

APR 16 2009


Policy Statement –
Provision of Transmission Service to Western's Merchant Function

Western's core mission as a Federal Power Marketing Administration is to market and deliver Federal power to preference customers and project use loads. At the same time, with the passage of the American Recovery and Reinvestment Act of 2009, Western will assume an even greater role in the industry as a transmission owner and provider of open access transmission and interconnection services.

Among other things, Western's as-filed Open Access Transmission Tariff (Tariff) contains an Attachment K that describes the statutory authorities and obligations applicable to Western's use of its transmission system for the delivery of Federal preference and project use capacity and energy. Attachment K states that transmission service provided by Western under the Tariff is solely for the use of available transfer capability in excess of the capability Western requires for the delivery of long-term firm capacity and energy to project use and electric service customers of the Federal government. Attachment K also states that Western will offer to provide others transmission service equivalent to the service Western provides itself, and Western has in the past made a similar commitment to the Federal Energy Regulatory Commission (FERC). Moreover, pursuant to section 211A of the Federal Power Act, FERC has the ability to issue an order or rule requiring Western to provide transmission services at rates it charges itself and under terms and conditions comparable to those it provides itself.

The above statements highlight an apparent conflict in Attachment K to Western's Tariff. The intent of this Policy Statement is to eliminate confusion in the interpretation of Attachment K. To accomplish this goal, this Policy Statement includes an Attachment describing the principles under which transmission service on Western's system will be provided to Western's merchant function in a manner that is consistent with its mission to deliver long-term firm capacity and energy to project use and electric service customers. In accomplishing this obligation, the overarching policy directive is to provide transmission service to third parties under Western's Tariff comparable to the service provided to Western's merchant function.

Insofar as the electric industry is in an evolving state and will remain so for the foreseeable future, the Attachment to this Policy Statement is to be considered a living document that shall be revised from time to time as necessary and provided therein.



Timothy J. Meeks
Administrator

Attachment to the Policy Statement
Regarding Provision of Transmission Service to Western's Merchant Function

I. Definitions

The terms used in this Attachment to the Policy Statement regarding Provision of Transmission Service to Western's Merchant Function (Attachment) shall have the following meaning:

- A. Firm Electric Service: energy deliveries from Federal generators or supplemental resources for the purpose of satisfying existing marketing plan obligations that are used to serve the load of Federal preference power customers, or customers granted energy delivery rights by statute or rulemaking that are comparable to those of preference power customers.
- B. Priority Use Power: energy deliveries from Federal generators, or supplemental resources acquired, for the purpose of serving certain Federal project loads and for irrigation pumping on certain Native American lands, as required by legislation or treaty obligations.
- C. Project Use Service: energy deliveries from Federal generators, or supplemental resources acquired, for the purpose of serving certain Federal project loads, as required by legislation.
- D. Statutory Service: Firm Electric Service, Priority Use Power, and Project Use Service.
- E. Third Party Transaction: a purchase and/or sale made by Western's merchant that is not used to meet Statutory Service commitments.

II. Principles

The following principles and *clarifying statements* shall apply to the provision of transmission service to Western's merchant, unless explicitly provided otherwise by relevant project statute or specific marketing plan criteria:

- A. Western's merchant may, at its option, take point-to-point service for Statutory Service deliveries in a manner comparable to Part II of Western's Tariff.
 - 1. Western's transmission and merchant functions shall enter into agreement(s) outlining firm point-to-point arrangements for Statutory Service deliveries.
 - 2. In cases where Western's merchant takes point-to-point service for Statutory Service deliveries, reserved point-to-point capacity in excess of that required for such deliveries may be used by Western's merchant for Third Party Transactions.
 - 3. Statutory Service schedules shall be granted the same curtailment priorities as the equivalent point-to-point service under Western's Tariff.
- B. Except for point-to-point service, transmission service needed by Western's merchant for Statutory Service deliveries shall be provided in a manner comparable to network service under Part III of Western's Tariff.

