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**Comments of the
Mid-West Electric Consumers Association, Inc.
Regarding Western Area Power Administration
Operations Study Report**

The Mid-West Electric Consumers Association, Inc. (“Mid-West”) submits these comments regarding the August 9, 2012 Western Area Power Administration (“Western”) Operations Study, created by Miracorp (“Ops Study”).

I. Introduction

The purported impetus for the Ops Study was Western’s desire to evaluate its current power system operations to determine how best to improve operations and transmission services process and activities. In August 2011, Western contracted with Miracorp to perform the study and create a report examining the following functions: 1) transmission services and planning activities; 2) transmission operations and balancing authority activities; 3) settlement activities related to real-time operations; 4) meeting industry compliance and reliability standards in the Operations environment; and 5) participation in industry-wide power systems initiatives. The Ops Study was released on August 9, 2012. Miracorp’s methodology for evaluating its power system operations involved comparing Western’s operations with that of three investor-owned utilities (“IOUs”), which were in the process of or had recently completed mergers. Western set a comment date on the Ops Study that was subsequently revised to September 28, 2012.

II. Background

Mid-West was founded in 1958 as the regional coalition of over 300 consumer-owned electric utilities (rural electric cooperatives, municipally-owned utilities and public power districts) that purchase hydroelectric power generated at the federal multi-purpose projects in the Missouri River Basin under the Pick-Sloan Missouri Basin Program. These federal multi-purpose projects are operated by the U.S. Army Corps of Engineers and the U.S. Bureau of Reclamation. Mid-West members serve consumer load utilizing federal hydroelectric power marketed by Western in nine states, including Colorado, Iowa, Kansas, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wyoming.

III. Comments

A. The Ops Study Methodology is Flawed

Mid-West asserts that the methodology under which the Ops Study was conducted is fatally flawed and misguided in that it makes an inappropriate and misleading comparison between IOUs and Western, a power marketing administration (“PMA”). The Ops Study fails to recognize the key differences between an IOU and a PMA, in that an IOU’s mission is predominantly driven by the need to produce profits for investors, while a PMA’s mission is statutorily defined. Specifically, Western’s mission is to market and transmit hydropower generated at federal multi-purpose projects in different river basins in the West to the PMA’s preference customers “at the lowest possible rates to consumers consistent with sound business practices.”¹ Because the Ops Study does not recognize this fundamental difference between Western and IOUs, the results of the Ops Study has produced

¹ Flood Control Act of 1944, Pub. L. No. 78-534, 58 Stat. 887 (codified as amended at 16 U.S.C. §§ 460d, et seq., and in scattered sections of 33 and 43 U.S.C.).

recommendations that, if followed, would contradict Western's statutory role and responsibilities.

B. Western Cannot Take Any Action in Violation of its Statutorily Defined Mission and Principles

Certain core principles were carefully drafted into the PMA enabling statutes that narrowly constrain the PMAs' lawful activities and sources of funds. First among these principles is that preference in the sale of federal hydroelectric power and energy by the PMAs is to be given to not-for-profit consumer owned electric utilities, rural electric cooperatives, state and federal agencies and native American tribes. Second, is the principle that the PMAs must provide power and energy at the lowest possible rates to consumers consistent with sound business principles. Third, is the principle that those who use the investment are responsible to pay for the investment as the beneficiaries of that investment. Fourth, and finally, is that the PMAs are administered through local control and local operation.

Of key import here is the final principle, in pursuit of which the PMAs have established regional offices and built close relationships with local preference customers. Mid-West believes that local operation of the PMAs, and in particular Western, is necessary to reflect the differences in regional policies, resources, grid connections and economic arrangements with customers across the geographic area in which Western operates. In addition, the Western regions reflect the different statutory obligations of different projects and the related obligations to handle costs and budgets differently.

This difference is recognized in the Ops Study only fleetingly, "[a]s the executor of marketing the generation from Federal Hydro Projects, Western is governed by many pieces of legislation relative to marketing and delivering federal power, even as it may be specific to

just one project.”² No true consideration is given to these “many pieces of legislation” that govern Western’s operations. The Ops Study fails to recognize Western’s statutory obligations. Its recommendations are based upon the approaches of IOUs and are not appropriate for Western and, in some instances, may be prohibited by Western’s enabling statutes.

Before pursuing any of the recommendations in the Ops Study, Western should first consider its statutory obligations. Any lawful recommendations should be pursued only if they streamline operations in a cost-effective manner. Competition with utilities that are driven by profits is not an appropriate consideration in determining which recommendations to pursue.

C. A Primary Consideration in Determining Whether to Pursue Recommendations Should be Cost

Western should conduct a cost/benefit analysis on the Ops Study recommendations it seeks to pursue prior to any action being taken. Although the Ops Study makes over thirty recommendations, Miracorp explicitly recognizes that: 1) implementing five of the recommendations will result in increased costs;³ 2) no cost analysis has been done with regard to seventeen of the recommendations;⁴ 3) it has not conducted a substantive analysis of

² Ops Study at 78.

