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Testimony on *"Increased Electricity Costs for American Families and Small Businesses: The
Potential Impacts of the Chu Memorandum"*
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Mr. Chairman, Ranking Member Markey, my name is Joel Bladow. I currently serve as Tri-State Generation and Transmission Association's Senior Vice President for Transmission. I appreciate having the opportunity to testify before the committee on the impact the "Chu Memorandum" will have on Tri-State's ability to provide affordable and reliable electricity to small businesses and residential consumers throughout the Intermountain West.

Tri-State is a not-for-profit wholesale electric cooperative based in Colorado. Our mission is to provide reliable, cost-based wholesale electricity to our 44 not-for-profit member systems (electric cooperatives and public power districts) while maintaining high environmental standards. Our members serve 1.5 million predominantly rural consumers over 200,000 square miles of territory in Colorado, Wyoming, Nebraska and New Mexico. To meet our membership's electricity needs, Tri-State generates or purchases power produced by coal, natural gas, and hydropower, as well as from intermittent renewables like solar and wind. Since the end of 2010, we have integrated just over 30 megawatts of solar from the Cimmaron Solar facility in Northern New Mexico and 50 megawatts of wind from Duke's wind farm in Burlington, Colorado. Recently, we signed a 20 year agreement to purchase all 67 megawatts of generation from the Colorado Highlands Wind Project located in Logan County, Colorado. In addition to these larger scale projects, Tri-State's board of directors has established policies to encourage local renewable developments on our member systems. Under this policy our members have added, or are scheduled to add, another 42 megawatts of distributed local renewables to our portfolio. Tri-State is not unique with respect to the integration of traditional sources of coal, natural gas, federal hydropower and intermittent resources. Other customers of the Western Area Power Administration (WAPA) have a similar generation portfolio.

We are proud of the great strides we have taken to integrate intermittent renewable and local distributed generation into our production fleet. However, our most important source of renewable generation is still the reliable hydropower generated at the multi-purpose projects of the U.S. Army Corps of Engineers and Bureau of Reclamation and marketed by WAPA. Hydropower purchased from WAPA accounts for approximately 12% of our generation needs. Since it is such a crucial component of fulfilling our mission to provide affordable and reliable electricity to the rural membership we serve, we are very concerned about the directives for WAPA and the other power marketing administrations laid out in the Chu memo of March 16th.

Affordability and Reliability

As I noted, Tri-State's 44 members serve the predominantly rural areas of our four state service territory, which includes New Mexico, Nebraska and Wyoming in addition to Colorado. On average these member systems serve five consumers per mile compared to 37 consumers per mile served by investor owned utilities. Many of the tribal customers served by our member

systems reside in the poorest economies in the country. We are similar to other electric cooperatives nationwide that as a whole maintain 41% of the electric distribution network, yet only have 12% of the consumers to shoulder the costs of building and maintaining this infrastructure. In times of economic recovery our consumers – whether it be the residential customer struggling to pay their mortgage or the small business struggling to meet payroll – cannot be burdened with additional costs leading to unaffordable electricity. Unfortunately, we believe the Chu memorandum will add costs to our consumers’ electricity bill, not reduce them.

Secretary Chu’s statement about WAPA’s potential participation in an Energy Imbalance Market (EIM) is an example of an additional cost associated with his memo. The memo acknowledges “WAPA[and its customers] may incur costs during the initial transition to EIM...” It is disconcerting that the Department of Energy is pushing WAPA into an EIM – with its customers shouldering the costs -- before the studies identifying the costs and benefits have been completed and peer reviewed

While it is troubling in and of itself that our not-for profit member systems could face rate increase(s) resulting from the Chu directives – it is even more troubling that our members would shoulder these costs for the benefit of for-profit utilities. Tri-State has developed a significant renewable portfolio and our member-systems have complemented this portfolio by developing distributed generation projects working with local developers in the communities in which they serve. Our members have borne the cost of this development and the integration of these projects into our network. If the Chu memo is implemented, our members will not be rewarded for this effort, but rather would be required to help pay the costs for other utilities’ renewable integration costs. For example, in Colorado the majority of the electricity demand is in the Denver Metropolitan Area. However, the utility providing electricity to this region has almost no interstate transmission connections which would help reduce their integration costs. The Chu approach would reward this utility by allowing it to use WAPA’s interstate transmission system without compensating Tri-State and WAPA’s other customers that paid for the construction and continue to pay for the maintenance of the system through their rates.

