April 3, 2009

RESPONSE TO
WESTERN AREA POWER ADMINISTRAION
Request for Interest in Transmission Projects

Federal Register notices: Notice of Proposed Program and Request for Public Comments, and Notice of Availability of Request for Interest (*FRN*), March 4, 2009

Heartland Consumers Power District ("Heartland") is hereby providing a response to the Western Area Power Administration's ("Western") Request for Interest Regarding Constructing, Financing, Facilitating or Studying Construction of New or Upgraded Transmission Facilities to Deliver or Facilitate Delivery of Renewable Resources ("RFI"). Heartland also provided comments on Western's proposed Transmission Infrastructure Program and the principles and objectives that Heartland believes should be considered in the implementation of Western's new authority.

Heartland is providing this response in support of several transmission infrastructure improvements that could be considered in a regional planning process to deliver clean domestic energy to load centers in our region and to permit the export of energy to load centers in other regions. As indicated in our comments on the Transmission Infrastructure Program, Heartland believes that the final Transmission Infrastructure Program should be adopted prior to evaluation of transmission facility proposals.

Heartland is submitting this response in support of transmission projects proposed by Basin Electric Power Cooperative ("Basin") in their April 3, 2009, Statement of Interest concerning Western's Request for Interest in Transmission Projects. In their Statement of Interest, Basin proposes several projects that would enhance the capability and reliability of the transmission system in the Dakotas and allow the export of clean energy to load centers within the Midwest ISO, PJM and the Southwest Power Pool.

Areas in South Dakota and North Dakota have been identified as having the best wind-resource potential in the United States. Thousands of mega-watts of wind interconnection requests are currently being evaluated or waiting to be evaluated by transmission providers in the region. The lack of transmission capability is the greatest impediment to the progress of these renewable projects. The proposed transmission infrastructure improvements would facilitate the development of many of the proposed renewable projects.

Although Heartland does not operate or maintain transmission facilities, Heartland could partner in the planning, development and financing of the proposed transmission infrastructure improvements.. The proposed improvements would be owned by the existing transmission owners in the area and would be operated by Western, providing for efficient and reliable operation of the facilities.

Heartland Consumers Power District is a non-profit public corporation headquartered in Madison, South Dakota. Heartland provides wholesale power to municipalities and state institutions in South Dakota, Minnesota, and Iowa from a diversified mix of resources. Heartland's transmission facilities are interconnected with Western's facilities in the Integrated System, the transmission system jointly owned by Western, Basin and Heartland in the Upper Great Plans Region.

Submitted by:

John Knofczynski, Manager of Engineering and Operations

Email: johnknof@hcpd.com

April 3, 2009

COMMENTS
WESTERN AREA POWER ADMINISTRAION
Implementation of Transmission Project Bonding Authority

Federal Register notices: Notice of Proposed Program and Request for Public Comments, and Notice of Availability of Request for Interest (*FRN*), March 4, 2009

Heartland appreciates the opportunity made available by Western Area Power Administration (WAPA) to comment on a proposed Program for implementation of transmission project bonding authority provided by the American Recovery and Reinvestment Act of 2009 (Recovery Act). This authority is for the purpose of constructing, financing, facilitating, planning, operating, maintaining, or studying construction of new or upgraded electric power transmission lines and related facilities with at least one terminus within the area served by WAPA and for delivering or facilitating the delivery of power generated by renewable energy resources constructed or reasonably expected to be constructed. The proposed Program would use new authority provided by the Recovery Act to borrow funds from the U.S. Treasury to accomplish these purposes. The Recovery Act also directs WAPA to use a public process to develop practices and policies that implement this new authority.

This new authority provides an opportunity for WAPA and its Integrated System (IS) partners, Basin Electric Power Cooperative and Heartland, as well as others, to add or upgrade IS and other regional transmission facilities. These projects could facilitate the delivery of renewable resources to consumers, improve reliability and meet load growth. In addition, this new authority could also improve a flawed planning and siting process for interstate transmission projects as WAPA brings a federal perspective to state and regional planning organizations.

With over 7,000 miles of transmission in the IS Heartland has a critical stake in the development of new transmission under WAPA's new authority and the treatment of WAPA's existing transmission system in relation to these activities.

Implementation of this new authority also presents many challenges to WAPA to preserve its core mission of delivering renewable federal hydropower to its firm power customers and ensuring that the rates paid by those customers are not adversely impacted going forward.

The Notice of Proposed Program and Request for Public Comment restates the statutory language, with one exception, noting that WAPA will favor prospective partners bringing some financing to a proposed project. Beyond these general statements, WAPA's customers have no information on the proposed implementation of this program. The public meeting held by WAPA on March 23rd did not provide any further information or program description.

Project Development, Operations and Maintenance: WAPA should develop a transparent process for new projects under this authority. This process would:

- Provide opportunity for additional participation by other parties;
- Assure separation of new project costs from WAPA's existing transmission systems; and
- Assure protection of WAPA's existing transmission system and its users – both financial and operational.

