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January 9, 2004

Ms. Jean Gray  
Assistant Regional Manager for Power Marketing  
Western Area Power Administration  
Post Office Box 6457  
Phoenix, Arizona 85005-6457

Re: Comments on Parker-Davis Power Marketing Language  
Included in Parker-Davis Project Contract Extensions

Dear Ms. Gray:

Upon the announcement by Western of the process to deal with the expiring Parker-Davis Project contracts in the year 2008, Mohave Electric Cooperative, Inc. ("Mohave" or "MEC"), as a Partial Requirements Contractor with the Arizona Electric Power Cooperative, Inc. ("AEPSCO"), intended to become an applicant for an allocation of P-DP power. After making comments to Western, Mohave received notice Western made a decision to extend the existing contracts in a slightly different amount of power and energy and in a new contract form, and to not open the P-DP process to reallocation and application. Given the circumstances of the special contract relationship between Mohave and AEPSCO, Mohave believes it is critically important that Western recognize the existence of the special Partial Requirements Contract between Mohave and AEPSCO, and, under appropriate circumstances, protect Mohave's rights to the use of P-DP power allocations.

Historically before 1988, P-DP allocations were made by Reclamation and Western to retail or aggregating entities based on retail loads. Aggregators have wholesale but not retail loads. The pre- 1988 P-DP contracts expired, along with all the rights associated with those contracts. The 1988 P-DP allocations by Western were based on an analysis by Western of retail loads of customers.

Mohave is a special Partial Requirements Contract Member of the AEPSCO. Under the federally-approved (U.S. Department of Agriculture Rural Utilities Service – "RUS") form of Partial Requirements Contract, Mohave and AEPSCO have a unique relationship not experienced anywhere else in the Western service area. While a member of AEPSCO, Mohave occupies a special status as a Partial Requirements Contractor entitled under the contract to the use of

35.8% of the AEPCO resources (AEPCO is the irrevocable agent for the term of the contract and, while the resources are not dedicated, the use is contractually allocated).

The Partial Requirements Contract expires in 2020. The Parker-Davis Project extension expires in 2028. The need for concern is apparent. If the Partial Requirement Contract is extended until 2035, the P-DP will expire in 2028 and the need to address the issue is still obvious. Now is the time to recognize the unique situation and memorialize it.

You have been provided a copy of the contract forms which have been approved by the Department of Agriculture and RUS, the AEPCO membership and AEPCO. This contract was approved in July of 2001. During the contract term (and any extension, which is currently contemplated), Mohave has the use of 35.8% of the AEPCO resources and corresponding financial responsibility and believes AEPCO, as a G & T aggregator of distribution wholesale members' retail loads, is the agent of its members (and particularly Mohave) during the P-DP term, particularly insofar as Federal hydro resources are concerned.

For the reasons of this unique contract, Mohave would like to have recognized by Western in its contract language for extension of the Parker-Davis Project allocations the following language:

Transfer of Interest in Contract. Notwithstanding any other provision of the contract to the contrary, Western's Administrator reserves the right to adjust, but not without cause having a regard for equity and federal resource power marketing laws, rules, regulations and principles reduce, Western's firm electric service obligations under this contract as he or she deems equitable, and in accord with appropriate Federal marketing policy, laws rules and regulations, if the contractor's status as a customer changes including but not limited to: (1) merger with another organization; (2) acquisition of or being acquired by another organization; (3) creating a new organizational entity from an existing one; (4) joining, or withdrawing from, or contractually restructuring its membership in a member-based power supply organization; or (5) if the contractor is a member-based power supply entity (such as a generation and transmission cooperative), losing or altering its contractual relationship with, one or more members of its membership organization with retail load responsibility.

The utilization of this language will prevent the extraordinarily inequitable result that occurred in New Mexico during the contract extension for CRSP. The above language clearly gives the Administrator sufficient authority to follow historic federal power marketing practice and process of recognizing allocations are intended to serve retail load.



Additionally, Mohave believes it is appropriate for Western to recognize in this specific instance that Mohave is, as of this date, contractually entitled to the use of 38.5% of the AEPCO resources, including all of its hydroelectricity.

The use of 35.8% of resources was a contractual recognition (in the G & T analysis of the AEPCO loads and resources) of the Mohave contribution to AEPCO load and to the financial requirements. There can be no better declaration of the validity of this contractual entitlement to the use of resources than the federally approved, signed, sealed and delivered Partial Requirements Contract, of which you have a copy. Mohave believes Western should respect decisions made by the Department of Agriculture Rural Utilities Service, and the AEPCO members in the collective exercise of their contractual authorities.

In the body of its extension of the AEPCO P-DP contract, Western should set forth recognition of the existence of this July 2001 Partial Requirement Contract.

Mohave is mindful of the fact concerning claims of proprietary rights in Federal power allocations that the Hoover Federal allocations in some instances were allocated to states for use within the states and, therefore, belong to state customers as a matter of contract for the term. Arizona and Nevada qualified for those proprietary Hoover allocations. Hoover is not Parker Davis.

Mohave has a reading and understanding of the Parker-Davis Project Acts that indicate that the Secretary of Interior (and its agent, the Administrator of Western) has the authority to act in the matter of allocations of Parker-Davis Project power and energy. The original basis for power allocations was on load and service to retail customers. Reclamation continued this practice and handed it off to Western. The Arizona Power Pooling Association (Pool), one of the first joint action agencies to be created by preference power customers, was recognized by Western as an aggregator of the Federal resources of the City of Mesa, Electrical District No. 2, Pinal County, Arizona, and AEPCO. However, in its contracts with the Pool, Western reserved the right (negotiated by Marlene Moody of the Federal Power Marketing Department), in the event the Pool changed its structure, to change the Pool allocations of the federal resource (not, however to reduce the individual allocations unless other circumstances prevailed). Since AEPCO (as the aggregator or pooling agent of its members' retail loads) and Mohave have defined the relationship of the AEPCO resources (the use of 35.8% belongs to Mohave), Mohave believes Western and its Administrator should specifically recognize the existence of the Partial Requirement Contract in the body of the AEPCO P-DP contract extension.

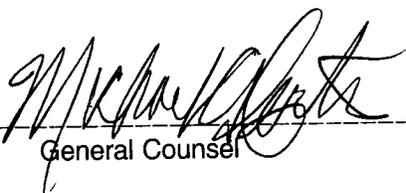
In conclusion, Mohave believes there are two (2) separate issues. The **first** and most important issue to Mohave is the **specific recognition of the existing Partial Requirements Contract by Western in the body of the AEPCO/Parker-Davis**

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**contract extension.** **Secondly**, Mohave agrees the Administrator of Western is lawfully authorized by law under changed circumstances (as set forth in the language above) to exercise authority and discretion to be sure that implementation of federal policy and practice in the marketing of the federal hydro resource to meet retail load continues in a fair and equitable manner, mindful however that individual retail load allocations should not be reduced without cause.

Very truly yours,

MOHAVE ELECTRIC COOPERATIVE, INC.

By  \_\_\_\_\_  
General Counsel

cc: Robert E. Broz, CEO, Mohave Electric  
Cooperative

