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October 31, 2003

Mr. Jack D. Murray
Rates Team Lead
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Date	Initial	Code
	NOV -4 2003	

Re: Proposed Multiple System Transmission (MSTR) for the AC
Intertie, Central Arizona, and Parker-Davis transmission
systems

Dear Jack:

At the end of the meeting yesterday, you asked for feedback and
comments, so here are some.

Western has been going through a periodic informal process
discussing the possibility of fashioning a single rate for CAP,
old Intertie, new Intertie and Parker-Davis Transmission Systems.
Non-firm and short-term firm contracts would be keyed off the
design of this new rate. You have presented two alternatives, one
that would kick-in in the first year of a 5-year transition
program and one that would not kick-in until the fifth year. As
noted in the meeting yesterday, the Advancement of Funds contract
for Parker-Davis states that the contributors will not pay more
than they would in a regular Parker-Davis rate proceeding. Since
both your options show the Parker-Davis rate to be relatively
stable and less expensive until the fifth year, the MSTR first-
year option already has a problem. It has a second problem
because it is more expensive than CAP and old Intertie, as well as
Parker-Davis.

Dennis Delaney has put forward an option that would allow
transmission customers to choose whether to shift to this new MSTR
or stay with the single system rates they now pay. In Dennis'

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proposal, the transition to a common multi-system rate would take longer and be more expensive up-front, a trade-off that some of your customers may find beneficial in any event. I suggested that you consider extending contracts that terminate before the bulk of them terminate in 2008 and thus lessen the opportunity for entities where these early termination dates to suffer an economic penalty. There was some question about how this interfaced with Western's OATT and you agreed to look at this option and that issue before the next meeting.

I also suggested to you that you could look at the rates payments as a variable. Since the rates are designed to recover costs determined by annual budgets, those who might convert to the MSTR early are really paying more than their fair share of transmission costs early on in the project. That could be viewed as a contribution to be repaid at a later time if extending the contracts is not an option. Using money as a variable is a little more complicated but it could be used to smooth out the impacts.

At the meeting, you acknowledged that your calculations assume that the Parker-Davis Firm Electric Service contractors would be paying the MSTR rate after 2008. Jean Gray mentioned that the Parker-Davis FES contracts show points of delivery on the Parker-Davis system only and the question of being able to deliver on or through the Intertie system under such a contract could be a problem. We need to address whether a contract amendment might be necessary or the ability to utilize points of delivery in the same fashion as the transmission contractors could be handled by an exhibit.

Both of Western's options, Dennis' option and the two possibilities I suggested all point toward ultimately having one combined power rate for these facilities. The differences among the options relate to timing and mechanisms used to lessen economic impacts.

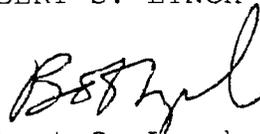
At the end of the meeting, you indicated that Western would like to have another informal meeting in late November or early December. You indicated that you would discuss with me and possibly others the potential dates for such a meeting in order to avoid conflicts with other meetings. You also indicated that this might be a final informal meeting before the beginning of a formal process.

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It seems to me that the best course of action for Western is to have as many informal meetings as is necessary in order for the customers and Western to settle on a rate design concept and to flesh it out. We would be much better off, in my view, using an informal process to achieve consensus before going into a formal rate process. We spent a lot of time at this meeting asking questions about assumptions that you had made but had not put in the slide presentation. That sort of detail needs to get out and be discussed in order for your customers to get more comfortable with this new rate design. We need to sort through the relationship of this process to the AOF contract payment requirements. We need to clarify the situation of the Parker-Davis Firm Electric Service contractors. And we need to do some pro forma calculations like we see in regular rate cases so that people see how you put these numbers together.

I think there is every chance that we can make this work but we need to work together on an informal basis to get it right. We do not want a formal rate process to be the place where we sort out contract issues.

Sincerely,
ROBERT S. LYNCH & ASSOCIATES



Robert S. Lynch

RSL:psr
cc: IEDA Members
City of Needles
Colorado River Commission of Nevada
Imperial Irrigation District