

CHAPTER FOUR:

‘The real recipe’: The Community of Transmission

A foundation of connections supports Western. To the uninitiated, the obvious connection is physical—the conductor that carries power along the transmission lines. The unseen bond between Western and its various customers, while not as apparent, is the foundation that supports the Federal power program.

In 2001, Western did business with 688 firm-power customers.¹ Together, these customers form a political force few movements can match. A journal of the western environmental movement, *High Country News*, marveled at this amalgam’s capability: “Environmental critics of Western have been unable to match the backlash generated by Western’s 600 customers. The environmentalists must travel a slower, longer, quieter path. And they have had to recognize the enormous political power that the intersection of cheap power, subsidized irrigation projects and long-time practices have created.”²

Examining the relationship between a single customer organization and Western does not offer a true indication of what the agency is all about. This chapter reviews a variety of connections as an insight to the importance of the customer to the agency. The stories gathered from individuals across Western’s service area provide the human element to 25 years of triumphs and setbacks.

Keep Your Friends Close

The year after Western’s birth, Western’s first administrator, Robert McPhail, reflected on the importance of partnerships, comparing his working with many different customers to following a recipe in a cookbook. Defying an old cliché, McPhail believed that many cooks could work together to produce a well-balanced Federal-customer menu: “The real recipe calls for many things. The basic ingredient for Western’s success is best exemplified by the close working relationship between preference customers and WAPA.”³

During Western’s first year of operations, the customers, on more than one occasion, wondered aloud if the new Federal agency would work. The Department of Energy’s first Assistant Secretary for Resource Applications, George McIsaac, spoke to public power customers in the

spring of 1978 to allay their fears: “In a fairly short period of time, you were faced with new institutions, new faces and new proposals... In fact, judging from comments that I’ve heard, the word ‘concerned,’ when applied to this situation, is mild. It’s the same as saying the people of Atlanta were concerned about General Sherman.”⁴



Western’s preference customers include towns like Morrill, Neb., above, and Lusk, Wyo.

After more than two decades, Western learned in the heat of the kitchen how to be a skilled chef. As of 2001, Western had more than 1,700 active contract agreements with utilities and power marketers in 27 states and Canada that include 688 firm power customers.⁵ Western also maintains more than 1,600 load-serving interconnections with 382 customers within its load control boundaries.⁶ Western maintains ongoing relationships with many organizations. These can be grouped into a handful of categories.

Individual Preference Customers

Western’s mission is most closely bound to rural co-ops, small-town and big-city municipal utilities. Individual preference customers include hamlets and metropolises across Western’s service area. They range from large municipal utilities like Los Angeles Department of Water and Power, Salt River Project of Phoenix and Sacramento Municipal Utility District to small rural co-ops and municipalities scattered across the upper Midwest. Native American tribes and Federal and state agencies have a “preference” to Federal hydropower marketed by Western.

In a 1999 Federal inquiry into the impact of electric utility restructuring on Western’s power allocation policy, one utility maintained, “One of the benefits of public power is local control. Our utility is a relatively new public-power entity, and our customers have a keen memory of how badly they were treated when decisions about their services were made remotely.”⁷ Occasionally, issues and policies can be too much for one local co-op to handle. To pool resources and strengthen their political clout, the smaller co-ops and municipals banded together to form the next category.



Parent Preference Customer Groups

Some customers combine their need for transmission and generation, technical expertise or political positions regionally to gain the benefits of economies of scale. These organizations include Arizona Power Authority, Colorado River Energy Distributors Association, Loveland Area Customers Association, Mid-West Electric Consumers Association, Northern California Power Agency and Wyoming Municipal Power Agency. Some of these organizations are eligible for preference power allocations and others formed to be the regional customer association.

Trade Associations

Western also maintains ties with the American Public Power Association, the trade association for municipal public utilities, and the National Rural Electric Cooperative Association, the trade association for co-ops.

Technical Organizations

Western forges links with regional and national industry groups as part of its effort to promote competition and reliability in the evolving electric utility industry. These organizations include EPRI, Mid-Continent Area Power Pool, North American Electric Reliability Council, and the Western Electricity Coordinating Council.



Western has partnered with EPRI on numerous projects, including studies on electric and magnetic fields.

Regional Transmission Organizations

RTOs have added a new wrinkle to the familiar transmission landscape. Encouraged by the Federal Energy Regulatory Commission in 1999, RTOs are still in development. No one is sure how they will impact rates and alter traditional partnerships, as the day may come when the RTOs overshadow existing institutions in importance to the customer. Western staff members participate in formation discussions and planning activities for a handful of RTOs, including Desert STAR and its follow-on organization West Connect, the Midwest Independent System Operator, the California Independent System Operator and TransConnect. Western staff is also monitoring development of the RTO West.

Investor-owned Utilities

Western works with many investor-owned utilities across its service area. The connections continue through power sales. By 2000, IOUs accounted for 4 percent of Western's customer base and 11 percent of its total revenues.⁸ Former Administrator Bill Clagett described the ground rules of this particular alliance: "WAPA's geography puts us in the midst of many non-Federal utilities with whom we are interconnected and with whom we must be good neighbors. We have, over the years, grown to know each other quite well and have established committees, power pools and coordinating councils to make our missions meld efficiently to mutual best interests."⁹

These ties are vital to maintain transmission system reliability, interconnection and transmission wheeling service. These connections need cooperation to flourish. This spirit blossomed in an America much different than today.

The Road Less Taken

In his study of the rural cooperative movement in Minnesota, historian Steven Keillor wrote that in modern America, mention of cooperatives "evokes a wistful nostalgia, like thoughts of a crossroad community bypassed by the interstate. But they were important to rural life a century ago, and centralized cooperatives are still vital to rural America."¹⁰

The rural electric cooperative movement grew out of this tradition at a time when citizens living in America's countryside were at their lowest, figuratively and literally. Passage of the Rural Electrification Act of 1936 lit the way for rural America to join the rest of the nation. Before President Franklin Roosevelt signed the REA, electric service in the West was a region of have-nots dotted with enclaves of haves. In California, almost 81,000 of the state's farms, or 54 percent, were electrified by 1935. However, the nation's heartland was still in the dark 50 years after Edison lit Wall Street. During the 1930s, the national black hole of electrification was North Dakota, where only 2.3 percent of its citizens enjoyed electric light.¹¹



President John Kennedy dedicated Oahe Dam in August 1962. It's part of the Pick-Sloan Missouri Basin Program, which helped to light up the Great Plains.

