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ARIZONA POWER AUTHORITY
1810 W. Adams Street • Phoenix, AZ 85007-2697
(602) 542-4263 • FAX (602) 253-7970

Staff

JOSEPH W. MULHOLLAND
EXECUTIVE DIRECTOR

MICHAEL A. GAZDA
DEPUTY DIRECTOR

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Date	Initial	Code
	FEB 25 2008	
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February 22, 2008

Mr. Timothy Meeks, Administrator
Western Area Power Administration
P. O. Box 281213
Lakewood, Colorado 80228-8213

RE: Proposed Western Consolidation

Dear Mr. Meeks:

Thank you for allowing Arizona Power Authority to offer input to Western's strategic plan for consolidating balancing authorities presented at the February 12th meeting. As you have probably gathered by now, most, if not all of the customers in DSW and those that came from afar are opposed to the plan that was presented. By Western's own analysis, combining the balancing and transmission operation areas provides only a marginal economic benefit. When considering the risks involved and the disruption that it will cause to balancing areas and transmission operations, the plan provides questionable value.

Functionally, the existing structure does not lend itself well to a centralized balancing authority because of the geographically diverse nature of the service territories, the limited transmission capacity connecting the regions, and the diverse nature of the federal project contracts involved. We do not understand why Western would desire to pursue this course of action.

Furthermore, we have conducted a legal review to determine whether Western has the authority to centralize and combine balancing authorities utilizing Hoover power. The 1984 Hoover Powerplant Act ratifies a geographical marketing area for the Boulder City Area projects which is limited to portions of the Southwest and does not include the other balancing authority areas. We are convinced that consolidating balancing areas will violate federal law. We, therefore, oppose any attempt by Western to administratively expand the geographic boundaries of DSW or to employ Hoover power in any other balancing authority. Further mixing of Federal Projects by

combining balancing areas will be fraught with numerous contract and legal issues and comes with other hidden costs such as sharing of reserves and transmission charges. This plan will ultimately result in cost averaging to the detriment of DSW customers.

We understand the additional workload of reliability compliance and the increased demand that is being placed on Western personnel. Every utility in the country has had to deal with an increased compliance workload and that workload has been growing and changing over the years. Centralizing Western's administrative functions and documentation requirements to develop common policies and responses can provide significant benefits without centralizing balancing authorities and disrupting transmission operations.

We were also surprised to hear that Western is using Hoover power for regulation in DSW. With the total capacity of Hoover below 1,951 MW for some time now, has Western assumed that it has rights to sub - 1,951 MW Hoover capacity? How and where is this capacity being used? We are concerned as to how Western is using Hoover power for regulation without infringing on the rights of the Hoover contractors.

Centralizing the balancing authorities violates the geographical limitations of the marketing area ratified by the 1984 Hoover Powerplant Act. We oppose any plan that utilizes Hoover power outside of the marketing area or results in a degradation of transmission service. This plan does both. Furthermore, centralizing the transmission operations and balancing authorities will dilute the knowledge base of dispatchers in the DSW region, will reduce availability of knowledgeable personnel, and will result in reduced transmission service reliability. Whether in the form of extended transmission outages, diminished service reliability, or impediments to our day-to-day ability to quickly resolve problems that rely on access to knowledgeable personnel, we don't believe that these changes that Western is proposing will provide any positive or desirable outcomes to its customers.

We assume that from our earlier request at the February 12th meeting you will be sharing the detailed studies that resulted in your proposed consolidation plan and responding to the other questions submitted at that time. Attached is a list of additional questions developed to help us better understand the basis for this course of action.



Michael A. Gazda
Deputy Director

Attachment

cc: Mr. J. Tyler Carlson

**ARIZONA POWER AUTHORITY
QUESTIONS REGARDING
WESTERN'S STRATEGIC PLAN
TO COMBINE BALANCING AUTHORITY AREAS**

1. Has Western reviewed the legal aspects of their proposed consolidation plan?
2. What is the legal basis for utilizing Hoover power for regulating in DSW?
3. Do any of these proposals conflict with existing contracts in DSW?
4. How does Western propose to resolve conflicts with existing contracts or procedures in DSW?
5. How does this plan benefit the rate payers in DSW?
6. How will this proposal affect existing DSW transmission rates now and in the future?
7. How does a financial true up at the end of the hour affect the DSW transmission rate?
8. How does this plan make the transmission system more reliable in the DSW?
9. What is Western's timeframe for implementation of their proposed consolidation plan?
10. What is the rationale for continuing this effort?