Department of Energy
Western Area Power Administration
P.O. Box 281213
Lakewood, CO 80228-8213

DEC 20 2011

To All Interested Parties of Impacted Projects:

Western Area Power Administration (Western) strategic planning resulted in the senior management decision to consolidate the Western Area Lower Colorado (WALC) and Western Area Colorado/ Missouri (WACM) Operations and Transmission Services functions within the Desert Southwest Region (DSWR), Rocky Mountain Region (RMR) and Colorado River Storage Project Management Center (CRSP MC) into one management structure, reporting to the RMR Regional Manager. Based on customer input, Western's senior management team also decided to consolidate the generation and transmission assets of the Colorado River Storage Project into the WACM Balancing Authority (BA). This work is to be accomplished in conjunction with the work to implement the Operations Consolidation Project (OCP) goals, with the objective of completing implementation prior to FY2014.

We anticipate that both of the aforementioned projects will result in significant benefits to customers. However, to ensure that each of Western's Projects pays the proper share of the overall costs for the Operations functions in years to come, the best approach for long-term cost allocation among Western's Projects for these functions must be determined. To proceed with the OCP and the CRSP reconfiguration work expeditiously, Western agreed to base cost allocations on a five-year historical average during an interim implementation period. However, that methodology does not consider new realities based on the OCP and CRSP reconfiguration decisions, and will by definition become obsolete as the years progress.

A team was formed, comprised of members from DSWR, RMR, and CRSP MC's Finance, Power Marketing, and Operations departments, to determine the best approach for long-term cost allocation among Western's Projects. The team was tasked to develop a cost allocation methodology that would be applicable, simple, relevant, and defendable for each of the four functions of Automated Generation Control, Transmission Scheduling and Security, Transmission Switching Operation, and Operations Support. After performing an extensive analysis and meeting with personnel in all four functional areas, we determined that the best method was to use transmission line miles and megawatt nameplate generation capacity, both of which could easily be correlated to the Operation staff's workload and across all four functional groups.

We briefed customers for DSWR, RMR, and CRSP MC on the proposed cost allocation methodology and provided you an opportunity to express comments and feedback. Customers proposed a few alternatives in lieu of the use of transmission miles and generation capacity. The team considered all comments received and evaluated them against the rationale developed for the methodology. However, after considering the pros and cons of the various options, Western believes transmission line miles and megawatt

nameplate generation capacity provide the best alternative for this operations labor cost allocation. More detailed background on these decisions has been provided to those submitting comments and is posted on our web site.

Based upon the analysis performed, Western intends to move forward with this cost allocation methodology as a means to allocate Operations labor costs across the 9 impacted Federal Projects. This methodology provides a long-term solution for allocating costs among Projects, regardless of BA, region or number of FTEs working in each of the two control centers. The metrics used are accurate, simple, and do not require a complicated tool to calculate or maintain. The total cost shift in moving to this new methodology among DSWR, RMR, and CRSP MC is relatively small. A shift occurs between Boulder Canyon and Parker-Davis in the DSWR, which Western believes accurately reflects the level of Operations labor used in support of these projects. This shift was mitigated by Western recognizing the workload of the fiscally separate Boulder Canyon and Parker-Davis projects are operationally integrated and making an adjustment to account for this integration. The new cost allocations factors will be applied to the labor costs of the Operations budget of the combined organization beginning with the FY2014 budget formulation, which begins in January 2012. It is Western's intent to review the cost allocation methodology on a periodic basis and update and revalidate the data annually.

Cathy Castle has been Western's project manager for this effort. You are welcome to call her at 602-605-2404 for further background or information. As always, you are also free to contact any of us.

Sincerely,

Julia L. Kyriss
Colorado River Storage Project Manager

Bradley S. Warren
Regional Manager

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Regional Manager