Testimony of

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Good morning Mr. Chairman and distinguished members of the Senate Committee on Energy and Natural Resources.

Thank you for holding this hearing and allowing me an opportunity to offer the views of American Electric Power (AEP) regarding the need for federal transmission legislation to facilitate expansion and updating of the nation's electric transmission grid to support our nation's economic, environmental and energy goals.

My name is Mike Morris, and I am the Chairman, President, and Chief Executive Officer of American Electric Power (AEP). Headquartered in Columbus, Ohio, we are one of the nation's largest electricity utilities – with over 38,000 megawatts of generating capacity – and we serve more than five million retail consumers in 11 states in the Midwest and south central regions of our nation. AEP also owns the nation's largest electric transmission system with three Regional Reliability Organizations overseeing our vast system, and we are members of three Regional Transmission Organizations.

The AEP transmission system is a 39,000-mile network, integrating power delivery across 11 states. Our network includes more than 8,000 miles of extra-high-voltage (EHV) lines, including a network of 2,100 miles of 765-kilovolt (kV) transmission lines, which today serves as the backbone of the PJM Interconnection (PJM)

EHV system in the eastern United States, facilitating efficient power flow within that region. 765 kV is the most efficient voltage class in commercial use within the United States. While initially designed to provide service to AEP's native customers, today it is the foundation of the PJM system and, enables PJM to link to neighboring systems in all geographic directions.

Summary of AEP's Position on Federal Transmission Legislation

I want to thank you for putting before this Committee the issue of federal authorization of interstate transmission facilities. This is one of the most important challenges that must be resolved if we are going to make meaningful progress in addressing the nation's future electric energy needs. The President and Congress are clearly committed to charting a path for our energy future that seeks much greater energy independence and reliance on renewables, greater economic and energy efficiency, and the integration of constantly evolving new technologies. Critical to ensuring that future, as you have recognized, Mr. Chairman, is a modern transmission grid that meets both our near term requirements and our future ambitions for a cleaner, more reliable and secure energy future.

AEP strongly supports development of an EHV interstate backbone transmission system. Such a system can significantly improve the reliability and security of the current grid, permit rapid integration of new energy sources, including renewables, and support the electrification of the transportation sector with plug-in hybrid vehicles.

Today, the development of interstate transmission lines is slowed by a fragmented regulatory system that discourages investment in major interstate transmission projects. We believe that the best solution is to empower the Federal Energy Regulatory Commission (FERC) to authorize interstate transmission projects and to convene all

interested parties in siting proceedings to ensure that all voices are heard and that a timely, final decision is made. We also believe that FERC should have meaningful authority to oversee and ensure the development of an interconnection-wide plan for EHV transmission and ancillary facilities and that cost allocation principles should be established that spread these costs broadly, so that no single customer bears a disproportionate share of costs that will clearly benefit multiple regions over long periods of time.

With these objectives in mind, I commend the Chairman for his leadership. Your draft legislation includes the critical elements required to get our modern grid built. We believe it is exactly the right starting point for fashioning a comprehensive and workable plan for promoting transmission investment, protecting the rights of interested parties, and setting us on the path to meeting our nation's long term energy goals. I also wish to thank Senator Reid for his leadership and interest in this important issue. We are confident that the legislative process will get us to a common end.

We very much look forward to working with the Committee and the Congress to refine these proposals. We also strongly urge you to act quickly, so that we can get about the business of building the modern transmission system that will ensure the better energy future that we all desire.

Meeting Future Needs by Expanding our Current Transmission System

The economic prosperity of the United States relies on the efficient production, transmission and use of electric energy, today and into the future. The nation's transmission grid should enhance reliability and operational efficiency; and support energy independence and environmental goals, including expanded use of renewable resources. Unfortunately, our existing system is ill equipped to meet these needs.

Originally designed to connect local generation resources to distribution systems over small geographic areas (primarily in one state), the grid now integrates resources on a more regional level, over larger areas and among numerous utilities with a high degree of reliability. The current transmission grid has supported dramatic changes in use and demand growth, including the development of wholesale power markets, without significant investment over the last few decades. But, the existing grid now is being pushed to its limits; it is frequently overloaded with congestion losses growing dramatically throughout the country, and reliability degraded during certain times. This both increases the cost of electricity to consumers and threatens an economy that is increasingly dependent upon reliable electricity service. While sound, today's grid is in need of significant investment if it is going to play a role in meeting our long term policy objectives.

There is no question that a primary goal in expanding the transmission system is to enable broad scale integration of renewables—a critical first step on the path to addressing climate change. In 2008, the United States added 8,358 megawatts of new renewable wind generating capacity and surpassed Germany, one of the countries with the highest wind utilization in the world. Yet, our nation has only begun to harvest the available wind and solar resources within our borders. All agree that new transmission is the key to unlocking this important resource. But our current system for permitting new transmission projects just isn't up to the task. It takes, on average, only two years to develop a wind project, but many years to site, permit and build the transmission lines to deliver the wind power to consumers. If we want renewables soon, we need transmission sooner.