As disconcerting as it is that Tri-State and its member systems could face increased rates as a result of the “Chu” Memo, we are equally concerned about the effect that some of the directives could have on the reliability of the Western Grid. WAPA has real wholesale customers to serve, a real transmission system to maintain, and real reliability obligations to comply with. It is not a “laboratory” like Los Alamos or the National Renewable Energy Laboratory. We are concerned about the Chu memo’s apparent desire to turn WAPA into a “test bed” for conducting research on such things as cyber-security, solar flares, and rate design. These actions not only take away from its mission of providing cost-based federal power to its customers, but could affect WAPA’s commitment to reliability and undoubtedly, raise customer rates in order to pay for the experiments. In addition to the cost impacts, the human resources that maintain and operate WAPA’s extensive transmission system will be diverted to implementing these new policy initiatives at the expense of the existing system and the customers they serve.

Customer Collaboration and Congressional Oversight

Over the years, Tri-State and the other WAPA customers have had an open dialogue routinely consulting with each other on operational, planning and other matters affecting the PMA. However, when Secretary Chu released his “visioning” memo -- the “vision” was created and presented without talking to any of the hundreds of existing federal power customers, including Tri-State, that have existing systems that utilize these resources. The Department of Energy (DOE) has indicated that there will be stakeholder meetings to discuss the implementation of the concepts in the memo. Given the complete absence of dialogue between the customers and DOE prior to the release of the memo how seriously should Tri-State and other customers take these meetings? Will the process be a monologue from DOE to the existing customers and not a dialogue with the existing customers that will shoulder the cost burden of these experiments? If this consultation had occurred, the DOE would have realized that creating rate structures that incentivize certain retail consumer decisions is problematic, at best. Traditionally, retail suppliers, consistent with governing body and state regulations, have identified and determined which program best meets the needs of their consumers. A “one size fits all” federal mandate from the DOE on energy efficiency, demand response, and electric vehicle programs preempts the local decisions and community programs that are already in place and are the foundation of local control. Tri-State’s member systems have numerous programs -- each tailored to the local economies and consumers they serve -- to help reduce costs and create jobs. A top down approach is unnecessary and counterproductive to the goal of providing our members with affordable and reliability electricity in these tough economic times.

Assuming a new role as a clearinghouse for energy efficiency, demand response and electric vehicles would be new for the PMAs. The DOE has proposed establishing a revolving fund for WAPA and the Southwestern Power Administration in order to pay for these new functions. So, on the one hand DOE did not consult with WAPA’s customers before releasing its proposal to significantly realign the mission of the PMAs and now it would like to implement these new roles by establishing a revolving fund for two of the three PMAs, which would take away Congressional oversight. Given the approach the DOE took in releasing the Chu memo – Tri-State believes that establishing a revolving fund for WAPA, and thus reducing Congressional oversight, would not be a productive move at this time.

Conclusion

In general, the memorandum released by Secretary Chu on March 16th envisions a future where WAPA and the other PMAs become the technology and policy test beds for the industry with the development costs borne by PMA customers. At a time in the utility industry where there has been, and continues to be, rapid change with many new players and market segments (renewable developers, demand service management providers, smart meter deployment, independent transmission companies, independent transmission operators, etc.), do the PMAs really need to be “re-directed” away from their traditional mission of marketing and delivering cost-based federal power from federal multi-purpose facilities? I would suggest that utilities with load serving obligations, as well as local governments and electric cooperative boards, are the best

entities to determine how much consumers are able to afford in these anemic economic times – not the “one size fits all” mandated approach from the DOE.



Tri-State's Service Territory

