

JOT's Response to NRECA's Dec. 17, 2012, Questions

Q1 - NRECA) *For each Recommendation, please clarify whether Western intends to use an open and transparent bottom-up process for further defining and implementing the proposal in a manner that offers Western's preference customers with ample opportunities to substantively weigh in from the beginning of the process, including the assumptions and models underlying any studies.*

A1 – Western) As a general principle, the JOT is recommending that Western engage in open and transparent collaborative processes with its customers, stakeholders, tribes, and industry peers with respect to implementation of the recommendations that may be adopted and moved forward by the Secretary. This collaboration could be used to help refine the recommendations, including assumptions, models and study methodology, as well as the priority and timing of recommendation implementation.

Q2 - NRECA) Recommendation 1 *proposes to undertake an analysis to determine the regulation reserve capacity that is required for each of Western's BAs or sub-BAs using a consistent methodology and criteria.*

a) Please clarify that as used here, what is "required" is that which is required to meet its statutory obligations to deliver federal hydropower to preference customers.

b) Please clarify that any other perceived needs (as opposed to "requirements" as defined above) will be separately calculated to permit Western to separately allocate the costs of regulation service to different customers according to the principle of cost-causation as permitted by FERC's VERs Order.

c) Is the reference to all dispatchable generation sources limited to federal hydroelectric generation assets and the Navajo generating station? If not, is this analysis intended to cover all generation resources from which Western procures purchased power and/or ancillary services?

A2 – Western) The JOT believes Western operates Balancing Authorities for multiple purposes, the primary purpose being to deliver Federal hydropower to preference customers. The JOT believes it is important for Western to identify the regulation requirements for its BAs to ensure that Western has access to adequate resources to reliably operate its BAs and that Western isn't holding too much for regulation given the regulatory environment in which we are in. Western must also ensure all regulation service is accounted for properly; that the value of the Federal hydropower resources within the BAs are maximized for the preference customers; and, that the costs of regulation services are allocated appropriately to the parties that create the need for regulation within the BA.

Q3 - NRECA) Recommendation 2 *proposes to consolidate Western's four OASIS sites within the Western Interconnection into a single OASIS site.*

a) Please clarify that the consolidation of Western's OASIS sites into one is an administrative cost-savings move and not intended to homogenize or standardize the rates, terms and conditions of service provided thereunder.

A3 – Western) The draft JOT recommendation to consolidate Western’s OASIS sites is an efficiency measure to reduce costs and ensure compliance with Western’s Open Access Transmission Tariff. It is not a measure to consolidate transmission and/or ancillary service rates across Western’s Federal projects.

Q4 - NRECA) Recommendation 3 proposes to revise the LGIP.

a) Please identify which sections of the LGIA on file with the FERC that would be changed based on changes outlined in the JOT report.

A4 – Western) The JOT does not anticipate any changes to the LGIA should the six specified recommended revisions to the LGIP be adopted by Western. The JOT recommends a separate public process be conducted to solicit comments on those six specified recommended revisions. It is possible the public process would yield different LGIP revisions than those specified, so at this time the JOT cannot state conclusively there would be no LGIA changes associated with LGIP queue reform.

Q5 - NRECA) Recommendation 4 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 the appropriate level of potential consolidation of transmission rates from the bottom-up.

a) Please clarify the ancillary services to be included in this study, noting which ancillary services are used in support of generation and which ancillary services are provided by Western for transmission service. Further clarification would be beneficial to determine if the proposed study of pancaked rates will identify and isolate Balancing Area responsibilities.

b) Please clarify that Western does not intend to consolidate rates where inconsistent with statutory requirements that costs incurred in certain sub-regions be recovered in those sub-regions.

c) Please clarify that Western would not propose to consolidate rates where such consolidation would result in cost shifting inconsistent with the cost-causation principle.

d) Please clarify that Western is open to considering other options for reducing rate pancaking besides rate consolidation.

e) Please clarify that Western would not anticipate moving forward with rate consolidation if consolidation benefits third-party generators at the expense of preference customers.

f) Please clarify whether Western anticipates moving forward with rate consolidation if consolidation benefits one group of preference customers at the expense of other preference customers.

