

LAP Transmission Formula Rates
WACM Ancillary Services Formula Rates
Informal Customer Meeting—Comments and Responses
September 29, 2010

Notes from the September 29th meeting are in black. Comments submitted subsequent to the meeting, as well as Western’s expanded responses to comments on each rate, are shown in blue.

I. Transmission

- a. A customer wanted to know the dollar values of the components of the Annual Transmission Revenue Requirement (Annual Cost of Transmission System, System Augmentation, Scheduling and Dispatch Revenues, Point-to-Point Transmission Revenues). Western provided that information from the FY 2011 rate design (FY 2009 financial information) at the meeting:

Annual Cost of Transmission	\$58.2 M
System Augmentation	-
Scheduling and Dispatch Revenues	(1.9)
Long-Term Firm Transmission Revenues	(4.4)
Nonfirm and Short-term Firm Trans Rev	<u>(3.9)</u>
Annual Transmission Revenue Reqt	\$48.0 M

II. Scheduling, System Control and Dispatch (SSCD)

- a. There was discussion about the allocation of tag costs to all the transmission providers (TPs) on the tag, as opposed to the current method of charging the costs to the last TP on the tag.
 - i. One customer wanted examples of how it would work. Would we be able to invoice everyone?
 - ii. Another customer brought up the point that they were charged for scheduling just because their transmission was used, even though a different customer created the tag.
- b. Western agreed to gather some examples of real tags and provide them to the customers.
 - i. Since an e-tag contains proprietary information not to be shared with entities that are not a party to the tag, we have decided not to post examples of actual tags describing how the proposed charging methodology would apply to those tags. If any customer would like to discuss the proposed methodology in connection with their tags, please contact us.

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- c. Subsequent to the meeting, a customer commented that Western is unique in its decision to charge the transmission provider rather than the transmission customer for scheduling and dispatch service.
 - d. Western's Expanded Response
 - i. Western's direct transmission customers do not pay a separate SSCD charge—the tag costs are bundled in Western's transmission rate. The charges that are assessed under this rate schedule are for tags using other transmission providers in the balancing authority. A purchasing-selling entity (PSE) who submits a tag to WACM using transmission other than LAPT or CRCM is not Western's transmission customer on that transaction. It's not guaranteed that we will have a contractual vehicle under which we can charge another transmission provider's customer for scheduling and dispatch service. This is why we've chosen to charge the transmission providers, with whom we do have such a vehicle. Our position has consistently been that the transmission providers should be passing these SSCD costs along to their transmission customers. [Note: this may not be an issue for a balancing authority with only the operator's transmission.]
 - ii. Western is still evaluating this issue. We are attempting to develop a billing methodology that will assess the correct entities on the highest percentage of the tags, given that the entity that should be charged may be a party with which we do not have a contractual vehicle under which we can invoice. Another proposal we're considering is to have a two-pronged approach to invoicing:
 - 1. If the tag sinks within WACM, Western would charge the sink PSE.
 - 2. If the tag sinks outside WACM, Western will adopt the proposal presented at the meeting—divide the charge equally among the transmission providers inside WACM, unless we have an arrangement with the PSE outside WACM.Please provide us your comments on this second proposal.
- III. Reactive Supply
- a. There was a question as to the inclusion of intermittent resources in the denominator. One party asked if this would apply to hydro.
 - i. Western responded that this applied to 'non-dispatchable' resources.

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ii. Western's Expanded Response

1. Western has since decided to not pursue this methodology. The nameplate of intermittent resources will not be included in the denominator of the Reactive Supply and Voltage Control from Generation Sources Rate.

IV. Energy Imbalance

a. Bandwidth Structure

- i. A customer questioned why Western doesn't use the minimum bandwidth specified in FERC Order 890. The customer indicated that it doesn't make sense to use 4 MW instead of 2 MW and that reducing penalty revenue puts upward pressure on the Firm Electric Service (FES) rate.
 1. At the meeting, Western responded that the narrower bandwidth is unnecessarily punitive to our small customers who are required by Western to schedule 2 days in advance (Western is unique in the industry in this requirement) and don't have staff to follow their loads on a real-time basis. Western conceded that changing the bandwidth minimum from 4 MW to 2 MW would put insignificant downward pressure on the FES rate. However, the bandwidth minimum is currently 4 MW, so keeping it at that level has no effect on the FES rate.
- ii. Western's Expanded Response

