NAVAJO TRIBAL UTILITY AUTHORITY

AN ENTERPRISE OF THE NAVAJO NATION

November 27, 2017

Mr. Rodney G. Bailey, Power Marketing Advisor
Western Area Power Administration
299 South Main Street, Suite 200
Salt Lake City, UT 84111

via e-mail: SPP-comments@wapa.gov

RE: **NTUA Comments Concerning WAPA Recommendation Respecting Final Negotiations regarding CRSP Membership in Southwest Power Pool**

Mr. Bailey,

Navajo Tribal Utility Authority, an Enterprise of the Navajo Nation, a federally recognized Indian Nation, owns, operates, and provides various utility services to the residents and members of the Navajo Nation located on and about its Reservation within the states of Arizona, New Mexico and Utah, submits the following comments and observations regarding WAPA's October 12, 2017 Federal Register Notice concerning a recommendation to pursue "final" negotiations regarding CRSP membership in a regional transmission organization.

NTUA's primary contact for this matter is Walter W. Haase, P.E., General Manager, P.O. Box 170, Fort Defiance, AZ 86504, telephone (928) 729-6202, e-mail, walterh@ntua.com.

NTUA specially requests that the process WAPA will follow as it considers that recommendations to pursue final negotiations be opened to all customers and the secret discussions pursued thus far by the various participants in the Mountain West Transmission Group, including WAPA, no longer exclude customers, such as NTUA, whose interests may be adversely impacted by a decision to go forward.

NTUA strongly requests that the recommendations and process to seek the "final" negotiations be delayed that NTUA be allowed to fully engage with all participants to allow for a thorough vetting with analysis of all matters associated with creation of costs related to transmission and markets.

NTUA looks forward to WAPA's response to its concerns and observations.

Walter W. Haase, P.E.
General Manager

WWH/WFW/iwn
Attachments

NTUA Comments

The Navajo Tribal Utility Authority (NTUA) offers the following comments regarding Western's October 12, 2017 Federal Register Notice Entitled "Recommendation for the Western Area Power Administration Loveland Area Projects (LAP) and Colorado River Storage Project to Pursue Final Negotiations Regarding Membership in a Regional Transmission Organization".

A. Western's recommendation and current status as NTUA understands it

Western's recommendation that CRSP "enter into final negotiations" for joining the SPP is described to a limited extent in presentations to CRSP customers, including the status and recommendations presented in the "Colorado River Storage Project Mountain West Transmission Group Update" PowerPoint document, dated September 22, 2017, and in a recent report entitled "Recommendation to Pursue Membership in the Southwest Power Pool Regional Transmission Organization, Colorado River Storage Project and Loveland Area Projects", dated November 3, 2017 (the Recommendation Report).[1]

NTUA's understanding of the current status is that (1) CRSP would join SPP as a separate pricing zone with its transmission rate determined on a "license plate" cost allocation approach; (2) CRSP's zonal rate is estimated to increase 118% over the current rate, mostly attributable to a 54% reduction in the load representing the rate divisor; (3) a cost-shift mitigation agreement has been developed amongst the Mountain West participants under which CRSP would receive $11 million per year for seven years; (4) NTUA's solar resources that currently displace energy output to the Salt River Project would incur regional through and RTOR out rate (RTOR) charges for "exports" from the MWTG's footprint; and (5) NTUA's loads located in adjacent (non-participating) balancing areas (BA) will be treated as "external loads" that are exempt from the RTOR charge.[2]

While Western acknowledges that there are "some challenges to [CRSP] participating in a market", it nevertheless believes that, with the mitigation agreement that has been developed amongst the Mountain West participants, it will be able to avoid the adverse impacts. NTUA is concerned that CRSP is negotiating for its own interests; and entities like NTUA would be allocated additional significant costs for little or no additional benefit.

[1] The descriptions and information that NTUA has received continue at a high level, lacking important details such as cost-shift calculations and negotiations/discussions among MWTG members that formed the basis for Western's recommendation.

[2] NTUA's "external loads" understanding is based upon statements and assurances from Western representatives at the November 3, 2017, meeting between NTUA and Western. If this understanding is incorrect NTUA's "external loads" will be subject to additional pancaked transmission charges.