The arrival of the REA stimulated the electrification of rural America during the 1930s and 1940s. Water projects across the West also brought light as a secondary benefit. By the time President John Kennedy dedicated Pick-Sloan's Oahe Dam in August 1962, more than 95 percent of rural American homes had electricity.¹²

The spread of electricity across the country encouraged rural citizens to organize their resources and start their own co-ops. One example repre-

senting dozens is Wheat Belt Public Power District of Sidney, Neb. A gathering of interested locals agreed on Aug. 9, 1941, to pay a \$5 membership fee to form a local cooperative. By that December, the echo of bombs dropping on Pearl Harbor rippled eastward across the United States, and plans to build transmission lines were put on hold. The citizens around Sidney kept the home fires burning during the war years, but they remained in the dark.

With the lifting of wartime restrictions in August 1946, Wheat Belt PPD officially formed with no board members, no money and no members. However, support for a co-op was still there after five years. By August 1947, Wheat Belt served 319 customers, sold 390,264 kWh and carried a payroll of \$512 for three employees. That foundation was strong enough that by October 1948, the co-op built and energized its first transmission lines. In the late 1970s, Wheat Belt was one of Western's original 457 customers; by the 1990s, the public power district was one of more than 900 consumer-owned rural electric cooperatives serving 11 percent of the American people.¹³

After the Second World War, the rural electric movement took steps across the West, fueled by the Bureau of Reclamation's dam-building projects. A point man for Reclamation during this period was Andrew Bryce, who started his Federal career as a surveyor for Reclamation before transferring to Western in 1977. Working primarily in the Upper Great Plains, Bryce was the customers' contact out in the field when Reclamation surveyed land to build transmission lines. A visitor to many different

properties during his career, Bryce claimed he was most proud of the personal bonds he forged with farmers, municipalities and Native American tribes. In 2000, he discussed Western's approaches to customer relations:

Landowner goodwill; Western [sought] that from the very first. They really took the feelings of the landowners into consideration.

I spent a lot of time on the ground talking to people when Western started. Up in the Billings Area Office they held meetings in school gymnasiums and places like that. You always had to have them at night after the farmers got through in their fields. We tried to present what we were going to do and what it would entail.

One of the things we did right was listen to the landowners and work out their concerns. We changed the alignment to fit the landowner desires; we changed the size of the structure so we could span clear across their fields without putting the structure in their fields. Up in South Dakota, in one place we raised the transmission line high on wood poles about as high as you could possibly get just to go over the tops of some big cottonwood trees in a draw, because the landowner wanted to keep the trees to shelter his cattle in the winter time.¹⁴

For many, the construction of the Pick-Sloan dams in the Upper Great Plains was the harbinger of better times. However, a few years into the program, in 1952, the Department of the Interior advised all its long-term contract customers that in spite of Pick-Sloan, Reclamation could not guarantee long-term power. This pronouncement forced individual cooperatives to band together to build generation and transmission facilities that would maintain the power supply. The possibility of everything going back to black was a real, nagging possibility by the mid-1950s. In 1993, Robert Risch, an engineer for Tri-State Generation and Transmission Association, recalled, "Nowadays, to say that we are going to run out of power in two years would scare the life out of you, but back in those days it was kind of the way of living."¹⁵

It was that uncertainty that pushed Upper Great Plains customers into the next generation of cooperative groups. Thanks to customer initiative, by the time of Western's birth 20 years later, those concerns were but a memory.

In Three States . . . And Beyond

Growing from a scattering of co-ops on the High Plains and in the mountain ranges of the West to a major power player, Tri-State is among the most successful examples of regional cooperation. In 1952, 26 rural electric cooperatives and public power districts joined to create a central source of wholesale power serving 41,000 end-use consumers. Through an aggressive business strategy, it is now an energy force from Wyoming to New Mexico.

In the early 1950s, if a co-op wanted a guaranteed supply of power from Reclamation, it would sign a long-term contract and pay for all the power it agreed to buy, whether it used the power or not. Since the rural electrical cooperative movement was less than a decade old, each co-op's board of directors had no way of knowing what the region's future loads would be, or how to pay for them. The possibility of joint action and economies of scale encouraged the co-ops to form



Co-op customers like this woman entered the electricity age—and even checked their own meters to save money.



Tri-State Generation and Transmission serves member co-ops in Colorado, Wyoming, Nebraska and New Mexico from its Westminster, Colo., headquarters.

Tri-State. Forming a G&T also offered the individual co-ops the chance to share power among themselves or sell excess thermal power as a group to level future costs.¹⁶

The co-op movement gathered strength by the 1960s. An era of new plant construction began by the mid-1960s, coinciding with reduced kilowatt-hour costs to consumers. Tri-State saw this climate as an opportunity to build generation facilities and transmission lines.¹⁷

Giant Steps

An improving regional economy during the late 1960s and early 1970s led Tri-State to build new transmission facilities and develop an additional power supply beyond the Bureau of Reclamation allocation. The fuel of choice was coal, not hydro.

