

Comments of Arizona Electric Power Cooperative, Inc. and Southwest Transmission Cooperative, Inc.

Arizona Electric Power Cooperative (“AEPCO”) and Southwest Transmission Cooperative (“SWTC”), thank the Department of Energy (“DOE” or “Department”) and the Western Area Power Administration (“Western for the opportunity to present comments on Secretary Chu’s initiative first introduced in a memorandum to the Administrators of the Power Marketing Administrations (“PMAs”) on March 16th. AEPCO, along with SWTC, has a long history of working with Western to serve more than 147,000 electric meters in Arizona, California and New Mexico through six Class A member distribution cooperatives.

As one of 68 electric Generation and Transmission cooperatives in the nation, AEPCO owns and operates Apache Generating Station near Cochise, east of Benson. The plant has a combined gross generating capacity of 605 megawatts. AEPCO also purchases power, including resources marketed by Western, to meet member energy needs. SWTC is the transmission affiliate of AEPCO and operates and maintains more than 620 miles of transmission line and 26 substations reaching out from AEPCO’s Apache Generating Station, across Arizona to the northwestern corner of the state. SWTC also operates more than 30 telecommunications towers used for phone and data relay services by SWTC, as well as member cooperatives and customers. AEPCO and SWTC operate within the Balancing Authority Area of Western’s Desert Southwest Region (“DSR”).

AEPCO and SWTC note the effort that Western and DOE personnel have devoted to listening to stakeholders and engaging in a process to ascertain potential improvements that Western could pursue to improve operations. However, even with the process that has been implemented, there are fundamental concerns with the overall initiative. As explained in further detail below, AEPCO and SWTC note following flaws in the process and rationales supporting this effort.

1. The process has been flawed from the outset by a goals driven agenda that lacks customers’ input;

2. The Secretary's effort has been driven by goals that may not be within the Department's or Western's statutory authority;
3. Experience with centralized dispatch among Western's regions to date has not yielded promised benefits; and
4. DOE has not accounted for the eventual and true costs of the proposed activities and/or "improvements" suggesting only a passing allegiance to cost-based rates.
5. The failure to understand the impact of the "foundational goals" set forth in the March 16th Memorandum to the PMA administrators suggests an inequitable burden for Arizonans in rural areas to shoulder.

Restart Needed

The Secretary's March 16th Memorandum sets forth several goals without any discussion on due process or indication that preference customers had been consulted. This led to customer concerns that DOE had not identified what real problems and opportunities exist. Instead, preference customers were left with a lingering impression that pre-determined conclusions originating in Washington, D.C., have directed a process that will yield outcomes that have little or no bearing to the real improvements that are needed within Western's system.

While the stakeholder workshops and listening sessions were intended to elicit ideas and concepts for a report to the Secretary, the orientation of this effort has been flawed. Rather than consulting with Western's preference and transmission customers *at the outset*, the process has been geared to reacting to a set of ideas that were hatched without regard to whether all stakeholders would benefit from their implementation.

The remedy for this structural and foundational flaw in the process would be for Western and DOE to re-start this process and poll stakeholders for changes that Western could pursue that would provide real benefits. The Department lost the opportunity to learn what improvements would actually benefit customers when it floated ideas and concepts that have little bearing on preference customer's operations. For example, the need to educate Western and DOE of the folly of electric vehicle deployment in large rural areas came at the expense of a discussion on activities that Western could pursue to avoid incurring additional costs.

A restart should commence with several fundamental principles to ensure focus and productive outcomes:

1. Any deliberations should focus on improvements that Western can make to lower costs without cost shifting;
2. Recommendations should be provided by Committees comprised of stakeholders with day to day operational understandings of Western's transmission system; and
3. Participation by Western and DOE should come from appropriated dollars instead of ratepayer funds.

As we have tracked the effort to date and the process, we have noted that there has been an implication that Western's preference customers will pay more. While the Secretary has sought to assure members of Congress that Western will adhere to the obligation to charge cost based rates, the additional costs appear to be large, and there has been no discussion or debate on proposals that would *lower* the costs for existing preference customers. In truth, as a longstanding preference customer, it is hard to accept the idea that we should pay more for the same resource and service with no appreciable benefit to us.

With the suggested re-start noted above, there is an opportunity for the DOE to engage in a real and transparent estimate of a cost/benefit. However, this process would require improvement over the past efforts we have seen. Indeed, there is deep suspicion that the various cost/benefit analyses to support the creation of an Energy Imbalance Market ("EIM") have been revised and re-directed to support an outcome that is neither needed nor desired by preference customers in the DSR. Going forward, any cost/benefit analyses Commissioned by the Secretary should have the required granularity and the cost bandwidth that will allow for an honest and forthright discussion on whether the benefit justifies moving forward with EIM.

Statutory Authorities Limit the Secretary's Initiative

The March 16th Memorandum that set forth the Secretary's goals for the PMAs, contained an important foundational constraint that must be adhered as Western moves forward in this process. Notably, the Secretary observed that "the PMAs have the tools to take a leadership role in transforming our Nation's electric

sector, *to the extent allowable under their enabling statutes.*¹ This acknowledgement and directive on page one of the Secretary's memorandum must serve as a firm guideline for the preparation of any recommendations. Indeed, Western, as an administrative agency created by Congress, cannot exceed the authority granted by Congress.

