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## **SMUD COMMENTS ON THE WESTERN AREA POWER ADMINISTRATION'S DRAFT OPERATIONS STUDY REPORT**

Thank you for the opportunity to comment on the Western Area Power Administration (Western) Operations Study Report (Report), which Western released on August 9, 2012. As Western's largest preference power customer in the Sierra Nevada Region, the Sacramento Municipal Utility District (SMUD) supports Western's goal of ensuring operational efficiency. We are very concerned, however, that the Report's focus shifted midstream when the Department of Energy (DOE) Secretary Chu issued his March 16<sup>th</sup> Memorandum (March 16<sup>th</sup> Memorandum). The Report's repeated references to the March 16<sup>th</sup> Memorandum, which seeks to reform the Power Marketing Administrations (PMAs), effectively transformed the Report from an objective assessment outlining options for potentially beneficial organizational changes to a roadmap for facilitating the implementation of the DOE's PMA initiative. The Report would have been most useful had it continued to focus solely on changes that would enhance/provide efficiencies for Western's current authorized responsibilities instead of proposing changes that would seemingly require Western to take actions that extend beyond its statutory authority.

### **A. General Comments**

Apart from the overarching concern outlined above, SMUD is troubled by language in the Report that effectively dismisses, without analysis, the statutory and operational limitations imposed on Western. Although the Report recognizes that "Western is governed by many pieces of legislation relative to marketing and delivering federal power" and that the "generation resources and project loads may be limited by the

individual legislation of the projects”, the Report blithely states its belief that “the transmission and interconnections with neighboring systems are minimally affected by the project legislation.” Report at 10. In fact, the primary purpose of Western’s transmission is to deliver power to its preference customers. Moreover, Western’s core mission is to provide power to preference customers at the lowest possible rates consistent with sound business principles. Accordingly, any proposal to create a single open access transmission tariff (OATT) Transmission Service rate for all of Western would not withstand scrutiny. Western’s regions were established under different legislative authorities and serve different customer groups. Attempts to craft a single transmission rate will ultimately result in unlawful cost shifting between customers of different regions.

Moreover, the Report’s failure to discuss in any meaningful detail the potential statutory and operational restrictions imposed on Western results in a fatally flawed analysis in several respects. In particular, Section 7.2.2.2 discusses potential improvements to Western’s rate designs and concludes that “rate structures and operating procedures should incentivize the following: energy efficiency programs, demand response programs, integration of variable resources, and preparation for electric-vehicle deployment.” Report at 81. Most of these objectives are retail functions that fall outside the purview of Western. Further, activities related to integration of variable energy resources are clearly beyond Western’s jurisdictional mandate and appear to be aimed at achieving national policy goals such as renewable energy development. While the above goals may be laudable, Western simply cannot be used as a vehicle to accomplish them. Instead, any proposal to expand the scope of Western’s mission requires Congressional action.

Similarly, Section 7.3.1 of the Report discusses Western’s participation in an Energy Imbalance Market (EIM) and claims that Western has chosen to participate. At the outset, SMUD disagrees that Western has made a decision to participate in an EIM, especially since in an April 5, 2012, report<sup>1</sup> it acknowledged that it has yet to study whether it possesses such authority. At least as important are three other observations Western made in that report. First, by Western’s own reckoning, the physical and statutory constraints on its power supply operations means that it will have little or no power to sell in an EIM.<sup>2</sup> Western was itself emphatic on this point, observing that “violation of environmental constraints is prohibited by law, and Western therefore cannot participate in the EIM if there is the *possibility* of such a violation.”<sup>3</sup> Second,

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<sup>1</sup> “Report on the WECC Energy Imbalance Market Implementation Cost Analysis, Western Area Power Administration (April 5, 2012) (“Western EIM Report”).

<sup>2</sup> As noted in the Western EIM Report, “it is likely only a limited amount of capacity on many of the Federal projects would be available for offer into the EIM.” Western EIM Report at 2. The April 5 Report goes on to add that “Western will very likely schedule its Federal hydro generation capacity on a Self-dispatched basis as needed to fulfill Western’s contractual and statutory commitments” and that there are only likely to be “certain times” when “there may be *minor amounts of generation capacity* in excess of such commitments.” Report at 6. Even then, sale into the EIM would not be a given. Western would have to decide whether to “sell such capacity on a bilateral basis” or “make it available for deployment by the Market Operator into the EIM,” a decision that would necessarily be made in a way that would “avoid adverse rate impacts to Western’s statutory customers.” *Id.* at 6. (emphasis added)

<sup>3</sup> *Id.* at 6 (emphasis added).

Western's client agencies, the Army Corps of Engineers and the Bureau of Reclamation, must, but have not agreed to participate in an EIM and, in fact, have previously expressed concern about such participation.<sup>4</sup> Third, and related, is Western's observation that, as a result, its role in EIM markets would only be to facilitate participation by its customers with excess capacity.<sup>5</sup> Also as to this latter point, Western indicated that its actions would be influenced by the desire of its customers.<sup>6</sup> Accordingly, the notion that Western has chosen to participate in an EIM is misguided.

