



January 2, 2004

Mr. Tom Carter
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Western Area Power Administration
Sierra Nevada Region
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George Fraser
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Dear Mr. Carter:

The Northern California Power Agency (NCPA) is pleased to submit the following comments in response to the Western Area Power Administration (Western), Sierra Nevada Region, Federal Register Notice of December 2, 2003. We appreciate the opportunity to offer our views concerning Western's post 2004 operating options.

NCPA is a public agency engaged in the generation and transmission of electric power and energy. NCPA was created by a joint powers agreement in 1968. NCPA members include the cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah, the Turlock Irrigation District, the Port of Oakland and the Truckee Donner Public Utility District. The Bay Area Rapid Transit District (BART), Lassen Municipal Utility District, Placer County Water Agency, and the Plumas-Sierra Rural Electrical Cooperative are associate members.

Each of NCPA's member communities and districts will be impacted by the course taken by Western after the expiration of existing PG&E contracts on December 31, 2004 as it is clear that Western's decision in this matter will have far-reaching impacts affecting issues such as existing transmission contracts, how rolling blackouts are implemented, conformance of the power marketing program with Federal laws, and governance.

NCPA has been pleased with the process undertaken by Western in reviewing its post-2004 operational alternatives. As this process advances from here, we provide the following recommendations to Western to ensure an effective outcome that will optimize the multiple public purposes of the federal power program:

I. Western is urged to create a customer advisory group to receive input from preference power customers with regard to operational decisions that are certain to have far-reaching impacts on public power utilities and their consumers.

II. It must be made clear that Western will continue to pursue the Federal Control Area (FCA) as a fallback position in the event negotiations with the Sacramento Metropolitan Utility District (SMUD) and the California Independent System Operator (CAISO) are not successful.

III. The negotiations with SMUD and CAISO must have clear criteria that can be used to judge the success of the discussions.

IV. A definite and aggressive schedule must be established to ensure Western is able to manage an orderly transition upon the expiration of existing contracts with Pacific Gas and Electric.

Each of these recommendations is outlined in further detail below:

Customer Advisory Group

Western should move immediately to create a customer support committee that can serve as a resource during proposed negotiations to form a contract-based sub-control area with the CAISO and SMUD. This advisory group will allow Western to avail itself of the knowledge base of those who rely on the resource, and to fully understand and appreciate the needs of its customers.

The FCA Option Must Be Continued in Parallel With the Sub-Control Area Negotiations

As Western begins negotiations on behalf of a contract-based sub-control area agreement with either SMUD or CAISO, it must state in clear and unambiguous terms its intent to continue its effort toward creation of a FCA. The outcome of negotiations with the CAISO and SMUD is uncertain, and the timeline for a post-2004 operational plan is very short. Western must move forward with laying the groundwork and securing approval for its own control area in the event that contract-based sub-control area negotiations are unable to meet the needs of the Sierra Nevada Region's federal power system post-2004. In the interest of a sound and thorough public policy process to address these critical issues, work to establish a FCA, including filing for Western Electric Coordinating Council (WECC) certification, must continue in parallel with the negotiations.

Western should aim to submit its FCA filing to the WECC on February 1, 2004. This allows for the ongoing 30-day Federal Register Notice comment period to conclude, and as well, would provide an additional 30 days to pursue and gauge the potential success of Western's negotiations with the CAISO and SMUD with regard to sub-control area formation.

The Negotiations Must Be Conducted on a Clear and Definitive Schedule

Western must establish a clear and definitive schedule for sub-control area negotiations with the CAISO and SMUD. Given the time constraints Western faces in addressing post-2004 operational issues, the agency must conduct negotiations expeditiously, and ensure that a lengthy negotiating process with uncertain outcomes does not have the

effect of foreclosing potential implementation of other beneficial and necessary operational alternatives.

NCPA offers the following timeline as a recommended schedule designed to ensure that a workable post-2004 plan is established:

- I. *By January 24, 2004, Western should assess which negotiations have best advanced the established criteria and, in the event such progress can be demonstrated, be prepared to sign a letter of commitment with that party by February 29, 2004.*
- II. *Filing for WECC accreditation by February 2, 2004.*
- III. *Execution of a comprehensive subcontrol area agreement by April 1, 2004.*
- IV. *Implementation (ability to be running in parallel) by August 1, 2004. Western must understand this is a non-negotiable date, as five months will clearly be needed to conduct adequate testing of this new arrangement.*

Objective and Measurable Criteria are Essential to the Negotiations

Western must establish clear and definitive elements for measuring the success of the subcontrol area negotiation process. NCPA proposes the following principles for contract-based sub-control area negotiations:

- I. *Western must have a contractual relationship, not a tariff relationship, with a Western Electricity Coordinating Council (WECC) certified Control Area Operator. The contract must provide for a six-month "off ramp", and expressly honor Western's existing contracts.*
- II. *Western must retain firm physical transmission rights to meet project use and preference obligations and manage, use, provide, and sell its excess transmission consistent with OASIS principles.*
- III. *Western must retain rights to physically self-provide ancillary services per WECC standards, and to provide such services to its customers in accordance with Federal law and the 2004 marketing plan.*
- IV. *Western must assure that the Control Area has sufficient operating reserves, accurate and timely settlement processes, and scheduling protocols that balance loads to resources consistent with prevailing business practices in the WECC region, including recognition of the need for a single path operator for the COI.*

V. *Western must ensure that its costs for operating the sub-control area are reasonable, stable, predictable and allocated in a manner consistent with cost-causation principles.*

VI. *Western's agreement must allow for the COTP to be operated and utilized in a stable and cost-effective manner.*

VII. *Western must ensure that the control area utilizes proper emergency management procedures. Any party with insufficient resources should bear the entire burden of any economically driven load reductions. Emergency resource sharing procedures should be established with all parties.*

VIII. *Western must assure that administrative overhead will be kept to a minimum and be strictly managed through an advisory committee with the proper links to the control area budget process.*

IX. *By its terms, the contractual relationship must state that it is not subject to unilateral change by the Control Area Operator nor the entities that regulate it. Western must ensure that the control area advisory process is transparent, balanced, inclusive and representative of the entities involved in the control area.*

Conclusion

We hope these recommendations and timelines prove helpful to Western as it addresses these vitally important issues in the coming months. By establishing timelines and criteria for negotiations, while simultaneously taking the steps necessary to ensure establishment of a Federal Control Area should negotiations fail to meet key objectives, we believe Western can develop an appropriate solution on a workable timeline. We are pleased to be able to participate in this process, and offer our assistance and support going forward.

Sincerely,



GEORGE FRASER
General Manager

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