



**TRI-STATE GENERATION AND TRANSMISSION ASSOCIATION, INC.**

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March 14, 2008

Jim Keselburg  
Western Area Power Administration  
P.O. Box 3700  
Loveland, CO 80539-3003

Mr. Keselburg:

This letter provides the comments of Tri-State Generation and Transmission Association, Inc., regarding the Operations Consolidation that is currently under discussion, and supplements those comments that were made verbally at the Customer Meeting in Loveland on February 14, 2008. We appreciate that Western is seeking customer input on this important matter, and we hope these comments are constructive in moving this process forward.

It has been indicated that this consolidation effort is a key strategic issue for Western. However, no clear goal has been communicated. What strategic outcome consistent with Western's mission of marketing federal hydropower will be achieved if this consolidation project is completed? Tri-State supports plans that have, as a net result, reduced cost and rate impacts to preference power customers. The minimal financial benefits that have been identified are somewhat speculative, and no other substantive goals have been identified in the materials Western has provided for our review.

Tri-State currently has load or generation in five balancing authorities, and generally supports fewer and larger balancing authorities. Unfortunately, the proposed consolidation would not result in any efficiency for Tri-State – we would still be in five balancing authorities. The transmission system that links the three Western balancing authorities under discussion is minimal, and little operational enhancement seems possible without significant investment in infrastructure. In addition, the multiple federal projects, each with its own authorizing legislation, would require a blending of the existing rates and inevitably result in cost shifts among the existing customers. Significant benefits would have to be identified to overcome the negative impacts of the consolidation and provide a net gain to the customers.

Western has indicated that one key factor in considering this consolidation has been to reduce the cost of compliance with FERC, NERC and WECC requirements. We are sympathetic to the cost of compliance, and Tri-State is working hard on these same matters. We suggest that there are other alternatives to compliance that would compare favorably to those you have considered, one of which entails adding compliance staff to each balancing authority. Other utilities have successfully implemented compliance plans based on a centralized compliance plan and staff, with minimal staff additions in satellite operating areas.

The limited ability of the federal power system to provide energy imbalance, reserves, and regulation services has been taxed by load growth within the balancing authorities, environmental restrictions on dam operations and the drought. I think we are in agreement that

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continuing load growth and deployment of renewable generation by load-serving transmission customers in the Western control areas, including Tri-State, will continue until the federal power generating facilities cannot successfully provide necessary regulation and load following capability for the balancing authority. While control area consolidation may delay this effect somewhat, we do not believe it will have much impact. We believe that new arrangements will be required that involve Western and the load serving entities to jointly identify options and develop long-term approach to these issues.

It is unclear to Tri-State the process that is being used to gather input from impacted customers and how or when a decision will be made concerning this proposal. During the Loveland customer meeting it was suggested that information is being shared with customers as it becomes available, and that there is not much information available at this time. We further understand that there will be another iteration of some kind involving the customers. We would appreciate a high-level outline of the decision-making process, and an indication of parameters that will be used to lead to the decisions. For example, how important are cost factors, compliance issues, FTE levels, rate impacts, etc.

Finally and perhaps most importantly, Tri-State believes it is important to preserve the benefits associated with federal preference power for those entities that it is intended to benefit, as established by law. The federal power generating facilities have not been marketed to provide ancillary services and operate balancing authorities, but rather to deliver blocks of firm power to preference power customers.

We appreciate Western's efforts to reduce costs and look forward to working with you and your staff as these issues are further explored.

Sincerely,

A handwritten signature in cursive script that reads "J.M. Shafer".

J.M. Shafer  
Executive Vice President, General Manager

JMS:JKB:fw

Cc: Leslie James  
Dan Payton  
Tom Graves  
Rob Wolaver  
Tim Meeks

