



Chris Nelson, Chair
Kristie Fiegen, Vice Chair
Gary Hanson,
Commissioner

South Dakota

**PUBLIC UTILITIES
COMMISSION**

500 East Capitol Avenue
Pierre, South Dakota 57501-5070
www.puc.sd.gov

Capitol Office
(605) 773-3201
1-866-757-6031 fax

Grain Warehouse
(605) 773-5280
(605) 773-3225 fax

Consumer Hotline
1-800-332-1782

July 31, 2012

Western Area Power Administration
JOT@wapa.gov

RE: Comments of South Dakota Public Utilities Commission on Defining the Future

The South Dakota Public Utilities Commission (“SDPUC”) is a three-member elected regulatory body created by SDCL 49-1-8 and statutorily charged with the duty to regulate electric and natural gas utility rates, charges, and service in South Dakota. The SDPUC is a “State Commission” as defined in 18 CFR 1.101(k). The SDPUC offers these comments out of concern for the potential effects that the Defining the Future initiative undertaken by Western Area Power Administration (“WAPA”) in response to Secretary Chu’s March 16, 2012, Memo to Power Marketing Administrations (PMAs) could have on WAPA’s customers in our state, the continued availability of federal hydropower to them at cost-based rates, and the maintenance and improvement of the reliability and cost-effectiveness of the WAPA Integrated System.

South Dakota is a state with large areas of sparse population where the provision of electric transmission and distribution service is expensive. The low cost federal hydropower supplied by WAPA over the past many decades has been extremely important in helping to mitigate these costs and keep the electric rates of our rural, municipal, and public facilities affordable. WAPA has historically done an excellent job addressing these needs. SDPUC wishes to strongly recommend that neither WAPA nor DOE engage in policies or measures to promote secondary policy agendas at the risk of jeopardizing or adding nonessential expense to the primary and critical objective of providing low cost federal power to this area whose lands were inundated to provide the generation.

We do not mean to suggest that evaluation of systems and policies should never be undertaken or that cost-beneficial, reliability enhancing improvements, that do no harm should not be implemented after sound study that involves thorough stakeholder input and that demonstrates sufficient cost-benefit gain and an appropriate cost allocation regime to warrant action. For example, SDPUC shares the concerns about negative seams effects, inter-system constraints, and the need to stay current on system reliability, evaluation, and investment. However, we also believe that these matters are best handled at the PMA or even sub-PMA regional level where there are long term relationships among the interested parties and familiarity and expertise developed over many years of the characteristics, needs, and institutions unique to the area. The WAPA Upper Great Plains Region (“UGPR”) is such an organization, and it has been actively, thoroughly, and carefully involved in many, if not most, of the issues under discussion here concerning reliability, interconnectivity, and needed investment.

With respect to energy efficiency and demand response, SDPUC believes that such issues are best dealt with - in fact must be dealt with - at the distribution level. The utility regulatory commissions and self-regulating utilities in the area have been committed to implementing such programs for some time and have made significant progress. The Touchstone Energy cooperatives, for example, here in South Dakota, have pursued a vigorous program of demand response and energy efficiency for many years with truly outstanding results. We would even characterize their program as a model for the nation. To interject WAPA into this in a top down fashion and distract WAPA from its core mission of power supply and system management, at least in the UGPR, is not only not warranted but has real potential for undermining the innovation and results we have observed at the retail distribution level.

The SD PUC believes that in systems as complex and interdependent as the Eastern and Western Interconnections, it is important to get it right – both to ensure that investments achieve the maximum bang for the buck and also to ensure that the secondary consequences of such investments, including reliability, operational, and cost effects, both direct and indirect, are thoroughly vetted. In the case of large-scale renewable energy inputs from resources such as wind generation, secondary effects such as system regulation and ancillary service demands can take on a different scale of significance than are presented by legacy resources. These are best understood and dealt with at the regional balancing authority level, not in Washington.

The SD PUC also urges careful consideration of cost allocation, including the identification of, and responsibility for, indirect costs of initiatives and projects, such as those on existing users of the Integrated System. We urge WAPA and DOE to be mindful that implementing an aggressive renewable energy policy poses challenges distinct from the narrowly focused and largely incremental improvements dictated by the traditional generation and transmission system, such as resolving a nodal constraint. We urge WAPA and DOE to give careful consideration to these issues after allowing for input from affected state commissions, utilities, and regional transmission organizations and planning entities.

