

December 17, 2012

Joint Outreach Team  
Department of Energy  
Western Area Power Administration

*Via email* at JOT@WAPA.gov

Dear Joint Outreach Team,

Thank you very much for offering us the opportunity to submit written questions to the Joint Outreach Team (JOT) seeking clarification about the Draft Recommendations. We greatly appreciate the opportunity to submit these questions and hope that this Q&A process will permit us and others interested in the JOT effort to submit more focused comments on the Draft Recommendations.

The attached consolidates questions developed by NRECA, APPA, and some of our members. As we reviewed the Draft Recommendations, we were concerned that the broad descriptions of some of the Draft Recommendations left open the possibility that Western could move forward without the cooperative processes that are important to the preference customers, could take actions that exceed Western's statutory authorities, or could impose undue costs on preference customers. These questions seek clarifications of the Draft Proposals that would allay many of our concerns and those of the preference customers.

Following your December 6 offer to submit questions, we drafted the attached questions as quickly as possible to give the JOT time to post responses early enough for us to take those answers into account in our comments on the Draft Recommendations. Ideally, we hope to hear back from you by January 8<sup>th</sup>. That would offer us ample time to draft thoughtful and helpful comments that reflect the JOT's clarifications. We understand, however, that we have submitted a large number of questions and that the holiday season is here. Accordingly, we respectfully request that if you cannot answer these questions by January 11<sup>th</sup>, that you extend the comment deadline until 10 days after the answers to the questions are posted on the JOT website.

Thank you again for the opportunity to submit questions. We appreciate your efforts to reach out to us and the preference customer community and would like to work cooperatively with you moving forward. Please do not hesitate to contact me if you have any questions or if there is anything I can do for you.

Yours,

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**Questions of the National Rural Electric Cooperative Association for Clarification of the December 2012 Draft Recommendations from the Joint Outreach Team**

- 1) For each Recommendation, please clarify whether Western intends to use an open and transparent bottom-up process for further defining and implementing the proposal in a manner that offers Western's preference customers with ample opportunities to substantively weigh in from the beginning of the process, including the assumptions and models underlying any studies.
- 2) **Recommendation 1** proposes to undertake an analysis to determine the regulation reserve capacity that is required for each of Western's BAs or sub-BAs using a consistent methodology and criteria.
  - a) Please clarify that as used here, what is "required" is that which is required to meet its statutory obligations to deliver federal hydropower to preference customers.
  - b) Please clarify that any other perceived needs (as opposed to "requirements" as defined above) will be separately calculated to permit Western to separately allocate the costs of regulation service to different customers according to the principle of cost-causation as permitted by FERC's VERs Order.
  - c) Is the reference to all dispatchable generation sources limited to federal hydroelectric generation assets and the Navajo generating station? If not, is this analysis intended to cover all generation resources from which Western procures purchased power and/or ancillary services?
- 3) **Recommendation 2** proposes to consolidate Western's four OASIS sites within the Western Interconnection into a single OASIS site.
  - a) Please clarify that the consolidation of Western's OASIS sites into one is an administrative cost-savings move and not intended to homogenize or standardize the rates, terms and conditions of service provided thereunder.
- 4) **Recommendation 3** proposes to revise the LGIP.
  - a) Please identify which sections of the LGIA on file with the FERC that would be changed based on changes outlined in the JOT report.
- 5) **Recommendation 4** proposes to conduct a study of the transmission and ancillary services rates charged by each Western-owned transmission project and to determine the feasibility and the appropriate level of potential consolidation of transmission rates from the bottom-up.
  - a) Please clarify the ancillary services to be included in this study, noting which ancillary services are used in support of generation and which ancillary services are provided by Western for transmission service. Further clarification would be beneficial to determine if the proposed study of pancaked rates will identify and isolate Balancing Area responsibilities.
  - b) Please clarify that Western does not intend to consolidate rates where inconsistent with statutory requirements that costs incurred in certain sub-regions be recovered in those sub-regions.
  - c) Please clarify that Western would not propose to consolidate rates where such consolidation would result in cost shifting inconsistent with the cost-causation principle.
  - d) Please clarify that Western is open to considering other options for reducing rate pancaking besides rate consolidation.
  - e) Please clarify that Western would not anticipate moving forward with rate consolidation if consolidation benefits third-party generators at the expense of preference customers.

