

MEMORANDUM

DATE: August 27, 2019

REPLY TO
ATTN OF: B0000 (J. Sundsted)
J0000 (D. Roth Lindell)
Acting L0000 (R. Bailey)

SUBJECT: Recommendation to Participate in the SPP WEIS

TO: M. Gabriel, A0000, Lakewood, CO

Western Area Power Administration's (WAPA) Upper Great Plains Region (UGP), Rocky Mountain Region (RM), and Colorado River Storage Project Management Center (CRSP MC) have been evaluating participation in the Southwest Power Pool's Western Energy Imbalance Service Market (WEIS) Proposal (available on SPP's website: <https://spp.org/weis>). With this memorandum, we collectively recommend moving forward with participation in the WEIS.

Specifically, we recommend execution, on or before September 3, 2019, of SPP's Western Joint Dispatch Agreement (WJDA) on behalf of the firm electric service loads and resources of the Pick-Sloan Missouri Basin Program--Eastern Division, Loveland Area Projects (LAP), and the Salt Lake City Area Integrated Projects (SLCA/IP) in the Western Area Colorado Missouri Balancing Authority (WACM BA) and Upper Great Plains Western Area Balancing Authority (WAUW) footprint. We also recommend the WAUW BA and the WACM BA become participating BAs and the transmission systems of the respective projects within those BAs be used for the WEIS market. SPP's WJDA allows the parties to terminate the agreement early if the SPP WEIS Administration Rate is above \$0.08 per MWh. We recommend continued participation in the WJDA as long as the rate is at or below \$0.28 per MWh.

This is not a recommendation to join a Regional Transmission Organization as a transmission-owning member, and it is not a recommendation to implement a Day-2 or fully integrated market. Additionally, it is not a recommendation for WAPA's Desert Southwest (DSW) or Sierra Nevada (SN) regions. WAPA is working with DSW customers and will participate in an energy imbalance study for that region. Similarly, SN is working with its customers concerning participation in the California Independent System Operator Energy Imbalance Market (CAISO EIM).

Overall, WAPA has been seeking energy imbalance options to provide long-term solutions for LAP and CRSP, as well as the WACM and WAUW BAs as they adapt to a changing energy industry while maintaining reliable operations. Some of the operational assumptions WAPA uses to meet reliability needs and ancillary service requirements for its BAs are decades old and in some cases no longer applicable. Ever-expanding deployment of intermittent, renewable resources and the retirement of coal-fired generation are creating operational issues that are difficult to manage in the BAs. Drought conditions, environmental requirements, and market trends are adding pressure to strained hydropower resources.

Additionally, the rules and regulations associated with operating the system have evolved over time. It has become increasingly complex to optimize the efficiency of the system while managing reliability. These dynamics affect system operations and economics, which motivate the expansion and creation of centralized markets and services for energy and ancillary services. Increasingly sophisticated system management tools and improved market access are also needed to ensure reliable operation in this changing operational landscape.

Benefits of WEIS Participation

It is clear the status quo cannot continue. The majority of investor-owned utilities, many public power entities, and UGP's system in the Eastern Interconnection have joined organized markets to take advantage of economies of scale and the inherent diversity between load and generation resources across large geographic footprints.

In evaluating SPP's proposal, we have concluded the WEIS:

- Addresses BA limitations
- Addresses the risk of diminishing bilateral trading partners in favor of a robust market solution
- Maintains a stakeholder-involved governance structure that allows collaboration with customers
- Responds to the changing generation industry
- Addresses energy imbalance requirements with a broader scope of available resources
- Improves reliability for the BAs
- Creates and maintains competitive options for potential future Day-2 or fully integrated market in the Western Interconnection

Customer Coordination

Customers of the LAP, CRSP MC, WACM, and WAUW have closely engaged with WAPA in considering the risks and opportunities of changing market dynamics.

A majority of the WACM and WAUW BA customers support SPP WEIS. Of LAP and SLCA/IP firm power customers, as a percentage of sales in WACM (in MWhs), over 80 percent support or are neutral to our joining the SPP WEIS. A positive aspect shared by the customers for joining SPP WEIS is the member-driven governance structure that allows for collaboration in building a desirable energy future.

