



Western Interstate Energy Board/ WINB

December 20, 2006

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The Honorable Joseph T. Kelliher, Chairman
The Honorable Suedeen G. Kelly, Commissioner
The Honorable Phillip D. Moeller, Commissioner
The Honorable Marc Spitzer, Commissioner
The Honorable Jon Wellinohoff, Commissioner
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Via Fax and U.S. Mail

Joanna Prukop
Chair

Dear Commissioners:

Douglas C. Larson
Executive Director

The Committee on Regional Electric Power Cooperation (CREPC) strongly urges the Commission to review its October 24, 2006 decision to deny statutory funding for Western Reliability Centers and support the request for reconsideration by the Western Electricity Coordinating Council (WECC) in Docket No. RR06-3-001. If left unaddressed, the Commission's October 24 decision will undermine reliability in the Western Interconnection, and implement a discriminatory and inefficient funding process that is not in the public interest.

CREPC is a joint committee of the Western Interstate Energy Board and the Western Conference of Public Service Commissioners. It was formed in 1983. All regulatory, energy planning and siting agencies in the states and provinces in the Western Interconnection are eligible to participate in CREPC. CREPC takes positions on issues only if no state or province objects. The Western Interstate Energy Board is an organization of 12 Western states (AZ, CA, CO, ID, MT, NE, NV, NM, OR, UT, WA, WY) and three Western Canadian Provinces (AB, BC, SK). Its members are appointed by the Governor or Premier. Its legal basis is an interstate compact approved by 12 states and Congress (PL 91-461). The Board serves as the technical energy arm of the Western Governors' Association. The Western Conference of Public Service

Commissioners includes the PUCs from 11 states (AZ, CA, CO, ID, MT, NV, NM, OR, UT, WA, WY).

On October 6, CREPC filed comments requesting that the Commission approve funding for Western Reliability Centers with statutory assessments under Section 215 of the Federal Power Act. CREPC supports the development of effective and financially independent Western Reliability Centers. These entities will monitor, coordinate, and perform critically important functions to ensure system reliability across the entire Western Interconnection. Western Reliability Centers are essential to fulfilling the recommendations of the 2003 Blackout Report, and complying with new mandatory reliability standards under Section 215 of the FPA. We believe that WECC's proposal to fund, support and implement Western Reliability Centers is just, reasonable, and in the public interest.

Unfortunately, the Commission denied WECC's budget request to fund Western Reliability Centers on grounds that the reliability coordinator function is not a statutory activity. The Commission also expressed concern that the same entity should not oversee its own compliance with reliability standards unless there is a strong separation between oversight and real-time operations.

CREPC believes that the Commission has missed the bigger policy picture in its legal analysis. We believe the WECC request for reconsideration addresses the specific factual and legal issues raised in the Commission's October 24 decision. CREPC agrees with and endorses WECC's filing. CREPC would like to expand on three key policy issues with respect to Western Reliability Centers.

First, the Commission's denial of statutory assessments means that Western Reliability Centers will have to rely on voluntary funding through WECC dues. Voluntary funding for reliability coordinators is unwise and contrary to the intent of building stable institutions to perform important reliability functions. Voluntary funding does not ensure that adequate resources will be available to perform reliability coordinator functions. Moreover, voluntary funding makes Western Reliability Coordinators more vulnerable to the influence of industry participants that will be asked to make contributions to support WECC operations. The voluntary funding approach increases the threat of undue influence over reliability coordinators and is thereby not in the public interest.

Second, Western Reliability Centers do not have a satisfactory alternative source of funding. The reliability coordination function is a classic

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public good problem because it is not possible to exclude others from deriving the benefits of providing reliability to the system. Other regions have developed alternative funding mechanisms across their region through the provision of other services of an independent system operator or regional transmission operator (ISO/RTO) or through a dominant transmission owner's tariff. There are no ISO/RTOs in the Western Interconnection outside of the California and Alberta. There is no dominant transmission owner covering the Western Interconnection. The possibility of a FERC imposed tariff rider would not provide interconnection-wide coverage since many non-jurisdictional entities would not be subject to such fees. Alternative funding mechanisms in the Western Interconnection have inherent problems that yield an inefficient outcome and are not in the public interest.

Third, funding Western Reliability Centers through statutory assessments ensures that western ratepayers bear the costs of the reliability coordinator function. WECC seeks to perform a function that no other entity in the Western Interconnection is prepared to fulfill and proposes a reasonable means to support those functions through statutory assessments. Unlike other regions, the Western Reliability Centers will perform these functions across an entire interconnection.

For the reasons stated above, CREPC respectfully requests that the Commission approve the WECC request for reconsideration and approve statutory funding of Western Reliability Centers in the Western Interconnection.

Sincerely,

A handwritten signature in black ink that reads "John F. Savage". The signature is written in a cursive, flowing style.

John Savage, Chairman
Committee on Regional Electric Power Cooperation

cc: John Moot, General Counsel
Joe McClelland, Director, Division of Reliability
Louise McCarren, CEO, Western Electricity Coordinating Council