B. Western's CRSP transmission system and balancing area are uniquely unsuited to a zonal "license plate" approach

1) The CRSP transmission system provides local transmission support throughout the MWTG region

Western's CRSP transmission system is fundamentally not amenable to a "license plate" cost allocation approach; and neither the proposed Federal Service Exemption nor the seven-year, $11 million per year mitigation plan resolve the issue for CRSP's balancing area customers like NTUA. Unlike other transmission systems whose "local transmission" facilities reside primarily within their own balancing areas, most of CRSP's local transmission facilities (i.e., those that accommodate delivery to loads) reside outside of its balancing area. CRSP is currently compensated for such service.

2) CRSP serves four categories of transmission customers

The loads that benefit from CRSP transmission facilities are sprinkled south to north throughout the MWTG region and mostly reside in load zones outside of the proposed CRSP zone. The map of the CRSP transmission system, emailed[3] to Parker Wicks on November 21, 2017, clearly illustrates this point. Indeed, it is common knowledge that the CRSP transmission facilities are crucial to the very formation of an MWTG RTO and to the production cost savings reported in the Brattle study. Properly designed pricing zones should assign the cost beneficiaries (i.e., loads) a zonal ATRR that accounts for the zonal facilities upon which they rely. For this purpose, the CRSP system cost beneficiaries can be separated into three relevant categories:

- Loads that receive CRSP federal hydropower under bundled contracts.
- Loads that reside within the CRSP BA and receive power from non-CRSP resources. The entities such as NTUA who serve such loads are referred to herein as CRSP BA LSEs.
- Loads that reside in other MWTG load zones but rely on the CRSP transmission system for deliveries to load and currently pay pancaked transmission rates for their use of the CRSP transmission system. The entities who serve such loads are referred to herein as non-BA LSEs.
- CRSP BA LSE that serve loads in adjacent BA's that receive power from CRSP and non-CRSP resources.

If NTUA is correct about the reason for reduced load in CRSP's rate denominator, the problem with the proposed zonal construct is that a large segment of the cost beneficiaries, specifically those who are in the third category above, would not be allocated costs commensurate with their continued use of the CRSP facilities upon which they rely. This is the primary driver causing a 118% increase in the proposed CRSP zonal transmission rate.

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[3] NTUA has not attached the map to these comments based upon email exchanges with Parker Wicks. NTUA understands the reasons for Western's concerns but believes Western needs to provide a detailed list of the CRSP transmission facilities, their locations, and the interconnection points with third party transmission facilities.

3) **The LSEs in the CRSP BA are located and rely only on the southern-most portion of the CRSP transmission system**

Referring to the emailed map of the CRSP transmission system, the CRSP BA LSEs are located on the southern portion of the CRSP system, which starts at Shiprock and extends west from the Four Corners area and south into Arizona. The CRSP BA LSEs did not cause and do not rely upon or derive any benefit from the CRSP facilities north of Shiprock.

4) **The mismatch of CRSP transmission system costs borne by a small subset of load beneficiaries would create an unreasonable cost shift and rate increase of 118% to be borne by the CRSP BA LSEs**

In its transition to a zonal market rate, CRSP contemplates that it annual revenue requirement (numerator) will increase by slightly less than 1% while its transmission load (denominator) will decrease by 54%, resulting in a 118% transmission rate increase. This unreasonable result occurs in large part because the MWTG zonal rates are being structured to relieve the non-BA LSEs of the responsibility to pay for the CRSP facilities upon which they relied and continue to rely.

C. SPP's cost allocation principles seek to adhere to fundamental cost causation/cost beneficiary concepts and to satisfy the FERC-mandated requirement to consider "unintended consequences"

For future transmission additions, the SPP employs a combination zonal (license plate) / regional (postage stamp) approach referred to as Highway-Byway. The approach and its design considerations are discussed in detail in an SPP document entitled "Memo to the MOPC and Board of Directors Highway-Byway Cost Allocation" ("Memo").[4] The SPP's cost allocation policy is summarized in the following table:

Voltage	Regional	Zonal
300 kV and above	100%	0%
100 kV – 299 kV	1/3	2/3
Below 100 kV	0%	100%

The "Highway-Byway" approach represents a compromise between a "postage stamp" regional approach and a "license plate" zonal approach and is designed to minimize the winners and losers dilemma that either a pure postage stamp or pure license plate approach poses. As currently contemplated, the single MWTG transmission tariff will follow a license plate approach for the MWTG members' loads (See slide 4 in the Recent Update) and a "Postage Stamp rate for regional through and out (RTOR) transactions" (See slide 25). It is worth understanding the rationale for each of the three cost allocation approaches and,

[4] See https://www.spp.org/documents/12181/mopc%20memo%20on%20highway-byway%20cost%20allocation%20-%20final%2002232010%20(3).pdf.

through this understanding why a "pure" zonal rate structure for CRSP is not workable in NTUA's opinion.