Leland Olds, former chairman of the Federal Power Commission, first proposed integrating fossil fuels and Federal hydropower in October 1959 to the second gathering of the Mid-West Electric Consumers Association in Rapid City. Employing the catch phrase “Giant Power,” Olds’ plan to merge steam-generated power with hydro was, according to Ken Holum, “a real landmark in the Missouri River Basin energy field.”¹⁸

Drawing on large coal reserves in the Upper Great Plains, Tri-State and several other public power entities built two coal-fired power projects—the Craig and Laramie River stations—under the aegis of the Missouri Basin Power Project. The Missouri Basin Power Project consists of Tri-State, North Dakota’s Basin Electric Power Cooperative; the Western Minnesota Municipal Power Agency, Lincoln Electric System of Lincoln, Neb., Heartland Consumers Power District and the Wyoming Municipal Power Agency. It’s one of the largest consumer-owned energy organizations in the nation. MBPP provides electricity to more than 100 rural electric cooperatives and 80 municipal electric systems that serve 2 million consumers in Colorado, the Dakotas, Iowa, Minnesota, Montana, Nebraska and Wyoming. Completed in 1982 near Wheatland, Wyo., Laramie River Station cost \$1.6 billion and produces 1,650 MW. Laramie River is one of the largest and most efficient consumer-owned power supply projects in the United States.¹⁹

With demands for power increasing during the mid-1970s, Tri-State built its first power-plant, the Republican River Station in Wray, Colo., to meet summer loads. The shining example of Tri-State’s independent nature was construction of the nation’s first east-west power grid tie at Stegall, Neb. Despite following its own path, Tri-State Board Member David Hamil reminded those present at the Stegall opening on Dec. 7, 1976, “by joining together we could accomplish things we could not do as single entities.”²⁰ Hamil uttered those words before throwing the “knife switch” that brought the AC-DC-AC tie on line nearly eight years before Western completed its own Miles City Converter Station.

By the late 1970s, Tri-State was an organization on the move, and Western was a new kid on the block. Peter Ungerman, head of the Loveland-Fort Collins Area Office, recalled Tri-State’s wariness regarding Western’s ability to handle the job. This suspicion turned into an outright power play when Tri-State produced a document challenging Western’s authority:

We were having a day-in, day-out fight with Tri-State. Several mornings, I'd get up and say 'Jeez, maybe I'm just grouchy, maybe it's just me.' I found out later that (Bob) McPhail was very appreciative. We were out in California one time and we were fighting a customer group over something to do with the Central Valley. It was obvious that these guys were really taking Western to task and Bob said, 'Peter, you just think you got it bad. These are our friends.'

We sure as hell didn't have any friends in the first year. It was a dogfight, primarily for existence. They had been told they had a letter, signed by the Bureau of Reclamation that gave to Tri-State the operation of the transmission lines. So, that's what they've got. They've got a letter from an authorized source saying that on such-and-such a date we (the Federal government) are out of the power business.

I thought, 'Well, we've got to countermand that.' The last thing I wanted to do was look like a power-grabbing bureaucrat, but on the other hand, I figured they're not going to let me have this job—give me that green check—if I give away every feature we own. We got into name calling, letter writing—barely civil. It's so ironic now that our lieutenant, Frank Knutson (a Western original in the Loveland-Fort Collins Area Office), is over there and is the best general manager public power has ever had.²¹

Good relations with one of the largest customer-owned utilities were a priority with Western managers, but it did not happen overnight. An internal game plan from the early 1980s, “Western’s Efforts to Develop Good Working Relationships with Tri-State,” outlined the importance of Tri-State to Western. According to the document, the Federal agency sought new agreements recognizing Tri-State’s status as a major area utility and the importance of sharing technical talent to help Tri-State test and energize new substation facilities and expedite a new contract resolving a transmission transfer mess.²²

By the mid-1980s, Tri-State and Western worked to resolve the twin dilemmas of increasing demand and diminishing resource margins. The two organizations collaborated on an on-time and in-budget completion of Tri-State’s 55-mile portion of the Hayden-Blue River transmission line on Colorado’s Western Slope and upgraded 22 miles of the Kremmling-Windy Gap line along the Continental Divide.²³

In 1992, Tri-State grew with new territories when it acquired some of Colorado-Ute Electric Association’s transmission assets and load. Eight years later, in 2000, the G&T outgrew its name when it merged with Plains Electric Generation and Transmission Cooperative of Albuquerque. Tri-State’s step outside its three-state area garnered an additional 12 cooperatives in New Mexico for its distribution system network. The deal also allowed Tri-State to own and operate the 250-megawatt Plains Escalante Generating Station in northwestern New Mexico.²⁴



Archaeological work was part of the Kremmling-Windy Gap project, a collaborative effort of Tri-State Generation and Transmission Cooperative and Western.

Reclamation powerplants generate almost a third of the energy Tri-State sells to its 32 member systems. In 2001, Tri-State was Western's third largest customer (behind Salt River Project of Phoenix and the Sacramento Municipal Utility District) in firm energy sales, with purchases totaling almost 1.9 million MWh. That year, Tri-State ranked second in revenue with \$4 million in total firm-power sales and providing Western 7 percent of its firm power revenues.²⁵

Tri-State is not Western's only powerful G&T customer. Based in the northern Great Plains, Basin Electric Cooperative started from a position of strength, only to get stronger.

Basin Electric and Western

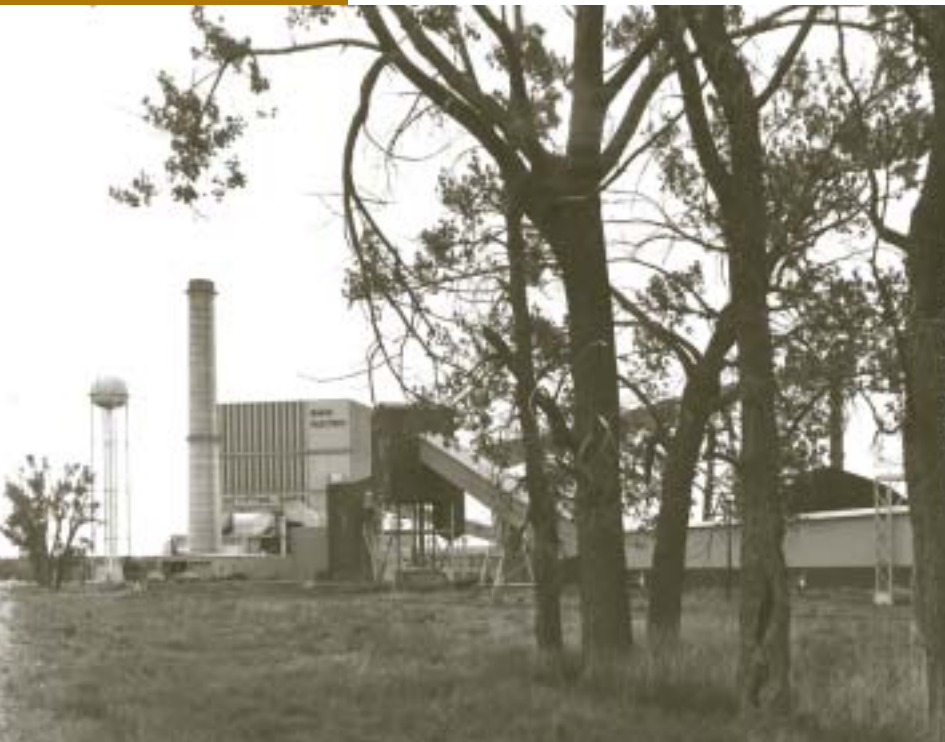
Basin is a consumer-owned regional cooperative whose member cooperatives supply power to more than 124 rural electric systems in nine states from North Dakota to New Mexico.

