



April 17, 2009

The Honorable Carol Browner
Assistant to the President For Energy and Climate Change
The White House
Washington, D.C.

Dear Ms. Browner:

WIRES is a non-profit alliance of transmission providers, customers, renewable energy developers, and technology companies. We write in support of the President's goals of a clean energy economy, addressing the climate change challenge, energy independence, and investment in essential energy infrastructure. Along with most leading energy experts, we believe that a strengthened and expanded electric transmission grid is critical to achieving these goals. We offer our coalition's expertise and experience to you as a tremendous resource in designing policies that can make a Twenty-first Century electric system a reality.

WIRES contends that America needs significant and sensible reforms to the existing, often dysfunctional, processes for planning, siting, and allocating the cost of the high-voltage electric transmission system. Although WIRES members operate under different models, in different regions and electrical markets, and have diverse business objectives, we have one common objective -- to resurrect strong investment in the grid. It is imperative that electric transmission regulatory reforms reflect both the critical importance of transmission expansion and upgrades to the future clean energy economy and reforms that recognize the unique role of the grid as a whole, the technical complexity of the system, as well as the strengths and weaknesses of existing institutions and arrangements underlying grid operations.

WIRES encourages the Administration and Congress to consider the following key issues as it evaluates appropriate transmission legislation:

A SECURE CLEAN ENERGY ECONOMY REQUIRES GRID

MODERNIZATION. It is axiomatic that the transmission system must be strengthened to optimize the nation's use of renewable domestic resources. As you know, most of our transmission was built to transmit power generated relatively close to load centers, at a time when interstate bulk power markets were modest, if they existed at all. Even today, that infrastructure does not reach regions where clean renewable resources like wind,



biomass, and solar are most plentiful because these “location-constrained” resources are found in areas with relatively few consumers of electricity. The only feasible way to ensure that these resources find markets is to reform regulatory processes to enable major transmission additions that link growth areas for renewable technologies to areas of high demand.

With these additions and transmission open access policies, clean energy resources can achieve high levels of market penetration. New transmission projects will access renewable energy zones and regulators can grant those resources preferential transmission rights. However, while accessing new renewable resource is a major driver for adding new transmission, our experience tells us that undue or rigid limitations on transmission access for non-renewable resources will result in sub-optimal use of these assets, higher costs to consumers, and adverse effects on bulk power markets. As you know, given your work on behalf of renewable portfolio standards for example, fundamental changes to the resource mix can be more efficiently addressed in ways other than transmission policy.

GRID MODERNIZATION MUST EFFECTIVELY ADDRESS MANY CHALLENGES. The need to interconnect clean energy resources is a monumental and compelling new challenge. However, in addition to the current inability to interconnect location-constrained clean resources, the grid faces several other serious challenges. Much of it has aged past its useful life. Chronic congestion in many areas creates disparate and inequitable electricity prices and threats to reliability. Low capacity margins mean the grid will be unable to handle the projected increases in electrical generation over the next two decades without significant upgrades. Demand-side management and digital technologies that allow consumers to manage the level and carbon-intensity of their power usage will diminish these challenges, and must be fostered. But such measures will not obviate the new capacity needed to address the other stresses being placed on the modern grid or the need to reach major wind or solar resources.

TRANSMISSION PLANNING MUST BE REGIONAL. Like the interstate highway system, transmission has evolved from a limited support and delivery system for local customers to a broad high-capacity network serving diverse loads in multiple states and regions. To optimize the use and sharing of investment dollars for the grid and to accommodate the diverse stakeholder interests affected by transmission development, any upgrade or expansion of the grid must be pragmatically designed. The scope of planning activities should therefore replicate the operation of bulk power markets. They must be regional and bottom-up, in order to give adequate consideration to local or sub-regional concerns. They should utilize any viable and effective planning mechanisms that already exist and in which customers have already made significant investment. However, future planners must also adopt inter-regional and coordinated approaches that ensure smooth grid operations between regions as well as a rational interconnection-wide perspective on future resources and needs.



TRANSMISSION PLANNING MUST BE MANDATORY. The grid is an integrated network that serves all interconnected resources and loads. The power it transports according to the laws of physics respects neither jurisdictional boundaries nor organizational or legal status. Power producers and consumers in both the Eastern and Western Interconnections, including Canadian utilities and consumers, depend on this network.

For the grid to evolve in economically and environmentally rational fashion, the public interest, fairness, and sheer efficiency require that it be planned for all purposes and with all participants in the market. Today, transmission planning and operations remain balkanized in many markets. It is often conducted by planners that are not independent of economic interest in the market outcomes determined by grid configurations or responsive to national public policies. Not all transmission is planned regionally, despite the integrated nature of the grid. Despite FERC's Order No. 890, it is not always open, transparent and participatory. All major transmission owners are fully interconnected to the grid and all operations have wide ranging impacts on utilities and consumers within the main interconnections. Nevertheless, many are not subject to requirements of the Federal Power Act even for purposes of ensuring the technical adequacy and appropriateness of their transmission upgrades or expansions. Since participation in regional planning can be costly for smaller entities, it would be preferable for government of support their involvement than to plan the grid without their inclusion.