1) Rationale for a Postage Stamp Approach

A Postage Stamp approach assumes that the integrated transmission grid operates to the benefit of all loads and that this benefit outweighs the perceived cost-causation differences of local versus regional facilities. Essentially, it is the same single-rate rationale that applies within individual large utilities. These large utilities do not assign different rates to different loads even when such loads arguably impose a larger cost burden on their system.

2) Rationale for a License Plate Approach

The license plate approach assumes that transmission costs have been caused by loads according to the transmission provider's "load zone" in which they are located and that the transmission rates should reflect each load zone's unique cost-causing circumstances (e.g., concentrated loads in an urban setting versus wide spread loads in a rural setting) and be applied on a zonal basis. Inherent in this assumption is that the individual systems provide a proportionate share of the mutual benefit that is realized on a regional basis.

3) Rationale for the Highway-Byway Approach

The Highway-Byway approach seeks to achieve a balance between the postage stamp (i.e., regional) and license plate (i.e., zonal) methodologies by differentiating local and regional reliance on the transmission grid on a voltage-level basis.

SPP did not arrive at its cost allocation policy haphazardly; rather, as the Memo indicates, the SPP performed extensive analysis to support its cost allocation policy and to fulfill its FERC-mandated tariff requirement to consider "unintended consequences".[5] Furthermore, the SPP noted that "[a]s a general proposition, a cost allocation mechanism cannot be expected to produce a specific desired result with mathematical precision"[6] but that "the goal should be the development of allocation principles that are administratively feasible and reasonably consistent with general cost causation/cost beneficiary concepts over a lifecycle of investments for customers."[7]

D. The proposed zonal construct for CRSP does not merely result in an "unintended consequence"; it is a flawed rate design that does not allocate costs to the principle beneficiaries

Simply stated, the CRSP is too heavily-weighted as a regional transmission service provider to become a SPP pricing zone without proper mitigation; and a grandfathered PTP carve-out for CRSP FSE does not resolve this issue. Consider, for example, the extreme case of a transmission-only entity whose facilities are designated zonal based on voltage levels. Obviously, such an entity could not be wedged into its own pricing zone with a zero rate

[5] See page 3 of the Memo.
[6] See page 3 of the Memo.
[7] See page 5 of the Memo.

divisor. The MWTG and CRSP need to recognize the "unintended consequences" of wedging the heavily-weighted regional transmission aspects of the CRSP transmission system into a "normal" pricing zone structure and, instead, design a zonal structure for CRSP along with a regional structure for MWTG that meets the cost causation/cost beneficiary goal stated above. While some cost shifts should be expected when moving to a single tariff concept such as the one contemplated by the MWTG, the current proposal would result in a severely subsidized cost shift borne by Western's CRSP BA LSE customers.

Nor does the recommended "cost shift mitigation" of ~$11 million per year for seven years adequately address the issue since this "mitigation" will not lower the ATRR relative to the loads being served over the long term. Instead, CRSP customers will face a huge rate increase at the end of the mitigation period and have to rest their hopes on "seven years [being] enough time to begin realizing benefits from market" (See slide 24). ***The CRSP system should either not participate in the MWTG single tariff and RTO initiative or should have its unique characteristics addressed appropriately from a cost causation/cost beneficiary perspective.***

E. NTUA recommends that CRSP's ATRR be allocated in a manner that is consistent with cost-causation/cost beneficiary concepts

While the SPP's Highway-Byway cost allocation approach is applied to future transmission additions, it does highlight the need to align regional costs with regional beneficiaries. This same need arises for CRSP's existing facilities because it provides a disproportionate share of regional transmission service within the MWTG region. Rather than the proposed seven-year mitigation plan, NTUA recommends that a MWTG region-wide rate be established to align costs and benefits for the use of regional transmission facilities in the MWTG. ATRR allocations should balance zonal and regional costs in a manner that is consistent with cost-causation/cost beneficiary concepts which, as indicated previously, is a stated goal of the SPP. NTUA recommends a specific dividing point on the CRSP transmission system that logically separates CRSP's zonal service to the CRSP BA LSEs from its regional service to non-BA LSEs. NTUA recommends that the zonal and regional ATRRs be "balanced" so as to assign cost responsibility for CRSP transmission facilities south of Shiprock (and including Shiprock) to the CRSP pricing zone and for CRSP transmission facilities north of Shiprock to the other MWTG members who rely on those facilities now and in the future.