³ *See id.* at Sections 8.1.1, Centralizing TOP, TP and TSP Functions Under a Single Senior Manager; 8.1.2 Consolidate the OASIS System Activities; 8.2.2, UPG Takes Responsibility for Operating the RMR Facilities Within the MRO Footprint; 8.2.3, RMR Takes Responsibility for Operating the UGP Facilities Within the WECC Footprint; and 8.3.1, Standardizing Processes and Tools Among Operations Offices.

⁴ *See id.* at 8.1.3, Consider Consolidating TP and TSP Functions Into a Single Organization; 8.1.8, Define Transmission Settlements Functions and Processes; 8.1.9, Review Compliance Structure; 8.2.7, WASN Collaborates with SMUD for WASN to Become the BA/Operator and SMUD to Become the Sub-BA; 8.3.2, Consider Moving Toward a Single SCADA System for All of Western; 8.3.3, Develop a Secure Method to Allow a Simplified Login for Dispatchers for Multiple Products so as to Reduce the Time Involved, Yet Maintain Security; 8.4.2, Consider Registering as a Single NERC Entity; 8.4.3, Set a Goal and Milestones to Achieve One Set of Transmission Rates per BA; 8.4.4, Review Possibilities of the WASN Sub-Balancing Authority Becoming a Sub-Balancing Authority of WALC or WACM; 8.4.7, Develop a Program Using Common Tools to Track and Perform Routine Training; 8.4.8 Review Operations Training Manual; 8.4.9, Improve Efficiency of Switching Program Training; 8.4.10, Agreement to Support Transmission Service; 8.4.11, Require All BAs to Settle Energy Imbalance Accounts Financially; 8.4.12, Evaluate Federal Generation

the costs relative to another four of the recommendations;⁵ and 4) goes so far as to explicitly admit that two of the recommendations will result in cost-shifting.⁶ Western must ensure that those who benefit from investment pay for the costs of that investment, upholding the “beneficiary pays” principle. Many of the defects of the Ops Study mirror the problems that we have identified with the March 16, 2012 memorandum from Secretary Chu to the PMAs (“Chu Memo”). The Chu Memo is cited in Section 7.2.2 of the Ops Study.

D. Consultation with Preference Power Customers is Warranted

Western has conducted this study without any consultation or input from federal firm power customers. Changes proposed by Western’s Ops Study can create costs for Western’s firm power customers, an impact lost upon the study’s analysis. These impacts must be included in any cost/benefit analysis. Before moving forward with any changes in the way Western is operated or governed, Western should endeavor to engage in meaningful consultation with its preference power customers, as well as the Bureau of Reclamation and the Army Corps of Engineers. The Ops Study findings that Western personnel view each region as distinct entities should not be dismissed as misunderstandings of these employees regarding the nature of Western’s operations. This attitude is present because of the realities on the ground, and the way the regions have been formed and operated, due in large part to distinctions between the regions. The most recent evidence is that centralized EIM would actually increase costs for Western’s firm power preference customers. The Ops Study fails to recognize these distinctions and to

Capacity; 8.4.13 Review and Develop an Effective and Economical Strategy for Western’s Registrations and Committee Participation; and 8.4.14, Compare Differences and Standardize.

⁵ *See id.* at 8.1.4, Consider Consolidating the Transmission Security and Scheduling Dispatch Desks; 8.1.5, Organizational Alternatives for Transmission Planning and Operations Engineering; 8.1.8, Define Transmission Settlements Function and Processes; and 8.1.9, Review Compliance Structure.

⁶ *See id.* at 8.3.1, Standardize Processes and Tools Among Operations Offices and 8.4.3, Set a Goal and Milestones to Achieve One Set of Transmission Rates Per BA.

continue to do so would be detrimental to the long-term success of any overhaul of Western operations and management.

E. Concerns that Implementation of the Ops Study is a Precursor to Implementation of a Centralized Energy Imbalance Market (“EIM”) and a Regional Transmission Organization (“RTO”)

A region-wide EIM has not been shown to be cost-effective for Western or its preference customers. The unexamined costs associated with the suggested measures in the Ops Study (*see* III (C), *infra*) must be thoroughly analyzed first. The Ops Study appears to be hurtling forward towards a centralized EIM without recognizing that the preference customers’ business model assumes support for preference power generation and the transmission that was developed to deliver that generation. In fact, actions of the consumer-owned utilities were undertaken based upon the express provisions of the underlying statutes. The Ops Study ignores these facts. Non-jurisdictional consumer-owned utilities generally see no value in a centralized EIM.

Costs have increased for consumer-owned utilities through the Independent System Operators (“ISOs”)/RTOs in the east and in California, and the EIM seems to be step one in that effort to move towards a costly RTO on terms that would be unfavorable to preference customers.

IV. Conclusion

For the reasons set forth in these Comments, Mid-West asserts that Western should reconsider the recommendations of the Ops Study. The flawed methodology of the Ops Study in comparing IOUs to a PMA, failing to take into consideration Western’s statutory obligations and giving little or no weight to cost considerations renders its recommendations virtually meritless. If Western is to consider the questions posed in the Ops Study, it must do so

nearly anew, taking into account all the factors the study failed to recognize. Consultation with preference power customers should be a first, and ongoing, step in this process.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas P. Graves". The signature is fluid and cursive, with a large initial 'T' and 'G'.

Thomas Graves

Executive Director

Mid-West Electric Consumers Association, Inc.