TRANSMISSION PLANNING MUST BE INDEPENDENT AND COMPREHENSIVE. We fully appreciate that more transmission is not an all-purpose response to what ails the energy sector. Energy efficiency, better demand response, and distributed generation are important to our energy independence and they need to be part of the calculus about whether new generation or transmission capacity is needed. WIRES subscribes to the notion that planning must be “fair, unbiased, science-based, broadly participatory, and transparent,” as environmental groups have persuasively argued to you. Only when the planner is independent of the participants in the power market and the planning process therefore reflects both the best technical choices and the most progressive policies can we be assured that the transmission system will evolve consistent with these high objectives. The outcome of any plan will depend on what it is that is being planned for. Ensuring that the grid provides clean energy, reliability, security, and economical results requires balance and perspective and, in short, a professional and well-managed planning process.

STATES SHOULD REMAIN INSTRUMENTAL TO TRANSMISSION SITING, WITH LIMITATIONS. States have a legitimate and significant role in transmission siting due to their exclusive responsibility for retail customer rates and familiarity with land use issues. Working cooperatively with states in determining where facilities are to be located can greatly expedite what can be a very contentious process. States have



experience and a track record of siting facilities and are best situated to determine preferred routing options and environmental mitigation measures. In the era of grid integration and multi-state facilities, multiple and often duplicative state determinations are increasingly problematic and costly.

Complete federalization of the siting of high voltage transmission will not be necessary if the existing process is reformed in two ways. First, the issues surrounding the “need” for particular transmission projects should be resolved by regional planners in conjunction with stakeholder processes and subject to federal oversight. High voltage transmission lines usually entail interstate benefits and costs and must be planned as a regional, if not interconnection-wide, resource. Second, as the capabilities and legal criteria employed in state siting procedures vary dramatically and can lead to disparate outcomes, state decisions should be "back-stopped" by federal siting authority in all instances involving interstate transmission. In other words, consideration of regional reliability, economic, and environmental interests should be achieved with active state participation in the planning process but without reliance on serial decision making in several forums about whether a project is needed and in the public interest.

REGULATORS MUST BE CLEAR ABOUT WHO PAYS FOR TRANSMISSION.

Experts, including the National Renewable Energy Laboratory, recognize that the confusion and uncertainty about who should bear cost responsibility for transmission is a serious barrier to its development. Today, even in regional markets that should be conducive to standard cost allocation principles, methodologies vary wildly and the results can be inefficient and inequitable. No generic principles govern federal cost allocation decisions. Spreading costs broadly is often appropriate, particularly for large backbone additions that provide broad benefits. Other cost allocation methodologies may be equitable in many circumstances.

Current transmission regulations and shifting policies provide insufficient certainty to investors, however. This is unacceptable. FERC has deferred to stakeholder processes in the absence of a record or clear guidelines about which cost allocation approaches best serve the public interest. While edifying and sometimes productive, settlements do not inevitably produce “just and reasonable” rates unless they are achieved pursuant to clearly enunciated objectives. Based on an independent Blue Ribbon Panel study conducted for WIRES in 2007, we are persuaded that FERC should at a minimum develop principals that govern all proposed cost allocations. Moreover, Congress should instruct the Commission to allocate the costs of transmission as broadly as possible within a region in recognition of the reliability and economic benefits that generally accrue from transmission additions at the higher voltages and the efficiency and greenhouse gas benefits that come from increased access to low-carbon generation.

GOOD RULES WILL GENERATE CAPITAL FOR THE GRID. It is estimated that the U.S. will need to invest \$200-300 billion in new and upgraded electric transmission by 2030 to meet demand and ensure resource adequacy and the efficiency, security, and



clean energy needs of the country. We would observe that recent federal legislation that funds transmission construction by federal utilities through the stimulus package effectively socializes the costs of those expansions; however, it does so without consideration of cost causation or weighing the regional benefits, as is customary for infrastructure projects in all other cases. The federal government cannot possibly fund the entire coming expansion. Nor can it arbitrarily assign cost responsibility. Private capital, on the other hand, will respond to effective and fair regulation.

Many of the transmission reforms currently pending before Congress would facilitate grid expansion for limited purposes. They therefore risk leaving most transmission regulation balkanized regionally, by resource type, size, or according to governing rate or siting regimes. That result would contribute to further market dysfunction and regulatory delay. The Administration should be clear that the clean energy economy will require regulatory reform for the whole grid.

WIRES believes that government resources can make a critical difference, however. They can, for example, be effectively used to help compensate affected landowners and impacted communities in those areas where major transmission facilities are authorized in the public interest. Such assistance would compensate for burdens disproportionately borne by some areas for the benefit of the general populace.

In closing, Congress should act now to provide a more predictable roadmap for all transmission upgrades and development, so that the Administration's clean energy goals can be met and the operational and economic demands that will be placed on the already-stressed and congested system in the coming decade can be timely addressed. WIRES offers its ongoing support for a pragmatic legislative strategy that will enable transmission to perform at a high level in support of our changing energy and environmental priorities.



We thank you for your consideration of these critical issues.

Sincerely,

A handwritten signature in black ink that reads "William R. Kaul".

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WIRES (Working group for Investment in Reliable and Economic electric Systems) is a non-profit trade association of transmission providers, customers, and equipment and service companies formed to promote investment in electric transmission and progressive State and Federal policies that advance energy markets, economic efficiency, and consumer and environmental benefits through development of electric power infrastructure. Members include CapX2020 Coalition, Trans-Elect Development, ITC Holdings, Xcel Energy, Oncor Electric Delivery, Dominion Resources, Next Era Energy Resources. For more information, visit www.wiresgroup.com