



Via E-mail

January 22, 2013

Western Area Power Administration

JOT@wapa.gov

Re: Comments on Draft Recommendations of Joint Outreach Team

K. R. Saline & Associates, PLC (“KRSA”) represents twenty-five Contractors of Western Area Power Administration (“Western”) and the federal Bureau of Reclamation projects (“Reclamation”) which underpin the transmission system of Western in the Desert Southwest region. We thank Western for the opportunity to comment on the JOT draft recommendations.

It is our impression that external interests in renewable development like the letter from Iberdrola to the Department of Energy (“DOE”) are pushing DOE for modifications to the Power Marketing Agencies. However, those interests do not understand the history of the federal projects and their relationships, contracts, and compacts with the States, consumers, and economies based upon the development of the federal projects.

In order to properly provide JOT input, we respectfully wish to remind Western of their contracting customers’ historical policy, environmental and financial commitment associated with federal projects currently operated by Reclamation and delivered through Western. For nearly 100 years, these customers have worked in partnership with Reclamation and Western to develop programs of review, planning, financing, and operational support to the federal Reclamation projects and associated Western transmission facilities. The numerous federal water delivery projects across Western’s regions combine into a modern infrastructure serving a vast array of urban and rural communities. This complex water and power infrastructure all depends upon the partnership and funding contracts with the federal government (Western and Reclamation) for power and water to the contractors who represent the communities of Western’s footprint. We look forward to working with Western directly on its capital financing needs for the federal Projects in the near term through Western’s Access to Capital public process.

General Comment on JOT Assumptions and Recommendations

The Desert Southwest Western projects have never been operated, planned, or constructed as a network of over 17,000 miles, across the WECC. Such comparisons and statistics clearly overstate the

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capacity and connectivity of the federal transmission system, and ignore the lack of available capacity on the federal transmission system. Many of Western's Projects do not have long term capacity available, are not interconnected, and the costs to replace or rebuild long distance transmission lines are too expensive without an anchor generator like Hoover, Glen Canyon, Navajo Generating Station, or Palo Verde Nuclear Power Plant to justify the expenses and long-term commitments necessary to finance large transmission investments.

The high costs of regional 500kV transmission projects often require jointly owned projects which spread the costs and benefits to large populations who all use those facilities and generators. We do not see the need or justification in regional plans for any new major lines in regional planning studies and while the Western Desert Southwest region has a tremendous record of assistance with permitting the Navajo Transmission Project, ED5-Palo Verde, and other projects, the need and financial support is not there for multiregional upgrades of the Western transmission lines.

We do not see the markets demonstrating a need for new transmission lines to network the Western projects in the region because of the vast source of locally sourced renewable resources available to supply most renewable procurements. The renewable markets in California, Arizona, Nevada, and the Northwest are all substantially contracted and there are still tens of thousands of MW's in interconnection queues across the WECC network which can fill in for any projects which fail. In areas like the CAISO where extensive transmission planning and analyses have been conducted the need for additional interstate transmission lines has not been justified at this time.

Meanwhile, the WECC has in excess of 30% generation reserves through 2020; all regional transmission queues are saturated with projects; and all local renewable portfolios are saturated with distributed projects under development. In simple terms, the market is highly saturated with projects that do not require interstate transmission investments to deliver their power to the load centers and RFP's. Similarly, the regional transmission capacity uses will change significantly as coal plant operations change and renewable projects fill in the capacity.

Many of the lower voltage systems like Western's system support rural areas while the major utilities have served the urban load centers. The existing process of interconnection and study is sufficient to interconnect a project, once a project has the requisite Purchase Power Agreements, commitments and financing to proceed. The major concern we see is the rate basing of all of the resources under contract as they come into commercial operation and the resulting impacts on consumers and businesses as these costs are borne by society through taxes for the tax credit portions and electric rates for the rest of the costs.

We support the Department of Energy and National Renewable Energy Laboratory for their efforts to model and examine the impacts of wind and variable energy resources on the regional transmission grids. The most concerning observation from the studies is the magnitude of additional reserves which will be necessitated for regions with large VER resource operations. We believe areas like the Northwest will evaluate their necessary changes bilaterally and otherwise to resolve their regions'

problems, but the studies and real life situations illustrate that the VER resources have significant impacts on the operations of the local and regional grids and generation reserve requirements.

What is shocking is the estimated thousands of MW's needed to integrate the VER resources and that Wholesale Generation Ancillary Service charges for this necessary cost causation upon the system have not been promulgated by the FERC or utilities. We believe the studies properly identify a cost causation that will start impacting the regions and utilities across every interconnection. We support Western evaluating its reserve capabilities, needs and rates for integrating VER resources so the appropriate price signals are in place in Western's tariffs.

We strongly support Western's continuing efforts to incorporate more efficient scheduling, metering and controls and alternatives like DSS and FERC Order 764 proposed scheduling practices. We believe that such processes need to advance for the new VER projects as they come online where the system is planned and reserves accounted for to maintain a reliable system and market. We support Western in examining the issues proactively and looking at VER reserve charges in its rates to help the markets respond to these new challenges. Each region should examine its operating capabilities to identify its limitations on integrating renewables and also properly add Generation Reserve and Generation Regulating services to the OATTs which reflect the locational costs of supplying VER reserves to support integration to the electrical grid. We believe those price signals are paramount to a working market so costs are not hidden from resource decisions, and programs like the DSS, implementation of 764 scheduling practices, and other local tools improve the markets and decisions which are currently not available to developers.

