

**Comments of the  
Northern California Power Agency  
On the  
Draft Recommendations  
From the  
Joint Outreach Team  
January, 22<sup>nd</sup>, 2013**

**Overview**

Western's statutory obligation is to market and deliver federally generated hydropower to preference customers at cost-based rates consistent with sound business practices. In some cases, Western has limited, additional responsibilities – either specifically assigned by statute or general responsibilities applicable to all utilities operating within the bulk electric system.

Since the inception of this effort with the release of the Secretary's March 16, 2012 memorandum, NCPA, other preference customers, and state and federal officials, have expressed concern that the recommendations contained within the initiative:

- exceed Western's legal authority,
- conflict with the agency's core mission,
- divert limited resources,
- risk imposing costs on preference customers contrary to the cost-causation principle, and
- fail to provide bottom-up problem identification and solutions and needed transparency.

We are pleased that the Draft Recommendations released in the November 20, 2012 Federal Register Notice exclude some of the most problematic elements contained in the Secretary's March 16, 2012 Memorandum. We are also pleased that the Draft Recommendations envision further study and consultation, and are not final action items. We remain concerned, however, about the legality, scope, purpose, cost and process of this effort. Both the introduction and many of the recommendations seem to suggest that Western should play an active role in the deployment, integration and delivery of non-federal renewable energy.

If correct, this is disconcerting in several respects. First, it suggests that Western has broader legal authority than we believe exists. Second, it suggests that Western has surplus energy, capacity and transmission – which NCPA does not believe exists in the Sierra Nevada Region (SNR) – to accomplish these objectives. Third, it appears to

ignore that these new activities could result in cost shifts from the benefiting parties to non-benefiting preference customers. Fourth, it appears to disregard the fact that Western has limited financial and human resources and that the delineated studies could divert these finite and precious resources away from other activities that are both higher value and more directly tied to Western's core mission.

With these overarching concerns in mind, we offer comments on the specific recommendations.

### **Required Regulation Reserve Capacity**

The JOT recommends an analysis to determine the regulation reserve capability that is required for each of Western's BAs or sub-BAs using a consistent methodology and criteria.

Several aspects of this recommendation are disturbing.

First, the study appears to be unnecessary. Each Balancing Authority already assesses regulation reserve capability. This is necessary as part of the BA (or sub-BAs) responsibility to meet WECC reliability standards.

Second, the purpose of the BA – and any study of regulation reserve capacity – is to reliability meet obligations to serve load. We are concerned that the study appears to suggest that (a) Western is sitting on or underutilizing substantial regulation reserve capacity, or (b) there is an alternative use of existing regulation reserve capacity that holds a higher commercial value. For SNR, there is not excess regulation reserve capacity: it is dedicated to the needs of Central Valley Project (CVP) preference customers. Moreover, NCPA asserts that the legal responsibility of Western (and, therefore, the use of any regulation reserve capacity) is to meet the operational and reliability needs of its preference customers.

### **OASIS Consolidation**

JOT recommends creation of a single OASIS site to ensure a uniform and integrated approach to posting Western's transmission information, products and services, as well as to ensure one common interpretation and implication of Western's OATT.

If the purpose is simply operational efficiency and streamlining of the user experience, then NCPA can support a single OASIS website – or central link – that posts each region's compliance requirements.

If, however, this recommendation is intended as a first step towards operational integration of Western's transmission assets, then NCPA is concerned and would note that (a) federal law requires the segregation of costs by project, and (b) SNR is not physically integrated with any other Western transmission system.

NCPA also urges JOT to include in any final recommendation on OASIS integration the process that will be employed to evaluate consolidation, the criteria that will be used in assessing any potential consolidation, and the process that will govern input from preference customers and other affected parties.

### **Rate Pancake**

JOT 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 appropriate level of potential transmission rate consolidation.

NCPA appreciates the reference in the recommendation to “feasibility.” Western transmission assets in the Sierra Nevada Region are not directly connected to any other Western transmission system. Therefore, there is no level of operational or rate consolidation that is feasible. Failure of the JOT draft recommendations to recognize this reality is disconcerting – and further raises suspicions that these recommendations are part of a larger policy mandate and not intended for improved operational efficiency or customer benefit.

We also note that, by law, each the costs for each Western project is segregated to ensure that project customers only bear repayment responsibility for facilities and programs that provide direct and discernable benefits. The consideration of rate integration is a potentially troubling assault on both the law and the principle of cost causation. Consequently, we suggest that the first step in any evaluation would be an analysis of the legal feasibility of integration in order to avoid any expenditures of financial or human resources on a potential dead-end.

NCPA also notes that Western must already file rates for transmission and ancillary services with the Federal Energy Regulatory Commission (FERC).

### **Rate-Setting Methodologies**

JOT proposes the harmonization of transmission and ancillary service rate setting methodologies across Western.

While we understand the attraction of identifying “best practices,” this appears to be another example of the procedural failure to acknowledge and respect the differences within Western regions. For instance, long-term contracts are already in place for SNR that stipulate rate setting methodologies.

