STATEMENT OF

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Good afternoon, Madam Chairwoman and Subcommittee members. Thank you for the opportunity to tell Western Area Power Administration's (Western) story. We at Western are proud of the roles we play in providing for our Nation's energy security and in helping to build a clean energy economy. First, I'll talk about our core mission, our continuing commitment to traditional customers and how our activities contribute to enhancing America's energy security and economic vitality. Next, I'll describe how Western is using our new authority under the Recovery Act to develop partnerships that create jobs and invest in infrastructure that supports clean, renewable energy. Finally, I'll update you on our FY 2011 budget request.

Core business contributes to energy security

Our long-standing core business remains the marketing and reliable delivery of more than 10,000 megawatts of power—primarily clean, renewable, non-carbon emitting hydropower generated at federally owned and operated dams. We sell this power according to preferences established in Federal Reclamation Law at the lowest possible rates to consumers consistent with sound business principles.

Together with our customers, we have brought comfort and security to people from small and large communities alike—Native American reservations, universities, military bases and hospitals—through today's Federal hydropower marketing program. In many ways, this power is the lifeblood of the rural West. We have decades of experience and well-established partnerships with both public and private entities in providing affordable, reliable, renewable and clean Federal hydropower to our customers who serve millions of consumers across 15 western and central states. We have built those partnerships by working through challenges and change together.

Western delivers Federal hydropower over an integrated 17,000-circuit mile, high-voltage transmission system that spans a 1.3 million square-mile service area. This system was primarily developed to deliver Federal hydropower to preference customers. While our role as transmission owner and provider is critical to the delivery of Federal power, the role we play in transmission is integral to our Nation's interconnected electrical grid and helps ensure the reliable and secure delivery of our Nation's power supply. Our customers, the industry and others look to Western as a partner in initiatives to increase transmission capacity and reliability, to eliminate congestion points and to respond to additional requests for interconnection onto the grid.

Last year, we finalized a new strategic plan for Western—the result of a rigorous review of our business operations by our senior executive team. Through that review, we reaffirmed our focus to control and contain costs while we meet our customers' needs by maximizing the value of the Federal hydropower resource, ensuring the reliability and availability of Western's transmission system, and providing, clean, renewable, reliable cost-based energy. Today, we use our strategic plan to drive our daily decisions.

Reliability – key to energy security

We take our responsibility for the reliable operation of our transmission system seriously. The Energy Policy Act of 2005 strengthened industry commitment to system reliability by giving Federal Energy Regulatory Commission (FERC) expanded authority to approve and enforce mandatory reliability standards set by the North American Electric Reliability Corporation. I'm proud of Western's record in meeting the NERC reliability standards.

With the increased emphasis on reliability, we expect the cost of reliability compliance

will continue to rise. Reliability standards remain a moving target—standards are still being interpreted and refined, and new requirements are being developed. Through our strategic planning process, we worked together with our customers to comply with increasing reliability requirements, and yet keep costs low and reduce expenses, by consolidating operations in our Desert Southwest and Rocky Mountain Regions. Part of the Operations Consolidation plan provides for our Desert Southwest and Rocky Mountain control centers to provide back up for each other, eliminating the expenses associated with maintaining two, stand-alone, Alternate Control Centers. Our Operations Consolidation reorganization became effective January 31, 2010.

Western has consistently had an aggressive and robust vegetation management program to manage and control vegetation on our rights of way. However, the increasing magnitude and intensity of wildfire events resulting from rapidly declining forest health conditions and drought increase the potential for uncontrolled, large-scale electrical service disruptions, and the potential for long-term physical damage to utility infrastructure. Western has a significant facility exposure in some heavily beetle-impacted forests, as well as additional exposure in other areas of severely declining forest health. We are adjusting our vegetation management practices to mitigate these growing risks to power system safety, security and reliability to the extent possible.

