



Department of Energy
Western Area Power Administration
Desert Southwest Customer Service Region
P.O. Box 6457
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NOV 17 2011

Central Arizona Project
23636 N Seventh Street
Phoenix, AZ 85024
Attn: Theodore C. Cooke

Dear Mr. Cooke:

In response to your letter dated October 20, 2011 as it relates to the Cost Allocation Methodology Proposal, we are providing the following responses to your questions:

- 1) Cost Savings/Avoidance (Slide 8, Operations Cost Allocation – Customer Presentation) – This slide seems to imply that Western is “saving/avoiding” \$260,000 per year on an on-going basis. Relative to your budget of \$16+ million, this amount seems almost trivial. Rather than go through with all of this, it might be better for the Power Systems taking the brunt of your re-allocation costs (Fyringpan Arkansas, CAP, Boulder Canyon, and Non-Federal –Slide 27) to merely pay Western \$260,000 per year. Are these total savings?

RESPONSE: These are two different budgets. The \$16 million is all labor costs and the \$260,000 is capital infrastructure costs. The labor allocation and infrastructure costs are not related and was displayed in the presentation as an update to the Operations Consolidation. Therefore, paying Western the \$260,000 would have no impact on the labor allocation. However, Western believes any savings, including the \$260,000, is significant and adds up over the years, which would contribute to the downward pressure on the rates.

- 2) Proposed Cost Allocation (Slides 14 – 20) – Western concludes on Sheet 21 that Generation Nameplate and Transmission Miles are the appropriate allocation metrics. Western is proposing to use 565 megawatts of generation in allocating cost to CAP.

- a. What generation nameplate of 565 megawatts is CAP?

RESPONSE: Primarily, CAP/Navajo generation is NGS, which is 547 MW. The other generation utilized is New Waddell, which is a pump/generating facility with a maximum output of 45 MW. This equates to a total generation of 592 MW. After further analysis, the BOR website lists the New Waddell plant to be generating 45 MWs in lieu of 18 MW.

- b. What about Western marketing of Navajo Surplus?

RESPONSE: All costs for Navajo generation are charged to the Development Fund, whether it is used for Navajo Surplus or CAP load.

- c. As for transmission, CAWCD does not find this discussion compelling especially as regards the whole point of operations, system reliability. This occurs by controlling the transmission system through breakers, not through managing the length of transmission lines. CAWCD urges Western to examine using the number and/or size of breakers.

RESPONSE: Western agrees with the commenter that the Operations Cost Allocation and the metric used have little to do with the Reliability. As to the use of circuit breakers for the allocation methodology, there are many reasons why use of circuit breakers was discounted; here are a few of those:

- i. A circuit breaker is only one of many pieces of the power system equipment, e.g. transformer, disconnect switch, instrument transformer, grounding switch, etc.
- ii. Using circuit breakers is not a true representation of the work done by Operations staff (low correlation for tasks related to AGC, Balancing Authority Scheduling, Transmission Switching, or Transmission marketing or use of OASIS). Bus configurations that result in higher breaker counts, such as breaker-and-a-half configurations, often result in less workload than those with fewer breakers, such as main and transfer bus configurations.
- iii. Western doesn't use or track circuit breaker statistics in its annual report.
- iv. Statistics used for the proposed cost allocation (generation capability and transmission miles) are readily available to customers via BOR and Western's websites providing transparency.
- v. Western often uses main and transfer bus configuration, thus, it would be difficult to assign the tie breaker to a specific project when multiple projects are connected to a single bus.
- vi. Using circuit breakers as a metric for cost allocation renders an unjust and unfair cost allocation among Federal Projects.

- 3) Impact of Cost Allocation Proposal (Slide 24) – As for generation on Sheet 24 as it applies to CAP, CAWCD maintains this amount should be zero for the following

reasons. Using an arbitrary generation number does not recognize the “complexities” of “CAWCD moving to WALC BA.” Western does not control any CAP generation directly. While CAWCD recognizes impacts to Western operations of “handling” the U.S. entitlement in Navajo Generating Station, that impact is best handled as a trust project as (i) Navajo generation may go away negating Western’s search for a long-term allocation process; (ii) there are other methods of “handling” the U.S. entitlement in NGS less impactful on Western operations; and (iii) CAWCD may opt for service from another Balancing Authority, especially if such cost shifts occur.

RESPONSE: Moving CAP's transmission system along with its generation and load inside WALC BA is all the more reason to include both transmission miles and generation capability of this project in the proposed cost allocation. Navajo's entitlement is currently dynamically transferred into WALC BA and it impacts Western's AGC operation and Transmission Scheduling, so that is appropriate that the efforts taken by Western to manage CAP's resources should be captured. If and when Navajo's generation goes away, Western's efforts in managing that resource will be reduced or eliminated and Western will adjust its allocation computation accordingly.

- 4) As for transmission, CAWCD believes 266 miles to be more factual than 275 miles.

RESPONSE: The transmission mile data for the presentation was obtained from Western's Annual Report. The amount provided in the annual report was footnoted as 275 line miles maintained by Western and owned by Bureau of Reclamation. As part of this allocation methodology in FY14, Western is committed to continually revalidating capacity and line mile data in order to most accurately reflect the allocations being utilized. Please provide the source of any data you have indicating a different number so it can be considered during this revalidation.

- 5) Relative to Slide 24, it would be helpful to have the data shown on Slide 24 provided for some test or historical years under existing allocation procedures so that we may measure the impacts the proposed cost allocation proposal may have on Central Arizona Project water users.