Created after more than 30 months of planning and study, Basin Electric was born in May 1961 when rural electric leaders representing 67 distribution cooperatives from eight Missouri Basin states joined together. Basin's formation was based on three primary goals: building large-scale generation; maintaining "postage stamp" rates for delivered power, (a postage stamp rate is a standard payment to transmit power anywhere on a utility's transmission grid) and keeping the cost of electricity as low as possible.²⁷

Basin also operates nearly a million kilowatts of generating capacity on behalf of participants in the Missouri Basin Power Project. An illustration of Basin and Western's ability to work together, and the evolving nature of the transmission systems, came in 1982. Western contracted with Basin Electric to purchase 185 MW of power to deliver to Western customers in California. To deliver the power, the agency signed a four-year purchase contract from 1986 to 1990 to establish a firm

transmission path across the Montana Power Company and Bonneville systems. As part of the contract, Western and Bonneville agreed to work toward economic energy exchanges, minimizing construction of new generation by taking advantage of "load diversity" and making full use of Western's AC-DC-AC Miles City converter station.²⁸ Former Sierra Nevada Regional Manager Jerry Toeynes recalled there was "some resentment" among the 72 customers Western dealt with in his region over contractual arrangements once Basin's power got to California. However, Toeynes believed, "We will never reach Utopia, but we try to work for what's best for the most."²⁹

Western also shared Robert McPhail with Basin. After leaving the administrator's job at Western in 1984, McPhail accepted the job of general manager with Basin the following year. Economically, the Upper Great



Basin Electric operates several coal-fired powerplants in the Upper Great Plains.

Plains hit rock bottom by the mid-1980s. Coming on board in 1985, McPhail was faced with downsizing staff while also reducing wholesale rates from 56 to 35 mills per kilowatthour. Under McPhail's leadership, Dakota Gasification Company, a subsidiary of Basin, purchased the financially troubled Great Plains Synfuels Plant in Beulah, N.D., in 1988. The synfuels plant was a wise acquisition. It provided \$30 million in annual benefits to Basin and its members. By the close of the century, Basin owned and operated generating and transmission resources with a supply capacity of 2.3 million kilowatts.³⁰

Since their beginnings, Tri-State and Basin aimed high and became major forces in the regional transmission system. However, not all ambitious co-ops could make it into the big leagues. In those cases, all Western could do was stand back and watch events unfold.

For Those No Longer with Us

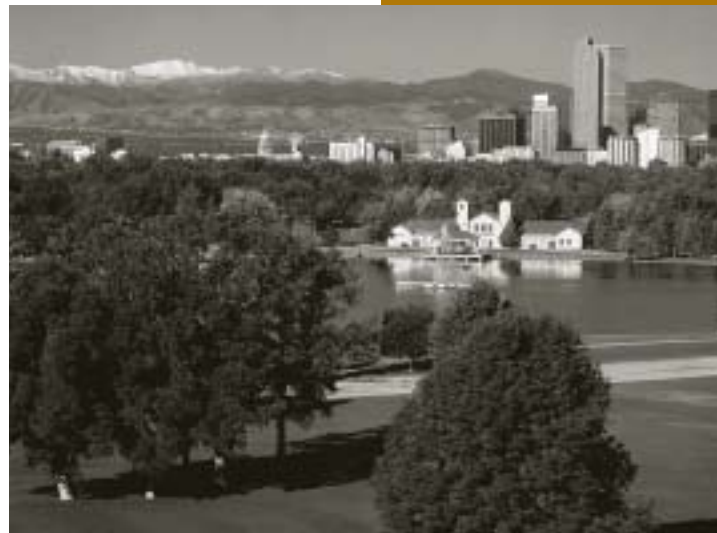
Playing for high stakes, and losing, often results in a messy aftermath. In the mid-1980s, one of the most controversial co-ops in the history of the movement, Montrose's Colorado-Ute Electric Association Inc., worked alongside Western to complete the Bears Ears-Bonanza transmission line and the contentious 345-kV power line from Rifle, Colo., to San Juan, N.M. Despite its ambitions, within a few years the cooperative filed for bankruptcy.

From the 1960s to the 1980s, Colorado-Ute was intent on completing coal-fired plants at Hayden and Craig, Colo., to supplement its CRSP allocation. Colorado-Ute was so committed to the future of coal that it laid off its hydropower allocation from CRSP to use otherwise-surplus capacity from new coal-fired powerplants.

At its zenith in the mid-1970s, Colorado-Ute served 600,000 people in more than half the state, including parts of the Denver metropolitan area. The association's final financial report tallied net revenues of \$198 million with sales of 6.4 million megawatthours.³¹

Colorado-Ute's tendency to attract controversy rubbed off on Western during one important project. From 1977 to 1987, Western worked with Colorado-Ute on the \$100 million Rifle-San Juan 345-kV line. Then-Administrator Bill Clagett justified the construction of the line as a regional necessity: "We sell two times as much power in Colorado as we generate here. The existing 230-kV line was beginning to get pretty well overloaded. We needed this line to reliably perform those transactions."