A5 – Western) Western would engage in a robust, collaborative process with customers, tribes, and stakeholders to determine whether a business case exists to consolidate transmission rates intra-regionally, inter-regionally, or Westernwide. In addition to Transmission rates, the JOT is recommending that Western study the rates for Ancillary Services contained within Western’s Open Access Transmission Tariff and is leaving the scope of the study effort to be determined by Western in collaboration with customers, tribes, and stakeholders as part of the implementation. As such, the study could include the evaluation of Balancing Area responsibilities. Additionally, all criteria

used to determine whether transmission and/or ancillary service rates would or would not be consolidated intra-regionally, inter-regionally or Westernwide will be determined as part of the collaborative process that implementation of the draft recommendation calls for.

Q6 - NRECA) Recommendation 5 proposes to initiate a collaborative process to identify the best rate-setting methodologies currently in use by one or more of Western's regions and, to the extent possible, to explore the potential to harmonize transmission and ancillary service rate setting methodologies across Western. It also proposes to investigate offering additional ancillary services.

- a) Please clarify how this study will differ from the proposed study identified on Page 12.
- b) Please clarify that this process is intended to determine the best rate setting "methodologies" as opposed to mandating a single rate through this process.
- c) Please clarify that "best" in this context means:
 - i) ensuring that costs are borne by those who cause Western to incur the costs;
 - ii) ensuring that Western is able to deliver federal hydropower to preference customers at the lowest cost consistent with good business practices;
 - iii) recognizing the unique attributes of Western's regions; and
 - iv) recognizing the operational requirements of the Federal Generating Agencies.
- d) Please clarify that Western would not adopt a common rate setting methodology or new services if they would result in cost shifting inconsistent with the cost-causation principle.
- e) Please clarify that Western would not anticipate moving forward with use of a common rate setting methodology or adoption of new services if those changes benefited third-party generators at the expense of preference customers.
- f) Please clarify whether Western anticipates moving forward with use of a common rate setting methodology or adoption of new services if those changes benefited one group of preference customers at the expense of other preference customers.

A6 – Western) This recommendation calls for identifying and adopting where appropriate the best rate-setting methodologies and practices across Western's multiple Regions and projects. This recommendation might precede or be implemented in conjunction with the draft recommendation to investigate the potential for consolidating transmission and ancillary service rates intra-regionally, inter-regionally or Westernwide, but is not dependent on consolidation of transmission rates. Again, all criteria used to determine whether a rate-setting methodology or practice is best and whether it should be adopted across Western's multiple Regions and projects will be determined as part of the collaborative process that implementation of the draft recommendation calls for.

Q7 - NRECA) Recommendation 6 proposes to evaluate the EPAMP IRP guidelines and processes, to conduct customer outreach to identify opportunities for training and to implement a quality control program.

- a) Please clarify that Western intends to implement this proposed recommendation in a manner that is consistent with the proposal's statement that "the JOT decided not to pursue any recommendations specifically targeted at energy efficiency, demand response or electric vehicles" and explain how it intends to achieve that goal.

b) Please clarify that Western would not anticipate moving forward with changes to the EPAMP if the costs preference customers will experience as a result of the quality control program will exceed the benefits seen by those preference customers.

c) Please define the term “existing allocation methodologies” and clarify which resources are the subject of this study.

d) Please clarify how existing allocation methodologies provide disincentives for efficiency and conservation programs.

A7 – Western) Recommendation 6 proposes to evaluate the EPAMP IRP guidelines and processes, to conduct customer outreach to identify opportunities for training and to implement a quality control program.

a) Western’s EPAMP and IRP requirements relate to information-gathering required of Western under Section 114 of the Energy Policy Act of 1992. The requirement that customers conduct a planning process is a requirement of the Energy Policy Act of 1992. The JOT does not believe that improving its implementation of the statutory requirement to gather this information is inconsistent with the statement that “the JOT decided not to pursue any recommendations specifically targeted at energy efficiency, demand response or electric vehicles.”

b) Western has an obligation to carry out its obligations under Section 114, and the processes by which Western is to review customer IRP plans and actions are set forth in the regulations of 10 C.F.R. §§ 905.19, 905.22. A quality control program would be directed at ensuring that both Western and its customers comply with their respective obligations under the statute and regulations. Any changes to the EPAMP would necessarily have to comply with statutory requirements. The JOT is not recommending Western pursue any changes to the applicable statutes.

c) Some preference customers indicated they have concerns that reductions in load will result in future years’ allocations being limited to such a baseline, which, if this is indeed the case, could serve to discourage efficiency measures. The JOT has not verified whether this is the case, therefore the JOT recommends that this be evaluated to determine whether there is such a disincentive.

d) The JOT has not verified whether this is indeed the case, but recommends it be evaluated.