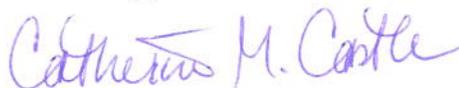
RESPONSE: See the attached spreadsheet entitled “Final FY 11 OCP Allocation”.

- 6) CAWCD will need assistance from Western in evaluating impacts because of the number and disparate nature of contracts maintained between our two organizations – Administration of U.S. Entitlement in the Navajo Project, Contract 10537, Letter Agreement 11643 and Operating Agreement. In our analysis of the impacts of Western’s proposals, CAWCD must attribute the impact of the proposed cost allocation among these agreements.

RESPONSE: Western will assist CAWCD with this analysis.

Please contact either Darren Buck, RMR Power Systems Operations Manager at 970-461-7693 or myself at 602-605-2404 if you have any further questions or comments. Thank you in advance for your assistance in this matter.

Sincerely,



Catherine M. Castle
Cost Allocation Project Manager

Attachment

cc: G0000, Darrick Moe
G6000, Debby Emler
J4000, Darren Buck

Summary of 5-Year Historic Cost Allocation - Operations Consolidation

DSW Costs Subject to Allocation

	Boulder Canyon	Central Arizona	CRSP - DSW	Front & Levee	Intertie	Parker Davis	Salinity Control	MPP	IPP	Total
FY10	351,865.00	363,546.88	1,119,371.14	30,033.67	409,062.95	3,210,053.86	58,723.62	490,814.98	1,211,454.60	7,244,926.70
FY09	416,204.36	446,343.32	1,307,397.59	36,255.88	468,598.04	3,406,364.58	70,998.70	550,769.89	1,264,095.78	7,967,028.14
FY08	491,965.37	431,429.90	1,531,318.34	42,001.69	531,331.42	3,743,448.91	79,364.73	500,722.41	1,357,071.57	8,708,654.34
FY07	432,315.04	374,474.46	1,459,395.21	38,374.14	552,452.25	3,504,313.36	72,821.57	261,020.01	1,212,768.09	7,907,934.13
FY06	408,555.87	427,202.37	1,490,331.25	36,289.52	473,064.63	3,424,335.23	73,042.06	285,649.96	1,092,782.52	7,709,253.41
	2,100,905.64	2,042,996.93	6,907,813.53	182,954.90	2,434,509.29	17,288,515.94	354,950.68	2,086,977.25	6,138,172.56	39,537,796.72
	5.31%	5.17%	17.47%	0.46%	6.16%	43.73%	0.90%	5.28%	15.52%	100.00%

RMR Costs Subject to Allocation

	CRSP - RMR	Fry-Ark	Pick-Sloan	LRS	RC DC Tie	Total
FY10	2,770,824.59	156,641.52	4,400,058.90	374,825.96	82,058.71	7,784,409.68
FY09	2,911,154.71	150,246.67	4,610,735.53	374,652.08	71,644.29	8,118,433.28
FY08	2,599,065.79	146,546.16	4,262,111.72	339,472.68	68,618.19	7,415,814.54
FY07	2,416,650.75	130,213.95	4,022,802.07	322,775.03	65,014.72	6,957,456.52
FY06	2,338,485.35	128,003.23	3,820,042.05	310,050.01	69,557.37	6,666,138.01
	13,036,181.19	711,651.53	21,115,750.27	1,721,775.76	356,893.28	36,942,252.03
	35.29%	1.93%	57.16%	4.66%	0.97%	100.00%

Historical Cost Subject to Split	Percent of Super Split	
2,100,905.64	2.75%	Boulder Canyon
2,042,996.93	2.67%	Central Arizona
6,907,813.53	9.03%	CRSP -DSW
182,954.90	0.24%	Front& Levee
2,434,509.29	3.18%	Intertie
17,288,515.94	22.61%	Parker Davis
354,950.68	0.46%	Salinity Control
2,086,977.25	2.73%	MPP
6,138,172.56	8.03%	IPP (3)
39,537,796.72	51.70%	
13,036,181.19	17.05%	CRSP - RMR
711,651.53	0.93%	Fry-Arkansas
21,115,750.27	27.61%	Pick-Sloan
1,721,775.76	2.25%	LRS
356,893.28	0.47%	RC DC Tie
76,480,048.75	48.30%	TOTAL COST

Revised for IPP and MPP - Reallocation DSW	
2,347,885.01	3.07%
2,276,993.02	2.98%
7,649,147.43	10.00%
204,744.87	0.27%
2,715,770.78	3.55%
19,160,696.16	25.05%
396,810.94	0.52%
2,550,187.89	3.33%
2,235,560.63	2.92%
39,537,796.72	51.70%

	Total Allocated Op's Costs		5 Year Allocation Summary	
	Total RMR	Overall Total	Total DSW	Total RMR
FY10	7,244,926.70	15,029,336.38	48.21%	51.79%
FY09	7,967,028.14	16,085,461.42	49.53%	50.47%
FY08	8,708,654.34	16,124,468.88	54.01%	45.99%
FY07	7,907,934.13	14,865,390.65	53.20%	46.80%
FY06	7,709,253.41	14,375,391.42	53.63%	46.37%
	39,537,796.72	76,480,048.75	51.70%	48.30%
			Overall Total	Overall Total
			100.00%	100.00%

Final Allocation