WAPA's territory covers a diversity of geographic and demographic areas, each with its own set of issues regarding the need for, and consequences of, transmission improvements. The region includes some of the most heavily populated areas in the nation, several of the wealthiest communities in the nation, and large tracts of sparse population and resulting lengthy transmission spans in areas such as the Dakotas. Decisions are best made at the level where decision-makers understand the territory they are dealing with.

We share the concerns expressed by WAPA customers with WAPA's pursuit of programs, and creation of rate structures to incentivize, energy efficiency programs, demand response, integration of variable resources, and preparation for electric vehicle deployment. These programs have the potential to divert WAPA from its mission to generate and transmit electricity at cost based rates. Our rural and municipal utilities depend on WAPA to be a consistent low cost provider.

WAPA should review the need for capital improvements and take measures to ensure reliability. We also agree that WAPA should continue the process it's been on for some time of evaluating appropriate measures to address seams issues and eliminate or mitigate transmission

rate pancaking. These matters are consistent with its core mission. WAPA should not, however, be diverted from its primary, statutory, and critical purpose of delivering hydropower to its customers at cost based rates. The addition of programs and rate structures that change that mission should not be implemented.

In keeping with the above stated concerns and observations, we propose that those evaluating WAPA's programs address the following questions:

1. Given the success of our hydropower electric generation/ marketing entities such as WAPA which have not been a drain on the federal budget and which have been a positive economic force for our part of the world, why would any changes be made that could jeopardize this continuing success?

2. What should WAPA UGPR customers expect in return if test-bed projects are to be experimented on and paid for by UGPR customers? Will there be a positive cost benefit requirement and assurance that such costs will be borne by all electricity users of all utilities that receive the benefits and not imposed on those that don't?

3. How would "aging infrastructure" be identified, and what metrics would be used when determining what type of technological change should be made when replacing it? Would the replacement facilities be something other than what would be done by a prudent utility?

4. The facility financing currently in place has been working well. What financing changes are you specifically asking for, why are you suggesting such changes, and what will be the effect on those who pay the electricity rates?

5. What is the financing model currently in use that resembles what you are recommending? Can you point to its success?

6. How would this financing method shift control over capital addition decisions from the WAPA UGPR to the DOE or Congress? How could injection of a political process affect both rates and service quality?

7. What is the DOE's goal with regard to construction of new transmission lines which may not serve the core load of the WAPA region at issue?

8. Is the DOE expecting WAPA UGPR customers to pay for new transmission facilities whose primary benefit in the UGPR area will be to serve as a market conduit for renewable generation developers out of the UGPR?

9. What type of UGPR-specific cost/benefit metric would be used before any such construction was undertaken?

10. What would be the metric for allocating any such costs to those who would consume the energy?

11. Has the DOE taken an inventory of both existing and planned UGPR rates, rate design, energy efficiency programs, and demand response programs?

12. Has this inventory been compared to the above programs currently approved in the states where the UGPR operates, and is the benchmark envisioned by the DOE one of DOE's crafting?

13. Has the DOE considered differences among the states with regard to overall load, peak load, load characteristics, and the nature of the market being served?

14. Have any DOE studies included goals and standards for EPA-categorized pollutants and a specific carbon cost when determining benefit/cost?

15. If so, how do those costs compare with currently effective standards, and what is the DOE-implied carbon cost?

16. What are the metrics of any DOE determined cost and modeling which incorporate the cost of deployment of electric vehicles? How do these metrics compare to those being used by other entities as a baseline estimate? If there is a difference, what effect does that difference have on the DOE outcomes vs. outcomes of those other entities?

17. Has the DOE estimated any benefits forthcoming from collaboration with other owners and operators of the grid? Has the DOE completed any modeling which could underlie this determination of benefit? If so, has this modeling been shared and substantiated by any entity outside of DOE?

18. What, if any, broad and obvious benefit would this collaboration promise customers of the UGPR, and how would this benefit be measured?

19. Considering that the various RTOs have significant differences among each other, would DOE develop a standard "best practices" RTO form if PMAs were forced to collaborate with RTOs? Would current FERC seams resolution processes govern, or would the RTOs govern the relationship in all cases?

We thank WAPA and the DOE for this opportunity to comment, and we again urge careful, thoughtful, and objective evaluation of any proposed action.

Sincerely,



Chris Nelson
Commissioner



Kristie Fiegen
Commissioner



Gary Hanson
Commissioner