



SMUD

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P.O. Box 15830, Sacramento, CA 95852-1830; 1-888-742-SMUD (7683)

AGM/ES 03-116
December 30, 2003



Mr. Tom Carter
Power Operations Manager
Sierra Nevada Customer Service Region
Western Area Power Administration
114 Parkshore Drive
Folsom, California 95630-4710

**SUBJECT: COMMENTS TO DECEMBER 2, 2003 FEDERAL REGISTER NOTICE -
OPERATIONAL ALTERNATIVES FOR POST-2004 OPERATIONS**

Dear Tom:

Through this letter, the Sacramento Municipal Utility District ("SMUD") provides its response to the information presented in the December 2, 2003 Federal Register notice, and comments on the Western Area Power Administration's ("Western") decision to implement a contract-based sub-control area.

As stated previously, SMUD is prepared to consider the addition of Western direct connect loads and resources to the SMUD control area as a sub-control area pursuant to the process identified in Western's Federal Register notice. SMUD looks forward to collaborating with Western in its efforts to complete a detailed analysis of the benefits and burdens to both Western and SMUD with respect to a contract-based sub-control area within SMUD's control area.

SMUD respectfully submits the following comments on the Federal Register notice:

Decision-Making Criteria

SMUD supports Western's decision to retain the same five decision-making criteria of flexibility, certainty, durability, operating transparency, and cost-effectiveness. SMUD agrees that adding reliability, as an additional evaluation category, is not appropriate.

No-Action Alternative

SMUD agrees with Western's conclusion that the No-Action Alternative does not meet any of the five evaluation criteria. The No-Action Alternative adversely impacts Western's ability to meet its statutory obligations to provide energy to Project Use loads on the ISO-controlled grid and meet its contractual obligations to deliver Federal power to First Preference and Preference Power customers who use the ISO-controlled grid.

PTO Alternative

SMUD disagrees with Western's decision to rate the PTO Alternative as meeting or almost meeting four out of the five evaluation criteria. To the contrary, for the reasons stated below, SMUD believes that the PTO Alternative meets none of the evaluation criteria.

Flexibility Criteria - Western rated the PTO Alternative as meeting this criteria. SMUD submits that the PTO Alternative does not, in fact, meet the Flexibility Criteria. Because under the PTO alternative Western and its transmission would be subject to ISO Tariff provisions and any changes thereto, it appears unlikely that Western would be able to adapt its operations to future changes in the electric utility industry to minimize business uncertainty and impacts to Western's customers. Rather, the ISO would effectively control the management of Western's transmission by its modifications to the ISO Tariff, which would govern Western's transmission as a PTO under this alternative. Accordingly, SMUD recommends this alternative fail the flexibility criteria.

Certainty Criteria - Western rated the PTO Alternative as not meeting this criteria. SMUD agrees that the PTO Alternative does not meet the Certainty Criteria.

Durability Criteria - Western rated the PTO Alternative as almost meeting this criteria. SMUD believes that the PTO Alternative does not meet the Durability Criteria. Specifically, Western has not received any contract assurances that the terms and conditions under which Western's transmission and CVP generation is operated, and Western loads are served and billed, will not be changed by ISO or FERC action. In fact, previous Transmission Control Agreements executed by the ISO with PTOs have been expressly made subject to the ISO Tariff. Further, ISO business practices and operating protocols have become significantly more complicated over time, increasing staffing demands and decreasing the efficiency of entities doing business with the ISO. For these reasons, SMUD asserts that the PTO alternative fails in the durability category.

Operating Transparency Criteria - Western rated the PTO Alternative as meeting this criteria. SMUD submits that the PTO Alternative does not meet the Operating Transparency Criteria. As a third party directly connected to the Western system, SMUD could sustain substantial adverse impacts if Western became a PTO and was compelled to comply with the ISO Tariff, due to the changing and complex business rules and operating protocols that Western would need to follow.

Because of the seams issues that would be created between SMUD and Western, SMUD argues that the PTO option fails this criterion.

Cost-effectiveness Criteria - Western rated the PTO Alternative as almost meeting this criteria, even though the Navigant study rated the PTO alternative as the most expensive. SMUD believes that the PTO Alternative fails the Cost-effectiveness criteria because of the significant increases in transmission costs and ISO fee exposure inherent in this alternative. Moreover, it is important to note that the ISO's expenses have continued to increase since its inception; costs that are inevitably passed on to PTOs and other market participants.

MSS Alternative

SMUD disagrees with Western's decision to rate the MSS Alternative as meeting or almost meeting five out of the five evaluation criteria. For the reasons stated below, SMUD argues that the MSS Alternative either does not meet or only almost meets all of the evaluation criteria. SMUD submits that in order for the MSS Alternative to meet the evaluation criteria Western would need to negotiate significant concessions from the ISO to achieve the necessary levels of flexibility, certainty, durability and operational transparency. The ISO's current MSS scheme does not adequately address any of the criterion.

Flexibility Criteria - Western rated the MSS Alternative as meeting this criteria. SMUD suggests that the MSS Alternative fails the Flexibility Criteria for the same reasons the PTO alternative fails the Flexibility Criteria, as listed above.

Certainty Criteria - Western rated the MSS Alternative as almost meeting this criteria. SMUD maintains that the MSS Alternative fails the Certainty Criteria because any MSS Agreement entered into by Western would be subject to future changes in the ISO Tariff proposed by the ISO and/or required by the FERC.

Durability Criteria - Western rated the MSS Alternative as almost meeting this criteria. SMUD believes that the MSS Alternative does not meet the Durability Criteria for the same reasons the PTO Alternative fails the Durability Criteria, as listed above.

Operating Transparency Criteria - Western rated the MSS Alternative as meeting this criteria. SMUD submits that the MSS Alternative fails Operating Transparency criteria for the same reasons the PTO Alternative does, as explained above.

Control Area Alternative

SMUD agrees with Western's decision to rate the Control Area Alternative as meeting five out of the five evaluation criteria. For the reasons stated below, SMUD supports Western's decision on the Control Area Alternative as meeting all of the evaluation criteria.

Other Operational Alternatives

Contract-Based Sub Control Area

Western proposes in the Federal Register notice to proceed with its effort to establish a contract-based sub-control area within either the SMUD or CAISO control area. As reported at a Western Customer Meeting held in Folsom, California on December 10, 2003, Western plans to develop a set of Principles that it will send to the SMUD and the CAISO as part of a process to collect additional data. This additional data will aid them in making a decision as to whether to proceed with arrangements with either SMUD or the CAISO to implement a Western Sub-Control Area. SMUD supports Western's decision to pursue a contract-based, as opposed to a tariff-based operational alternative.

In conclusion, SMUD is prepared to consider the addition of Western direct connect loads and resources to the SMUD control area as a sub-control area pursuant to the process identified in Western's Federal Register notice. SMUD looks forward to working cooperatively with Western to complete a detailed analysis of the benefits and burdens that the sub-control area concept will bring to both Western and SMUD.

Thank you for the opportunity to provide these comments. SMUD encourages Western to move forward with making its decision and implementing it with no additional procedural delay.

Sincerely,



James R. Shetler
Assistant General Manager
Energy Supply

Copy to: Tom Boyko, Western Area Power Administration
Bob Cheskey, Western Area Power Administration
Jeanne Haas, Western Area Power Administration