MISSOURI RIVER ENERGY SERVICES®

3724 West Avera Drive
PO Box 88920
Sioux Falls, SD 57109-8920
Telephone: 605.338.4042
Fax: 605.978.9360
www.mrenergy.com

April 1, 2009

Transmission Infrastructure Program
Western Area Power Administration
P.O. Box 281213
Lakewood, CO 80228-8213

Re: Comments on Notice of Proposed Program and Request for Public Comments to Implement Section 402 of the American Recovery and Reinvestment Act of 2009 (Recovery Act).

Dear Madam or Sir,

Thank you for the opportunity to provide comments on the Western Area Power Administration (Western) Recovery Act authority to construct transmission lines to assist in the delivery of renewable resources to market.

Missouri River Energy Services (MRES) is a joint action agency that provides electric energy and services to 60 communities that own and operate electric systems in the states of Minnesota, Iowa, North Dakota, and South Dakota. Fifty-nine of the 60 MRES members receive hydro power from Western. A power supply contract exists between each municipality and Western through 2020. Each municipality has a demand and energy allocation with Western which represents 25 percent to 90 percent of the municipality's total power supply. In aggregate, these municipalities represent over 20 percent of Western's Upper Great Plains Region firm allocations. Thus, any action that Western undertakes has a direct impact on most of our members and the customers they serve.

The Western website explains that the Recovery Act provides Western new authority to construct transmission lines to deliver renewable resources to market and, importantly, provides a source of funds for this activity. Program goals are to:

1) Construct and/or upgrade transmission lines to help deliver renewable resources to market.
2) Select, study, and/or build projects under this authority that are in the public interest.
3) Solicit input in identifying projects.
4) Ensure projects do not adversely impact system reliability or operations, or other statutory obligations.
5) Ensure projects are economically feasible and are adequate to repay project costs.
6) Leverage borrowing authority by partnering with others.

MRES provides the following comments on Federal Register Notices regarding Western's new authority:

Protect federal hydro-power customers.

MRES values its working relationship with Western. MRES is proud of Western's history in providing clean, reliable cost based power and energy from Federal hydropower resources and ensuring the reliability and availability of Western's transmission system for such deliveries to its customers. This system has been the basis for providing dependable, cost-based electricity in the Northern Plains region. MRES understands firsthand and has been supportive of the need for additional transmission in the

region; however, we are not certain that Western is equipped or structured appropriately to take on an expanded mission.

Western's core mission is delivering cost-based Federal power to preference customers. The Recovery Act provides for a similar but expanded role for Western: building transmission to deliver renewable energy ("Stimulus Transmission"). MRES is concerned that this new authority will supplant Western's core mission of delivering hydro to federal hydropower customers. In its Strategic Plan, Western emphasized that they face an increasing squeeze on federal appropriations to achieve the core mission. Due to lack of federal funding, Western has asked for monies from its customers, not only for maintenance, but for administrative and general expenses as well. These requests have increased over time. MRES has serious concerns, that with an expanded mission, more issues will result and not only have an effect on the level of service to its existing customers, but it may come at a higher cost to the federal hydropower customers.

Cost allocation and rate-making procedures need to be further defined and discussed.

Although, Western has outlined principles to provide overarching guidelines to implement Western's authority under the Recovery Act, a specific program has not been drafted for stakeholders to provide feedback. For example, how will ancillary services be acquired and priced to support the energy transported on the Stimulus Transmission? Many renewables cannot provide the necessary generation related ancillary services. Is Western going to provide ancillary services from the Missouri River generation facilities? If so, how will that be accounted for? Will federal hydropower firm customers get a credit? How will those ancillary services provided currently be allocated between support of renewable transmission, firm preference power deliveries, and Integrated System (IS) service?

Interconnecting the Stimulus Transmission with the existing system introduces many questions on cost allocation and rate recovery. From a cost allocation perspective, what are the criteria for allocating costs? How will Western keep the Stimulus Transmission costs separated from the existing cost for the IS? If an existing line is rebuilt, do Stimulus Transmission customers help pay for the existing line, plus an additional amount for the upgrade? Can Western have two different prices for transmission service under its current Open Access Transmission Tariff (OATT)? If not, how will Western modify its OATT to account for the different services? If the interconnection customers to the Stimulus Transmission are a direct beneficiary of the existing system, costs should be allocated to the Stimulus Transmission customers proportionally.

Clear pricing and cost allocation policies should be established well in advance of building the system and vetted by existing customers, developers and the other stakeholders know the costs and benefits. To resolve potential cost shifting to preference power customers, the Stimulus Transmission should seriously look at becoming a transmission operator in the Midwest Independent System Operator (MISO). MISO provides the market conducive to renewable development not the IS.

Adequate rate recovery must be required from customers of the Stimulus Transmission so as to meet Western's financial repayment obligations and the current customers are not used as the backstop. MRES fears that cost allocation methods developed in a vacuum and lack of transparency in the process will lead to higher costs for federal power customers who will likely not benefit from the Stimulus Transmission.

