

## **Customer Comments and Western Responses from May 20 to 22 Customer Meetings**

Western scheduled meetings in Loveland, Colorado, Phoenix, Arizona, and Salt Lake City, Utah to update customers on the Operations Consolidation Project (OCP), staffing projections for the project and cost allocation methodology. Below are the customer comments received after the meetings and Western's responses to the comments.

**Irrigation & Electrical Districts Association of Arizona (IEDA) comment:** Why would there be a problem worrying about cost shifts if a 5-year average were used for estimating costs and collecting them but actual costs were then determined at the end of each year. Actual costs could then form the basis for a "true-up" by project by region. Probably in the form of forward credits, thus ensuring no project would subsidize another, either within a region or from region to region.

**Response:** First, Western remains committed to its practice of direct charging as much as possible. Only in instances where costs cannot be readily attributed to a specific power system or where it is not feasible to direct charge to a specific power system will Western allocate costs. With regard to the 5-Year Historical Allocation, Western believes it best mirrors past methodologies and staffing levels utilized within each region. As OCP is implemented, other allocation methodologies will continue to be assessed utilizing known measurable attributes.

As described in the cost allocation presentation, the historical method identifies the cost associated with each Operations office and the staffing needed to support the requirements for each of the Balancing Authorities. The 5-year average reflects the different regional staffing levels and further emulates the past allocation methods at the detailed power system level. Unless there were other mitigating factors, there would not be a subsequent true-up of cost. Lastly, prior to the beginning of each fiscal year the percentages would be reviewed to ensure current activity and any known operational changes were measured appropriately.

**IEDA comment:** Using a 5-year average guarantees cross-subsidization in any given year. Unless the numbers predicted for every project in both regions somehow came out under the formula exactly as the costs actually were incurred, a virtual mathematical improbability, cross-subsidization would occur because the estimated numbers would never match the actual expenditures.

**Response:** Western agrees that power systems should not subsidize one another and Western also contends that the use of a historical average as presented does not create a cross-subsidy. While some cost shifts will occur between power systems, this is a function of reorganizing our operations divisions that will occur regardless of which allocation methodology is used. As mentioned in the presentations, the method of cost allocation will be reviewed periodically and Western may adjust or transition towards a different allocation methodology. In the interim period however, the 5-Year Historical Allocation method minimizes the overall impacts as Western adjusts resources and work load.

**Colorado River Energy Distributors Association (CREDA) comment:**

It is our understanding that the initial “averaging” of labor and other costs is intended to be just that, an initial starting point, but that there would be a periodic adjustment to the formulas to reflect actual experience.

**Response:** Western will continue to periodically review other allocation methods which utilize further definable and measurable attributes. Those attributes could be SCADA points, schedules, tags, etc. or a combination with different weighting factors. In addition, as OCP matures and economies of scale are found and resource levels adjusted, those aspects will also be taken into account in the allocation process.

**CREDA comment:** The general statement “remaining portion of each option picked up by the power system in which the equipment resides” in Slides 22 and 23 discussed communication equipment methodology. A specific example of a CRSP facility replacement, allocating 84.5% to CRSP (as the “owning” power system) and then 15.5% split 50/50 between the regions and then by SCADA point. CRSP is unique in that it “resides” in both balancing authorities. With this type of allocation methodology, CRSP is receiving an “extra” allocation by virtue of cost allocations by project within RMR and DSW. If CRSP is the “owning” system, it should be a tier 2 and tier 3 additional allocation. Several years ago, CREDA raised the issue of “double dipping” for C&RE charges to CRSP because of the nature of CRSP receiving allocations not only from CSO, but also from RMR and DSW. That situation was resolved similarly to what CREDA is recommending here.

**Response:** In the case where CRSP facilities are being upgraded for OCP, the current proposed methodology would charge CRSP for 85% of the costs and the remaining 15% would be split 50/50 between the two regions. In turn, CRSP would pick up roughly 25% of the 15% split from each of the two BAs. CRSP will benefit from the OCP and therefore should incur its share. However, Western recognizes CREDA’s concern and is proposing that this second tier charge (roughly 25% of the 15% split from each of the two BAs) be offset by communication line lease revenues up to the amount of the second tier charge.