- f) Please clarify whether Western anticipates moving forward with rate consolidation if consolidation benefits one group of preference customers at the expense of other preference customers.
- 6) **Recommendation 5** proposes to initiate a collaborative process to identify the best rate-setting methodologies currently in use by one or more of Western’s regions and, to the extent possible, to explore the potential to harmonize transmission and ancillary service rate setting methodologies across Western. It also proposes to investigate offering additional ancillary services.
- a) Please clarify how this study will differ from the proposed study identified on Page 12.
  - b) Please clarify that this process is intended to determine the best rate setting “methodologies” as opposed to mandating a single rate through this process.
  - c) Please clarify that “best” in this context means:
    - i) ensuring that costs are borne by those who cause Western to incur the costs;
    - ii) ensuring that Western is able to deliver federal hydropower to preference customers at the lowest cost consistent with good business practices;
    - iii) recognizing the unique attributes of Western’s regions; and
    - iv) recognizing the operational requirements of the Federal Generating Agencies.
  - d) Please clarify that Western would not adopt a common rate setting methodology or new services if they would result in cost shifting inconsistent with the cost-causation principle.
  - e) Please clarify that Western would not anticipate moving forward with use of a common rate setting methodology or adoption of new services if those changes benefited third-party generators at the expense of preference customers.
  - f) Please clarify whether Western anticipates moving forward with use of a common rate setting methodology or adoption of new services if those changes benefited one group of preference customers at the expense of other preference customers.
- 7) **Recommendation 6** proposes to evaluate the EPAMP IRP guidelines and processes, to conduct customer outreach to identify opportunities for training and to implement a quality control program.
- a) Please clarify that Western intends to implement this proposed recommendation in a manner that is consistent with the proposal’s statement that “the JOT decided not to pursue any recommendations specifically targeted at energy efficiency, demand response or electric vehicles” and explain how it intends to achieve that goal.
  - b) Please clarify that Western would not anticipate moving forward with changes to the EPAMP if the costs preference customers will experience as a result of the quality control program will exceed the benefits seen by those preference customers.
  - c) Please define the term “existing allocation methodologies” and clarify which resources are the subject of this study.
  - d) Please clarify how existing allocation methodologies provide disincentives for efficiency and conservation programs.
- 8) **Recommendation 7** proposes to perform a Western-wide infrastructure investment study that would determine the state of Western’s infrastructure and the commercial value of transmission paths over which Western transacts business to ensure continued reliability on the system and to maximize return on investment, etc.

- a) In light of the proposal’s focus on the “commercial value” of its transmission facilities, please clarify how Western could implement the proposal consistently with Western’ statutory obligations, including its obligation to market federal hydropower to preference customers at the lowest cost consistent with good business practice. In particular, please clarify how, given that “commercial value” only makes sense as a concept when a product can be marketed freely, Western can assign “commercial value” to a transmission path when that path is not available to the market because it is dedicated to serving preference customers pursuant to existing statutory and contractual obligations?
  - b) Please clarify that “commercial value” does not mean value to third parties interested in using Western’s system for their own commercial purposes.
  - c) Please clarify how the study will evaluate “commercial value” where the “commercial interests” and legal interests of the preference customers in receiving preference power at low cost conflict with the “commercial interests” of third parties seeking to export power out of or through Western’s system.
  - d) Please clarify that when the proposal refers to “needed projects” Western means “needed” by Western to meet its statutory obligation to provide low cost power to preference customers.
  - e) Please clarify that if the results of the study will be used to help allocate costs for facilities that provide “commercial value” to third parties those costs will be allocated solely to those third parties.
  - f) Where the “commercial value” of investments for third parties is distinct from or inconsistent with the statutory obligation of Western to market federal power to preference customers at the lowest cost consistent with good business practice, please clarify how an understanding of “the relative commercial values of Western’s existing transmission paths” will be used in prioritizing resources.
  - g) Please clarify how the investment study will fulfill responsibilities under FERC Order NO. 1000.
- 9) **Recommendation 8** proposes to conduct a study across Western’s DSW, CRSP, and RMR service areas to identify combined transmission system opportunities.
- a) Please clarify the preliminary evidence of need relied upon by the JOT for making this recommendation.
  - b) Please clarify whether the JOT has considered what legal authority Western has to perform the study, or what legal obligation Western has to expend resources on the study and provide citation to that legal authority if so.
- 10) **Recommendation 9** proposes to conduct a study to explore potential options for moving to a flow-based environment in Western’s footprint in the Western Interconnection and away from a contract-path environment.
- a) Please clarify the basis for Western’s belief that implementation of intra-hour scheduling will drive the use of locational-marginal pricing algorithms or be inconsistent with contract-based scheduling system.
  - b) Please define the metric that will be used to determine if an outcome is “cost effective” and the baseline for any such measurements.
  - c) With reference to “cost shifting,” please identify stakeholder groups that have been identified and are contemplated in this statement.