Within our Rocky Mountain Region, Western is engaged as a co-lead agency with the U.S. Forest Service in the preparation of an Environmental Impact Statement to address changes in vegetation management practices for Western's transmission facilities crossing National Forest System lands. A similar environmental review process has already been completed in Western's Sierra Nevada Region. In addition, Western is participating with the Forest Service as

a cooperating agency in the preparation of an Environmental Assessment addressing a proposal for emergency, industry-wide power line right-of-way clearing in severely beetle-impacted Colorado forests.

Transmission - open access creates challenges, opportunities

We conduct transmission business in the spirit of our long-standing policy of non-discriminatory open access to our system. In 1998, Western voluntarily filed an open access transmission tariff with the FERC. Our tariff is a living document, demonstrating our commitment to abide by the same rules as the rest of industry, except where we must deviate to avoid conflicts with Federal mandates and our statutory obligations. We most recently modified our tariff on December 1, 2009. The new revised tariff was developed to comply with FERC Order No. 890 and to be consistent with Western's statutory and regulatory requirements. It addresses changes in transmission services and planning.

Recent initiatives for renewable energy, grant money, tax incentives and mandatory renewable energy portfolio standards have created an influx of generator interconnection requests to Western's transmission system. From January 1 through December 31, 2009, Western received 40 new requests for generation interconnection. Western has more than 350 MWs of installed wind resources serving load within its Balancing Authorities. Western has about 24,000 MWs of proposed wind resources in its collective interconnection queues, comprising a total of 111 requests (an average request of over 215 MW/farm).

Western's transmission system was constructed to deliver Federal hydroelectric power to support water project-related irrigation pumping requirements, wholesale preference power customers, and certain Federal end-use loads. Since the 1990s, Western's transmission system

has also served new merchant power plants. The remaining Western transmission capability is sold as long- and short-term under Western's Open Access Tariff when available. Our transmission system is at its all-time maximum use in many areas. As a Federal wholesale utility, Western has no end-use load obligation to expand its transmission. However, since our transmission is an integral part of the integrated transmission network, it is subject to transmission congestion and other reliability related problems.

Demand for transmission capacity has been on the rise over the past several years due to several key factors:

- increase in renewable generation such as wind power, which is typically located in remote areas not near load centers
- economic analyses pointing to key transmission constraint areas where reinforcements would allow lower-cost resources to flow toward higher-cost load areas
- stringent environmental requirements
- lack of suitable/acceptable resource development areas
- load growth (up until 2009)

These have all led to additional stress on the transmission system and hence on reliability. Transmission upgrades are needed to comply with mandatory NERC Reliability Standards and also to meet the increasing demands for transfer capability on Western's transmission system. We continue to develop partnership agreements with customers to jointly fund transmission upgrades.

Power marketing – rates and renewable energy

The 10th consecutive year of drought for some projects continues to impact Western, with Western-wide net generation expected to be 81 percent of average. In FY 2009, Western spent less for purchase power than originally anticipated due to better market pricing. Western continues to seek new ways to address the drought impacts on firm power rates.

Western is a leader in the electric utility industry in the development of rates and operational business practices that address the integration of wind resources with the Federal transmission system. Western has developed rates that address/offer accommodation to wind generators; specifically, Scheduling, System Control and Dispatch Service, Regulation and Frequency Response Service and Energy Imbalance Service.

Western's Upper Great Plains Region has entered into a three-year contract for 50 MW of new wind energy from the Wilton #1 Wind Farm starting January 1, 2010; as well as a contract starting June 1, 2011, thru November 1, 2015, for 100 MW of new wind energy from the Logan County Wind Farm to help meet our obligations to our firm power customers. UGP has committed to another three-year contract for the purchase of 99 MW of new wind energy from the Day County Wind Farm starting in the May 2010 time frame.

Renewable Energy Certificates (RECs) continue to play an important role in the compliance and voluntary green power markets. RECs are the environmental attributes of power generated from renewable electric plants. Many states allow the purchase and use of RECs to comply with mandatory renewable portfolio standards. Many utilities offer RECs to their customers through voluntary green power programs. Business, large industry and universities use RECs to "green" their organizations.

