MID-WEST ELECTRIC CONSUMERS ASSOCIATION

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The Mid-West Electric Consumers Association files these comments for the record of the workshops and listening sessions convened to further develop initiatives outlined in Secretary of Energy Chu's memorandum of March 16, 2012 concerning the federal Power Marketing Administrations ("PMAs").

The Mid-West Electric Consumers Association was founded in 1958 as the regional coalition of over 300 consumer-owned utilities (rural electric cooperatives, public power districts, and municipal electric utilities) in nine states (Colorado, Iowa, Kansas, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wyoming) that purchase hydropower generated at numerous separately authorized federal multi-purpose projects in the Missouri River basin marketed under the Pick-Sloan Missouri Basin Program.

Secretary Chu's memorandum outlined a variety of program initiatives for the PMAs, focusing first on the Western Area Power Administration (Western). In spite of the memorandum's emphasis on transmission reliability and operational collaboration, the proposed initiatives were a bewildering potpourri of programs unrelated to what appears to be the Department of Energy's (DOE) primary focus.

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The scope of the programs clearly demonstrates that the Secretary Chu's Washington-based advisors (DOE advisors) leading the Joint Operations Team ("JOT") do not have an understanding of the nature of the PMAs, the PMA's role in the electric utility industry, the PMA's statutory authorities, and, most importantly, what the PMAs and their customers have already accomplished. It is alarming that DOE advisors would be seeking to move forward without first having a clear understanding of the federal power program.

The initiatives seem to envision a role for Western that will solve all electric utility issues in the West. This is neither possible nor desirable. The initiatives outlined in Secretary Chu's memorandum overstep the bounds of Western's mission, and would step Western into jurisdictions of other federal, state, and local authorities, where these matters are already being addressed.

- Electric vehicle programs are properly implemented at the distribution level. Western is not a distribution electric utility, but a wholesale supplier of power generated at federal multi-purpose projects.

- Rate incentive proposals are not compatible with cost-based rates, "at the lowest possible rates to consumers consistent with sound business principles." Furthermore, Western's power supply is only part of the mix of resources that Western's customers utilize.

- Consumer programs to promote energy efficiency and conservation are within the purview of state public utility commissions. Consumer-owned utilities need no incentive to pursue these sorts of programs. They have been doing so for thirty years. As consumer owned and locally governed utilities, the mission of preference customers focuses on service. Providing their consumers with programs and information on energy efficiency is a major component of that mission. Furthermore, Western – recognizing its role as but one bulk wholesale power supplier and transmission provider – implemented the Energy Management and Planning Program, which requires an across-the-board

examination of utility practices and programs by customers. Western also provides a wide variety of workshops and technical assistance to its customers.

- Concerns about reliability are being addressed by NERC and FERC. Western is subject to NERC audits and undertakes remedial action where necessary. Western has been conscientious in suggesting areas for improvement. Western's customers have also been active in pursuing enhanced system reliability.

- A resilient, flexible and efficient 21st century grid has been an ongoing activity for Western and its customers in the Pick-Sloan Missouri Basin Program ("Pick-Sloan") for years. Early on, Western partnered with its customers to develop the Integrated System, a transmission network jointly owned by Western, Basin Electric Power Cooperative and the Heartland Consumers Power District. We continue to work with Western to ensure system reliability and transmission adequate to meet system needs.

- Similarly, integration of variable renewable energy is an ongoing activity in Pick-Sloan. Eastern Division preference customers have developed or purchased over 700 megawatts of wind power, achieving a penetration rate of 23.7%

In an apparent attempt to justify its proposals, the DOE advisors paint a picture of Western's transmission system as aging and verging on failure. Nothing could be further from the truth. Customers noted again and again during the workshops and listening sessions that the in-service date of the line does not necessarily correspond to the age of the wood poles. Western regularly tests wood poles and replaces them when needed. The "useful life" cited by the DOE advisors is more an accounting technique than an operational consideration. Poles and transformers are regularly tested and replaced if test results warrant replacement. In spite of this, DOE continued to cite the aging infrastructure as a major problem area.

