

Observations based on Secretary of Energy's Letter of March 16

After 23 years with Western Area Power Administration I have the following historical observations and suggestions.

Western Area Power Administration is the steward of federal resources. They were charged with the transmission and marketing of energy from the various Projects under Reclamation Law when the Department of Energy was established. Under Reclamation Law the Projects were enabled by Congress for specific goals in the enabling legislation. These various projects are then funded in separate legislation for Operations and Maintenance, Replacements and Additions. I have been advised that the structure of many, not all, of Western's projects were established without revolving funds and discretionary funding because of Customer concerns for runaway expenses that they would have to repay in rates. In the past this has been under control of the Customers due to the operation of their congressional delegations. Western would establish ten year plans for replacement and addition to keep the transmission systems reliable in conjunction with the Customers and their input. These requirements would be sent to DOE and the Office of Management and Budget and be automatically disapproved. Two issues seemed to be either misunderstood by OMB or just plain ignored: funds submitted through OMB and approved in the administration budget would be repaid with interest, and without these requested funds the systems would become obsolete and unreliable in the Grid. In any event this was not a real problem because the congressional delegation would enter these items in the budget as "earmarks" based on Customer lobby. When "earmarks" became a dirty word, this process was no longer possible. It didn't change the OMB attitude and Treasury has always been delighted to get repayment of the principle and interest via rates and repayments.

Within Western's stewardship are many Projects. I think the number is 24 to 27. In Desert Southwest Region, there were seven Projects. Each Project had its own recovery of cost methods that were carefully not loaded across to other Projects. The various Customer groups monitored this aspect very carefully. Common facilities and activities were carefully allocated with Customer input and careful consideration of their concerns.

It may seem that the Customers do not want to support replacements and additions capitalization. This is not the case and has been demonstrated in many cases for prepayment to enable upgrades, and support in Congress over the years. Western's Customers are professional power organizations that understand that facilities need to be kept reliable and upgraded to be viable in the Grid. What they do object to is unnecessary bureaucratic projects that have not considered their concerns; and borrowings that produce large lumps of repayment. They also object to additions to Projects that are outside the enabling legislation of Reclamation Law to accomplish goals outside those of the enabling legislation. It would appear that they do not object to Western adding Projects that are self-repaid and do not add responsibilities to their Projects. If the Secretary of Energy wishes to develop added Projects to fulfill the goals of the Administration these are possible.

Two items need attention:

- a. There needs to be a funding mechanism to replace the OMB NO, Earmarks Yes funding. Customer input is essential to this method to assure that their concerns are not ignored by bureaucrats who do not understand where the repayment is coming from.
- b. New initiatives need to be able to be self-funded for repayment and have a means to keep the Project viable. Racing out to build transmission to achieve national goals is commendable; however, the existing Projects have repayment obligations that should not be impacted by these new initiatives. Western is steward of many independent Projects, one or more new independent Project are possible, keeping the existing Customers whole.

Western has a great mission and has fulfilled that mission for a very long time. The aspects of using federal hydropower for service to Preference Customers to enable small municipals to serve their cities, tribes to serve their members, and Agriculture interests to serve the entire country with cheaper food and fiber is a noble endeavor. Adding Projects to enable renewable energy is also a noble goal; however it must be separate and separately repaid.

As to Section 1222 of the Energy Policy Act of 2005; I think that Western / DOE need to analyze why a transmission company, a preference Customer, or traditional utility would want to use this process. I can think of only two reasons: Use of Westerns condemnation authority for the Right of Way, and use of Western's existing Rights of Way for a commercial capacity upgrade and use. Perhaps there are others. My concern for the second reason is that Western would assure that it retained the existing capacity rights and assured that, if in future, Western needed to again upgrade it could do so and obtain transmission rights above their original rating. Retention of rights only is not enough. Retention of control of the replacement line and any further upgrades assures that the Right of Way is not permanently lost as a resource.

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