Originally proposed as a double-circuit project, the transmission line created a controversy that divided residents across Southwestern Colorado, as an unlikely alliance of "conservative ranchers and long-haired activists" fought construction. Their unofficial leader was the Western novelist, Louis L'Amour, who vehemently fought the line passing over his property. The author of volumes celebrating America's mythic described the impact of the possible view out his back window: "I can't sit around trying to write looking at these monsters. That's what they (transmission lines) look like—monsters from Mars." L'Amour's monsters conquered on Oct. 14, 1987, as Western and Colorado-Ute celebrated the opening of the downsized single-circuit line.³²



In its heyday, Colorado-Ute's service territory spanned half the state, including parts of metro Denver.

The Rifle-to-San Juan project was the last positive event for Colorado-Ute. The cost of building the line, with additional plant construction in an oil-shale economy gone bust, was too much for the co-op. For most of the late 1980s and early 1990s, the financially beleaguered co-op talked merger with Tri-State and other interested G&Ts. In 1991, after three years of off-and-on discussion, Colorado-Ute agreed to a reorganization plan involving Tri-State and two private utilities, Public Service Company of Colorado and PacifiCorp, that divided the electric load, assets and liabilities. The agreement split Colorado-Ute's 100-MW hydro allocation from Western to between Tri-State and four former members of the defunct organization. Tri-State officially absorbed the association in April 1992.³³

Among Western's closest working relationships are those rooted in the regional traditions of cooperation. However, most of the agency's customers are split between small-town America and the sprawling cities and suburbs of the modern West.

Municipals

A new kind of urban development flourished across the West during the 20th century. Sparked by the automobile, sustained by a network of highways and roads, the towns and cities of the West began to grow after the Second World War and never stopped. When Western began operations in the late 1970s, the West was reeling from the oil crisis and locked in a bust cycle. By the close of the century, new technologies and a more balanced regional economy brought more money and more people to the region. Approximately 35 million Americans receive their electricity from a public power utility. Of the 10 largest American cities with publicly owned electric utilities, three—Los Angeles, Sacramento and Omaha—are in Western's service territory. The majority of the nation's 2,000 publicly owned electric utilities only distribute power, but the larger municipals both produce and transmit electricity.³⁴

During the last 25 years, municipals have represented the bulk of Western's power sales and the majority of its customer base. In 1978, Western's first Annual Report counted 210 municipals, or 46 percent of its overall customers. The importance of municipals never diminished, and by 2001 municipals comprised 42 percent of Western's customer base. In Western's service area, the top 25 municipal customers in both power revenues and energy sales are primarily in California. These include Sacramento, Santa Clara, Palo Alto, Redding, Roseville and Los Angeles. The municipal utility buying the most energy from Western is the Sacramento Municipal Utility District with an average of more than 2 million kWh purchased each year during the 1990s.³⁵

Established in the early days of the 20th century, municipal utilities were a point of civic pride in the communities they served. Formation of community-owned utilities followed no set pattern in the West. Communities as different as conservative Los Angeles and pro-union Seattle both enjoy municipal power. California's capital, Sacramento, has a long history of power innovations and a tradition of fighting for the public's right to run its own power system.

Sacramento Municipal Utility District

Sacramento had years of experience with electricity before the protracted birth of its municipal utility district in the 1940s. One of the West Coast's first demonstrations of the electric light came to Sacramento on Sept. 8, 1879. However, it would be a long time before all the city's citizens could economically enjoy the benefits of electricity.

During the early 1920s, the United States Congress passed legislation allowing cities to establish municipal utilities. The legislation established that citizens of a city could vote to establish nonprofit electric companies owned by the people. At the ballot box, Sacramento's citizens supported creation of their own municipal utility district on July 23, 1923. Establishing a municipal utility district came with a set of hurdles; the first was finding enough money to buy the distribution system from the current owner, Pacific Gas & Electric Company. During the 1930s, a series of bond sales provided enough money to purchase the system, but PG&E fought the sale. After 12 years of court battles, in April 1946 a California Superior Court judge ordered PG&E to transfer title to Sacramento's electric distribution system for \$13 million.³⁶

SMUD grew to be a model of a successful municipal utility district. By 2001, SMUD generated, transmitted and distributed electric power to a 900-square-mile service area that includes all of Sacramento County and a portion of Placer County, Calif.

But Western and SMUD haven't always seen the issues from the same side. The nation's largest power marketing administration and one of the West's most influential municipal utility districts met head-on in court over one important point of law. Since 1952, SMUD held an allocation of 360 MW from the Central Valley Project, or approximately one-third of all allocated CVP firm power. Filed two years before Western's birth, in 1975, the *United States of America v. Sacramento Municipal Utility District* lawsuit resulted from an April 1974 decision by the Secretary of the Interior to increase rates for power sold to CVP customers. Because of the seasonal limit on the availability of water, and resulting energy from the CVP, Western had to purchase power to meet its contracts with CVP customers, including SMUD.

SMUD countered that its firm-power contract entitled it to purchase power at rates based solely on the cost of CVP generation. The utility refused to pay for its portion of the increased rates, and the United States filed a complaint asking for a declaratory judgment, or, an interpretation of the contract by the court. The contested money went into an escrow account pending resolution of the case.³⁷

The district court supported Western's position that there were no Federal issues, granting judgment in favor of the government. On appeal, the Ninth Circuit reversed sending the case back to Sacramento for trial. Western's legal team determined that if the case had gone to court, and if SMUD won, other CVP customers would have had to pay a drastically increased rate to cover the purchased power costs that SMUD did not have to pay. Settlement was the best way out of the situation, and on April 15, 1983, both sides agreed to the following terms:

- dismissal of the lawsuit;
- extending SMUD's power contract through Dec. 31, 2004, instead of the 1994 expiration;
- giving SMUD a right to a percentage of CVP power until 2014;
- money in the escrow account reverted to SMUD; and
- an agreement by SMUD to pay the CVP composite rate starting in 1984, including purchase power costs, subject to certain provisions that expired in 1984 and 1988.



