

TRI-STATE GENERATION AND TRANSMISSION ASSOCIATION, INC.

Comments on
DOE / WAPA Joint Outreach Team: Defining the Future
Draft Recommendations
January 22, 2013

Tri-State Generation and Transmission Association, Inc. (Tri-State) thanks the Western Area Power Administration (WAPA) and the Department of Energy (DOE) for the opportunity to comment and reflect upon the Joint Outreach Team's Defining the Future Draft Recommendations in response to Secretary Chu's March 16, 2012 memorandum.

Tri-State's mission is to provide reliable, cost-based wholesale electricity to its forty-four not-for-profit distribution cooperative and public power district member systems. It is a not-for-profit wholesale electric generation and transmission cooperative based in Colorado whose members serve over six hundred thousand predominately rural consumers over 200,000 square miles of territory in Colorado, Wyoming, Nebraska and New Mexico.

Tri-State has reviewed the fourteen Recommendations which cover three general topic areas, Increasing Operational Efficiencies; Transmission Products and Services Opportunities; and, Variable Energy Integration which generally reflect activities occurring throughout the Western Interconnection in which most of WAPA's wholesale power customers operate.

Tri-State appreciates and supports the set of principles used by the Joint Outreach Team (JOT) in formulating its Recommendations since they are important to maintaining the existing successful partnership between WAPA and its preference customers.

Much as WAPA developed five guiding principles in the identification of its recommendations, Tri-State believes there are additional crucial principles which WAPA needs to seriously consider to further refine its Recommendation, efforts and future direction.

- Ensure its statutory obligation of delivering hydropower generated at federal facilities is continued; societal needs are not a statutory obligation. It is critical to the customers that the financial and personnel resources required to work on these recommendations will not diminish nor constrain the investment required to support WAPA's statutory obligations and to maintain the existing transmission system required for the delivery of federal hydropower.
- Include the customers in the implementation of the recommendations based upon peer reviewed cost / benefit analyses in which they will have participated. It is critical that WAPA partner with its customers in the prioritization, study and cost / benefit analysis of each of these recommendations. The JOT recommendations that show benefits can then be incorporate into WAPA's strategic plan and/or work plans for implementation.
- Realize the recommendations are based upon current DOE and FERC direction and therefore should be considered as a snapshot in time and may need to be adjusted as the industry changes. It is important that any recommendations build on work that is or will be on-going within the WAPA organization and the Western Interconnection (Order 764, ADI, RBC, DSS, EIM, etc) so as to not duplicate efforts. The transmission system has many owners and operators and has subregional, regional and interconnection wide aspects that must be factored into any recommendation.

Secretary Chu's March 16, 2012 memorandum (the Memo) to the power marketing administrations (PMAs) was the act which prompted this process and in which a top down approach was used in advising the PMAs as to what they were to do. This approach alienated most of the PMAs preference customers who in the past have had a very cooperative relationship with WAPA.

The outreach effort embarked upon between DOE and WAPA (the Team) provided an opportunity for the preference customers to comment on the Memo and to voice their dissatisfaction and concerns but did little to build a relationship of trust. The Team has expanded its outreach and met with customers to explain intent, direction, process and progress. However, it will take considerable additional effort to rebuild the trust and productive working relationship that existed before the top-down process initiated by the Memo.

Most of the Recommendations refer to "customers, stakeholders and tribes". Tri-State believes that the federal preference customers, who are paying all the costs of the Federal generating and transmitting agencies, should be afforded a different standard of engagement in this process than "stakeholders" especially since WAPA has not defined "stakeholder". WAPA should clarify that "customers" in these comments should be construed to refer to "federal preference customers".

WAPA's "Core mission", even though referenced is never stated. As published on WAPA's website "Our core mission remains marketing and delivering clean, renewable, reliable, cost based federal hydro power to our firm electric service customers (*preference customers*) emphasis added. This should be clearly stated at the beginning of the report; if WAPA plans on changing its core mission, it should be reflected as a recommendation in this report. It is unclear to us that maintaining WAPA's core mission is at the heart of the Recommendations, as opposed to "societal needs" however that may be defined.

We do appreciate the JOT removing initiatives which were clearly in the purview and responsibility of retail load-serving utilities, but there continues to be the potential for WAPA to undertake activities which the preference customers believe are inappropriate and may be outside the authorities granted WAPA by Congress such as "incorporate policies and industry trends in long-term strategic planning contexts that ensure long-term viability and relevance and contribute to strengthening America's energy security, environmental quality, and economic viability". This is not part of WAPA's core mission.

Comments on the Recommendations

Tri-State offers the following comments on the identified Recommendations.

