



PLATTE RIVER
POWER AUTHORITY

Estes Park • Fort Collins • Longmont • Loveland

August 17, 2012

Western Area Power Administration

Re: Statement of Platte River Power Authority

Platte River is a non-profit political subdivision of the State of Colorado. Platte River exists for a very limited purpose—it was formed by the municipalities of Estes Park, Fort Collins, Longmont and Loveland for the single purpose of providing wholesale electric sales and transmission service to these four municipal utilities. Since its creation in 1975 Platte River has followed three guiding principles:

- 1) Deliver power to member municipalities with the highest degree of reliability reasonably achievable.
- 2) Plan and operate resources in an environmentally conscientious manner.
- 3) Maintain the lowest rates possible consistent with sound business practices.

Approximately 20% of the power sold by Platte River to the member municipalities is renewable energy purchased from Western Area Power Administration. Platte River is Western's third largest customer.

We want to thank the Department of Energy for the opportunity to provide these written comments as well as the opportunity to speak at the listening session held in Loveland, Colorado. As a customer of Western, Platte River is concerned about the initiatives outlined in Secretary Chu's memo of March 16, 2012. Specifically, we are concerned that the changes being proposed for Western—which significantly alter the core functions of Western—could make it more difficult and costly for Platte River to perform its core functions of delivering affordable and reliable power.

The listening session provided Platte River the opportunity to learn more about the initiatives proposed by Secretary Chu, but fundamental questions remained unanswered and some of the new directions appear inefficient or misguided:

1. Reliability - Reducing the number of blackouts is appropriately at the forefront of Secretary Chu's action list, but is also a significant policy focus at NERC—the designated Electric Reliability Organization under the Energy Policy Act of 2005. To accomplish this goal, Western and the other PMAs do not require a new mission or new and better things. Rather, the PMAs and all Transmission Owners simply need to concentrate on the fundamentals of improving upon our current practices. Compliance with NERC and CIP reliability standards should provide the necessary situational awareness and prevention of blackouts. The industry needs to focus on fundamental reliability activities such as

improving system models, the methods of contingency simulation and interpretation, sharing of system information, and the communications among operators. Theoretical policy initiatives, such as the Secretary Chu memo, that are disconnected from operational realities serve only to detract from efforts to improve reliability.

2. Energy Imbalance Market - In theory an Energy Imbalance Market will create efficiencies, particularly in the Western Interconnect. How this theoretical rubber hits the road of practice however will differ among market participants—it simply has to be recognized that a fundamental change in market structure will produce winners and losers. Macro-level cost/benefit studies will not provide the system specific detail necessary for many utilities to understand whether they win or lose. This is certainly the case for the smaller public and tribal systems most dependent upon Western and least able to perform necessary analysis. Recent studies are beginning to provide some granularity. Nevertheless, more analyses are needed to identify winners and losers, but also to optimize the EIM so that the disparity between winner and losers is minimized. At this early stage of EIM consideration, statements to the effect that Western will be a participant are extremely concerning to customers that do not know whether either Western or the customer will be benefitted or adversely impacted.
3. Rate Incentives - The March 16 memo “directs” Western “to create rate structures that incentivize” energy efficiency and demand response programs, integration of variable resources, and electric vehicle deployment. Rates that incorporate incentives by their nature are not cost based. Platte River questions whether the Secretary has the legal authority to jettison the cost-based rate structure established by Congress initially in the Reclamation Act and integrated into the project authorization statutes. It is for Congress to modify the statutory basis for rate setting. Further, these programs have already been undertaken by the utilities responsible for serving retail customers; this is not an area appropriate for a wholesale generation and transmission provider.
4. Collaborative Dialogue - The March 16 memo discusses the need for PMAs to improve cooperation and “strengthen relations with other owners and operators of the grid...” Western and its customers have had a long history of collaborative problem solving, and customers may be more aware of how involved Western has been in regional planning efforts than the Secretary. Platte River believes that more of such collaboration is a good thing, but one of the frustrating ironies of the Secretary’s memo is that at six places in the memo he “directs” Western to make fundamental changes in its “role”—yet the customers that routinely collaborate with Western in a large number of venues throughout the West were never consulted nor had any knowledge of this change in direction until the memo was dropped upon them. The listening sessions seemed to be an effort to open a collaborative dialogue—probably better late than never, but customer skepticism about the *post hoc* nature of the process is understandable. The preference customer community is largely composed of municipal, cooperative and tribal utilities. Local control is of primary importance to preference customers. This bottom-up approach to defining service characteristics for local customers has been a successful business model for the municipal, cooperative and tribal utilities that form the core of the preference customer community. It has resulted in a whole population of small utilities that have survived in an era of industry consolidation because they are close enough to listen to their customers’ needs. Platte River hopes that the process that results from the listening sessions is truly collaborative. From a customer perspective the focus of the approach is critical. If DOE continues with a top-

down process that relies upon directives to the PMAs, it can expect continued customer resistance.

5. Western's Role - Secretary Chu's memo posits a "leadership" role for Western in many of the planning and reliability processes currently underway throughout the West. Few, if any, customers will object to Western actively participating in the necessary forums that promote an efficient, reliable, and flexible electric system. However, many of the referenced processes are collaborative in nature, and the directive that Western lead these processes harkens back to the above-stated concern of customers - will the PMAs continue to work as partners with local customers to address operational issues of mutual concern or are they to become vehicles for implementation of policy directives developed in isolation at DOE headquarters.
6. Costs - In any discussion about fundamentally altering the role of Western, cost responsibility needs to be addressed. Preference customers have come to rely on Western for large portions of their resource portfolios. Decisions made by Western can have a significant impact on Platte River's financial picture. For over 75 years power has been provided reliably at cost-based rates from hydropower projects in the West. The cost of service principle was set out by Congress in the Reclamation Act, and has been incorporated in the project authorizations pertinent to Western. Specific statutory allocation formulae are set forth to determine the costs recovered from power and water customers. Costs associated with public benefits, such as recreation and flood control, are identified and the relevant statutes require these costs to be removed from the rates charged power and water customers. Like the costs associated with recreation and flood control, many of the costs associated with the new role envisioned for Western do not directly benefit power customers. It is Congress that must identify and allocate the costs based upon the principle consistently endorsed by Congress for reclamation projects - the beneficiary (in other words, the user) must pay the costs incurred to provide the benefit.

Secretary Chu begins his memo by asserting that there are unprecedented opportunities to build a more secure and sustainable electric sector. That is undoubtedly true, although whether the initiatives being proposed are the best path to this end should be fully explored during a continued collaborative process. As to Secretary Chu's premise, Platte River would like to point out that the federal government has already taken advantage of an unprecedented opportunity to build a more secure and sustainable electric sector through the construction of the reclamation projects throughout the West. Understandably, preference customers are protective of this secure and sustainable component of the electric sector that is of such importance to the unique market we serve.

Sincerely,



Brian H. Moeck
General Manager