Meanwhile the grid operators cannot ignore those who have thousands of MW's of VER resources under development and who currently are not paying their reserve costs caused upon the grid. These situations should clearly be analyzed and such lag in the industry should not be viewed as a free ride. The appropriate studies, prices, and rates need to be in place for VER reserve needs to moderate and manage the renewable markets of the future. Continuing to ignore or hide the capital costs of the generators needed to provide FLEX reserves is not conducive to good business decisions for a robust and open market in the future. The costs on customers who do not benefit from the FLEX resources or their location will bear out in improperly designed markets which don't follow principles of cost-causation.

Energy Planning and Management Program (EPAMP) IRP guidelines

The JOT Recommendations on EPAMP review are concerning given the vast individual programs and State requirements each Western customer has to address. Many States have progressive demand-side and resource-side requirements which apply to Western customers, as well as State mandated reporting requirements and retail and consumer programs. Other non-energy related factors also impact the customers' resource planning. For instance, many Native American customers count on federal subsidized home improvement programs for their communities and the electric savings from federal hydro power creates a funding source for them to avail themselves of those programs for their communities.

In Arizona, many of Western's customers have to comply with the Ground Water Management Act, which strives to attain very high irrigation efficiencies. Western is well aware of the historical conundrum faced by Desert Southwest customers to comply with water conservation requirements while also striving for greatest energy efficiency, given that using drip irrigation uses more energy for the pressure pumps and saving groundwater uses more energy. We are concerned that this proposed review will turn into another competition of State regulations versus federal regulations. Western's customers should not be caught in the middle between two regulators who disagree on sufficiency of reporting.

Since EPAMP was implemented, we have seen many of Western's customers join Home Town Connections and Touchstone Energy through national trade associations which has significantly expanded the offerings and programs provided by public utilities across the nation and in Western's footprints. Those associations and the outreach programs provided by Western have developed into quite a robust EPAMP program administered by Western which does a good job in accommodating all of Western's diverse customer base.

We hope the regional meetings emphasized, if anything, the magnitude of individual customers taking energy conservation seriously and providing numerous cost effective programs to their customers. We also know one size does not fit all, and programs in one area or region are completely different in the desert.

We certainly understand that with the diversity of Western's customers there is not an easy quantification of their program benefits. For example most Demand Side Management and consumer efficiency programs need some benchmark of what the usage would be without the program in effect, and thus individual consumers adopting decisions behind their meters makes such a benchmarking very difficult for every utility. One customer may use a low wattage light bulb all the time, and others may not find them cost effective. We certainly are interested in working with our local IRP liaison to improve our reporting and quantifications so a better estimate of what Western's customers are saving can be derived. But at the same time, we can also recognize adding administrative costs to the customer programs takes valuable funds away from the programs. For the above reasons, we place a very low priority on efforts regarding EPAMP and continue to support consumer organizations and local programs, and believe participation is evidence of compliance.

Combined Transmission System (CTS) recommendation

Combined Transmission System opportunities are a low priority from our regional perspective. Western's DSW region has the last merchant transmission project attempted by Western within its footprint, the "Pacific Northwest – Southwest Intertie" project. This Intertie project was never connected to the two PMA's and is currently under consideration for a 24% rate increase due to the Project's under-subscription. Given the results of the Intertie Project and the regionally based Sonoran – Mohave Area Renewable Transmission ("SMRT") studies which have been completed in our Desert Southwest region, CTS study is not a supportable recommendation.

Infrastructure Investment Study (IIS) recommendation

Western-wide Infrastructure investment study is a low priority as we do not support a planning process that works in one Region, being studied across another. The Desert Southwest region, for example, already has a Joint Planning Agreement in place to effectuate local planning of the facilities in the Western DSW region. That process has worked very well, and the JOT objectives should be brought before the JPA participants to discuss and examine additional studies needed, if any, considering the wealth of studies and regional transmission projects all regional utilities have examined over the past decade. In fact, Western DSW recently concluded the SMRT studies, which were supported by Western's customers and much of the planning analyses anticipated by IIS studies may be on the shelf in the Desert Southwest. We believe this process will take several years if it is not duplicative to the ongoing studies.

Conduct a study on Moving from Contract Path to Flow-based Environment

We place a very low priority on studies to explore nodal market models or flow based transmission operations given the regional separation of the Desert Southwest projects. The Desert Southwest historical interconnection studies from Desert Star and LMP analyses have failed to **demonstrate** benefits for our region from such markets. Clearly any such further studies **should** include past lessons learned, should be coordinated with regional utilities and should use best practices before coming to any analysis conclusions or implementing any changes.

Thank you for the opportunity to comment and we look forward to Western initiating local processes to deal with the issues identified in the JOT process.

Sincerely,

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