

To: Western Area Power Administration/Department of Energy Joint Outreach Team

From: Thomas J. Heller, CEO, Missouri River Energy Services, theller@mrenergy.com

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RE: **Comments on Draft Recommendations of Joint Outreach Team (JOT).**

Thank you for the opportunity to provide comments on the JOTs recommendations on the “Defining the Future” initiative.

Missouri River Energy Services (MRES) is a member-owned, not for profit joint action agency that provides electric energy and services to 61 communities that own and operate electric systems in the states of Iowa, Minnesota, North Dakota, and South Dakota. Fifty-nine of 61 Missouri River Energy Services members are firm power supply customers of the Upper Great Plains Region (UGPR) of Western Area Power Administration (Western). Each of these communities receives a hydro power allocation at a contract rate of delivery (CROD) from UGPR. Any needs in excess of the UGPR allocation are supplied by MRES. In aggregate, these municipalities represent over 20 percent of UGPR firm allocations.

GENERAL OBSERVATIONS

Before commenting on the specific Joint Outreach Team recommendations, MRES would like to make some general observations on the development of and the resulting draft recommendations.

According to the narrative of draft recommendations, the JOT gathered information from Western’s customers, tribes, and stakeholders through a public outreach process and then used the information generated from the public process in developing the draft recommendations. The JOT developed a set of principles that were used to help guide the development of the recommendations. The “guiding principles” outlined include:

- consider the unique attributes of Western’s regions,
- coordinate with Federal generating agencies,
- ensure the beneficiary pays,
- consider the existing efforts within Western;
- ensure that Western stays within the limits of its authority.

Method of Developing Recommendations

The JOT recommendations do not reflect the majority of the views expressed during the JOT outreach process. MRES staff attended two of the six public outreach meetings and consulted with others attending the remaining meetings. A vast majority of the comments during these sessions indicated that Western, through its interactions with its customers, were doing a great job addressing industry issues,

some well in advance of the investor-owned counterparts, and little if no changes were deemed necessary. What changes were needed are either being addressed regionally as told by the many customers at the JOT workshops or could be addressed by the regional working groups. Upon reviewing the formal comments on the JOT workshops posted on Western's website, MRES fails to see how one could conclude differently.¹

Evidently, the fact of just mentioning a particular issue received as much credit as the sum of all of commenters who expressed concurrence for a particular position. That is the only way one could reasonably infer such an outcome. Such a methodology discredits the time and effort preference customers invested in the public process. If a representative from the preference customer community was part of the JOT, the recommendations would be much different.

Lack of Congruence between Guiding Principles and Recommendations

MRES commends the JOT on the "guiding principles" but somehow these guiding principles were lost during the process. We believe that many of these principles are in conflict with most recommendations. For example, one of the guiding principles outlines consideration of the unique attributes of each of the Western regions when, at least, eight of the fourteen recommendations suggests studying, centralizing, or consolidating operations, rates, etc. Several of the recommendations strongly indicate that they may go beyond statutory authority. Shouldn't have that been determined prior to making recommendations? The 'beneficiary pay' principle is a fundamental principle and must not be forgotten as the recommendations move towards the study stage.

Duplication in Planning

Most of the recommendations originate from other study work performed or Western's very own Strategic Plan. At least three of the recommendations were simply alternatives outlined by Miracorp's study report on Western's Operations of which, unfortunately, did not go through a traditional public input process.² Many other recommendations are either outlined in Western's Strategic Plan as an objective or, part and parcel, of an objective.³ Western is already addressing or plans to address many of these issues. Some of the recommendations are centralizing efforts that should be dealt with regionally. As an organization representing the interests of a large group of preference customers, MRES views the JOT's work in drafting recommendations as not only as a waste of the ultimate consumers financial resources but has taken Western staff time from Western's core mission.

RECOMMENDATIONS THAT ARE OF SUBSTANTIAL CONCERN TO MRES:

- 1) JOT Recommendation: Determine the required regulation reserve capacity for each balancing authority.

