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**Remarks as Prepared for Delivery for Kevin Kolevar,
U.S. Department of Energy Assistant Secretary for Electricity Delivery and Energy Reliability
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Good morning, ladies and gentlemen. It is a pleasure to have the opportunity to speak with you about vital electricity issues facing the region and the Nation.

As many of you are quite aware, electricity demand across the country is growing, and even with intensive efforts to improve our energy efficiency, this trend will continue. Economic and electricity demand growth rates here in the intermountain West are among the highest in the Nation, but the fact is that we are seeing strong growth in most areas of the country. DOE's Energy Information Administration estimates that by 2030, U.S. electricity consumption will increase by 40 percent over today's levels. Meeting that demand will require a great deal of additional generating capacity, much of which is likely to be sited in remote areas – meaning that substantial amounts of new transmission capacity will also be needed.

Along with increased demand for electricity, we must recognize the need for higher reliability – to levels beyond those for which today's grid was designed. Consider this: a recent industry-funded study estimated that total electricity use by computer servers and other Internet infrastructure doubled between 2000 and 2005, amounting to 1.2 percent of total U.S. electricity consumption in 2005. Today's power infrastructure nominally maintains 99.99 percent reliability, but this statistic ignores momentary flaws in power quality. Current reliability practices are generally adequate to keep the lights on and the motors running; but today's microprocessor-controlled electrical devices – and the larger systems they control – can be adversely affected by power disturbances lasting only a fraction of a second, sometimes at great expense to sensitive manufacturing processes.

Despite steady electricity demand growth since the 1980s, we have nevertheless experienced a long period of underinvestment in baseload generation, and transmission and distribution infrastructure. The reasons are many and complex, including changing market structures, regulatory uncertainties, siting and permitting issues, and environmental concerns. Regardless of the reason, however, the infrastructure has begun to show its age. Transmission lines have become more heavily loaded, and are now even more susceptible to both human errors and natural disasters such as hurricanes, ice storms, or fires, sometimes with devastating consequences to the well-being of our people and to our economy. And, I must add that we cannot ignore the threat of terrorism that our country continues to face. Improving the resiliency of our infrastructure to withstand the elements, and the security of the system to resist physical and cyber assaults is a very significant challenge.

So, where should we begin? Well, first, we must view the need for grid modernization in the context of our overall energy security situation. Meeting future demand will require: a diverse and secure supply of reliable, affordable, and environmentally responsible electricity; more energy efficiency measures across our economy; and a high-capacity, interactive, reliable, secure, and efficient transmission system – in other words, a truly transformed electric infrastructure.

I believe that we can get there. To do it, government at all levels – Federal, State and local – must put policies in place that support this modernization goal. In effect, government leaders around the country must recognize that such efforts are in our national interest. This is sometimes difficult to do in practice, particularly when individual landowners or even entire communities fear that they will be adversely affected. And I do not minimize those concerns. Regardless of the circumstances, the views of the public must be taken into account. But, viewed from a broad perspective, it is clear that modernizing the electric infrastructure is an urgent *national* problem, and one that we all share.

The Congress recognized these concerns when it enacted the Energy Policy Act of 2005 and gave the federal government authority in three distinct areas.

First, the law made compliance with reliability standards by all grid-connected entities mandatory and enforceable under Federal law. It also recognized the need for major and timely new investments in our transmission networks, by providing tax and regulatory incentives for such investments and increased coordination among federal agencies. In August 2006, DOE and several other Federal agencies and departments signed a Memorandum of Understanding that established a basic framework for this coordination. DOE will soon issue rules providing additional detail and guidance to the agencies and the industry on how the coordination process will work. Implementing this process will take time and effort, but we think it will prove to be very worthwhile for all.

Secondly, many of you here in the West, I am sure, are aware that the Act also directed the Department of Energy to work with the Departments of Interior, Agriculture, Defense, and Commerce to collaborate in designating multi-purpose energy corridors across Federal lands. The Department of Energy and our federal partners have worked diligently with each other and with stakeholder groups over the past two years to identify and analyze a set of draft energy corridors across Federal lands in the 11 western States. We expect to release a programmatic environmental impact statement concerning this group of corridors this fall.

Finally and most importantly, in addition to requiring the designation of energy corridors on Federal lands, the law gives new but limited responsibilities to DOE to designate transmission corridors elsewhere. And that's what I am here to talk to you about today.

This section of EPAAct directs DOE to conduct triennial national studies of transmission congestion, to publish these studies for public comment, and then to designate, where appropriate, "national interest electric transmission corridors," or "National Corridors," to use our short-hand term.

Let me pause here for a brief aside on what "transmission congestion" is and why we care about it. Transmission congestion occurs when transmission capacity is not sufficient to enable safe delivery of all scheduled or desired wholesale electricity transfers simultaneously. Transmission congestion affects consumers adversely, in two ways: It means that wholesale electricity buyers have to turn to their second (or third, or fourth ...) choices in terms of accessible suppliers, often increasing electricity supply costs for Americans; and it means that grid operators have a reduced range of real-time options available for coping with unanticipated contingencies which could lead to potential blackouts. It is often not cost-

effective to try to fix congestion that only occurs occasionally – but if the condition is persistent or growing, it needs to be addressed.