Each calendar year, Western coordinates a consolidated marketing and acquisition process for RECs which is administered under the Renewable Resources for Federal Agencies program. This process includes purchases for Western's own requirements as well as purchases, as requested, for other Federal agencies and Firm Electric Service customers. This consolidated effort eliminates multiple acquisition efforts resulting in overall resource savings. Further, it is often more cost-effective to execute a single bulk purchase as opposed to many smaller

purchases executed by multiple entities. Since 2003, Western has purchased more than 767,000 MWh of RECs using this process.

Through our marketing mission and programs, in partnership with our customers, we deliver on our promise to enhance America's energy security by delivering clean, renewable Federal hydropower throughout the West. In fact, we've also done much to facilitate the development of other renewable energy sources as well.

American Reinvestment and Recovery Act, Section 402

A little more than a year ago, this Committee, the Congress and the Administration entrusted Western with a new responsibility—to support the critical need for transmission infrastructure to facilitate the delivery of renewable energy to market.

Under Section 402 of the Recovery Act, which grants Western $3.25 billion in borrowing authority, Western can borrow funds from the Treasury to finance, facilitate, plan, construct, operate and maintain or study the construction of new or upgraded transmission lines and related facilities, with at least one terminus in Western's service area. The goal is building new transmission to deliver or facilitate the delivery of power generated by renewable energy resources and create jobs in the process.

Less than three weeks after the Recovery Act was passed, Western issued two *Federal Register* notices initiating public processes to develop the policies and practices to implement the new authority, and to ask for statements of interest to identify potential projects and participants.

By May 2009, we finalized our Transmission Infrastructure Program, implementing the new borrowing authority. We considered more than 400 comments received through the public process as we developed the program. In the same time frame, we received about 200 proposals

in response to our request for interest.

Also during the spring, we established a memorandum of understanding with the Treasury to borrow funds to finance transmission projects under this authority, hired staff to accommodate the increased workload to carry out all activities required to implement Western's borrowing authority while continuing our current program and modified our financial and reporting systems to control, execute and report activity under the Recovery Act to track and manage projects and funding mechanisms under the new authority.

In less than nine months, on October 27, 2009, we formalized our agreement to finance development and construction of the Montana-Alberta Tie Limited Transmission Project, the first project financed with our new authority.

Borrowing authority in action

For each project in which Western participates under this authority, I must certify, before committing any funds, that:

- the project is in the public interest,
- the project won't adversely affect system reliability, operations or other statutory obligations; and,
- it is reasonable to expect that the project proceeds will be adequate to repay the loan.

We performed technical evaluations of potential projects using criteria identified through our public process. This includes assessing the technical merits and feasibility of a project; its ability to deliver power generated by renewable resources; the financial stability and capability of all potential project partners; project readiness (e.g., permitting, local, state and/or regional approvals); and the ability of the project to generate additional economic benefits. Then, we developed a working list of projects based on their "shovel readiness."

We selected the Montana-Alberta Tie Limited Transmission Project as the first project to

finance with our borrowing authority. MATL is a 230-kilovolt transmission line that will run from a substation near Great Falls, Montana, to one near Lethbridge, Alberta, and allow energy flow in both directions. Northern Montana and southern Alberta are home to some of the best wind energy sources in North America. The MATL line will enable the development of new wind-energy projects by linking this renewable and emission-free source of power to consumers across North America. Construction is now underway, and we expect the line to be in service in spring 2011.

Western will finance up to $161 million toward the $213 million total cost of the project. We expect that dozens of new full-time jobs will be created with the construction of the MATL line and the management of the project. Finally, construction of the wind farms, which this line makes possible, is estimated to create hundreds of additional jobs.

Like all of our projects using our borrowing authority for financing, the Treasury borrowing for MATL will be repaid by proceeds from the project. The law calls for each project funded under this authority to be repaid separately and distinctly from Western's other power and transmission facilities and from other projects funded using borrowing authority. This safeguard assures that costs are properly allocated to entities that benefit from each project funded by Section 402 authority and protects existing projects and customers. Since the transparency required in executing the Recovery Act is almost identical to project accounting used for our current program, Western will use normal business systems and tools, as appropriate, to track and report cost and performance information. However, as required by the Recovery Act, we will separately track, account for and repay projects developed under this new authority as distinct and separate from its current program and all other Western transmission facilities.