However, we recognize the diversity of our customers, each with differing needs and priorities. Over the past few months, we reached out to the impacted customers regarding energy imbalance concerns, the changing energy landscape, and limited availability of resources and options. We requested that customers share perspectives and concerns about the WEIS. Below are the most significant concerns raised and our response to each:

1. WAPA should conduct an extensive cost/benefit analysis comparing the CAISO EIM with the SPP WEIS.

Considering that WAPA-UGP is already a transmission-owning member in SPP, and considering that the Mountain West Transmission Group analysis LAP and CRSP already did compared SPP to other potential RTOs and ISOs interested in the West, we believe a detailed cost/benefit study between these options will not yield significant enough, or certain enough, results to affect our recommendation. As is true for many modeling efforts, any study conducted would result in assumptions about the future, which are hard to realistically predict. WAPA is mindful not to spend unnecessary resources on analyses that will not yield new information needed to make decisions.

A number of factors make SPP a desirable option irrespective of CAISO/SPP energy imbalance benefit comparison studies. Broader factors related to our recommendation include:

- SPP's stakeholder governance structure with its independent board of directors;
- UGP's current membership in SPP, and LAP's financial integration with UGP;
- LAP's Eastern Interconnection load located within SPP in Kansas and Nebraska;
- LAP's transmission system, some of which is located in the Eastern Interconnection within the SPP BA;
- Opportunity to maintain the potential option for LAP and CRSP to obtain a Federal Service Exemption within SPP similar to what UGP negotiated when becoming an SPP member;
- Having the same energy imbalance market operator and reliability coordinator. With factors like these in the background, the value of conducting a benefit study is rather limited.

2. CRSP customers outside of WACM will inequitably pay for costs without receiving benefits.

WAPA recognizes that approximately 75 percent of CRSP deliveries are outside of the WACM BA, where all of the CRSP generation is located. As a result, CRSP has sought to minimize the allocation of SPP's WEIS administrative costs to firm electric service customers external to the WACM BA. Following extensive exploration of various options, CRSP has now successfully negotiated an agreement that achieves this goal and reasonably addresses the customer concerns.

3. Additional time should be allowed customers to consider their options.

Many customers have expressed concern over having enough time to understand SPP's proposal, the implications of the proposal, and deciding what direction might be best. In response to this concern, WAPA was the first to recommend SPP delay the deadline, which did result in an additional month for consideration. We also agree with comments that market participation requires entities to know that their host BA is participating, thus making the WEIS an option for them. SPP's approach is to

obtain a critical mass to ensure the market will start, then provide additional time for entities to join the first group that begins market operations. SPP also has communicated that entities may time their participation in ongoing phases each year. Entities wishing to understand these terms may contact SPP to ensure the latest information is obtained.

With full consideration of customer input, UGP, RM, and CRSP MC recommend proceeding with execution of the WJDA on or before September 3, 2019, and continuing with participation in the SPP WEIS. A summary of customer inputs and additional information is available on WAPA's Energy Imbalance Market/Services webpage (available at <https://www.wapa.gov/About/keytopics/Pages/energy-imbalance.aspx>).

Please let us know if you have any questions or concerns.

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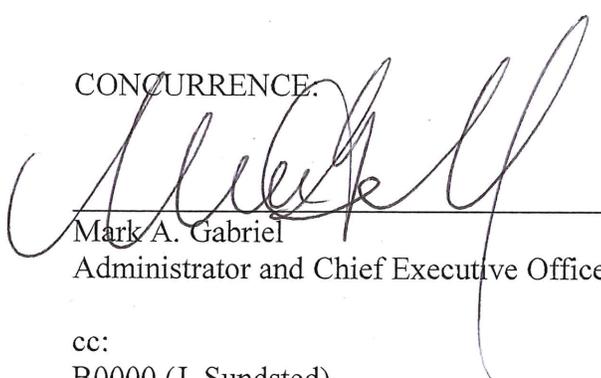
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CONCURRENCE.



Mark A. Gabriel
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8/28/2019

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