F. NTUA recommends that the transmission service for NTUA's solar resources, current and future, be given grandfathered status for both charges and access

While a Regional Through and Out Rate (RTOR) may make sense for a third party wanting to cross multiple MWTG members' system and deliver power outside of the MWTG footprint, it does not make sense to impose RTOR charges on NTUA for several substantive reasons. First, NTUA's solar transmission arrangements are clearly not MWTG regional transactions before forming or joining an RTO. There is no legitimate reason to convert such arrangements to MWTG regional transactions if and when CRSP joins the SPP. Indeed, the MWTG footprint seems contrived with respect to the "tail end" portion of the footprint extending west from the Four Corners area and then south into Arizona.[8] The obvious purpose of this extension is to include CRSP transmission facilities south of Shiprock; but it is clear that this portion of CRSP's transmission system is more highly interconnected with other systems and entities in Arizona, New Mexico, and Utah than it is with the transmission systems in the MWTG region proper. Moreover, it is common knowledge that the CRSP transmission system provides considerably more support to the other MWTG members' systems than it receives from those systems. NTUA's solar arrangements, in particular, do not rely upon or affect any of the other MWTG members' systems in any way. Consequently, NTUA has made significant investment decisions in solar development on the understanding that it would receive transmission service from CRSP, not regional transmission service from the MWTG. While limited details have been forthcoming on the magnitude of RTOR charges, NTUA is concerned that these charges would be excessive and believes that imposing such charges just because the MWTG members join the SPP is unjust and unreasonable. NTUA proposes that it be provided a permanent grandfathered exemption from RTOR charges Miscellaneous Comments

1) The net effect on CRSP of congestion impacts or congestion revenue rights has not been adequately addressed in any of the studies performed to date

SPP is a Day 2 market; and, while the "Internal CRSP Analysis" supposedly "focused on analyzing ***net impact*** to CRSP", there is no indication that the net effect on CRSP of congestion impacts or congestion revenue rights associated with a composite SPP market (existing SPP plus MWTG) was evaluated. Instead, the Brattle study savings were premised on optimizing the MWTG members operations and maintaining the rest of WECC (not the SPP) as status quo. Neither did the follow-on Argonne study perform a composite SPP market analysis and, instead, relied on Brattle LMP study results, adjusted to account for bidding behavior. It is difficult to accept that two very different markets (WECC and SPP) can be fairly evaluated without performing comparative analyses of RTO participation. For one thing, in joining the SPP, there would be an automatic ~2% reduction in production cost savings to account for real power back-to-back converter losses over the east-west DC ties. Nor does the WECC impose a 720 MW limitation between MWTG and the rest of the RTO. Certainly, the DC limitation would be important to the calculation of production cost savings when comparing RTO participation alternatives.

2) NTUA's solar resources will not have "improved access to markets" as asserted by Western

First, as discussed above, it is unreasonable that NTUA's solar resources would be subjected to RTOR charges. Add to this the potential for congestion issues on deliveries when SPP assumes scheduling and dispatch control over the facilities upon which NTUA relies and NTUA could find its solar resources facing a competitive disadvantage compared to others in the WECC. And, Western's gratuitous promise of "improved access to markets" does not hold sway with NTUA.

[8] See page 5 of the Recommendation Report.

For customers' renewable resource projects to have "improved access to markets", the markets have to be viable and different than what is already available. This means viable access to the SPP market. Moreover, this improved access works both ways. As a "full SPP Market Participant", CRSP will provide east-side SPP resources with access to western markets, not just the MWTG members. The SPP's renewable energy penetration (predominately west to east wind energy resources) has set records, exceeding 50% of load at a given time; and developers in the Oklahoma panhandle are currently in the process of developing major wind energy additions (4,000+ MW) accompanied by very expensive dedicated transmission delivery additions. Has CRSP considered that access to the SPP market could be saturated going west to east or that opening access to SPP-East renewables will simply create a significant source of competition for CRSP's customer resources? In other words, what is to prevent current SPP entities from seeking higher prices using "through and out" access to others in the WECC outside of the MWTG?