- d) Please clarify what is meant by “emerging market mechanisms.”
  - e) Please clarify that if the study demonstrates that the move from contract-based transmission service to flow-based service causes preference customers to bear additional costs or risks that the proposal will be abandoned.
    - i) In the alternative, has the JOT considered Western’s legal authority to implement flow-based transmission service if the study demonstrates that the move from contract-based transmission service to flow-based service causes preference customers to bear additional costs or risks? If so, please provide citation to that authority.
  - f) Please clarify whether Western believes that a flow-based system will lead inevitably to a locational-marginal price system.
    - i) Please clarify that Western would take no further action on this proposal if the study demonstrates that the move from contract-based transmission service to an LMP-based system causes preference customers to bear additional costs or risks.
      - (1) In the alternative, has the JOT considered Western’s legal authority to implement flow-based transmission service if the study demonstrates that the move from contract-based transmission service to an LMP-based system causes preference customers to bear additional costs or risks? If so, please provide citation to that authority.
- 11) **Recommendation 10** proposes to study the feasibility of transitioning the EPTC to NREL.
- a) Please clarify that the study will evaluate whether it is economic to maintain the EPTC.
- 12) **Recommendation 13** proposes to undertake a study to evaluate the benefits and costs to Western of participating in either regional or sub-regional initiatives investigating energy imbalance markets.
- a) Please clarify whether the study is of an EIM or of the value of participating in the study of an EIM.
  - b) Please clarify how the study proposed on page 24 differs from the study proposed on page 23. Is the evaluation of an EIM contingent on the results of the study proposed on page 23?
  - c) Please clarify that the proposal reflects Western’s interest in participating in broader regional studies of market options, such as those that have been conducted by WECC and PUC-EIM and the studies now being conducted sub-regionally within WECC, and does not reflect the intention to conduct an additional, duplicative, stand-alone study.
  - d) Please clarify that when the proposal speaks about maximizing “benefits” and ensuring that “benefits” exceed costs, that it means benefits to preference customers.
    - i) Please clarify that if a study demonstrates that the market provides net “societal” benefits but imposes net costs on preference customers the proposal would be dropped, consistent with Western’s statutory obligation to market federal power to preference customers at the lowest possible cost consistent with good business practices.
    - ii) Please clarify that if a study demonstrates that the market would provide increased capability to integrate variable resources into the Western BAs but imposes net costs on preference customers, the proposal would be dropped, consistent with Western’s statutory obligation to market federal power to preference customers at the lowest possible cost consistent with good business practices.

- e) Please clarify whether the JOT has considered what legal authority Western and the federal generating agencies have to participate in economic redispatch of federal hydropower facilities, and if so, please provide citation to such authority.
- f) Please clarify the basis for Western's belief that the West or sub-regions of the West could establish an EIM without that leading, or creating the risk that it will lead to formation of an RTO or broader energy markets or increased FERC authority over Western.
- g) The paragraph explaining the justification for the study indicates a "full evaluation is required to determine if the specific proposal is in the best interest of Western customers, tribes, and stakeholders and to identify alternatives that can improve an energy imbalance market." Please identify the "specific proposal" referenced in the preceding statement, including any status regarding development, execution and/or implementation.
- h) The proposal states that "[b]enefits must exceed costs." Please identify the metric that will be used for this evaluation, the baseline for comparisons and the specific definition of benefits as delineated by the intended class of beneficiary, i.e., customer, tribes, non-preference transmission customer.