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ARIZONA POWER AUTHORITY

1810 W. Adams Street • Phoenix, AZ 85007-2697
(602) 368-4265 • FAX (602) 253-7970

DATE: January 22, 2013
TO: Ron Moulton
FROM: Mike Gazda
SUBJECT: APA Comments on JOT

The Arizona Power Authority (APA) is a body politic and corporate tasked by law with providing Hoover Power to customers in Arizona. Western Area Power Administration is integral to accomplishing this mission through its transmission system service.

GENERAL COMMENTS: As a customer of Western, we rely on the transmission facilities in the Desert Southwest to be both economical and reliable. If the cost of transmission rises too high, or if the reliability of the transmission is in question, customers will go elsewhere for these services. Attempts have already been made by CAWCD to get off of the Western Transmission system. If too much is spent on the facilities too quickly and the rate is significantly increased, customers will look elsewhere for service, thus escalating the rate even more for those remaining.

Western's biggest challenge in the Desert Southwest is to manage the replacement of approximately 600 miles of aging wood pole structures without spiraling costs out of control. Everything else is secondary to this challenge to balance reliability and costs. The **asset management** initiative can help in evaluating and prioritizing replacements. However, this effort is not new to the DSW and has already been applied with customer support. It surely has benefits to the other regions and should be pursued.

JOT Tasks: These are not tasks that are being pursued by the JOT. The tasks proposed by JOT are a long list of other ideas that may or may not have merit, with some already being pursued by Western ahead of this discussion. Western's study of merit should be based on cost and benefits

to existing federal preference customers and not societal benefits. We are concerned that Western remain focused on its core responsibilities and not engage in other actions which may result in significant rate increases. Some of these ideas could be pursued in the normal daily performance of duties to be more efficient in how business is performed, such as the **OASIS site consolidation**. So long as actions do not redistribute costs or funds between projects, then they should be evaluated on their merits and presented (with pros and cons) to each group affected. Western might include a potential savings dollar amount for the proposals, so that the proposals may be more thoroughly evaluated. Others, such as a Western-wide investment study, add little value. These efforts seem better focused on asset management.

A review of the **LGIP procedures** should be performed with an eye towards deference to preference customers. No preference customer should suffer additional costs or a reduction in reliable service or access to service because of a third party transaction that is not part of the statutory mission of Western. Following the recommendations from WestConnect makes sense and will hopefully prevent or discourage those who would try to game the system. Also, the **costs of ancillary and other services** have most likely been undervalued in the past and should be revaluated for the true costs and not minimized to improve marketability.

EPAMP IRP procedures could be simplified so as to extinguish the need for training and to allow smaller customers to self-provide this information without the need to hire a consultant.

The **consolidation of project rates** has been contemplated before in the DSW region. The last time this was considered, it was rejected because Intertie was more expensive than Parker Davis and that shifted costs too much to Parker Davis. The situation is evolving with aging wood structures being replaced on Parker Davis and more successful marketing of the Intertie Project. However, this will be decided on a local basis, not Western-wide. Other project consolidations should be decided on a project-by-project basis only with a consensus of the federal project preference contractors. These studies are best done on a local level, not on a Western-wide study basis.

A move to a **flow-based** environment should only be studied without any pre-conceived notion of benefits, but with caution toward project shifts in cost and impacts to preference customers.

Consistency in rate setting methodologies is also hard to evaluate between very different project needs and Western-wide purposes. Comparing notes between regions should not be an exhaustive effort. Assuming rates are cost-based, this should result in only minor changes, if

any, to individual project rates. Individual project needs should supersede any motivation to **harmonize** rates.

Rather than **transition the EPTC to NREL**, why not share the facilities with NREL to accommodate higher usage of the facilities. Does the term “transfer facilities” mean “give it away”? Nothing in this transaction is spelled out. What is the true intent of this transaction, and what does EPTC lose in the deal? The existing facilities have a capital cost associated with them and shouldn’t be given away. Ultimately, Western is much better qualified to do operational training than NREL, even if renewable operations training is being contemplated.

The motivation for the **Regulation Reserve Analysis** seems to be an attempt to market **ancillary services** outside of the project use. It is my understanding that WECC and NERC already have a methodology for establishing minimum requirements. Since any excess would only be marketed at existing (low-cost) rates, preference customers may be left short if their needs change during the hour. If Western cannot support third party transactions because of deficiencies in ancillaries, then these requests should be rejected. In no circumstance should the regulation reserve be made unavailable to preference customers. DSW is already implementing **CPS, ADI** and perhaps studying **RBC**.

Energy Imbalance Markets should be voluntary, not imposed. Preference customers have indicated their unwillingness to fund an EIM infrastructure at this time. So far, there have been no studies to show significant savings as a percentage of the market. The existing efforts have been quite underwhelming as a percentage of the total market and are well within the margin of error considering the assumptions that have to be made in order to run a study of this magnitude. Too much money and effort has already been expended trying to prove a need that doesn’t exist. Who does this benefit? Certainly not the existing preference customers. No additional monies should be expended until other incremental changes have been fully evaluated such as **CPS, ADI, and RBC**.

PRIORITIES:

We understand that Western desires that we comment on a prioritization of these tasks listed. At this point, we feel it would be very hard to establish a priority without additional data such as costs and potential benefit. We would certainly like to have these discussions on a local level when more information is available, along with questions and answers that might lead to a general consensus. On the other hand, we would not want Western to place a priority on these JOT tasks that would supplant its core responsibilities to provide economical, reliable transmission service to its federal preference customers.

APA believes it has an excellent relationship with DSW. We have worked through many hard issues, as exemplified by the Palo Verde-to-E.D. 5 TIP project which benefits both APA customer and DSW, as well. From past experience, we believe that this bottom up collaborative effort works best and instills trust between Western and its preference customers. From a historical perspective, imposing top down one-size-fits-all philosophies in the past have undermined trust between Western and its customers. APA is hopeful that Western will remain a trust-building organization and not revert to issuing directives on these matters, but instead continue existing practices with meaningful regional discussions with its preference customers and build consensus on a regional level.

The APA thanks Western for the opportunity to comment on the Draft Recommendations from the Joint Outreach Team.

Sincerely,



Mike Gazda
Deputy Director
Arizona Power Authority
1810 West Adams
Phoenix, AZ 85007
Email: mike@powerauthority.org
Phn: 602-368-4265
Fax: 602-253-7970