Q8 - NRECA) Recommendation 7 proposes to perform a Western-wide infrastructure investment study that would determine the state of Western’s infrastructure and the commercial value of transmission paths over which Western transacts business to ensure continued reliability on the system and to maximize return on investment, etc.

a) In light of the proposal’s focus on the “commercial value” of its transmission facilities, please clarify how Western could implement the proposal consistently with Western’ statutory obligations, including its obligation to market federal hydropower to preference customers at the lowest cost consistent with good business practice. In particular, please clarify how, given that “commercial value” only makes sense as a concept when a product can be marketed freely, Western can assign “commercial value” to a transmission path when that path is not available to the market because it is dedicated to serving preference customers pursuant to existing statutory and contractual obligations?

b) Please clarify that “commercial value” does not mean value to third parties interested in using Western’s system for their own commercial purposes.

c) Please clarify how the study will evaluate “commercial value” where the “commercial interests” and legal interests of the preference customers in receiving preference power at low cost conflict with the “commercial interests” of third parties seeking to export power out of or through Western’s system.

d) Please clarify that when the proposal refers to “needed projects” Western means “needed” by Western to meet its statutory obligation to provide low cost power to preference customers.

e) Please clarify that if the results of the study will be used to help allocate costs for facilities that provide “commercial value” to third parties those costs will be allocated solely to those third parties.

f) Where the “commercial value” of investments for third parties is distinct from or inconsistent with the statutory obligation of Western to market federal power to preference customers at the lowest cost consistent with good business practice, please clarify how an understanding of “the relative commercial values of Western’s existing transmission paths” will be used in prioritizing resources.

g) Please clarify how the investment study will fulfill responsibilities under FERC Order NO. 1000.

A8 – Western) The intent of this recommendation is to provide the data and information needed by Western to develop the business case(s) needed to support the allocation of scarce financial resources to transmission infrastructure investments that maximize the value of Federal transmission projects. This study will complement Western’s Asset Management efforts to ensure Western is investing in Western transmission infrastructure with the greatest need and value to the customer. All criteria used to determine need and value to the customer will be determined as part of the collaborative process that implementation of the draft recommendation calls for. Further this effort is meant to inform and be informed by, rather than duplicate, other current and future transmission planning activities, including those activities currently being formulated regionally and Inter-regionally to comply with FERC Order 1000.

Q9 - NRECA) Recommendation 8 proposes to conduct a study across Western’s DSW, CRSP, and RMR service areas to identify combined transmission system opportunities.

a) Please clarify the preliminary evidence of need relied upon by the JOT for making this recommendation.

b) Please clarify whether the JOT has considered what legal authority Western has to perform the study, or what legal obligation Western has to expend resources on the study and provide citation to that legal authority if so.

A9 – Western) This draft recommendation was proposed by the JOT based upon feedback from customers during the JOT Outreach meetings and through written comments following the JOT Outreach meetings, Western subject matter experts, JOT internal expertise and previous activity by Western with customers in this area. Given that Western is extensively interconnected and becoming more interconnected with a number of entities within the CRSP, DSW and RMR footprints

as well as the benefits that have accrued to Western and the members of the Integrated System, the JOT believes that similar opportunities may exist for these Regions.

Q10 - NRECA) Recommendation 9 *proposes to conduct a study to explore potential options for moving to a flow-based environment in Western's footprint in the Western Interconnection and away from a contract-path environment.*

a) Please clarify the basis for Western's belief that implementation of intra-hour scheduling will drive the use of locational-marginal pricing algorithms or be inconsistent with contract-based scheduling system.

b) Please define the metric that will be used to determine if an outcome is "cost effective" and the baseline for any such measurements.

c) With reference to "cost shifting," please identify stakeholder groups that have been identified and are contemplated in this statement.

d) Please clarify what is meant by "emerging market mechanisms."

e) Please clarify that if the study demonstrates that the move from contract-based transmission service to flow-based service causes preference customers to bear additional costs or risks that the proposal will be abandoned.

i) In the alternative, has the JOT considered Western's legal authority to implement flow-based transmission service if the study demonstrates that the move from contract-based transmission service to flow-based service causes preference customers to bear additional costs or risks? If so, please provide citation to that authority.

f) Please clarify whether Western believes that a flow-based system will lead inevitably to a locational-marginal price system.

i) Please clarify that Western would take no further action on this proposal if the study demonstrates that the move from contract-based transmission service to an LMP-based system causes preference customers to bear additional costs or risks.

