

**Comments of the Interstate Renewable Energy Council (IREC)
on the U.S. Department of Energy and Western Area Power Administration's
Joint Outreach Team Draft Recommendations
January 22, 2013**

I. Introduction

The Interstate Renewable Energy Council (“IREC”) appreciates the opportunity to make these comments regarding the Department of Energy and Western Area Power Administration’s (“Western”) Joint Outreach Team (“JOT”) Draft Recommendations (“Draft Recommendations”). The Draft Recommendations come at a crucial time in the development of the West’s electrical grid, and in the history of U.S. energy policy. Today, all Western U.S. states have passed policies designed to diversify the energy profiles of their utilities, primarily through the passage of Renewable Portfolio Standards; federal regulations on mercury and carbon are moving utilities to consider the closure of base load coal plants; regulations particular to the state of California are requiring utilities there to exit coal plants, as well as close (or repower) some natural gas plants using Once Through Cooling; and the economy appears to be showing some signs of rebound, leading to the re-emergence of load growth in certain Western U.S. states. All of this points to the need for one of the West’s most important transmission utilities – Western – to keep pace with its changing environment through the modernization of its rates, its physical plant, and its planning processes.

IREC acknowledges the hard work and thoughtfulness of not only the JOT, but all of the stakeholders who had input into the process that resulted in these Draft Recommendations, and we look forward to participating with the DOE and Western in the future as they implement any final policies stemming from these recommendations. IREC’s comments regarding the Draft Recommendations are below.¹

II. Numerous Key Areas from Secretary Chu’s Memorandum Were Left Uncovered by the JOT Draft Recommendations

As a preliminary matter, IREC wishes to note its disappointment that the JOT’s Draft Recommendations leave out key areas covered under Secretary Chu’s March 12, 2012 Memorandum (“Chu Memorandum”) regarding the need to examine reforms at the Power Marketing Administrations. It was clear from the Chu Memorandum that the Department of Energy envisioned from this process a set of recommendations and resulting reforms that would set Western and the PMA’s on a new course, one focused on the modernization of the grid, the heightened use of energy efficiency and renewable energy in the West, and the need to confront security issues surrounding America’s energy infrastructure. These goals are in line

¹ IREC is a national 501c3 organization dedicated to sustainable policies that support the deployment of renewable energy.

with Western's original purpose² as well as its 2011 Strategic Plan which calls for Western to "Evaluate [its] resource portfolio to determine the potential benefits of making long-term renewable energy purchases to supplement Federal hydropower resources," and "Increase efficiency and minimize costs while meeting increasing work requirements without sacrificing reliability or power delivery services."³

While the Draft Recommendations put forward a series of potential fixes to Western's operational and planning systems, they fall far short of addressing many of the questions posited in the Chu Memo.⁴ While IREC understands and supports the need to achieve consensus between interested Parties to this process, and certainly recognizes the divisions between various PMA stakeholders on the issues raised in the Chu memo, we do not believe it is adequate for the JOT to leave unaddressed so many of the Secretary's core concerns.

Among the areas that would appear to have been largely ignored in the recommendations is Secretary Chu's call for the PMA's to improve their rate designs in such a way as to promote energy efficiency, demand response, integration of variable resources and the deployment of electric vehicles. Moreover, the Chu Memo expresses great concern that the PMA's infrastructure, which in many parts of the West serves as the backbone for electrical provisioning, is aging, and that steps should be taken to address the need to replace much of that infrastructure.⁵ Importantly, the memo called for the PMA's to work to improve Congressional oversight of the PMA's, particularly in the area of expanding the ability of two of the PMA's – Western and the Southwest Power Administration ("SWPA")– to gain access to funds for capital improvements without having to receive lengthy and difficult prior approvals from Congress. This area is left out of the Draft Recommendations, without further explanation, despite the fact that it may well be one of the most critical to the future stability and health of the PMA's, not to mention the nation's electrical grid. Finally, the Draft Recommendations would actually appear to contravene the understanding of Secretary Chu, as stated in his Memorandum, that Western has agreed to become a participant in an Energy Imbalance Market in the West. The Memorandum states that "WAPA has made a decision to assume that the EIM will go forward and that it will be a market participant."⁶ However, it would appear from the Draft Recommendations that Western has not made this decision as those Draft Recommendations call for Western to forestall its decision to implement an EIM until numerous other initiatives aimed at addressing variability (the "Joint

