if they are the right ones?

20 MR. SMITH: You've fairly accurately,
21 I think, characterized -- you've fairly accurately
22 characterized my statement in that regard, but let me
23 add one -- one qualification.

24 I was making remarks regarding an RTO
25 that functionally serves as a transmission manager,

1 for RTOs that have market responsibilities, in
2 addition, that have the responsibility of generation
3 through a pool or whatever.

4 The answer might be a little
5 different, but the way I would suggest that the
6 alternatives would play out for an RTO that was
7 strictly a transmission RTO is that the RTO would put
8 forth its transmission plans.

9 That would be in a publicly-announced
10 fashion that they're saying, We propose to build
11 these facilities in this time frame. That gives
12 other parties the opportunity to consider the
13 alternative solutions.

14 And if those parties that would
15 normally build those facilities feel that they are --
16 can be effective in solving the problems at a more
17 cost-effective means, they would simply approach the
18 RTO and say, We would propose to build this solution
19 as an alternative.

20 And I would suggest there might need
21 to be some sort of an agreement between the RTO and
22 the party that's going to build the alternative
23 solution, that that solution would be implemented in
24 a time fashion and available to solve the problem
25 that otherwise the RTO would build a transmission

1 line for.

2 MR. SEDANO: Are you concerned that
3 the costs of these non-transmission alternatives
4 would be -- would have to be distributed the very
5 same way as the transmission would, and that would be
6 truly alternatives, and that in today's environment
7 that's not necessarily happening with some
8 non-transmission alternatives?

9 MR. SMITH: I would agree that that's
10 probably the reality that we're facing, at least in
11 Arizona. The rush to try to interconnect at a hub is
12 not being responsive necessarily to transmission
13 constraints.

14 Although I think our experience in
15 Arizona was once we had on -- rush of projects trying
16 to interconnect at a hub, it became very obvious that
17 there needed to be some alternatives and the project
18 started being identified in other locations that
19 might not have chosen those other locations if there
20 had not already been a rush on the hub.

21 MR. SEDANO: Thank you.

22 MR. OREN: You indicate several times
23 your concern with the location decisions by
24 generators to locate at the hub for different reasons
25 and you -- also I get from your comments that you are

1 supporting planning at the regional level of
2 transmission by an RTO.

3 Now, do you -- how do you feel about
4 the RTO kind of being the public corporations or
5 public organization of being proactive, in other
6 words, planning transmission not just in response to
7 generation but actually in a deliberate attempt to
8 drive location of generation?

9 MR. SMITH: Let me respond to that one
10 from the context of the joint planning that is going
11 on in Arizona at the present time. Transmission
12 providers chose to go about trying to look at
13 long-range transmission needs that could accommodate
14 the load market requirements and provide the
15 opportunity for future generation projects wherever
16 they may choose to locate.

17 The transmission providers opened that
18 process up to allow prospective generating plant
19 developers to join the process. What's coming out of
20 that process are proposed facilities that have the
21 opportunity to meet both needs, the need of
22 delivering to the market and encouraging generation
23 to locate in a fashion where it has easy access to
24 transmission.

25 MR. OREN: Okay. So there are --

1 you're thinking of a proactive approach to the
2 planning?

3 MR. SMITH: Yes.

4 MR. OREN: Another question. In --
5 when you think about the role of the RTO in planning
6 and all that, how do you think that that would be
7 affected by the governance of the RTO?

8 I mean, we haven't talked much about
9 RTO governance, but that becomes a critical issue, I
10 think, in making those decisions.

11 MR. SMITH: I can tell you the
12 governance issue is one that is a foremost issue at
13 present with Desert Star. In fact, the latest
14 redirection of Desert Star formation has been focused
15 on that very issue. What is the proper governance to
16 be most effective in being able to respond to not
17 only planning the transmission system requirements
18 but having the ability to be able to implement?

19 And that, I think, is a key component
20 for an RTO, that -- that they must have the ability
21 to plan the solutions to ensure the reliable and
22 cost-effective delivery and they must have the
23 ability to implement that, whether they build it
24 themselves or facilitate the construction of it by
25 others.

1 MR. CARRIER: Thank you very much,
2 Mr. Smith.

3 I'd like to ask one more time, is
4 there anybody else who would like to make a comment?
5 Does anybody have any comments that they'd like to
6 make directly to us as far as the process that we
7 followed during this?

8 Well, I want to thank you all very
9 much for your participation here. We've gathered a
10 lot of information, I think, with three workshops.

11 I would also like to take just a
12 moment, while we're still on the record here, to
13 thank the stenographer for her work, Diana Ramos, who
14 has been with us through all three workshops. Thank
15 you very much. And thank you all.

16 And, again, as a concluding remark,
17 please -- I encourage you again to submit more
18 complete comments on our website. Thank you.

19 (Proceedings concluded at 1:00 p.m.)

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1 THE STATE OF TEXAS :

2 COUNTY OF HARRIS :

3 REPORTER'S CERTIFICATION TO THE
4 TRANSCRIPTION OF THE WORKSHOP
5 HELD ON SEPTEMBER 28, 2001

6 I, DIANA RAMOS, a Certified Shorthand
7 Reporter in and for the State of Texas, do hereby
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21 Certified Shorthand Reporter
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