While I know there is great excitement around transmission for renewables, I strongly caution this Committee to remember that our future economic and energy security requires a commitment to a robust system that meets a number of important objectives. Within the past 24 months, our nation has witnessed unprecedented price volatility in oil and other commodities, major economic turmoil and growing concern about climate change. Our current situation has increased demands for energy independence, development of renewable energy resources, and growth for our economy, all as we seek to produce, transport and consume energy more efficiently. Through the strategic expansion of the transmission grid, we can address the limitations of our current system, permit the rapid integration of new energy resources, including renewables, and support the electrification of the transportation sector with plug-in hybrid vehicles. In essence, we must build the system that we need for our future today.

For that reason, we strongly support the development of an EHV interstate backbone transmission system. That system would overlay and build upon the existing EHV and lower voltage infrastructure, relieving major congestion and reduce electricity costs, improve reliability and provide maximum flexibility for interconnecting new resources and load, particularly renewables. Accomplishing this goal will require legislation that clearly supports and facilitates the timely planning, construction, and equitable sharing of costs for a transmission system that meets these multiple purposes.

Elements of Effective Transmission Legislation

Today's need for a bold, national commitment to upgrade and expand the electricity grid is no less compelling than the circumstances that drove the development of the interstate highway system in the last century. To achieve that goal we need to create a new federal process that dramatically changes the way we plan, site and pay for EHV

transmission systems. Legislation implementing this federal process requires three critical components:

- Interconnection-wide Planning – FERC must have the authority to bring together experts in the field with the representatives of affected states, regional planners and others to determine what facilities are needed and resolve competing concerns, so that those implementing the plan know what to build and where.
- Transmission Siting – FERC must have the authority to approve and site projects proposed by private companies that are consistent with the interconnection-wide plan.
- Cost Allocation – FERC must have the authority to allocate the cost to consumers throughout an interconnection for those projects approved by FERC as consistent with the interconnection-wide plans.

Interconnection-wide Planning

Currently, transmission is planned using a fragmented approach that is unworkable for expanding EHV transmission beyond the borders of an existing planning region. Today, we plan transmission using rigid and often narrow reliability and economic criteria that vary significantly by region. The result is a line-by-line approach to transmission development rather than a "system based" approach. To develop an interstate transmission system, we need an open, transparent and widely participatory planning process that applies broad and strategic views to transmission development.

Transmission Siting

The second piece is a single federal siting process for new EHV transmission. Today, siting EHV transmission across several states is a difficult and time-consuming process that involves affected states, federal land agencies, and local regulators, each with

individual authority to disapprove a project. Many state processes do not recognize or consider regional and inter-regional transmission needs or benefits and may disapprove projects that do not directly benefit their state. With federal siting authority for EHV projects, FERC would assume responsibility for environmental reviews and would solicit state participation to ensure state input and involvement to resolve the "on the ground" concerns as FERC designates the transmission route. The point is not to exclude the many voices that need to be heard but to convene them in a single proceeding that will produce a final decision in a reasonable amount of time.

Cost Allocation

Similar to siting, current methods of allocating the cost of EHV transmission projects by identifying specific beneficiaries is difficult, contentious and often includes vigorous attempts to shift and re-shift costs among groups of customers. Interconnection-wide planning will address national policy objectives and result in an interstate transmission system that provides benefits across broad regions and anticipates future needs. Therefore, legislation should include simple and predictable cost allocation policies, which ensure that everyone who benefits from the system shares in the cost of its development. Wide allocation of cost also will mitigate the individual rate impact of significant transmission investments.

Companies like AEP are ready to step up and build a transmission system that enhances our economy, supports renewable energy investment and enhances energy security. Today, we are hindered by the outdated patchwork of policies that currently constrain the development of an interstate grid. Only Congress can address this predicament.

Conclusion

As our country faces unprecedented economic, environmental and national security challenges, I urge this Committee and the Congress to seize the opportunity before them and, using the Chairman's draft as the framework, to enact the legislation necessary to build the future transmission system our country requires. I am confident that AEP and our industry stand ready to commit the necessary resources and talent to plan, site and construct an interstate transmission system necessary to support our nation's economic, environmental and energy goals. We strongly urge you to join Chairman Bingaman to provide the leadership and tools necessary to complete this undertaking in a timely and coordinated manner.

Again, Chairman Bingaman, thank you for holding these hearings and thank you for proposing your draft transmission legislation. We look forward to working with you and your Committee to address the transmission needs of our country.

I am happy to answer questions.