Finally, Section 7.2.2.2 of the Report recommends that Western improve its collaboration with other owners and operators of the grid but fails to acknowledge the good work that Western has been performing in this area. Western has a safe harbor Open Access Transmission Tariff and conducts its transmission planning processes in accordance with the Federal Energy Regulatory Commission's (FERC) Order 890 and the FERC's nine planning principles. Western is currently engaged in extensive FERC Order 1000 compliance efforts within its footprint to establish regional and interregional transmission planning and cost allocation processes. Western is actively supporting the FERC Order 1000 activities within WestConnect. WestConnect is conducting outreach meetings with its neighboring regions, Columbia Grid, the California Independent System Operator Corporation, and the Northern Tier Transmission Group to discuss interregional issues.

In light of the above, SMUD requests that before taking further action, Western initiate a robust and open dialogue with its customers to determine where efficiencies may be gained and whether any potential possibilities for partnership exist. Such a process would be consistent with the long and successful history of collaboration between Western and its customers that have resulted in creative, regional energy solutions and significant contributions towards environmental stewardship.

## B. Specific Comments

### ***Optimize Participation in External Organizations (Section 4.4)***

The study references consolidation of participation in various regional forums across Western's various regions as a way to more efficiently represent Western's interests.

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<sup>4</sup> Western put the problem this way in its April 5, 2012 Report:

The Army Corps of Engineers (Corps) and Bureau of Reclamation (BOR) must agree to the participation of the Federal hydro resources in the EIM before Western could become a Market Participant. The EIM Team assumed such agreement would be forthcoming, but this is considered to be a high risk assumption insofar as the EIM Team was unable to coordinate its analysis with the generating agencies given the time constraint, and as the agencies have in the past expressed concern regarding potentially increased mechanical wear on certain hydro unit components (primarily, the wicket gates) arising from an increased frequency of unit dispatch variations. *Id.* at 4.

<sup>5</sup> *Id.* at 2.

<sup>6</sup> "The EIM Team assumed that Western's statutory customers will fully support its participation in the EIM. Like the preceding assumption, this is not an assured outcome given the relatively few customers that have expressed support for Western's participation in the EIM." Western EIM Report at 5. As Western added at page 14 of its report, it could not participate in an EIM over preference customer objections without a "high probability" that its "relationships with customers would be jeopardized."

While this may appear to achieve staff resource efficiencies, SMUD believes that Western should give serious consideration to maintaining a presence for each of its regions. Western's ability to participate and shape policy in the WECC could be greatly enhanced if Western participated at the WECC level as 3 separate BAs and 4 separate TOPs giving it a much larger voice than how it currently participates as one single Western entity.

***Request WECC to Assume Path Operator Responsibilities (Sections 2.1.1/8.2.1.2)***

The Report proposes that Western petition the WECC Reliability Coordinator to assume Path Operator responsibilities. There perhaps exists some confusion with the differences in responsibilities of the RC in WECC as compared to an RC in the Eastern interconnection. In WECC, an RC only has the authority to order actions that it is authorized to take in emergencies, or to manage impending reliability problems. The WECC RC has no resources under its direct control except certain phase shifting transformers it operates at the request of Qualified Path owners. Furthermore, the WECC RC is hardly structured for Path Operator responsibilities in that WECC is not a registered Transmission Operator (TOP), which is the functional entity to which TOP-007-WECC-1 applies. For that reason, SMUD does not view this suggestion as feasible, and as such approaching WECC in this regard would be fruitless.

With respect to the centralization of transmission operations referenced in Section 8.1.1 of the Report, SMUD believes that consolidation of transmission planning activities may be able to take advantage of combining similar functions but would likely lead to less effective local planning for each of the Western operation centers. In particular, it may become more difficult for a single planning organization to effectively comply with the nuances of any local NERC reliability standards and generator interconnection requests without having the technical expertise and understanding of the local issues. On a regional basis, Western is already represented within an existing subregional planning group, WestConnect. Based on the ongoing reforms resulting from implementation of FERC Order 1000, the formation of a Western subregional planning group may add unnecessary complexity.

***WASN to Become the BA/Operator and SMUD to Become the Sub-BA (Section 8.2.7)***

To clarify the record, the "SMUD" BA no longer exists and has been replaced by the Balancing Authority of Northern California ("BANC"). The Report proposes as an option for consideration that Western, Sierra Nevada Region, become the BA Operator. It seems that the primary benefit articulated for this proposal is that if the OATT rates of all transmission owners within BANC were collapsed into a single rate applicable across BANC, then rate pancaking could be avoided. It is not clear to SMUD why it would be necessary to shift BA operator responsibilities from BANC to WASN (Western Area Power Administration, Sierra Nevada Region) in order to establish a single OATT rate. Additionally, SMUD is not aware of any situation in which entities have faced pancaking of rates within BANC. The pancaking that entities usually articulate is on having to pay WASN the CVP transmission rates associated with delivery of CVP Base Resource

through the WASN system to the interconnection point with the California Independent System Operation (CAISO), and then also having to pay the transmission rates charged by the CAISO for delivery of the CVP power to load.

***WASN Sub-Balancing Authority Become a Sub-Balancing Authority of WALC or WACM (Section 8.4.5)***

The report correctly assumes that this would not likely be feasible and would/should have a low priority.

Thank you for the opportunity to provide feedback on the Report. We look forward to working collaboratively with Western to explore ways to achieve greater operational efficiencies for the benefit of Western and its Customers.

Sincerely,



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