² The authorizing legislation that established the Department of Energy, including Western, was in direct response to the energy crisis of the 1970s. Key provisions of this law were intended to promote more energy efficiency and domestic renewable energy.

³ Western Area Power Administration, "2011 Strategic Plan," <http://ww2.wapa.gov/sites/western/newsroom/pubs/Documents/StrategicPlan11.pdf>

⁴ In fact, it would appear that a number of the issues addressed in the Draft Recommendations were not even identified in the Chu memo, and some were not addressed at the public comment meetings held throughout the West on the Chu Memo in the Fall of 2012.

⁵ Last year, Western indicated in public documents that more than 75 percent of its wooden poles in one of its regions are aging and in need of replacement. The aging nature of Western's transmission system can only be chalked up to a process for funding replacements and repairs that is woefully antiquated.

⁶ See "Memorandum For the Power Marketing Administrators", Steven Chu, March 12, 2012, pg. 5.

Initiatives”) are first studied by Western utilities. It is unclear, therefore, whether the Draft Recommendations now represent the position of the Department of Energy and Western regarding the EIM, or whether Secretary Chu’s Memorandum is the authority on the matter.

III. The DOE and JOT Should Establish a Post-Recommendation Process for Public Involvement in the Implementation of Reforms.

While IREC believes the Draft Recommendations do not rise to the expectations laid out in the Chu Memorandum, we are strongly supportive of the public process utilized by the DOE and Western to create the Recommendations. Through the course of five public workshops and public comment sessions held throughout the West, stakeholders for the first time were able to gather together with Western and its customers to discuss the future of this pivotal federal entity. The discussions that occurred were frank, revealing, and illuminating to all those who participated. To the degree the workshops were covered by local media, they also brought the issues facing this relatively obscure, though inestimably important, transmission authority, to the attention of the general public. The DOE should strive to build on this public engagement by establishing mechanisms for ongoing public involvement in at least several of the areas covered by the Joint Recommendations.

A number of the Recommendations, if selected by the Secretary for implementation, will require months if not years to implement, and would benefit from ongoing public participation and involvement. For instance, in the course of carrying out the Recommendation that Western assess its Energy Planning and Management Program IRP guidelines, and potentially provide training to its customers on the IRP process, Western should also provide to customers a strong recommendation that the IRP process at the customer level include a public outreach and engagement component. Additionally, the DOE should direct that Western itself hold public workshops on the IRP’s that are submitted to Western, under EPACT1992. By allowing for public workshops on the IRP’s, Western and its customers will be able to continue the mutual education that began with the DOE’s workshops on the Chu Memorandum, and will provide invaluable insight to Western on the wider interests and policy needs of the electrical grid and its end users.

To date, the level of public involvement in Western’s IRP process has been inadequate for a federal agency. Western’s customers have long benefited from public investments in the federal hydropower system and, in exchange, should expect a high level of public involvement in their planning processes. As it stands, many IRPs submitted to fulfill the Energy Planning and Management Program requirement elicit little, if any, public comment.⁷ Rather than a lack of interest, a more likely explanation for this lack of participation is that it reflects a poorly implemented public engagement process. Western could bolster the public

⁷ As an example, Salt River Project, one of Western’s largest customers stated the following in its 2007 IRP: “During the month-long public review period, no parties requested or obtained copies of the draft report. SRP received no questions or comments about this document.”

engagement process associated with the IRPs, by coordinating a renewed effort across its system.