**CREDA comment:** Again, Western should give serious and due consideration to evaluation and implementation of consolidation of CRSP generation and transmission into a single balancing authority in WACM.

**Response:** This comment is outside the scope of the OCP effort, but Western is studying the impacts of the CRSP consolidation to its offices and to its Customers.

**IEDA comment:** The proposed 5-year average estimates of labor and other costs would be projected for FY 2008 for both DSW and RMR as against the actual costs allocated by project in those two regions. The net result was a cost shift of \$270,000 to DSW and away from RMR.

**Arizona Municipal Power Users’ Association (AMPUA) comment:** The report in Phoenix and in Denver and in Salt Lake announced there were no benefits to the Desert Southwest Area customers. In fact, the plan punishes and adversely impacts DSW customers by subsidizing the

RMR region to the extent of at least \$300,000. This is an adverse and negative impact and not a positive benefit.

**Response:** In response to various customer groups, the 2008 example was utilized to show the potential cost shifting impacts at the regional and power system level. That example only demonstrated one year. As resources retire, leave, get hired on, work overtime, changes occur in training requirements, travel, etc., costs for both regions flow accordingly. At consistent staffing levels those ebbs and flows can be lessened when reviewed over time. As mentioned previously, Western is committed to direct charging and will continue to work on further enhancing the allocation process during the OCP implementation.

**AMPUA comment:** What is the current actual itemized cost of operation of the DSW, the RMR and the other regions to be affected by consolidation? What is the cost being tracked by Western of the consolidation effort in terms of real money that is being tracked today for transparency purposes and to allow the customers to see real time what is happening? In each region what is the itemized projected cost after OCP and what are the programs for tracking costs and estimating costs of post OCP and the impact of such on each of the regions, but particularly the impact on the customers of the DSW?

**Response:** Western provided past regional Operations costs in the presentation covering the periods from 2004 – 2009, but continues to work through the other future costs. Decisions have yet to be made on common tools, software, and other areas which could impact cost. As such, the total future cost and benefits of projects such as sharing common software tools has yet to be defined. Western continues to believe that these projects will result in a net savings, which will provide cost benefits to Western's customers. As those cost estimates are refined and updated they will be made available. Lastly, to capture all OCP related costs separate work orders have been established and are being utilized.

**AMPUA comment:** AMPUA sees no DSW benefits of consolidation in theory or in practice; and, instead, sees only DSW cost subsidization of other regions; sees only increases in DSW costs of operation.

**Response:** The OCP will result in significant improvement to organizational effectiveness by reducing the overall resources required to develop and maintain multiple operations systems. The OCP will consolidate and optimize workload that will ensure compliance effectiveness of NERC and WECC reliability standards, as well as assure OATT requirements are addressed consistently and efficiently. Not only will Western gain internal efficiencies, but Western's customers will also experience future cost savings based on the long term benefits of integrated life-cycle management facility investments and a reduction in anticipated required resources through the sharing of common tools.

**AMPUA comment:** AMPUA admits that consolidating of some functions like WECC/NERC compliance is sensible.

**Response:** With the numerous new regulations concerning transmission services and operations activities, Western believes it is prudent to strategically plan for the existing and future

workload. Many FERC Orders (such as 888, 889, and 890), along with the Energy Policy Act of 2005 and the NERC Standards, all require the operations functions to operate under the same rules and use very similar procedures. By consolidating the similar operations functions of the Phoenix and Loveland offices into a single reporting structure, Western is able to better focus scarce resources in an effort to allow increased efficiencies including major reductions in reporting and auditing activities.

**AMPUA comment:** What are the benefits to DSW customers of traveling to Denver to do business? DSW offices were moved to Phoenix from Boulder City, Nev., as a convenience to customers (in terms of travel and affordability and time lost) in the DSW and not for the convenience of the employees of Western.

**Response:** Western does not propose to close the Phoenix office. The decision is to consolidate the operations functions of the Phoenix and Loveland offices by realigning the operations reporting structure of the DSW office under the regional manager of RM office in Loveland, Colorado. This proposal does not affect any of the remaining DSW office functions. All DSW office functions, including the realigned operations function, will physically remain in the DSW offices located in Phoenix, Arizona.