(1) In the alternative, has the JOT considered Western's legal authority to implement flow-based transmission service if the study demonstrates that the move from contract-based transmission service to an LMP-based system causes preference customers to bear additional costs or risks? If so, please provide citation to that authority.

A10 – Western) The JOT believes that potential emerging market mechanisms (e.g., Energy Imbalance Market) would likely drive the need for locational marginal pricing based upon flows. The potential link as stated in the draft recommendation between intra-hour scheduling and locational marginal pricing is being reviewed by JOT with its subject matter experts and will be clarified or removed as appropriate based the outcome of these efforts. The JOT believes that the study scope, parameters, assumptions, models and criteria used to evaluate the potential impacts of moving to a flow based environment and inform a Western decision in this area will need to be determined as part of the collaborative process that implementation of the draft recommendation calls for. Western operates in a flow based environment within the Eastern Interconnection and has for many

years. As such, the JOT does not believe that a flow based system necessarily needs to lead to locational marginal pricing system.

Q11 - NRECA) Recommendation 10 proposes to study the feasibility of transitioning the EPTC to NREL.

a) Please clarify that the study will evaluate whether it is economic to maintain the EPTC.

A11 – Western) The JOT believes Western has made the decision to close its Electric Power Training Center and vacate the facility that houses the EPTC by December 2014. The study being proposed by JOT as part of this draft recommendation could be modified by Western to also evaluate whether it is economic to maintain the EPTC. Western could also choose to retain the EPTC, rather than close it, based upon the proper business case and/or support from its customers.

Q12 - NRECA) Recommendation 13 proposes to undertake a study to evaluate the benefits and costs to Western of participating in either regional or sub-regional initiatives investigating energy imbalance markets.

a) Please clarify whether the study is of an EIM or of the value of participating in the study of an EIM.

b) Please clarify how the study proposed on page 24 differs from the study proposed on page 23. Is the evaluation of an EIM contingent on the results of the study proposed on page 23?

c) Please clarify that the proposal reflects Western’s interest in participating in broader regional studies of market options, such as those that have been conducted by WECC and PUC-EIM and the studies now being conducted sub-regionally within WECC, and does not reflect the intention to conduct an additional, duplicative, stand-alone study.

d) Please clarify that when the proposal speaks about maximizing “benefits” and ensuring that “benefits” exceed costs, that it means benefits to preference customers.

i) Please clarify that if a study demonstrates that the market provides net “societal” benefits but imposes net costs on preference customers the proposal would be dropped, consistent with Western’s statutory obligation to market federal power to preference customers at the lowest possible cost consistent with good business practices.

ii) Please clarify that if a study demonstrates that the market would provide increased capability to integrate variable resources into the Western BAs but imposes net costs on preference customers, the proposal would be dropped, consistent with Western’s statutory obligation to market federal power to preference customers at the lowest possible cost consistent with good business practices.

A12 – Western) The JOT believes that as part of the broader electric utility industry, Western needs to be involved in sub-regional and regional activities that may impact it and/or its customers. This includes participation in the Joint Initiative activities within the Western Interconnection; Reliability Based Control field trials and Enhanced Dispatch Tools studies conducted by the Western Electricity Coordinating Council; Energy Imbalance Market studies conducted by the PUC-EIM; as well as efforts to investigate the above and/or other means to reliably operate the electrical grid with increased penetration of variable energy resources on a sub-regional basis in the Northwest, Southwest and Rocky Mountains. The criteria used to determine the costs and benefits of Western

moving forward with implementation or participation in any of these mechanisms will be determined as part of the collaborative process that implementation of the draft recommendation calls for.

Q-General - NRECA) *Several NRECA questions raise the issue of whether Western and DOE have examined whether statutory authority exists for a given activity, such as in Q9, "Please clarify whether the JOT has considered what legal authority Western has to perform the study, or what legal obligation Western has to expend resources on the study and provide citation to that legal authority if so."*

A-General – Western) The JOT efforts have included participation by both Western and DOE General Counsels to ensure that all of the draft recommendations are within Western's legal authorities. Further General Counsel involvement will be required in the *implementation* of the draft recommendations.