One of Western's largest municipal customers, the Sacramento Municipal Utility District has earned a reputation as a leader in renewable energy and conservation programs.

Western also agreed that SMUD rates would be based on project-related costs and not market based rates.³⁸ Administrator McPhail recalled that the settlement was equitable compared to potential court costs. His fondest memory of the entire litigation was meeting with SMUD chairman John Kehoe in California Congressman's Vic Fazio's office "to tell the press that the agreement was fair."³⁹

Western and SMUD have also worked toward the future in other areas. In 1984, Western presented SMUD with a Conservation and Renewable Energy award for its photovoltaic development, energy-efficient building design and load management practices. SMUD also participated in the construction of the PV roof over Western's Sierra Nevada Regional Office building in Folsom, Calif. Over the years, the utility has earned a reputation as a strong supporter of alternative energy sources. In 2000, SMUD received an international Energy Globe Award for its continuing installation of photovoltaic systems.

While California rushed toward deregulation by the close of the 1990s, two notable city-run utilities, Sacramento and Los Angeles, avoided rolling blackouts and promoted conservation with "near-religious fervor." Mike Weedall, a manager with SMUD, told the *New York Times*: "Over the last 10 years, we have conserved enough energy to save us the equivalent of having to build one huge new powerplant. We like to say we built the conservation powerplant."⁴⁰

As Sacramento was relatively unaffected by the rolling blackouts across Northern California in the winter of 2000, many pointed to Sacramento's transformation from private to public power 60 years earlier as an example to create a new generation of municipal utility districts. In the darkest days of the California power crunch, some of the leadership of the large California community to the west, San Francisco, spoke openly of forming a municipal utility similar to the model Sacramento had successfully followed for years.

Not every municipal burns the bright lights of the big city well into the night. In places like Grand Island, Neb.; Alta, Iowa; and Thatcher, Ariz., the pace of life is slower. In rural America, there is a great appreciation of the benefits of electricity. These citizens understand it is the lifeline that supports businesses, schools and homes. As a new century began, that lifeline was about to take another shape.

A Path of Uncertainty: Regional Transmission Organizations

The talk of the power industry during 2000 and 2001 came down to three letters—RTO, or regional transmission organizations. Western was not directly subject to the Federal Energy Regulatory Commission's Order No. 2000 that launched the age of the RTOs on Dec. 20, 1999. Nevertheless, Western voluntarily participated in efforts to develop RTOs within its service territory. By spring 2000, Western found itself involved in the formation of several proposed RTOs and monitoring the creation of others. They included: the California ISO based in Folsom, Calif.; the Desert Southwest Transmission and Reliability RTO, or DesertSTAR, in Arizona (later abandoned in favor of the for-profit WestConnect RTO); RTO West in Portland, Ore.; the Midwest Independent System Operator in Indianapolis, Ind. and the Crescent Moon RTO of Sioux Falls, S.D.

FERC strongly advocated RTO development, claiming they would be vehicles for improved system reliability, enhanced management efficiency and reduced operating costs. Order 2000

encouraged public utilities (investor-owned utilities with interstate transmission) to join RTOs by October 2000.

There have been some differences of opinion over Western's participation in RTO creation. Lloyd Greiner believed, "If Western is forced to unbundle the transmission and start providing it under one type of contract and generation under another type of contract, I think in the long-term that's a very good argument for Western to get out of the transmission business. If you turn the ownership of the transmission system to a single entity operated by a single board, but truly a transmission company, the Federal power will still be marketed. Western will still set rates and market the power, but the operation and control of the transmission could be turned over to a private entity. The customers will have to go to the generator to pick up the power."⁴¹

Western's administrator during the launch of the RTOs, Mike Hacskaylo, could not deny that this new wrinkle could alter Western's mission, but it was not in Western's and the other PMA's interest to block change. "In part, I think it (RTO formation) is (in Western's interest), because that's where the Secretary (of Energy) said we are going; that's the policy direction. But, also it is a model that can work, if the cost shifts are controlled."⁴² Eliminating the practice of "pancaking" transmission rates also promises to make it more attractive to buy and sell power over longer distances.

Hacskaylo, in numerous settings, continued to remind both employees, customers and industry observers that Western would join an RTO only when it made business sense. In this vein, late in the summer of 2002, Western's Upper Great Plains Region began studying the costs and benefits to it and to its customers of joining MISO. Much of Western's survival over the past two decades is due to planning in cooperation with its customer base. It is a tradition that the agency will draw on as RTOs develop.

Nature Lovers

Another Western program required the agency to walk a fine line between environment stewardship and selling the maximum amount of energy possible. On April 19, 1991, Western proposed an Energy

Planning and Management Program to promote long-term energy planning and efficient energy use, and to support those policies through power resource allocations designed to enhance resource certainty and stability. Western's program required more than 600 publicly owned utilities to add renewable resources and energy efficiency to their planning procedures or face forfeiting their right to buy cost-based Federal hydropower.⁴³

By legislative decree, the integrated resource planning feature of the EPAMP proposal was fine-tuned a year-and-a-half later. On Oct. 24, 1992, President George Bush signed into law the Energy Policy Act of 1992. Section 114 of the Act required Western's customers with long-term



The integrated resource planning requirements encouraged Western customers to consider renewable energy options such as wind power.

firm power contracts to prepare and implement individual integrated resources plans. Western adjusted its proposed program to reflect the IRP provisions of this law. The IRP requirement brought changes to co-ops and municipal utility operations. Under IRP rules, utilities had to open their planning procedures to broader public involvement; compare traditional power sources such as coal-fired power plants to alternative sources such as wind, solar, cogeneration and energy efficiency; use those alternatives with the least economic and environmental costs; and monitor both economic and environmental performance. Western also decided it would use IRP principles when purchasing supplemental resources. This included accurately identifying all practical energy efficiency and supply resource options and full public participation.⁴⁴

Administrator Clagett believed in IRPs. As the Federal proposal made its way into customer consciousness, on May 21, 1993, Clagett told a gathering of Western's managers and supervisors, "Sure, we've taken our customers further than they wanted to go. We've also been cited as forward thinking and innovative. We need to continue to be innovative and to take risks as we respond to changes in society and in our industry."⁴⁵ Clagett was clear that "utilities that don't do IRPs will not be prepared, economically or technically, for the changes of the future. Ask your customers what they want. Lead them further than they need to go."⁴⁶



Western employees such as Clarence Council, right, met with customers to advise them on IRP requirements and ways to improve energy efficiency.