- Undertake an analysis to determine the regulation reserve capability that is required for each of WAPA's BAs or sub-BAs using a consistent methodology and criteria. (Page 8) WAPA customers should have the ability to participate in the studies, review the input and output and comment prior to finalization. Since the Recommendation specifically refers to "potentially support the integration of additional variable energy resources", will the study include ensuring the costs of regulation service provided to different customers according to the principle of cost-causation? Should the cost of these services for non-preference customers be cost based or market based? Under normal circumstances, reserves and regulation are determined by the WECC and NERC which already have a methodology. Is it the intent to depart from that methodology? Will reserve sharing groups be part of the discussions, studies and recommendations?
- Conduct a study of the transmission and ancillary services rates charged by each WAPA-owned transmission project. Determine the feasibility and the appropriate level of potential consolidation of transmission rates from the bottom up, i.e. intra-regionally, inter-regionally or Western-wide. (Page 12) Key principle words are "varied authorizing legislation", "legally possible", "cost causation", "no cross subsidies" and "beneficiary / user pays". It will be difficult

to arrive at a positive business case and meet these principles. The Recommendation implies that “more efficient use of available transmission capacity” could result. How much available transmission capacity that is not committed to providing firm electric service actually exists? This recommendation clearly requires further discussion with WAPA’s preference customers and finally, should these tariff rates for transmission and ancillary services be the same for preference customers versus “other customers”? Is this linked to flow based transmission?

- Initiate a collaborative process with WAPA regional offices, customers, tribes and stakeholders to identify the best rate-setting methodologies currently in use by one or more of WAPA’s regions. To the extent possible, explore the potential to **harmonize** transmission and ancillary service rate setting methodologies across WAPA. (Page 14) This Recommendation appears linked to the previous recommendation. Harmonizing does not mean the rates have to be the same; they just need to follow the same process to calculate the rates; again the statements “where allowed under law” and “the costs of providing the service go to the customers actually using the service” are key. What existing or new resources would provide these “additional services”?
- WAPA should evaluate its customer Energy Planning and Management Program (EPAMP) IRP guidelines and processes to ensure WAPA-wide uniformity of administration and to conduct customer outreach to identify opportunities for training on the planning process (description curtailed). (Page 15) The first portion of this Recommendation is understandable and can be implemented with minimal time and expense. If the program is in compliance with EAct ’92, there is no reason to change it. WAPA should survey its existing customers to ask whether they have a need for training prior to assuming there is a need. WAPA should ensure that whatever they do does not create such a strict framework such that entities which have to file IRP’s with their State regulatory bodies don’t have to have a secondary process for WAPA. Any changes to the implementation of the Energy Planning and Management Program (EPAM) must occur through a formal public process and any references to allocation methodologies should be removed from the Recommendation.
- Page 16: Perform a WAPA-wide infrastructure investment study (IIS). (Page 16) Determination of the “commercial value” of WAPA’s assets is inappropriate unless WAPA is planning to sell those assets. WAPA is a cost based agency and commercial value should have no impact on WAPA’s decision making or rate making for its customers. WAPA should continue to participate in the intra and inter-regional transmission planning processes as it does today. What type of a model is envisioned or needed in this Recommendation or is it the use of a consultant? Performing such a study could be construed as a first step toward market-based rates. Unless WAPA creates a single transmission system with a single rate, the idea of prioritizing and allocating construction dollars based on a WAPA wide valuation will not work. It will result in rate inequities as one project might be assigned more costs than necessary. Under this Recommendation WAPA has the opportunity to think outside the box by considering a process in collaboration with its customers to determine who should build new facilities to enhance the transmission grid. WAPA does not need to spend significant amounts of money to upgrade its facilities unless it is needed to meet its statutory obligations. Capacity additions required for load growth should be paid for by the entities responsible for meeting that load growth and facilities required to connect new generation to the grid, should be paid for by the generator.
- Conduct a study to explore potential options for moving to a flow-based environment in WAPA’s footprint in the WAPA Interconnection and away from a contract-path environment. (page 19) Considering the number and multiple terms of existing transmission contracts, it would be imprudent to try and move to a flow base across WAPA’s footprint at one time. All entities would need to be considered not just WAPA. If this were to move forward, it definitely needs discussions, development of a plan, years to carry out the plan and the support of the customers and the other utilities in the regions / West. This does not actually change how the system currently operates but it will shift who has ATC available for sale and will have an economic

impact with winners and losers. The last paragraph is intriguing from the standpoint that if it's not a contract path, they may no longer maintain or provide service over that path. Imagine how confusing that will be for small entities. The second paragraph of the "why" section is basically an argument to form an RTO. This recommendation should be removed as it is way beyond WAPA's role or sole capability to implement.