Additionally, Large Generator Interconnection Reform, consolidation of transmission rates, the implementation of a Western-wide Infrastructure Investment Study, the identification of best practices for rate setting, examination of going to a flow-based system, and the implementation of intra-hour scheduling all would benefit from a well-defined public engagement process at Western.

Given that the Draft Recommendations lack specific funding, and that DOE and Western Administrations experience periodic turn over, it is easy to foresee a scenario in which competing issues and needs overwhelm the Recommendations, and get lost in the policy shuffle. By instituting public engagement, the DOE will instill confidence in the stakeholders and customers of Western that the recommendations are being carried out, and will ensure that the reforms themselves are of the highest possible quality.

IV. DOE Should Make it Clear that the Integrated Resource Planning Processes of the PMA's will Include Matters Excluded from the Recommendations, Including Energy Efficiency, Renewables, and Electric Vehicle Deployment and Should Require Public Processes for IRPs.

In addition to the creation of a public engagement process, the DOE and Western should send a clear signal that those matters that appear to have been excluded by the JOT in its Draft Recommendations will be fairly and openly addressed as part of the EPAMP IRP process. Not only would this to some extent redress a major oversight in the Recommendations, but it would allow for a level of transparency in the IRP process of Western and its customers that is commensurate with the IRP processes at most regulated Investor Owned Utilities ("IOU's"). As the DOE is aware, IOU's are required in most states to submit IRP's to their Public Utility Commissions, and those Commissions normally provide an opportunity for public comment and input into the IRP's. In many cases, IRP's now cover transmission related issues, and as such it would seem appropriate for Western and its customers to commit to a process of equal or even superior inclusiveness.

During the public workshops, some participants roundly rejected the inclusion of energy efficiency, demand response, and electric vehicle efforts in any JOT recommendations, suggesting that they belonged solely in the domain of retail load-serving entities. IREC rejects this notion as it reflects an outdated approach to resource planning. Energy efficiency, demand response, and electric vehicles can all be incorporated as demand-side resources that affect the need for Western's customers to acquire additional supply side resources, such as federal hydropower. For instance, wide scale implementation of energy efficiency could free up federal hydropower allocations that could then be used to serve other customers. Doing so would help fulfill Western's mission to "Protect and maximize the value of Federal resources for the benefit of our firm electric service customers."

V. DOE Needs to Prioritize Chosen Reforms and Make Clear Where Resources Will Come From For Implementation

It is not clear from the Draft Recommendations which of the proposed reforms would take primacy, or how the implementation of the reforms will be funded by Western. IREC believes it is important to establish clearly which recommendations will be tackled first and with the greatest urgency by the DOE and Western, in order to give the reforms the greatest opportunity of success in a limited resource environment. Without prioritization, IREC fears that none of the recommendations will receive the attention it needs. In conducting this prioritization, the DOE and Western should consider which of the recommendations fall into the category of a reform that should be easily implanted in the due course of making Western a more efficient organization. Those reforms should be scheduled for implementation, but should not receive the highest attention of the DOE and Western.⁸ Additionally, we are of the view that the DOE should indicate whether the recommendations will require additional funding, and if so, how the DOE plans to ensure that they are adequately funded through the implementation process.

IREC suggests that the following Draft Recommendations be addressed first by Western, and in the following order:

- Assessment of and reforms to Western's Integrated Resource Planning Process.
- Implementation of the Joint Initiatives and Energy Imbalance Market simultaneously.
- Swift implementation of intra-hour scheduling.
- Performance of a Western-wide infrastructure investment study, with funding source recommendations.

VI. DOE Should Reject Recommendation to Wait Until Joint Initiatives Are Studied Before Participating in the Creation of an EIM, or Regional EIMs.

