



**Department of Energy**  
Western Area Power Administration  
Desert Southwest Customer Service Region  
P.O. Box 6457  
Phoenix, AZ 85005-6457

**JAN 10 2013**

Mr. Robert S. Lynch, Counsel and Assistant Secretary/Treasurer  
Irrigation & Electrical Districts Association of Arizona  
340 E. Palm Lane, Suite 140  
Phoenix, Arizona, 85004

Re: Pacific Northwest-Pacific Southwest Intertie Project – Proposed Rate Order No. WAPA-157, 77 Fed. Reg. 34381, et seq. (June 11, 2012)

Dear Mr. Lynch:

We are in receipt of your letter dated October 8, 2012 regarding the above referenced rate proceeding for the Pacific Northwest-Pacific Southwest Intertie Project (Intertie) transmission service rates. Western appreciates all input received in connection with the rate adjustment process and fully considers all comments made during the public consultation and comment period in its final decision. Since your letter was received within the official comment period, all responses contained in this letter will be included in the final Rate Order that will be published in the *Federal Register*.

In your letter, you requested that Western either suspend or terminate its rate proceeding and cited several reasons for doing so. You stated that because Western has extended the existing rates for a period of one year, the existing rates are sufficient to cover projected expenses during the extension period. This statement is not accurate. As specified in the proposed Rate Order, the existing rates are being adjusted to provide sufficient revenue to cover all annual costs and repay existing debt to the U.S. Treasury within the allowable time frames. The temporary extension was approved to provide additional time for Western to complete an on-going rate adjustment process. Since the existing rates were set to expire on September 30, 2012, there would not have been sufficient time for Western to evaluate comments and determine if modifications to the proposed rates were warranted. Your letter also indicated that significant new information would be forthcoming over the next six months that could affect the proposed rates and require a supplemental rate proceeding. We acknowledge that several initiatives are currently underway that may result in changes to the products and services that Western provides its customers. However, we do not anticipate any activities that would correct the revenue deficiency projected for the Intertie project.

Your letter makes reference to continuing a dialogue with Western over certain costs that have been included in the proposed rates. These costs are associated with the Purchased Power and Wheeling (PPW) program for the WALC Balancing Authority (BA). The WALC BA purchases power for reliability purposes and allocates these costs to the transmission projects. These purchase power costs are a secondary factor of the proposed rate increase. The primary factors for the proposed rate increase are the continual shortfall in sales of 500-kV transmission service and the required debt payments that must

be made by fiscal year 2020. A rate increase of approximately 24% is needed to satisfy cost recovery criteria and demonstrate repayment without considering purchase power costs.

We are committed to working with our customers to ensure the allocation of purchase power costs is appropriate for all DSW transmission projects, including Intertie. An internal team is being formed to examine all aspects of the PPW program, including required reserves, and will work collaboratively with customers as additional information becomes available. While this process may take up to a year to work through, it is not prudent to suspend or terminate the proposed rate adjustment. Such an action would shorten the period of time available to payoff maturing debt and result in an exorbitant rate increase the following year. Since Western's rates are cost-based, in the event additional transmission service is taken on the Intertie system such that cost recovery is achieved through a lower rate, Western will adjust the rate appropriately downward.

Sincerely,

A handwritten signature in cursive script that reads "Deborah K. Emler".

Deborah K. Emler  
Assistant Regional Manager  
for Power Marketing