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SENT VIA E-MAIL: JOT@wapa.gov

Arizona Electric Power Cooperative, Inc. (AEPCO) and Southwest Transmission Cooperative, Inc. (SWTC) provide the following comments on the recommendations of the Joint Operating Team (JOT) released last November. Since the release of Secretary Chu's memorandum last spring, AEPCO and SWTC have monitored and participated in the efforts to "Define the Future." Representatives of AEPCO and SWTC have participated in workshops, attended listening sessions, followed webinars, and reviewed the recommendations of the JOT.

AEPCO and SWTC have signed the joint document developed by the National Rural Electric Cooperative Association (NRECA) and American Public Power Association (APPA) on the legal considerations that must honored as the Department of Energy (DOE) and the Western Area Power Administration (Western) consider further action under the proposed recommendations. In addition, AEPCO and SWTC support and agree in general with the comments raised by NRECA, APPA, and the Colorado River Energy Distributors Association (CREDA). The multitude of questions and concerns that have been raised about the intentions and process of the endeavor commenced by Secretary Chu's March 16 memorandum should give sufficient pause to halt this effort and restart the initiative.

Strategic Goals and Purpose Must be Identified

Throughout this entire process, AEPCO and SWTC representatives have endeavored to identify the real goals of this effort. While we can detect various objectives, it remains difficult to ascertain how all of the proposed activities fit within a strategy. In fact, there appears to be no clear stated defined end point for all of the activity that has emanated from the Secretary's March 16 Memorandum. This has been a fatal flaw for the entire "Defining the Future" initiative since the outset. The JOT recommendations appear to perpetuate the pattern of activity without a defined or desired result.

As set forth below, the entire process should be revisited with clearly articulated objectives. Moreover, the goals of this process need to develop organically from Western's primary constituency, the preference customers. In other words, the JOT and Western need to stop and first consult with the preference customers on what is needed from their perspective to ensure the delivery of power generated by the U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation (Bureau).

If Western and the JOT first consult with the preference customers on what is needed to improve reliability and lower costs, a priority will emerge for the various recommendations. Indeed, this remains one of the most vexing concerns with the JOT's draft recommendations; many of the proposed actions appear to overlap with no identifiable purpose other than to conduct a study.

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While there may be some value in conducting a study to determine options, an open ended inquiry serves little purpose unless there is an identified end goal, or purpose.

From the perspective of AEPCO and SWTC, we see two fundamental objectives that should help set a priority for the projects. First, Western must identify the steps that it must take to remain in regulatory compliance. Second, to meet the Secretary's objective of promoting competitiveness, DOE and Western should examine what steps can be taken to lower the costs for the PMA customers. If DOE starts with these two fundamental purposes, a prioritization of efforts will emerge that provides direction to this effort in a manner that will likely engender more support and less skepticism from preference customers.

Regulatory Compliance

If DOE and Western establish as an end goal regulatory compliance, certain of the JOT recommendations will emerge as clear priorities. In particular, the JOT and Western should identify what steps Western needs to take to ensure that it complies with North American Electric Reliability Corporation (NERC) reliability standards and applicable Federal Energy Regulatory Commission (FERC) requirements. In the list of recommendations that have been advanced, there appear to be only three to four suggestions that merit immediate attention to ensure the appropriate level of regulatory compliance. These recommendations include:

- FERC Order No. 764 compliance;
- Evaluating the amount of regulation reserve for balancing area performance;
- Consolidation of Open Access Transmission Tariff OASIS sites; and
- Revision of Large Generator Interconnection Procedures.

With the potential for issues to be raised with regard to Western's reciprocity with other transmission owners and operators, compliance with Order No. 764 should be a top priority for continued delivery of preference power. If there are reliability issues associated with the amount of balancing area reserves, this issue should also be considered a top priority. While related to regulatory objectives, the remaining two issues appear less pressing for purposes of regulatory compliance. Each should be assigned a lower priority, unless an immediate regulatory compliance related concern has been raised.

Lowering Costs

The objective of lowering costs should be DOE and Western's next priority. There are several recommendations that could fit into this category and thus pursued as priorities if Western starts from the premise that a study is intended to lower costs for preference customers. However, as currently recited in the JOT recommendations, there are only two suggested courses of study where the clearly intended outcome is lowering costs. These suggestions include:

- Conducting a study across Western's DSW, CRSP, and RMR service areas to identify combined transmission system opportunities; and
- Evaluating the benefits and costs of ADI, RBC, and DSS.