WAPA notes that it will consider projects under this new authority separately from its responsibilities under its Open Access Transmission Tariff (OATT); and will give higher priority to these new projects than its current OATT responsibilities or related interconnection agreements.

Heartland strongly disagrees that WAPA's newly authorized activities should take precedence over WAPA's existing obligations. Such a policy sends a clear signal that WAPA is ready to displace its core mission to secondary importance as it implements the new authority. It also appears that WAPA may be willing to sacrifice reliability and system performance. The new projects must not degrade the existing system or supplant other needed system improvements, maintenance, or replacements.

Project Funding and Evaluation: Funding is the first identified element in the proposed program. We are confused as to how WAPA would fund a project without having made an evaluation of the project. Project funding should necessarily come after Project evaluation.

As written, the *FRN* states that the only standard for selecting projects for funding is, "the reasonable likelihood that the project will generate enough transmission service revenue to repay the principal investment, all operating costs and the accrued interest." How are replacement costs to be addressed in the revenue requirements for the new projects?

In lieu of selecting projects solely on the basis revenue generation, why not first consider projects needed to enhance reliability, mitigate constraints, or improve load serving capabilities? Without adequate evaluation, new projects could degrade system reliability and cause more system overloads.

There is unclear language in the *FRN* on financial repayment expectations. Heartland's customers pay a cost-based rate that fully repays federal costs. Is it WAPA's intent to use a different rate structure for transmission projects constructed under this authority?

There is general language that WAPA will isolate costs associated with projects funded under this authority. Project costs must not only be isolated, but also specifically assigned to the rate and repayment responsibility of those using the new project.

The standards to be used in evaluating projects restate the statutory language. The evaluation by WAPA must assure that new projects first meet three important tests:

1. No adverse impact on transmission rates for existing IS customers;
2. No adverse impact on existing IS operations or reliability; and
3. No adverse impact on services to WAPA's firm power customers.

WAPA does not define the term “in the public interest.” A definition of “public interest” should include:

- Enhancing system reliability and performance
- Minimal or no environmental impacts;
- Limiting rights-of-way requirements;
- Minimizing use of federal eminent domain authority;
- Siting to allow interconnection of multiple generation projects, including both renewable and conventional base load projects;
- Upgrade existing facilities where feasible; and
- All projects should provide a positive cost/benefit

WAPA states that revenue from a new project should be adequate to meet its repayment obligations. This revenue should not include payments from a third party that may own portions of the new project -- “proceeds” should not include revenue from a project participant that reduces WAPA’s need to use its borrowing authority.

WAPA states that it will establish additional evaluation factors as necessary. The absence of detail in the *FRN* suggests the need for a public process for developing any additional evaluation factors.

Project Rates and Repayment: This section does not include the statutory language that states: “Revenue from the use of projects under this section shall be the only source of revenue for – (A) repayment of the associated loan for the project; and (B) payment of expenses for ancillary services and operations and maintenance.” Heartland believes that WAPA must clarify its intent to follow this clear language of the statute.

This last section also references WAPA setting transmission rates, but does not limit that description to new projects. Heartland objects to costs or rates for new projects being bundled with other WAPA transmission actions.

In the Upper Great Plains, WAPA has built and operates a robust transmission system that existing users have been paying for over several decades. It would be patently unfair for the existing users to pay for new facilities for which they receive little or no benefit, and allows a third party to receive the benefits. The new statute is clear where the *FRN* is not: WAPA’s firm power customers are not to be held responsible for costs of new projects that participants are unable or unwilling to pay. This language also ensures that no appropriations may be used to pay for project loans that are in default – the statute makes very clear that these loans are to be “forgiven”.

WAPA must keep the costs separate for new projects that are isolated or benefit a few users, including establishment of repayment zones for these new projects. Users of the new facilities would necessarily pay the costs, either as an adder to the tariff rate or as a drive-out cost charge to the existing WAPA system. If the new project can be shown to have a region wide benefit, the costs could be included in the tariff.

Transparency is critical in implementing the new authority. In light of the lack of detail in the *FRN*, as well as the many issues noted in our comments, this public input opportunity should not be the end of the public process in implementing this authority. Heartland believes that WAPA should continue the public process, providing further opportunity for comment and interaction with customers, and other interested parties.

By following this path WAPA has an opportunity, working with its customers and others, to implement a win-win Program that could provide system benefits and meet the objective of the statute to facilitate delivery of renewable resources to consumers.

Heartland Consumers Power District is a non-profit public corporation headquartered in Madison, South Dakota. Heartland provides power to municipalities and state institutions in South Dakota, Minnesota, and Iowa from a diversified mix of resources. Most of Heartland's customers hold WAPA allocations, including the South Dakota state agencies.

Submitted by:

Mike McDowell, General Manager & CEO

Email: mmcdow@hcpd.com