One of the most disappointing conclusions of the JOT in its Draft Recommendations is the assertion that Western should step back from taking a leadership position in the establishment of an Energy Imbalance Market ("EIM") in the West. The Draft Recommendations seem to assume that Western is not capable of analyzing both the Joint Initiatives, and an EIM, simultaneously. It is IREC's belief that Western is fully able to assess both the Joint Initiatives and the EIM simultaneously, and that not to do so would represent an unnecessary hindrance to the process for assessing the EIM established by Western Public Utility Commissioners through the Western PUC EIM Working Group. Without doubt, the Western PUC EIM Working Group will not cease its deliberations on the subject of

⁸ Example of Recommendations that should be implemented with relative ease and as a matter of good business practice, and need not be prioritized, are the consolidation of Western's four on OASIS sites, and the folding of the Electric Power Training Center into the National Renewable Energy Laboratory ("NREL").

an EIM in order to first take up the Joint Initiatives, nor is it clear that the two regional utility working groups will halt their efforts to look at an EIM. It therefore does not make sense for Western to do so. The failure of all relevant utilities to participate in the analysis of an EIM also has the potential to delay the ability of ratepayers across the West to secure the anticipated financial benefits of an EIM. According to the most recent study of an EIM in the West by the National Renewable Energy Laboratory, an EIM could save ratepayers across utilities \$165 million per year – a significant sum that commands the serious attention of policymakers and utilities alike.⁹ In the end, Western may decide not to participate in the EIM, but it should not in the meantime withhold its participation in a process that could result in much needed financial relief for the vast majority of the residents of Western states, who are experiencing difficult economic times.

IREC recognizes that many Western customers are opposed to the creation of an EIM, and that those customers have expressed their dissatisfaction with the notion of an EIM not only to Western and the DOE but also to members of Congress. However, Western's obligations extend beyond its customers, to the well being of the West's overall electrical grid, as its infrastructure is inextricably tied to the rest of the Western Interconnection, and its transmission lines are pivotal to the development of renewable energy projects in far flung locations throughout the West. More to the point with regard to an EIM, Western's non-participation would likely make the implementation of an EIM more difficult and less efficient, though not impossible. Western's position at the fulcrum of energy provisioning in the West demands that the agency participate in analyses of the EIM in a timely, and not ex post facto, fashion.

VII. DOE and Western Should Focus on Infrastructure Improvements and Funding Reforms and Request Assistance from Western Governors and Commissions in Seeking Changes to Funding Formula.

IREC agrees with the JOT Recommendation that Western conduct a West-wide infrastructure investment study to catalogue transmission improvement needs and better assess the commercial value of its transmission system. Such a study should be prioritized, and once completed should be utilized in any future efforts to change the way Western is funded. Given the findings of Western's own recent Annual Reports, it is highly likely that this assessment will uncover deep deficiencies in Western's infrastructure, and those deficiencies should be assessed with an eye toward the need to maintain the reliability of the system, as well as the need to facilitate the energy goals of the nation, and the individual states within which Western operates. By making much needed upgrades to Western's system, the DOE will take a critical first step toward improving the overall reliability of the grid, as well as achieving its goals of advancing clean energy in the U.S. Additionally, Western will put itself in a position to assist the Western states in meeting their

⁹ See "NREL/PLEXOS Analysis of the Proposed EIM in the Western Interconnection Results." <http://www.westgov.org/PUCeim/webinars/05-10-12/EIMresults.pdf>.

Renewable Portfolio Standards, some of which have been significantly increased recently.¹⁰

However, we also strongly urge Western to immediately commence an effort to redesign its funding mechanisms, and to present that plan to Congress. Currently, Western is required to seek funding for infrastructure improvements and repairs directly from Congress, and does not have the benefit of a revolving loan fund, as is available to Bonneville Power Administration (“BPA”). As a result, Western must go “hat in hand” to its own customers for the funding required to make system improvements. This is no way to run a utility, and it must be changed in order for Western to play the leadership role required of it in the West. Western should request of Congress a funding mechanism that matches that of BPA, provides for timely maintenance and expansion of its system, and frees it of the hamstringing effects of having to plead with customer utilities for funding.