- Study the feasibility of transitioning the Electric Power Training Center (EPTC) to the National Renewable Energy Laboratory's (NREL) Energy Systems Integration Facility (ESIF) in Golden, CO. (Page 20) We support the Recommendation to study this option but it is unclear any savings would be gained. It is important to ensure all the functions and training provided under the present arrangement are included in any analysis. The EPTC does not only train WAPA operators, but also operators for the generating agencies. In addition, as part of a study would it be more beneficial to partner with WECC who is also trying to recover its investment in training and has the existing trained staff to perform the training? If the purpose of the transfer is to train operators on the integration of renewables, WECC may be more qualified to provide this service.
- Western BAs and sub-BAs in WECC's footprint should evaluate the benefits and costs of Ace Diversity Interchange (ADI), Reliability Based Control (RBC) and Dynamic Scheduling System (DSS) and if appropriate, proceed with implementation. The control systems may need to be modified to accept the programming requirements needed to implement any of the initiatives. (Page 23) WAPA has not investigated the impact of the RBC field trials on its interconnected neighboring utilities or on those within its own BA. That has to be done prior to moving on to any next step which would further confound the results of the RBC analysis. There is much dissatisfaction with the curtailments associated with RBC and the economic impacts are being felt by many entities as purchases and sales are forgone. Lastly, any analysis conducted relating to RBC need to take into consideration reliability impacts not just economic impacts. Until such time as there is sufficient experience to identify the costs and benefits, this Recommendation should be placed on hold. Under any condition, no studies should commence prior to the implementation of Order 764 and costs / benefits from that can be identified and understood.
- Undertake a study to evaluate the benefits and costs to Western and its customers, tribes and stakeholders in participating in either regional or sub-regional initiatives investigating energy imbalance markets. The study should identify methods that enable Western's impacted parties to maximize the physical benefits of sub-hourly generation scheduling and inter-BA coordination. (Page 24) This Recommendation should not be evaluated until such time as ADI, RBC and DSS field trials are terminated, assessments completed and reports finalized to determine the pros and cons of these efforts and how they can, without harm, be successfully implemented to integrate renewable resources into the Western grid. In addition, no studies should be commenced until such time as the Northwest Power Pool completes its work and a conclusionary report is disseminated or prior to the implementation of Order 764. Substantial amounts of monies have been expended by various groups, including the WECC membership and the PUC EIM which was funded through DOE grant monies with questionable outcomes due to the study inputs. Hence, the preference customers should not have to bear these costs again. WAPA should consider engaging with utilities on a regional basis, such as RMR or DSW, to determine interest since it appears EIM will likely be a regional effort.
- Page 26: Establish a position within WAPA's Renewable Resource Program office to be a Renewable Energy Liaison for facilitating renewable energy interconnection to WAPA's transmission system for Native American tribes and other customers and stakeholders. WAPA already provides outreach and assistance to its tribal customers; specific webinars are scheduled for February, March and April. An assessment should be conducted after the webinars to determine whether sufficient knowledge transfer is occurring as a result of the webinars prior to making a determination on whether a position is truly necessary or the webinars should be

modified. We also would suggest that DOE's EERE office may be the appropriate entity to develop databases of RPSs and renewable energy zone studies.

We encourage the Team to view our comments from a long-term preference customer who has had a good relationship with WAPA and is organizationally similar to WAPA. As a WAPA customer and partner, Tri-State is willing and able to participate and contribute to WAPA's efforts in the research and study of the Recommendations and in the implementation of those that are of benefit to WAPA and its preference customers.

As many commenters in this process have remarked, the federal projects were authorized under separate and distinct authorities, their rates established to cover specific costs; it may be the case that "one size doesn't fit all" with regard to some of the Recommendations. WAPA should work with its customers on a project and regional basis, as appropriate to ensure that cost shifts and/or subsidies between or among projects do not occur; we would be curious as to how that can be accomplished with only one transmission rate.

Prioritization

Tri-State found it impractical to prioritize the JOT Recommendations. A substantial amount of analysis needs to be accomplished and the industry is in flux with important unanswered questions on RBC and EIM, the implementation of Orders 1000 and 764 and the ongoing work related to the bifurcation of WECC. Some of the JOT's Recommendations may require attention sooner rather than later and some may never be implemented. Therefore, we think it is absolutely necessary for WAPA to meet with its preference customers to have a clear understanding of what is important to them and what can be accomplished within WAPA's manpower and financial resources to ensure its core mission is achieved.

The Future

A significant amount of time and expense on the part of all WAPA customers continues to be incurred in an effort to have meaningful participation in this process. However, the JOT report does not address how this project moves into the future. We understand a final report will be prepared and sent to Secretary Chu and will also be published in the federal register. We anticipate this report will have recommendations on how to proceed.

We do believe additional terms need clarification such as Stakeholders; tribes are preference customers the same as we are and will want to participate in the same manner we do. Meetings and discussions with one or the other group should be held in common rather than separately; there should be no need for segregation.

We would appreciate WAPA letting their customers who have participated in this process know when the report is published.

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Thank you.