As Western considers the limits imposed by its organic statutes, AEPCO and SWTC encourage further examination of the statutory limitations that govern the operations of the Generating Agencies² that provide the electric capacity and energy marketed by Western. Indeed, the March 16th Memorandum suggests several objectives that may or may not be able to be implemented because of statutory restrictions placed on the Generating Agencies. However, throughout the process to date, the Generating Agencies have been absent from the discussions on the Secretary's overall initiative. Any efforts to move forward must involve the Generating Agencies and afford due consideration of the Generating Agencies' statutory and regulatory constraints.

The March 16th Memorandum states that the Department and Western expect additional costs as part of this initiative. As noted on page four, the Secretary observes "I recognize that the current economic environment is creating pressure on many of the PMAs' customers. Capital improvements, therefore, must be staged to ensure the costs are appropriately managed." This statement, along with a commitment by the Secretary to "cost-based rates" falls short of the Congressional mandate to develop rates that are the "lowest possible consistent with sound business principles."³ In fact, case law applicable to the PMAs has held that a PMA Administrator does not have unfettered discretion to incur "costs" and must abide by statutory strictures.

Operations Consolidation Merits Improvement

The March 16th Memorandum promotes the goal of centralized dispatch for Western. Although not noted in the March 16th memorandum, Western has already implemented one phase of the Operations Consolidation Implementation between

¹ March 16th Memorandum at p. 1. (emphasis added)

² The generating agencies are the Bureau of Reclamation ("Bureau") and the U.S. Army Corps of Engineers ("Corps"), referred to collectively in these comments as the Generating Agencies.

³ Flood Control Act, § 5, 16 U.S.C. § 825s (2012)

DSR and WACM located in Loveland, Colorado. As we consider our experience with Western's effort to centralize dispatch, we cannot envision what benefits the Department has calculated in connection with this effort. As we have seen, the move to consolidate operations has deprived customers in the DSR of a presence of local management who are able to account for and respond to operational needs. In other words, we have seen deterioration in service associated with centralized dispatch instead of improved efficiencies.

As a case in point, we have seen on not too infrequent occasions instances where the loss of a Navajo unit has comprised our operations and ability to manage schedules. What we have seen is that centralized operations have not enhanced the ability for Western to address Navajo operational issues in a timely fashion. Rather, in our experience we have seen first-hand how centralized operations have frustrated needed communications. Moreover, with an inability to address operational challenges at the Navajo Generating Station, Western continues to create imbalance liabilities for the Bureau which will ultimately flow through to the power and water customers.⁴

The real world example of centralized dispatch and associated penalties stands in stark contrast to the theoretical benefits that appear to be emerging from Washington, D.C. If we have seen such a diminished experience with centralized dispatch, we can only imagine the perils and pitfalls of instituting an Energy Imbalance Market ("EIM") with its promise of theoretical savings. Indeed, with Western's struggles with centralized dispatch, the implementation of an EIM, even if legal, should be seriously questioned.

DOE Needs to Affirm Congress' Support for Rural Communities

Western, and the enabling laws that set forth its mission, was intended to provide service decades ago for the small, rural, public power communities to provide electrical service to their customers. Although there are some public power entities that are no longer small and/or rural, many electric customers served by AEPCO's members are acutely focused on affordability and keeping the lights on.

⁴ As noted above, this process should involve consideration of the legal authorities governing the generating agencies. The real-world example noted here also underscores the need for consultation on a practical and operational basis as well.

Having Western devote scarce resources to all these studies and national grid efforts do nothing for affordability and helping us to locally keep the lights on. As the attention grows to a national level and grand strategies, we are already seeing the attention to our rural communities and our issues of affordability and keeping the lights on locally impacted in a negative manner.

Western provides services to many small, rural, public power entities that are crucial for the economics of providing electrical service to our customers. The benefits for more national programs inevitably push costs without benefits on to such entities. These small, rural, public power entities will be faced with affordability choices in taking Western's services, and such choices may make any calculated cost/benefit analyses suspect or less than anticipated.

The leadership that the Secretary needs to show with the PMAs is a commitment to rates that are the "lowest possible rates to consumers consistent with sound business principles." A promise of "cost based" rates misses the fact that many communities served by preference customers are still dealing with the aftermath of an economic downturn that has been persistent. Many communities are still hurting and the prospect of paying more for electricity, even if caused by more "costs", presents an undesirable future.

Throughout the process to date, U.S. competitiveness has been invoked as the rationale for moving forward with the Secretary's foundational goals. As the provider of power to the very communities who will be asked to shoulder the costs of the Secretary's objectives, we do not agree with this premise. We cannot boost our local economies by asking electric ratepayers to pay more for the commodity of electricity. Moreover, even if Western adheres to the long held principle of "beneficiary pays" we have seen no assurances through the process to date that preference customers would escape the burden of the costs of the Secretary's foundational goals.

If the Department and the Secretary are truly committed to U.S. competitiveness, we would challenge the Secretary to re-orient this entire process to identify ways in which Western can *lower* costs for preference customers. The opportunity is truly available for DOE, working with Western, to identify areas in which costs for preference customers can be lowed, providing a true stimulus to local economies that have labored with the economic downturn over the past several years. We would support the Secretary's leadership in this area would work closely with Western to implement any such proposals that would provide this benefit.

Please let us know if you have any questions regarding the comments presented above.

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