Consistent with its statutory obligation under the Energy Policy Act, the Department of Energy issued the first national transmission congestion study in August 2006. In the Study, the DOE identified three kinds of congestion areas:

- 1. Critical Congestion Areas: These are areas of the country where it is critically important to remedy existing or growing congestion problems because the current and/or projected effects of the congestion are severe. We found two such areas, one in the East and one in the West. The eastern area is a large area along the Atlantic coast, from metropolitan New York southward through Northern Virginia. The western area covers the urban centers in southern California.
- 2. Congestion Areas of Concern: These are areas where a large-scale congestion problem exists or may be emerging, but more information and analysis are needed to assess the scope of the problem. We found four such areas: New England; the Phoenix-Tucson area; the Seattle-Portland area; and the San Francisco Bay area.
- 3. Conditional Congestion Areas: These are areas where there is some transmission congestion at present, but significant congestion would result if large amounts of new generation resources were to be developed without simultaneous development of associated transmission capacity. We identified several such areas: Montana-Wyoming (coal and wind resources); Dakotas-Minnesota (wind); Kansas-Oklahoma (wind); Illinois, Indiana, and Upper Appalachia (coal); and the southeastern States (nuclear).

We received many thoughtful comments on the Congestion Study. After reviewing those comments and other recently-available information, in late April 2007 the Department released for public comment two draft National Corridors relating to the two Critical Congestion Areas. (I want to note here that the Energy Policy Act did not require this additional comment period – we decided that it would add value to our decision process to obtain comments focusing on specific draft National Corridors.) Both of the draft National Corridors were substantially larger than the Critical Congestion Areas to which they pertain. This is because in each case the Department wanted the National Corridor to span both the Critical Congestion Area and include areas with available resources that may alleviate that constraint.

The comment period concerning the draft National Corridors closed July 6, and over 2000 comments were submitted, many of which were carefully written and forcefully argued. Since July 6, the Department has considered the comments fully and prepared recommendations for the Secretary's consideration concerning designation of National Corridors.

Today, I am pleased to announce the Secretary's decision. Secretary Bodman has determined that it is necessary to designate a National Corridor in both areas of the country suffering from critical levels of congestion. In the East, the boundaries of the Mid-Atlantic Area National Corridor are unchanged from the draft National Corridor DOE published in the *Federal Register* on May 7, 2007. In the West, the boundaries of the Southwest Area National Corridor are the same as in the May 7 draft, with the exception of Clark County, Nevada which is not included in the National Corridor. The Department decided not to include Clark County because the county is not a major source of potential generation for the Critical Congestion Area, nor does the area contain a transmission constraint separating the Critical Congestion Area from an identified potential generation source.

The Department notes, however, that the area around Las Vegas (which is in Clark County) is experiencing rapid economic growth and associated growth in electricity demand. This growth could result in congestion that may, at some future date, warrant expansion of the Southwest Area National Corridor or the designation of additional National Corridors in the area.

Designation of a National Corridor has two effects:

- First, it confirms that the Department of Energy has determined that persistent transmission congestion exists in the particular geographic area, and that this congestion has adverse effects on consumers in the area. Spotlighting the problem in this manner is intended to focus increased attention to it in a constructive way.
- Second, designation of an area enables the Federal Energy Regulatory Commission (FERC), under certain circumstances specified by Congress, to authorize “the construction or modification of electric transmission facilities” within the National Corridor.

It is also important to be clear about what designation of a National Corridor does *not* do:

- A National Corridor designation will not cause companies to propose new transmission projects. Developers of projects intended to ease congestion, whether transmission or alternatives to it, will respond to the state of the grid. It is the presence in these areas of transmission congestion or constraints, which are already well known to most market participants, which will cause developers to undertake projects.
- Designation of National Corridor does not identify or advocate a single solution – instead it identifies a major transmission-related problem. The Department continues to advocate a range of solutions to congestion and reliability concerns, including advanced technologies such as smart meters, more conservation through regional demand response initiatives, and improved efficiency at the points of generation, transmission, and consumption.
- A National Corridor designation is not a decision about the best solution to a congestion problem, it is also not a siting decision. The law does not shift to the Department of Energy the role of designing routes for transmission facilities, and a National Corridor designation does not dictate or endorse a route for any transmission project. DOE is not a siting authority. If a transmission project is proposed in a National Corridor, it will be State or local siting authorities (or potentially FERC, if certain conditions are met) that will determine a specific route for any project that wins regulatory approval.

I will conclude with a brief review of where we go from here. First, the formal orders for the Secretary’s designations that I just announced will be effective upon their publication in the *Federal Register*.

More broadly, it will be business as usual for most electric sector stakeholders in the areas included in the National Corridors. Companies will prepare and submit proposals to State or local agencies about a range of projects that could reduce transmission congestion, including additional energy efficiency programs, new generation sited close to load centers, and transmission expansion projects. State agencies will review and act upon transmission proposals through their existing processes, although now with the possibility that under certain conditions an applicant may petition FERC to assume jurisdiction for siting a proposed transmission facility in the National Corridor.

Finally, I want to acknowledge that the Department has received many comments and suggestions on the possible designation of National Corridors for areas other than the two Critical Congestion Areas. We also have received comments concerning technical aspects of the August 2006 Congestion Study and ideas concerning our future congestion studies. We appreciate these comments and will consider them as we move forward.

Thank you for your attention. I will be happy to respond to your questions.