Moreover, Western should seek alliances in this regard with Western Governors and Public Utility Commissioners, who have an interest in ensuring the reliability of their electrical grids, and a stake in seeing to it that their renewable energy goals are achievable. Mounting such a united front in approaching Congress regarding Western’s funding formula will bolster the chances of succeeding, and send a message that the funding of Western is a matter of important public policy across all states where Western operates.

VIII. Intra-hour Scheduling, DSS, and ADI

The power system in most of the Western U.S. operates in a surprisingly unsophisticated fashion, whereby transactions are scheduled primarily on an hourly basis, with very little automation. This differs from the 5-min, highly automated transactions that exist elsewhere. Furthermore, it’s readily apparent that limiting transactions to an hourly schedule creates a “barrier to trade” and removing this barrier could unlock new efficiencies in the power system, while simultaneously aiding the integration of renewables. There is little that further study can add to this basic conclusion. Thus, moving to more intra-hour scheduling embodies the request apparent in Secretary’s Memorandum for Western to take an active role in modernizing the grid. Unfortunately, the JOT recommendation to simply study these initiatives reflects the most modest possible course of action. Already, BPA is implementing these practices with CAISO. Furthermore, the Western Governors’ Association (“WGA”) recently published a report¹¹ identifying intra-hour scheduling and dynamic transfer as fundamental steps for integrating the variable energy resources that are already being developed throughout the West. IREC urges that DOE take heed of the recommendations in the WGA Report in issuing any policy directions. In particular, the WGA Report identifies the barriers presented by the

¹⁰ California recently increased its Renewables Portfolio Standard to 33 percent, and Colorado escalated its RPS to 30 percent.

¹¹ Western Governors’ Association, 2012, “Managing Renewable Energy Targets in the West at Least Cost: The Integration Challenge.”

http://www.westgov.org/component/docman/doc_download/1610-meeting-renewable-energy-targets-in-the-west-at-least-cost-the-integration-challenge-full-report?Itemid=

lack of harmonization among intra-hour scheduling schemes in the West. Because of Western's extensive footprint and its unique role as a power marketer, it has the opportunity to implement these intra-hour scheduling practices more than perhaps any other institution. We recommend that DOE direct Western and the other PMAs (e.g. BPA) to actively lead the effort to implement harmonized intra-hour scheduling, ADI, and DSS practices in the West. This would stand to benefit Western's customers and strengthen the operations of the entire grid.

IX. Conclusion

The DOE and Western are to be commended for producing a series of recommendations that will no doubt lead to a more efficient agency, and in some cases will assist in making the transmission system more reliable and compatible with other transmission systems in the West. However, the Draft Recommendations unfortunately do not measure up to the expectations set by Secretary Chu in his March 2012 Memorandum. Many of the recommendations are measures that Western should and can move forward with in the normal course of its business, and in the case of the most important requests made by Secretary Chu, the Draft Recommendations are strangely silent. To compensate for this absence, IREC recommends that Western at a minimum establish a post-Recommendation Process by which stakeholders can remain involved with Western and the DOE, in particular with regard to the Integrated Resource Planning Process Recommendations issued by JOT.

Moreover, to address the inability of Western to adequately fund needed repairs and additions to its transmission infrastructure, Western should immediately initiate an effort to persuade Congress to alter its funding mechanisms, and should recruit the assistance of Western Governors and Public Utility Commissioners, who hold a crucial and vested interest in seeing Western succeed. The DOE should also direct Western to take an assertive role in quickly implementing intra-hour scheduling, ADI and DSS.

IREC appreciates the time and effort of all those involved in the DOE/Western reform efforts, and looks forward to continued dialogue on these issues.

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