

Tom Carter
Power Operations Manager
Western Area Power Administration
Sierra Nevada Region
114 Parkshore Drive
Folsom, CA 95630-4710



Subject: Western's Post 2004 Operating Structure

Dear Mr. Carter:

The Modesto Irrigation District (Modesto) respectfully submits the following comments in response to the Western Power Administration (Western) Sierra Nevada Region Federal Register Notice dated December 2, 2003 (FR Doc. 03-29984) regarding post-2004 operating decisions (the Notice).

Modesto serves 92,000 electric customers within a 160 square mile area encompassing parts of San Joaquin and Stanislaus Counties. MID is a customer of Western by virtue of being a 21% shareholder of capacity rights on the California-Oregon Transmission Project (COTP) and having a 5 Megawatt allocation of power from the Central Valley Project. Modesto is also an entity physically connected to Western's 230 kV transmission system under the "United States Department of Energy, Western Area Power Administration, Central Valley Project, California, Contract for Electric Service to Modesto Irrigation District" (Contract No. 92-SAO-20053) by means of the Westley-Tracy Transmission Project.

Western received comments for its evaluation of its four proposed post-2004 operating structures that were presented in its Federal Register Notice dated June 12, 2003 (FR Doc. 03-1585) and identified an additional operating alternative through the Public Comment Process.

As discussed in the Notice, the evaluative criteria that are final include Flexibility, Certainty, Durability, Operating Transparency and Cost Effectiveness. Modesto strongly supports and believes that the five criteria that were originally defined by Western embrace fundamental considerations in the selection process of an operational structure for its post-2004 operations. Further, Modesto respects the decision that Western has made to pursue a contract-based sub-control area agreement and asks that the following principles be considered in the development of its selected operational structure.

MODESTO'S SUGGESTED REQUIREMENTS IN THE NEGOTIATION OF A CONTRACT-BASED SUB-CONTROL AREA AGREEMENT

1. Existing contracts should be honored because they were negotiated to strike a balance between benefits and burdens.
 - a. Modesto uses its contract to plan for its resource needs and cost certainty is never a question.
2. Certainty to schedule transmission assets based on physical firm transmission rights should not be compromised.
 - a. Currently, the CAISO controlled grid is not used for many of the transactions between Modesto and Western, as Modesto is directly connected to Western's transmission system. It is imperative that such rights are preserved.
3. Western must negotiate a durable contract that will not be subject to revisions with the WECC certified Control Area.
4. As there will be multiple parties involved in the Western Sub-Control Area:
 - a. There needs to be an advisory entity that will maintain an equitable relationship between the Control Area and Sub-Control Area. The Sub-Control Area advisory process needs to be transparent, balanced, inclusive, and representative of the entities involved in the Sub-Control Area.
 - b. There needs to be an internal process that allows for contract dispute and operational deviation resolution that is directed through guidelines that consent to the pursuit of equitable balances to be attained between the Western Sub-Control Area and its participants.
5. Modesto stresses the requirement that Western negotiates a contract-based sub-control area agreement where costs that that it pays to the control area and future developed customer rates are just, reasonable, and predictable.
6. Western must retain rights to physically self provide ancillary services per WECC standards and to provide such services to its customers in accordance with Preference Law and the 2004 Marketing Plan. As an interconnected utility, Modesto should have the option to buy ancillary services from Western and should pay reasonable costs for these services. Concurrently, if Modesto chooses, it should have the right to self provide its ancillary services, in full or partially, according to realistic metrics established by Western.

ADDITIONAL CONSIDERATIONS

Western only has a few months to implement its final chosen alternative. Modesto recommends that Western continue to pursue the contract-based sub-control area agreement with a WECC certified control area that encompasses the fundamental principles suggested by Modesto, but also continue to develop the formation of a federal control area as a fall back alternative, should contract-based sub-control area negotiations be unsuccessful.

Although Western has indicated that it is no longer examining the formation of its own control area, Modesto would still support the placement of the California Oregon Transmission Project within a Western Control Area. Such placement would involve Western assuming both operational and Path Operator status for the AC line. Under this placement, Modesto assumes Western will participate in negotiations in conjunction with COTP Participants and PG&E for a new "Coordinated Operations Agreement" that, at a minimum, preserves the existing line rating and curtailment structure and will allow for the COTP, PG&E's portion of the PACI and Western's portion of the PACI to be operated and utilized in a stable and cost effective manner.

Western is currently pursuing power contracts to meet its project use load. CVP is a hydro based resource that may benefit significantly by partnering with a large thermal unit to facilitate load following year round and allow generation optimization. In addition, Western should maintain sufficient reserves to avoid economically driven load reductions. Modesto would ask the same of the Control Area that Western negotiates with.

Western must also ensure that the contract-based sub-control area utilizes proper emergency management procedures. Any party with insufficient resources should bear the whole burden of any economically driven load reductions. Emergency resource sharing procedures should be established with all parties.

Modesto appreciates the opportunity to provide comments in this important process. If you should have any questions regarding these comments, please do not hesitate to call me at (209) 526-7550.

Sincerely



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