Western points to the example of the "friendly" IRP process as developed by the Municipal Energy Agency of Nebraska. Through its IRP, MEAN monitored its costs of purchased power, investigated emerging high-voltage AC and water-heating technologies and explored other ways to fine-tune the transmission system.

Getting customers to look at new ways of saving energy took a great deal of personal interaction. For half of the 1990s, Susan DeBelle criss-crossed Western's service area on behalf of Western's Energy Service Program. Her travels as an Energy Services specialist took her from the backroads of Montana to the boardrooms of the California power industry. DeBelle spoke to the many miles and moods the Energy Services Program covered, "The way we defined ourselves at the time was helping our customers help their cus-

tomers save energy," she said. "For example, teaching our customers that when a new business came to town, or wanted to stay there, how you could help them become profitable. A supermarket could upgrade its freezer department so it saved energy. Freezers suck a lot of energy and the costs are passed on (to consumers in higher grocery costs). Supermarkets are highly competitive businesses—it's like one cent out of every dollar goes to profit. We helped customers understand the more you can help individual businesses, the more likely they can stay in town."⁴⁷

Despite a changing utility industry and changing national budget priorities, IRPs continue to save kilowatthours and dollars and helped introduce more energy-saving technologies to the lives of the customer.⁴⁸

An Out-of-Agency Experience

Dwindling budgets will make people and agencies forget about traditions and longstanding animosities in favor of working together for mutual benefit. By the mid-1990s, Federal dollars dry-

ing up pushed the Corps and Reclamation to fund the operations and maintenance of Federal hydroelectric facilities. The ultimate beneficiary, the customer, also had to shoulder a greater funding burden to keep the projects running. Deregulation also pushed both agencies and their customers to reduce costs to keep in the race with private power.

Political mandates always direct the fortunes of Federal programs. To get things done that benefit both the agency and the customer, Western has made some very close friends who have not shirked from fighting some of the agency's battles.

The Voice and the Hands

Western also deals with trade and political organizations on a regional and national level. Two groups, the National Rural Electric Cooperative Association and the American Public Power Association, represent the concerns of preference power customers nationwide. Within Western's service area, two groups of note—Mid-West Electric Consumers Association in Wheat Ridge, Colo., and the Colorado River Energy Distributors Association in Tempe, Ariz.—act on behalf of power customers in the Missouri River and Colorado River basins respectively.

In the nation's heartland, the Mid-West Electric Consumers Association is the voice of rural electric cooperatives and municipal utilities in the upper Midwest. Created in 1958 in Sioux Falls, S.D., members of the fledging consumers group immediately went to work on solutions that persuaded the Bureau of Reclamation to extend its power supply commitments into the mid-1960s. Since that time, Mid-West Electric Consumers Association grew to represent more than 300 systems serving more than 3 million consumers in the Upper Great Plains.

Ken Holum was one of the giants of preference power in the Missouri Basin. Holum started, or had a role, in most major regional customer organizations in the Upper Great Plains. Holum was Mid-West's first executive director and later participated in the creation of the fossil-fuel cooperative organization, Western Fuels Association. He also took part in establishing East River Electric Co-op of Madison, S.D. Holum left the Upper Great Plains in the early 1960s as Assistant Secretary for Water and Power in the Department of the Interior during the Kennedy and Johnson administrations.⁴⁹ In a 1973 speech, he stated that the ties between consumers and Federal entities were a partnership that always needed improvement. "Without downgrading the Tennessee Valley Authority or the program of the Bonneville Power Administration or the working relationships between preference customers and Federal power marketing agencies in any other region of the country, I am convinced that we have the very best program right here in the Missouri River Basin—when we have realized its complete potential."⁵⁰

Holum noted in his autobiography that the creation of Mid-West was a reaction to Assistant Secretary Aandahl. "In effect, each preference customer was told to go and see the friendly investor-owned utility in its area and begin buying kilowatthours," he said, adding, "The consumer-owned electric utilities knew that they had work to do—and they had to do it quickly."⁵¹

After Holum left the executive directorship of Mid-West, Fred Simonton served as a one-man organization for 22 years, from 1964 to his death in 1986. Simonton lobbied, spoke and battled on behalf of the Missouri River Basin's customers in the region and in Washington. Western's first administrator, Robert McPhail, said it was Simonton who encouraged him more than anyone outside of the Department of the Interior to take the reins of the new agency back in the summer of 1977.⁵²

Under Simonton's leadership, the Denver-based Mid-West placed itself in the middle of a number of preference power struggles over the years. On its 25th anniversary, Simonton recalled how Mid-West typified "creative regionalism at its best" when its membership first came together:

Lee Olds (Leland Olds, former chair of the Federal Power Commission and a champion of consumer-owned power) explained to Mid-West members in 1959 how the rural electric cooperatives, the municipal electric systems and the public power districts could get together and in partnership with the Federal hydro and transmission systems, supply themselves with electricity on a region wide basis.

The pioneers in this program worked out an arrangement with the Bureau of Reclamation for supplemental power supply. This gave breathing room for preference customers to establish the Missouri Basin Systems Group, your planning organization with the Federal government participating. You established the Missouri Basin Systems Group and a pooling agreement between the Bureau of Reclamation and the preference customers.