The process by which DOE is moving this process forward is also disturbing. Deadlines have been changed without notifying customers and stakeholders. The format of the meetings was also changed in mid-course. Presentations were altered between meetings, so that customers

and stakeholders did not have a common information base. Given this level of disorganization and the rush to move forward, we do not have much confidence in the process.

The rationale for these initiatives also has been changing. One time, reforms are needed because of reliability. Then, it's because of cyber security. Then it's because of the need for integration of renewable resources. Communications from the DOE advisors have attempted to buttress their initiatives by pointing to the recent storm in the Washington, D.C. metro area, which, as a matter of fact, had nothing to do with the Western Area Power Administration, and was the result of trees toppling into distribution lines – a problem that no amount of technology can solve. Shifting rationales and scare tactics do not add to federal power customers' comfort level about this process.

DOE advisors stated that the process was to be open and transparent. We have found that not to be the case. In fact, they have yet to decide if the findings of the workshops will be made available to customers prior to submittal to Secretary Chu. Given DOE's unfamiliarity with Western's statutory authorities and accomplishments of Western and its customers, we would expect to be able to review the JOT findings to ensure that they accurately reflect the workshops and listening sessions.

Mid-West and its members participated in all of the workshop/listening sessions with the exception of the Folsom, California workshop/listening session. The workshop/listening sessions clearly demonstrated that Western and its customers have been addressing appropriate concerns and fashioning solutions to these issues.

We attended the series of workshops that were to be addressing New Transmission Authorities, but the sessions focused only on section 1222 of EPAct2005, not addressing the Transmission Infrastructure Program (TIP) at all.

As for §1222, the Federal Register Notice ("FRN") of June 10, 2012 (pp. 32940 et seq.), which seeks proposals under §1222, ignores congressional intent by adding an evaluation criterion, "whether the Project will facilitate the reliable delivery of power generated by

renewable resources." Nowhere in the statute is any mention or intention of designing this program to favor renewable energy. However laudable facilitating additional renewable energy resources may be, it was not part of the charge from Congress. More astounding, the FRN did not seek any nexus between the proposed projects and the affected PMA (Western or the Southwestern Power Administration). Thus, the PMAs would be acting as an architecture and engineering firm – albeit one with the power of eminent domain – performing work unrelated to their missions. There is no justification for Western or Southwestern to turn into an A&E firm, taking jobs away from private sector companies.

The interpretation of the cap on funding in §1222 is also disturbing. The statute limits the monies that both PMAs receive to $100 million until 2015. The statute is silent on what happens after 2015. DOE has chosen to interpret that to mean there is no cap on monies Western or Southwestern could receive after 2015. This is a novel statutory interpretation, and in Mid-West's view, incorrect. That §1222 has not been utilized should be sufficient proof that the program is unworkable. There are other avenues that could address this issue.

The workshop/listening sessions provided the JOT ample evidence of the successes of Western and its customers in addressing Secretary Chu's concerns. However, that being said, federal power customers and stakeholders learned nothing about DOE's plan.

Secretary Chu needs to "put his cards on the table" and be clear about exactly what he is trying to accomplish in the way of PMA activities. Mid-West believes a far more constructive approach would be to engage in a *dialogue* with Western and its customers. To be most effective, the dialogue should be regionally focused. This administration has consistently rejected "top-down" solutions in many program areas. The PMAs are no different. Engaging in a dialogue and truly collaborative process would provide everyone – DOE, Western, and federal power customers – with a common starting point and a common understanding of the goals for the PMAs.

In pursuing a realistic and effective approach to investigating areas where Western might be able to improve, DOE must remember:

- Preference customers have the first right to purchase federal hydropower.

- The mission of the Western Area Power Administration is established by Congress. The primary mission of Western is to market and deliver federal hydropower to statutorily qualifying entities.

- By law, the Western Area Power Administration markets federal hydropower at the "lowest possible rates to consumers consistent with sound business principles." All cost allocations and interest levels included in those rates are established by Congress, not administrative fiat and follow the principle of the user/beneficiary pays.

We look forward to continued discussions with the Joint Operations Team.