BALANCING AUTHORITY OF NORTHERN CALIFORNIA

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Via Electronic Mail

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Re: BANC comments to Western Operations Study Report

This correspondence is in response to an email that was sent out by Western on August 9, 2012, seeking comments on the Operations Study Report prepared by MIRACORP (Report), an outside consulting firm retained by Western to perform the study. The transmittal email from Western points out that "Western management has been careful not to propose any answers or provide critique." This approach by Western is unfortunate because it appears that little, if any, consideration was given by the consultants to the legislative history and statutory requirements that have shaped the current Western organizational structure, as well as the various project-driven transmission rate schedules. Moreover, the Report is replete with references to Secretary Chu's March 16 Memo that surfaced 6 months or so into this so-called objective effort, but now seems to be the cornerstone for many of the centralization alternatives proposed in the Report.

The Report is also problematic in that the benchmarking appears to be in comparison to large Investor Owned Utilities (IOU's) that have completely different business models and incentive structures, including profit motives, than does Western as a federal agency with separate project authorizations and with requirements to provide services at cost with no profit. The Report is further skewed by the notion that an RTO or ISO for the Western United States is a likely outcome.

Given these foundational flaws, our comments will necessarily be at a high summary level.

Our most serious concerns about the Report go directly to the array of alternatives that suggest a centralized approach for Transmission Operations and Planning. We believe that the current organizational structure is well suited for the vast area across the 11 states served by Western. The Report fails to recognize how the Sub-regional planning groups have evolved consistent with FERC Orders 888 & 889. WestConnect is a great example of how transmission planning is most effectively accomplished within the various sub-regions. The local knowledge of the transmission grid in each sub-region, coupled with the working relationships of neighboring utilities, has served the customers of each region well.

One of the pros listed for centralizing transmission planning is for better implementation of the Transmission Improvement Program (TIP) that was authorized in 2009. An important component of this legislation was to not dilute Western's core mission and to prevent any unrecovered TIP related costs from showing up in Western's rates. Now asserting TIP as a rationale for centralization is akin to having the tail wag the dog.

The credibility of the Report is further eroded where it states in Section 7.3 that "Western has chosen to participate" in an Energy Imbalance Market (EIM). Western management has appropriately clarified that it is still evaluating an EIM and is merely preparing to make additional budget requests of Congress should an EIM go forward. Moreover, even if an EIM does go forward, given its limited statutory role, Western is simply not in a position to lead such an effort, as suggested in the Report. Rather, it is more appropriate for Western to participate in objective efforts as it is doing as part of the Northwest Power Pool's collective effort to evaluate an EIM as one of many alternatives to better integrate intermittent renewable generation.

In Section 8.1 it is suggested that a single operations engineering group be established to do next day studies. Given that the Sierra Nevada Region (SNR) is not interconnected with the rest of Western, a more efficient and effective approach would be for SNR to partner with the Balancing Authority of Northern California (BANC) as the BA and with the Sacramento Municipal Utility District (SMUD) as a TOP to accomplish next day studies together.

We do support the notion of reviewing the number and staffing of the dispatch desks as suggested in 8.1.10 and 8.2.6, and we suggest that this be folded into the process mapping efforts currently underway between BANC and SNR.

The option of reversing the BA role from BANC (not SMUD) to SNR suggested in 8.2.7 is without merit. We are not aware of any transmission rate pancaking issues within BANC. As is the case with most any BA, there are separate transmission rates to go from one BA to another such as from BANC to the California ISO or to the Bonneville Power Administration.

Lastly, we support Western's efforts to streamline the organization and to adopt common business practices where it makes sense to do so, but we do not see the need for major organizational changes that would erode the benefits of the Regional structure that has served the Western customers well over the past several decades. We do request that Western set up robust customer

meetings in each Region to promote full and open collaboration if Western management decides to pursue any of the more significant options laid out in the Report.

Thank you for the opportunity to provide comments on this important matter.

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