1. Western believes that strict imposition of FERC Order 890 parameters would be unnecessarily restrictive to small customers. Western's allocation may be the only resource that a small customer has available for following load and staying within prescribed bandwidths. The Rocky Mountain Region requires customers to schedule their Federal allocations 48 hours in advance, which is unique in the industry. With weekends and holidays, this schedule may have to be submitted several days in advance. This situation is exacerbated by the requirement that scheduling be done in whole megawatts, while loads (and imbalance) are measured to the kilowatt. In these circumstances, Western believes that it is not reasonable to start assessing penalties after a 2MW deviation.

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2. No costs are being passed to customers with larger loads due to the larger minimum bandwidth. The energy imbalance penalty is not a recovery of costs—it is additional revenue. One of the reasons that Order 890 specified that penalty revenue be re-distributed to non-offending customers was to prevent the transmission provider (or balancing authority) from creating a profit center by retaining undistributed penalty revenues. Western considers its proposed rate formula to be superior to that recommended by Order 890 in that it is less punitive to customers. Western does not agree with the assertion that making the rate less punitive for a small customer results in it being more punitive to large ones by virtue of crediting a lower level of penalty revenue to the Firm Electric Service Rate.
3. Western has not acted in an arbitrary manner in proposing the 4 MW minimum bandwidth. This same 4 MW minimum has been in place since Western first implemented its Energy Imbalance Rate in July 2002. We are not convinced that there is adequate justification for modifying it.

b. Administrative Charge

- i. A customer suggested that we allocate the administrative costs evenly rather than by settlements.
 1. Western responded that this would not result in a fair allocation of the costs, as some calculations are very difficult to complete and others are very easy.
 2. Western stated that, prior to our decision to propose allocation by settlements, we also looked at allocation by load (or generation).
 3. Western will entertain other suggestions, as well.
- ii. The customer stated that this is not 'superior' (in the FERC sense—less punitive to the customer) to the FERC model.
 1. Western replied that FERC is silent on this issue.
- iii. The customer added that his staff has to spend time reviewing the calculations and wondered if he should charge those costs back to Western.
 1. Another customer responded that all the customers perform this review.

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- iv. Subsequent to the meeting, a customer expressed concern that Western's methodology may unintentionally pass under-recovered ancillary services costs to transmission customers and questioned whether this methodology would be applied to other ancillary services.
- v. Western's Expanded Response
 - 1. Settlements under Energy and Generator Imbalance Service are based only on energy purchase and sales prices. Under our current rate design, costs for administering the Energy Imbalance Service end up being borne by the Firm Electric Service customers. Many of the Firm Electric Service customers are not Energy Imbalance Customers. Western does not consider it proper to continue charging these customers for the administration of other customers' Energy Imbalance Service. Recovery of administrative costs under the proposed imbalance rate schedules is also reflective of customers' stated wishes that all of Western's rates include the correct costs. Western does not consider this to be an issue of OATT superiority.
 - 2. Energy Imbalance is the only service in which settlements are based on a pass-through of energy purchase and sale prices that don't include any personnel costs. All of Western's other ancillary service rates have operation and maintenance costs, including personnel costs, built into the designs, so it is not necessary to allocate additional administrative costs to those rates.

V. Generator Imbalance

- a. Multi-Party Generators (Slide 39, showing that a wind generator imbalance calculation has to be separate from the energy imbalance calculation for the same customer).
 - i. A customer noted that it's possible for the customer to have offsetting imbalances which net to zero in the two calculations and still be charged penalties in both calculations.
 - 1. Western agreed, noting that, while the participant schedules appearing in both calculations are provided by the customers, Western's Rates and Settlements Groups would be working together to create programming to identify hours where this

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occurs. We will work with customers to develop a process to handle these situations.

2. Western's Expanded Response
 - a. Western has developed formula modifications for the Energy Imbalance template which will identify hours in which a penalty has been assessed in both the Generator Imbalance calculation and the Energy Imbalance calculation on offsetting imbalances, and will remove the penalty from the Generator Imbalance calculation. Since participant schedules which appear in both calculations are provided by the customer, it will be the customer's responsibility to identify hours in which they believe that both penalties should be eliminated. This process may require coordination with the operator of a multi-party generation facility.