Determining the optimum regulation reserve capacity is commendable; however, MRES questions the integrity and direction of such study work. MRES believes the sole reason for the recommendation to study is not how to manage existing resources more reliably to support current balancing authority requirements but to determine how much of the existing resources should be used to integrate additional variable renewable resources. MRES anticipates that such a study may

¹ <http://ww2.wapa.gov/sites/western/about/Pages/JOTcomments.aspx>

² See Sections 7 and 8 of Western Area Power Administration Operations Study Report performed by Miracorp: <http://ww2.wapa.gov/sites/western/Documents/OperationsStudyReport.pdf>

³ <http://ww2.wapa.gov/sites/Western/about/Pages/DOEWesternobjectives.aspx>

conclude that there may be excess hydro capacity that could be used to integrate variable renewable resources. In accordance with Western's Marketing Plan, these resources are reserved for preference customers and not to independently integrate variable renewable resources. To the extent these resources are used to benefit non-preference entities, preference customers will eventually be required to bear the burden of higher preference power costs due to the use of these resources for non-core purposes.

2) JOT Recommendations: Study Western's Transmission and Ancillary Services Rates to identify potential opportunities for consolidation And Evaluate Western's rate setting methodologies.

Each region in Western is unique. Each region operates in a different environment and under different statutory authority. Miracorp correctly points this out in the Executive Summary of the Operations Study:

*"As the executor of marketing the generation from the Federal Hydro Projects, Western is governed by many pieces of legislation relative to marketing and delivering federal power, even as it may be specific to just one project. In addition, Western is operator of a large, loosely-connected network of transmission. Western is governed by many pieces of legislation relative to marketing and delivering federal power and is the operator of a large, loosely connected network of transmission."*⁴

The reason Western has multiple transmission tariffs and related ancillary services rates are due to how each region originated. Each of the independent power projects are authorized separately. Consolidating or centralizing rates is a dramatic shift in the operations of Western and will require some region(s) to pay for the transmission investment and services of others. Is the development of a Western-wide, postage stamp rate for such services permissible under current law? Even if it is, it would be a massive administrative undertaking for questionable benefits. Cost/benefit analysis should be conducted before implementation.

In addition to the statutory limitations noted above, there are physical limitations on what can be physically accomplished. If this study is undertaken, MRES believes that it should be on an interconnection basis. Mainly, there is a limited ability to transfer power between the eastern and western interconnections due to limited AC/DC/AC capability.

3) JOT Recommendations under Variable Energy Integration

A common theme of nine of the fourteen recommendations is the focus on integrating variable energy resources. This is in conflict with the mission of Western. Western's primary mission, as established by Congress, is to market and deliver Federal hydropower to statutorily qualifying entities at the lowest possible rates consistent with sound business principles.

One of the recommendations identified evaluating the benefits and costs in participating in regional or sub-regional energy imbalance markets. The decision on participating in an energy imbalance market (EIM) is a very complex issue and requires much study and consultation. This is not just a Western issue within the western interconnection or the eastern interconnection. It is equally an issue with all utilities interconnected to Western. Each Western region needs the flexibility to

⁴ Page 10 of <http://ww2.wapa.gov/sites/western/Documents/OperationsStudyReport.pdf>

conduct region-specific cost/benefit analysis of operating within or out of an EIM. UGPR along with other utilities in that region are currently studying a move similar to an EIM by studying entry into a Regional Transmission Organization. Only through the results of a thorough cost-benefit analysis and an open dialogue with the region's customers can each of the Western regions make the best informed decision. Such an entry should not be dictated by administrative order by a governmental body far-removed from that region. Let the market forces determine if there is value for each specific Western region and the associated customers to enter into a market.

4) *JOT Recommendation: Perform a Western-wide infrastructure investment study (IIS).*

The stated goal of this study is to determine the state of Western's infrastructure, the commercial value of transmission paths, and prioritize grid capital investment identified in Western's 10 year transmission plan. The state of the infrastructure and, not only a plan, but a priority to replace that infrastructure already exists in UGPR. MRES views this exercise simply as centralizing priorities Western-wide instead of regionally.

This study's focus is on the commercial value of transmission instead of making sure federal hydro resources are capable of being able to be delivered to preference load, Western's primary mission. Broadening the scope beyond other regions with a focus on commercial value prioritizes interconnecting new projects instead of providing reliable service to preference customers regionally.

MRES Recommendations

Upon Department of Energy's (DOE) review of the final JOT recommendations, MRES asks the JOT recommendations be turned over to Western to address with its customers without specific DOE directives to implement.

Secondly, prior to any of the JOT recommendations being pursued or studied by Western, MRES suggests the following steps and the outcomes discussed with the customers:

- 1) Determine if each recommendation is within the statutory authority to implement any study outcomes, if not, remove the recommendation.
- 2) Estimate the cost to complete the study for each recommendation.
- 3) Determine who is going to pay to study each recommendation.
- 4) Estimate the amount of Western staff time required to study each recommendation.