Coordination with regional transmission groups is critical.

The existing transmission system in the Northern Plains is part of an overall regional transmission grid operated on a coordinated basis with other interconnected transmission systems throughout the Upper Midwest and Eastern United States. This coordination and interconnection ensures a high degree of reliability across much of the United States. MRES comments assume that the Stimulus Transmission would be interconnected with the existing interconnected system.

This interconnected system has been developed over decades with the input and assistance of many utilities. It is a very complicated and time-consuming process. To maintain reliability of the system, it is paramount that planning needs to be done on a regional basis, at a minimum. Not aligning with the processes that have been in place could balkanize the grid. This would not only lead to inefficient development but could create reliability issues.

Regional planning groups have indentified routes and facilities needed on the eastern edge of the northern plains region to transmit more energy from the wind rich Northern Plains to the markets east. One of the best examples of a regional planning group in the Upper Northern Plains is CapX 2020. CapX 2020 is a joint initiative of 11 transmission-owning utilities in Minnesota and the surrounding region to expand the electric transmission grid to ensure continued reliable and affordable service. The CapX 2020 utilities are currently in the regulatory process for the construction of three 345 kV and one 230 kV transmission lines in the states of Minnesota, South Dakota, North Dakota, and Wisconsin. These projects are referred to as the CapX Group 1 projects. These lines total about 700 miles in length and represent over $1.7 billion in investment.

In addition to the work that the CapX utilities are doing, on Tuesday, March 31, 2009, the Minnesota Transmission Owners (MTO) released several reports which present the results of a variety of studies done to identify electric transmission system requirements necessary to support the Minnesota Renewable Energy Standard milestones. The recommendation for the next project, to build upon the foundation of the CapX Group 1 facilities, is to replace the existing 60-year old 230 kV line between Granite Falls and the SW Twin Cities area with a new double circuit 345 kV line. This new facility would cost approximately $350 million, and would be targeted to be in service late 2016. This "Corridor" project would provide approximately 2,000 MW of additional network transfer capability, meaning a significant increase in the ability of the network to transport renewable energy from good sources in the west to load centers in the eastern part of Minnesota. Another project identified in this group of studies is a new line in southwestern Wisconsin as a prerequisite for any additional significant increases in transfer capability for renewables beyond that created by the Corridor project. The combination of the Corridor project, plus a new Wisconsin line, would increase the system transfer capability to approximately 3,600 MW.

Western should become involved with these groups so that Western can leverage the work that has been done and is being done to create significant new transmission capability in the Northern Plains. MRES encourages Western to communicate and coordinate with regional planning groups so the interconnected system can maintain high levels of reliability while transporting more energy from generation resources to load centers. Western will better utilize the stimulus money by coordinating with these types of groups so duplicative tasks are not performed.

Continued public participation is in the public interest.

MRES believes these first Federal Register Notices should only be the beginning of a structured public participation process. It is in the taxpayers' and federal hydro customers' best interest to make sure that process is open and transparent. Participation by regional planning groups is only a part of this process. Other stakeholders need to be involved from customer groups, developers, landowners, etc. There needs to be periodic opportunity to discuss options so as to obtain feedback from stakeholders. This will facilitate the siting and permitting issues.

Focus the proceeds on siting, permitting, and other regulatory processes.

It is very important to access resources from non-Federal entities to acquire the most benefit from taxpayer dollars. Although the country is experiencing credit issues, MRES believes finding non-federal parties to finance construction of transmission facilities is the smallest of the hurdles to overcome. Recent announcements by companies have shown interest in building and owning such infrastructure. Preference power customers have shown interest in owning transmission.

The biggest obstacles consist of siting and permitting requirements required by the federal, state, and local levels. This is where Western could fit in. Utilizing Western's authority more towards the ability to plan and site, while using non-federal sources for financing and ownership, would expedite the installation or upgrade of these facilities. Such an approach would encourage private investment and not attempt to displace it and would be a perfect example of how to meet and represent a key example in satisfying the program goal of leveraging the borrowing authority by partnering with others.

MRES would encourage seeking the upgrade or use of existing corridors option before utilizing additional land for the construction of transmission facilities. Such an option would enable a better utilization of natural resources along with development more timely installation process.

Summary

MRES is most concerned about the potential impact to federal hydropower customers with Western's new authority. Expansion of Western mission could stretch the already limited resources used to maintain service for its core mission of delivering federal hydropower to preference customers. Develop an open and transparent dialogue between Western, customers, developers, landowners and other stakeholders in the planning process. A more robust public participation process needs to be developed to allow stakeholders to express opinions on cost allocation, rate recovery, siting, and permitting. Avoid possible duplication of planning and building by coordinating with the regional transmission groups. Focus stimulus dollars on streamlining the siting and permitting of transmission, while encouraging non-federal investment in the building and ownership of the facilities. MRES emphasizes the importance of allowing for public input at various points in the process so stakeholders can react to the options being considered.

Sincerely,

Jeff M. Peters,
Director, Marketing and Development