These proposals stand out not only for the fact that the recommendations allude to the fact that they are intended to lower costs, but they are also quite specific in the steps to take. Moreover, they have a clearly identified purpose, i.e. reducing costs, that the preference customers can support.

Having noted these two recommendations, however, AEPCO and SWTC does note that two of the recommendations could merit further follow up if properly revised and oriented towards lowering costs. These options include:

- Studying transmission and ancillary service rates charged by each Western-owned transmission project.
- Studying the harmonization of rates – as an action apart and separate from studying transmission and ancillary service rates.

However, to be clear, neither of these recommendations above should be pursued as currently structured. With Western adhering to cost based rate making standards employed by the Power Marketing Administrations, the proposed course of study implies a cost increase for the customers. Indeed, the idea of promoting "cost consistency" is a thinly veiled disguise for shifting costs. Therefore, while DOE may desire to pursue some aspect of rate evaluation, it cannot be seen as a priority if there is no purpose associated with this endeavor that benefits existing preference customers.

While there is potential for the rate studies to be revised with a purpose that will assist customers, the following recommendations appear to contradict the goal of lowering rates for preference customers. As such, they cannot be considered priorities. These recommendations include:

- Moving to a flow based environment in the Western interconnection; and
- Studying an energy imbalance market.

In the JOT's report, both of these recommendations soft peddle the impact to existing preference customers yet acknowledge cost shifting with the implementation of each. With the studies performed to date, the cost shifting has not favored preference customers. While AEPCO and SWTC do not per se object to Western's participation in ongoing studies, the actions of Western need to be circumscribed by legal authorities and an underlying obligation to maintain cost based rates for preference customers. As stated in the JOT's report, there are no assurances that either of these requirements would be met. As such, these two recommendations in particular are the lowest priorities AEPCO and SWTC encourage the JOT to pursue at this time.

Budget Considerations Must Be Acknowledged

While the recommendations discussed above provide the primary focus, there are additional recommendations set forth that appear to provide no immediate cost savings or regulatory compliance benefit. These options include:

- Improving administration of the Integrated Resource Planning (IRP) program;
- Performing a Western-wide infrastructure investment study;

- Studying the feasibility of transitioning the Electric Power Training Center to the National Renewable Energy Laboratory; and
- Establishing a Renewable Energy Liaison to assist Native American tribes.

Each of the proposed actions above implicates expenditures from Western's budget at a time when federal funding is shrinking and not growing. While these proposals may reflect laudable policy initiatives, AEPCO and SWTC believe that some prioritization must be placed on these options in order to place some limitation on the spending that is likely to ensue from the JOT recommendations.

The lack of discussion on the budgetary implications of the overall effort to "Define the Future" raises significant concerns in Southeast Arizona. In adding up all of the studies and plans outlined in the JOT report, it is clear that Western will undergo a significant expansion in staff and operations. The additional responsibilities and activities will undoubtedly raise Western's rates that preference customers.

While we will acknowledge that there is the possibility that Western would receive no additional funding for the various studies and expanded mission contemplated by the JOT recommendations, this potential outcome contemplates Western staff performing additional responsibilities. In other words, the JOT recommendations suggest either an overworked Western staff or increased costs to accommodate the work load that the Secretary's directive will usher in.

What is missing from the JOT recommendations are the corresponding reductions in programs or mission to accommodate new studies or initiatives. If the Secretary wants to move forward with any of the proposals, there should be some identification of funding outside of the Western budget that will allow Western to continue to serve its customers without raising rates to cover the costs of the studies or initiatives. Indeed, this has been a concern since the Secretary issued his memorandum last March; who is paying the expenses to explore and pursue the programmatic changes envisioned by the Secretary. As this process moves to the next stage, this question still needs to be addressed and answered.

Conclusion

The JOT recommendations appear to reveal objectives founded in theories on what may be best practices for the electrical utility industry. In reviewing these concepts, we are reminded that the electric utility industry operates differently throughout the U.S. In fact, it operates differently within Western's various marketing footprints. The regional differences between the Western marketing regions need to be respected and cost based rate principles must be preserved.

We encourage the DOE, Western, and the JOT to re-examine this overall effort with an eye towards developing practical goals of ensuring regulatory compliance and lowering rates. A streamlined effort will yield the greatest benefit to Western's primary constituency, the preference customers, without overburdening the Western budget or its staff. We remain interested in participating in further discussions and welcome any questions regarding these comments.

Sincerely,

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