1. Western's transmission and merchant functions shall enter into agreement(s) outlining network arrangements for Statutory Service deliveries, and such agreement(s) shall designate Statutory Service resources and loads to the maximum extent practicable.
 2. To the extent it is necessary to do so, the merchant shall designate and undesignate its Statutory Service resources in accordance with the requirements established in FERC Order No. 890, et seq.
 3. The merchant may deliver Statutory Service power and energy off-system in a manner comparable to that specified in section 31.3 of Western's Tariff.
 4. Statutory Service schedules shall be granted the same curtailment priorities as network service under Western's Tariff.
- C. Transmission service needed by Western's merchant for Third Party Transactions shall be provided in a manner comparable to Part II of Western's Tariff.
1. Western's merchant shall take point-to-point service for Third Party Transactions, and Western's transmission and merchant functions shall enter into agreement(s) outlining the arrangements for that service.
 2. Third Party Transactions for Western's merchant shall be granted the same curtailment priority as point-to-point service under Western's Tariff.
- D. Western's transmission and merchant functions shall use best efforts to minimize the impact of new Statutory Service resource and load requirements on queued third parties.
1. Western's merchant shall provide as much advance notification as practicable to the transmission function regarding new Statutory Service resource and load requirements.
 2. Requests from Western's merchant for transmission service related to new Statutory Service resource and load requirements shall be treated in a manner comparable to similar firm point-to-point service or network service requests from third parties, and shall be coordinated with the applicable Western Tariff queue to the maximum extent practicable consistent with Priority Use Power and Project Use Service legislative mandates. *Comparable treatment in this respect includes the discussion in Order 890-B at ¶¶ 210 and 234-236 pertaining to overdesignation of network resources.*
 3. Where applicable, Western's transmission function shall ensure that all set-asides of transmission capacity needed for new Statutory Service resource and load requirements adhere to the applicable requirements and reliability standards promulgated by FERC, the Electric Reliability Organization (ERO), and the appropriate regional reliability organization. *This principle also applies to existing Statutory Service resource and load requirements.*

4. When possible to do so and in coordination with the merchant function, Western's transmission function shall set aside Total Transfer Capability as necessary to deliver planned new Statutory Service and/or withhold future capacity for planned new Statutory Service, and will ensure that third-party Tariff agreements include rollover restriction language necessary to provide for new Statutory Service resource and load requirements. *Western shall not abrogate third-party Tariff agreements in the absence of the necessary rollover restriction language.*
 5. Interconnection requests submitted by or on behalf of third-party generators for purposes of providing Statutory Service power and energy to Western's merchant shall be treated as any other third-party generator interconnection request in accordance with Western's Tariff.
- E. Notwithstanding the above, transmission service needed by Western's merchant for Balancing Authority-related sales and purchases shall adhere to the applicable requirements and reliability standards promulgated by FERC, the ERO, and the appropriate regional reliability organization. This includes the requirements and reliability standards applicable to setting aside transmission capacity for reliability purposes.

III. Implementation

Western's Power System Operations Council (PSOC) shall be responsible for ensuring the Region-specific software tools and procedural documentation needed to implement the above principles are developed in a timely manner in coordination with Western's Power Marketing Management Council (PMMC).

IV. Periodic Review and Revision

This Attachment shall be reviewed on at least an annual basis to determine the need for new principles and/or additional clarifications. The PSOC shall be responsible for conducting such review and developing any necessary revisions to this Attachment in coordination with the PMMC.

Revisions to this Attachment must be approved by both the PSOC Chair and the PMMC Chair, and shall become effective only upon concurrence by the Chief Compliance Officer.

Approved:

Edward F. Hulls 4/15/09
Edward F. Hulls Date
Chair, Power Systems
Operations Council

Deborah K. Emler 4-14-09
Deborah K. Emler Date
Chair, Power Marketing
Management Council

Concurred:

Anthony H. Montoya 4-16-09
Anthony H. Montoya Date
Chief Compliance Officer