



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

Irrigation & Electrical Districts
Association of Arizona
340 E. Palm Lane, Suite 140
Phoenix, AZ 85004-4603
Attn: Robert S. Lynch

Dear Mr. Lynch:

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:

While we understand Western's concern about its timetable, we believe that taking some more time to work through this process would be in order for two reasons:

1) Congress is likely to continue to fund the government by Continuing Resolution for the fiscal year that has just begun and there is no sign that Congress will actually complete appropriation bills in this next session of this Congress either.

RESPONSE: As previously discussed, it was always Western's intention to move away from the 5-Year Historical Average toward a more meaningful, defensible and definable allocation method that more closely matches actual workload. In order to accomplish and incorporate in the next budget cycle, a reasonable time frame was developed to meet these goals.

Regardless of the situation with Continuing Resolutions, either now or in the future, Western internally must develop its budget within existing time frames and guidelines. With FY 2014 being the third year utilizing the historical 5-year calculation, more than half of the allocation would be based on averages rather than on actual annual costs. Given that, it becomes even more important to work toward and find a better mechanism as soon as possible. By beginning to budget for FY 2014 in this manner, it attempts to accommodate for the dollars and/or authority to implement this change in the right power systems two years from now.

2) There are substantial issues that remain about the accuracy and fairness of cost allocation based on nameplate capacity of generating facilities and transmission line miles.

RESPONSE: As it was pointed out during the presentation, Western's goal is to use a metric which is representative of work done by operations staff, in addition to being available without a major effort in compiling and maintaining the data. We did consider other methods, such as transmission capacity to be used as a metric,

however the shortcoming of it is that transmission capacity is not a fixed quantity. There are seasonal variations to transmission capacity (winter ratings and summer ratings), for example. Additionally, some of DSW's lower capacity lines have more outages and require more switching activity than higher capacity lines.

3) There are legal issues surrounding the Implementation Agreement covering the cost allocations for Hoover, Davis and Parker Dams and sharing the multi-project costs among these facilities.

We have reviewed the documents associated with multi-project cost assignment among Hoover, Davis and Parker facilities and have concluded that there is substantial legal question about whether Western can administratively alter those processes without the permission of and concurrence of the signatories to that documentation. We have not yet seen any definitive response by Western on that issue.

RESPONSE: The only place in the Boulder Canyon Project Implementation Agreement (BCPIA) where SCADA points are mentioned as an allocation factor is in the Multi-Project Written Procedures (MPWP) dated 1996. The MPWP was developed in accordance with Section 9 of the BCPIA and was adopted under Resolution 96-2 of the BCP Engineering and Operating Committee (E&OC). In accordance with the procedures, "Multiproject Costs (MPC) are the costs of those facilities which were paid for through the appropriation process by one Project, but provide benefits to other Projects."

Page 1 of the Procedures states: *"Facilities identified in the MPC allocation process that benefit other Projects: Item 1. Phoenix Service Center and Mead Service Center; and Item 2. SCADA system."*

It goes on to state for Item 1. Phoenix Service Center and Mead Service Center: *"The factor for distribution of costs for the Phoenix Service Center and Mead Service Center was based on the methodology used for the Desert Southwest Regional Office's distribution of General Western Allocations (GWA) split."*

For Item 2, SCADA System: (a) *"The factor for each Project is based on the total distribution of data point count requirements currently allocated and in service."*

The MPWP and BCPIA provide guidance only for Phoenix and Mead facilities and the capitalization of the SCADA system, which does not affect the implementation of the proposed cost allocation methodology for Operations labor costs. Therefore, Western continues to adhere to the Implementation Agreement with the proposed method of allocating Operations labor costs. As a further clarification, this cost allocation methodology proposal is only for the Operations staff, it does not include the SCADA personnel costs.

- 4) Nameplate capacity for Glen Canyon Dam automatically penalizes power users receiving power from that facility because of environmental restrictions that prevent the use of full operational capacity under normal water conditions, let alone nameplate capacity or anything approaching it.

Likewise, drought restrictions have made it impossible for Hoover to operate anything close to nameplate capacity, although we are told that, under optimal water conditions, it can do so.

RESPONSE: In regard to the actual use of the generation asset (Glen Canyon) being minimized by environmental legislation, this can be said for other plants, such as Yellow Tail, as well. In addition, Hoover's actual use is also limited to the contingent allocation itself, which is lower than the actual nameplate. We agree that all power systems have their own nuances and that is why we believe the selected cost allocation methodology provides consistency within each generation asset.

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

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