On January 8, 2010, Western signed a non-binding term sheet with LS Power that provides the framework for the financial and other terms needed to proceed on development of the southern portion of the Southwest Intertie Project (SWIP) in Nevada. The SWIP-South would facilitate the delivery of renewable energy to Nevada, California, Arizona and other markets in the southwest United States. The project consists of about 235 miles of 500-kV transmission line and would extend from Harry Allen Substation near Las Vegas, Nev., northward to the proposed Thirtymile Substation near Ely, Nev.

We are also actively discussing a number of other promising projects with many other proponents who expressed interest in participating with Western using our borrowing authority. For example, we recently signed a letter agreement with eight other entities to jointly fund a study to determine the technical feasibility of the lines and explore potential business arrangements to develop the Sonoran-Mojave Renewable Transmission (SMRT) Project. The primary purpose of SMRT is to provide transmission infrastructure to collect renewable resources and provide access to wholesale and retail markets in Arizona and California for these resources. It would also provide improved reliability of the transmission grid in the southwestern United States.

While $3.25 billion is a great deal of money, transmission infrastructure is expensive and the pressing need for additional transmission throughout the West is great. As we explore the potential projects we have before us right now, it's clear that there are more than enough promising projects to exhaust our borrowing authority.

Western's Budget request

We can't do any of this without resources, including your support and the support of our

customers. Our FY 2011 Construction, Rehabilitation, Operation and Maintenance (CROM) program request totals $913 million, of which only $106 million (12 percent) would be funded by appropriations.

Western maintains 17,000 miles of integrated high-voltage transmission infrastructure. Much of the system was constructed in the 1950's and 60's, and is aging. The $106 million appropriations requested will help with high priority capital rehabilitation and maintenance replacements and improvements across our 15-state service area. In addition, we will seek another $79 million in customer funding support to address additional high priority capital rehabilitation needs identified for action in FY 2011.

Western and the Administration would like to thank the Congress for the reclassification of Western's receipts related to our annual expenses. Enacted in FY 2010, the reclassification shifts these receipts from mandatory to discretionary. The reclassification allows us to use our collections to offset the appropriation for annual expenses. We expect that will provide greater planning certainty for the annual expense portion of our programs, leading to improved system reliability and operating efficiency. For FY 2011, we plan to collect $180 million to offset annual expenses within our Operation and Maintenance and Program Direction programs.

Purchase Power and Wheeling is another large component of our annual budget that does not require any appropriations. FY 2011 expenses for Purchase Power and Wheeling are estimated at $544 million. The program funding is down slightly from the prior year reflecting improving hydro conditions in the Pick-Sloan Missouri Basin after many years of drought.

And finally, we estimate the use of $3 million in receipts from the Colorado River Dam Fund for Boulder Canyon Project activities.

As I said earlier, we have a great relationship with our customers, and their support of

Western and our program is critical to our success. A good example of this cooperation is customer funding. In each of the past several years, our customers have provided ever increasing amounts of funding to meet some of our urgent needs. I sincerely appreciate that together we have developed a mutual trust and shared commitment to the Federal power program.

Delivering on promises

I'm proud of the role we play to enhance our Nation's energy security as a marketer of clean, renewable Federal hydroelectric power and a transmission provider. Working together with our customers we continue to deliver reliable power that drives local economies throughout the West.

I'm also proud of the work we've done in a short time through our borrowing authority under the Recovery Act to help realize the promise of renewable energy and create meaningful jobs.

We appreciate your continued support and confidence, and together with the support of the Administration, our customers and industry partners, we will continue to move as quickly as possible to do our part for economic recovery and energy independence as we build the electrical grid of tomorrow while continuing to fulfill our core mission.

Thank you, Madam Chairwoman. I would be pleased to answer any questions that you or the Subcommittee members may have.