Moreover, given the contractual commitment of CVP resources, there simply isn’t excess transmission and ancillary services available that would benefit from any adaptation of “best practices.”

Finally, it is important to reiterate our concern that the statutory segregation of costs by region be respected, as well as the long-standing principle of cost-causation in rate setting.

At a minimum, this recommendation and the prior recommendation on rate pancaking need to be combined.

### **EPAMP IRP Guidelines**

JOT recommends Western evaluate its customer Energy Planning and Management Program IRP guidelines to ensure Western-wide uniformity of administration and to conduct customer outreach to identify opportunities for training on the planning process.

NCPA recognizes the value in administrative uniformity, but is unaware of any inconsistencies in the administration of Western's EPMP.

Rather than tweaking EPMP, NCPA would encourage a broader reevaluation of the usefulness of the program. NCPA and its members face aggressive standards and targets for renewable energy and energy efficiency. EPMP and the IRP requirements do not encourage these investments. Rather, they simply serve as a duplicative reporting requirement. As such, Western should consider whether administrative efficiency could be enhanced by reducing the EPMP reporting requirements in certain circumstances.

NCPA appreciates the assurances in the JOT draft recommendations that issues of retail service and rate design are outside the scope of the report and Western's authorities.

### **Perform a Western-wide Infrastructure Investment Study**

NCPA recognizes that Western has limited financial resources and that prioritization of capital repairs, improvements and expansions can be beneficial. NCPA has seen great value in investment prioritization through working with Western and the Bureau of Reclamation through the customer operation and maintenance funding agreement.

NCPA takes issue with the supposition that Western transmission assets are underutilized. More significantly, NCPA is concerned that the recommendation focuses on the "commercial value" of Western transmission assets, suggesting a departure from the delivery of preference power as the first priority of Western's transmission assets. NCPA recognizes the financial and operational value of making unused transmission capacity available to third parties. However, there is an important distinction between making surplus transmission capacity available, and either reassigning capacity needed for delivery of federal hydropower or promoting Western investment in new transmission that is not needed to deliver federal hydropower. NCPA would oppose any departure from the laws, policies and procedures that currently govern the construction, operation and cost-allocation Western transmission assets.

### **Conduct a Study to Identify Combined Transmission System Opportunities**

This JOT recommendation applies to DSW, CRSP and RMR – and does not apply to the SNR. Nonetheless, we are troubled that the recommendation appears to run counter to both legal and operational limitations.

Under the relevant statutes, Western segregates costs by project, and rates are set to recover only those costs assignable to customers in a given region. NCPA finds it difficult to envision combining transmission system operations while keeping costs segregated by project. Moreover, the suggested combination appears to ignore the operational realities of the Western system. Regional differences in project operations, differing flow characteristics and limited interconnections between systems make combined operations challenging – and any study thereby of potentially minimal value.

### **Explore Potential Options for Moving to a Flow-Based Environment**

Under this recommendation, Western would conduct a study to evaluate efforts to move from a contract-path to a flow-based approach. NCPA appreciates that the recommendation acknowledges the need to minimize cost shifts, identify and assign costs, and that any outcome must be cost-effective.

This recommendation appears to presume that flow-based approaches are inherently “better.” NCPA believes that there are situations in which one approach will be better than another. Rather than embedding a presumptive superiority for flow-based systems, NCPA encourages a system that avoids predetermined outcomes and recognizes the diversity both between and within Western’s regions.

Moreover, it is also essential that any evaluation recognize existing contracts (that in many cases require a contract-path method).

### **Electric Power Training Center**

The JOT recommendation to transition the EPTC to the National Renewable Energy Laboratory should be revised to call for a full review of the potential transitioning of the EPTC to an appropriate agency. Rather than presuming a specific end-state, the review and resulting conclusions will be more meaningful if the full range of options is considered.

### **Intra-hour Scheduling**

The JOT recommendations call for Western to work with a broad range of interested parties to coordinate the implementation of intra-hour scheduling.

NCPA recognizes that Western will comply with FERC Order No. 764 on integration of variable energy resources (VER). Furthermore, NCPA is supportive of 15-minute scheduling. Considerable coordination is already underway within and between

balancing authorities in order to advance a smooth transition. It is important that this recommendation not create a duplicative or conflicting effort.

### **Evaluation of ADI, RBC and DSS**

This recommendation appropriately notes WECC's current evaluation of implementing all three initiatives. Given this current WECC undertaking, and the need for consistency between balancing authorities, NCPA sees no value in a separate or duplicative evaluation by Western.

### **Energy Imbalance Markets**

Considerable attention has been focused on implementation of an Energy Imbalance Market. This recommendation was among the most controversial topics raised in the Secretary's March 16 memorandum, and it continues to generate considerable concern and opposition.

Western customers are concerned that an EIM is intended to benefit variable resources and merchant generators – and that those third-party benefits will come at the expense of Western preference customers. Second, concerns have been raised that the potential financial benefits of implementation of an EIM are too small and speculative to justify the costs and risks.

For all of these reasons, NCPA believes that this is not exclusively a Western issue and that any evaluation cannot be conducted in a vacuum.