3) **The Rights of Way crossing the Navajo Indian Reservation from Shiprock to Glen Canyon, and from Glen Canyon South toward Pinnacle Peak were granted by the Secretary of the Interior for purposes of the Construction, Operation and Maintenance of the Colorado River Storage Project, and not for purposes of operation by others, such as the Southwest Power Pool.**

Long before the Western Area Power Administration was created, the 1956 legislation to create the Colorado River Storage Project allowed the United States to acquire Navajo Reservation lands to provide land for creation of the City of Page for construction of the dam, and for the storage of water in Lake Powell. The Secretary of the Interior, Stewart Udall, also, in 1961, granted the Bureau of Reclamation a right of way across the Navajo Tribal Lands necessary to complete the Storage Project activities since the Colorado River Storage Project would likely not have come into existence without the electric transmission crossing the Navajo Reservation necessary to complete the exchange involving Salt River Project and the United States. The Rights of Way necessary to complete the Project were consented to by the Navajo Nation with the clear understanding that they were necessary to complete the Project and that use by Reclamation was contemplated and understood by the Nation. Now the successor to the Bureau of Reclamation, Western Area Power Administration, seeks to change the use of the Rights of Way by allowing control over the operation of the electric transmission lines to be passed to a non-Federal governmental agency, without the consent of the Nation. Further the Nation had reserved certain rights in the use of the lines, as described in later documents which have not yet been confirmed by any notification by either Western, or the SPP. NTUA feels very strongly that the proposal by Western to consider joining the SPP should not include the Rights of Way crossing the Navajo reservation from Shiprock to Glen Canyon and from Glen Canyon south toward Pinnacle Peak.

4) The "Internal CRSP Analysis" and process of reaching a recommendation to join SPP has lacked transparency

This last issue is of particular concern to NTUA. If CRSP does join the SPP, NTUA is confident that SPP's protocols will allow NTUA, as an owner of transmission within Western's BA, to become a TO within SPP and add its transmission ATRR to the CRSP ATRR in the zonal rate formulation. Given the economics of becoming a TO in SPP, this scenario is a very likely outcome; therefore Western should have had the courtesy of including NTUA in the discussions from the outset. Not only has Western not included NTUA in the discussions; it also has failed to disclose important details in the analyses and discussions that have led to its recommendation. Instead, Western lists reasons, without support, for why a recommendation to finalize negotiations with SPP makes sense.

NTUA does not agree with Western's asserted "reasons"; nor does NTUA believe that its interests align with those of Western or that its interests have been adequately represented in the discussions and negotiations to date.[9] For example, how does membership in SPP "increase the effective utilization of the transmission system" via "[r]enewable integration and improved access to markets for customers' renewable resource projects", especially if NTUA's solar resources are expected to incur RTOR charges? Operationally, any new market benefits must be accomplished over four East-West DC ties and face competition in a potentially saturated market. Also, what evidence can Western offer that markets in the West would eventually come, but without a "mitigation deal" for CRSP in the future? And most importantly, how can hope that the market will show benefits going forward justify a 118% rate increase? This rate increase is supposedly mitigated for seven years of RTOR payments to CRSP. Will these payments to CRSP be used to mitigate rate impacts to NTUA for all of the transmission service it currently receives and expects to receive from CRSP? What assumptions have MWTG used to forecast RTOR payments?

NTUA was not included in the early discussions and negotiations regarding the proposed WAPA/CRSP/MWTG/SPP market integration. NTUA consistently raised concerns for the process since the efforts were first disclosed. Only recently have we had the opportunity to hear and review the current state of this proposal. We have still not been provided with full analysis and reasoning behind many of the conclusions reached in these negotiations. Even with the limited information that we have been provided, we have not been able to fully determine the direct impacts to our transmission and generation operations. ***We are therefore requesting that the process toward a final conclusion be delayed to allow NTUA to fully engage with all potential participants, and to allow for a thorough vetting of all analysis associated with creation of transmission and market-related costs.***

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[9] For example, Western may be motivated to join the SPP in order to consolidate its operations "under one roof", an outcome that NTUA believes could further diminish its stakeholder input.