*The pooling agreement made the Federal transmission system available for delivery of power generated by the preference customers, and for the integration of Federal hydropower with non-Federal steam. The pooling agreement, and now the established Joint Transmission System, permitted the construction of Basin Electric's first and second units—and the distribution of that power throughout the entire area served by the Bureau of Reclamation.*⁵³

Ken Ziegler served for 29 years as Basin's manager of Communications and Government Relations. In 2001, he remembered Simonton in action, calling him "an outstanding servant of the people" who "would keep cajoling to get people to work together; he never gave up." According to Ziegler, those talents were particularly useful in bringing together co-ops and municipal power districts in the Upper Great Plains to voice their opinions on issues that would unite both sides: "The co-ops were much more disorganized as separate groups. The municipals had more structure. Fred got both sides to work together—he had the ability to convince the co-ops and the munis that the picture's bigger than the sum of the parts."⁵⁴

Gary Williamson, general manager of Central Power Electric Cooperative of Minot, N.D., and former president of Mid-West Electric Consumers Association found that Mid-West evolved from a customer sounding board discussing rates and political squabbles to become a forum representing a number of different regional interests. "Mid-West has truly become the voice of the Upper Missouri Basin regarding resource issues, and aside from the millions of dollars our association has saved the consumers by holding off hydro rate increases and protecting the preference clause, the major accomplishment of Mid-West has been the forums created for a vocal and highly public exchange of information for the good of the customers."⁵⁵

Williamson believed that Simonton's "gifted mind held together the complex and unseen web which represents Mid-West's solidarity and strength."⁵⁶

So close is the bond between Mid-West and Western that the only major rift in 25 years came early in the partnership. In 1978, Bill Clagett pushed for legislation creating a revolving fund for the new agency. Fred Simonton agreed with the concept of a revolving fund, but believed that the rest of the language in the proposed legislation was anti-preference customer. For two years,

the difference of opinions played out in Denver and Washington before the revolving fund for Western died on the floor of the House of Representatives.

Since Simonton's death, Mid-West has fought two attempts to sell off the PMAs and a number of different assaults by Federal budget authorities and Presidential administrations seeking to alter Western's funding structure. Under the leadership of Tom Graves, it remains a strong gauge of customer opinion in Western's service territory.

Colorado River Energy Distributors Association

There's a long tradition of going for your guns over water in Arizona. Men have fought and died over the rights to a trickle of moisture at the bottom of an irrigation ditch. Fussing and feuding over the most precious resource of the desert escalated to the skies when power lines began to criss-cross the horizon.

Emotions over water and hydroelectric power run deep in Arizona, but in the other five western states represented by the members of the Colorado River Energy Distributors Association the desire to harness the rivers energy is equally as fierce. Las Vegas, Phoenix, and the up-and-coming communities of Western Colorado all want a piece of the Colorado River, and CREDA injects a note of unity among CRSP power customers in Colorado, Nevada, New Mexico, Utah, Wyoming and Arizona.

According to one present at CREDA's creation, Leroy Michael of the Salt River Project, the association's original guiding principle was "maintaining the value of the hydropower resource for southwestern consumers under the existing marketing criteria."⁵⁷

Founded with a little more than a half-dozen members in 1978, by 2001 CREDA consisted of 155 voting members in six states in the Colorado River basin. CREDA members served nearly 3 million electric consumers in those six states. CREDA's members use more than 85 percent of the power produced by the Glen Canyon and Flaming Gorge dams and other features of the CRSP.

CREDA's current Executive Director Leslie James recalled that Western and CREDA shared "a checkered history" regarding rate increases to CRSP customers. James admitted that relations between the groups were never very good until 1992 when "a milestone" work program agreement served as the foundation for future CRSP power rates. She noted that since 1992, the rate package saved CREDA members money as less of the annual budget went toward litigation surrounding rate hikes.⁵⁸

Similar to every other partnership over the years, not everything has gone smoothly between Western and CREDA. James observed that an unintended result of Transformation was friction between the two regional offices, the CRSP Management Center and Western's CSO regarding the administration of CRSP.⁵⁹



Flaming Gorge Dam is among the Colorado River Storage Project dams and powerplants providing energy to CREDA members.

Aside from the contentious nature of those wanting to take water and power from the Colorado, Michael recalled that CREDA served its members during later issues, including the Utah Power & Light case and remarketing Hoover Dam power after the original 50-year contracts expired in 1985. “All this stuff began in the mid-1980s. The UP&L case and Hoover (remarketing) launched a set of forces that we continue to deal with today. Looking back on those times, I’m convinced that CREDA was the right thing to do.”⁶⁰

Avoiding Life Without Western

It remains an inescapable fact: the idea of privatizing, or outright eliminating, PMAs like Western is a recurring issue. After avoiding a Federal fire sale of the PMAs in 1995, Theresa Hall-Biescker, of the Mor-Gran-Sou Electric Co-op in the south central North Dakota town of Flasher, speculated what her customers would face if Western disappeared. “Mor-Gran-Sou currently purchases around 27 percent of our power from Western Area Power Administration, the regional PMA. If Western were sold, we would purchase this allocation from a different source, most likely Basin Electric Power Cooperative, of which we are members. In all likelihood, our rates would need to increase to accommodate this change.”⁶¹

The welcome mat that once greeted the Federal government in the West has disappeared from most places. However, there remain strongholds of support for what the government did and continues to do. Dennis Hill is willing to stand with the Federal government. As the executive vice president and general manager of the North Dakota Association of Rural Electric Cooperatives, his state’s future will forever be tied to the Federal presence. “North Dakota had the smallest population increase in the nation during the last census (2000). It is in virtual stagnation; the farm economy is suffering. There’s growth everywhere else in the U.S.; in fact, there are some areas that wish that they would not grow so much.”⁶²

NDAREC is an umbrella organization of 17 individual distributor co-ops and five G&Ts. Hill referred to his organization’s relationship with Western as “absolutely excellent. WAPA is a critically important long-term partner for the area’s success.”⁶³

The winds of political change buffeted Western toward the rocks on more than one occasion during the past 25 years. Fortunately for Western, the customer helped right the ship when storms threatened to sink the PMA. The following chapter illustrates that in Washington, the customer has been the agency’s best friend. ▼