

August 8, 2003

Mr. Tom Carter
Operations Manager
Western Area Power Administration
Sierra Nevada Region
Parkshore Drive
Folsom, California 95630

Divisions

Administration

Director's Office
650.329.2277
650.321.0651 fax
Public Relations
650.329.2656
650.321.0651 fax

Customer Support Services

Customer Service Center
650.329.2161
650.617.3142 fax
Utility Marketing Services
650.329.2241
650.617.3140 fax

Engineering

Electric
650.566.4500
650.566.4536 fax
Water-Gas-Wastewater
650.566.4501
650.566.4536 fax
Telecommunications
650.566.4546
650.566.4536 fax

Resource Management

650.329.2689
650.326.1507 fax

Operations

Electric
650.496.6934
650.493.8427 fax
Water-Gas-Wastewater
650.496.6982
650.496.6924 fax

Mr. Carter,

The City of Palo Alto (City) submits the following comments in response to the Western Area Power Administration, Sierra Nevada Region (SNR) Federal Register Notice dated June 12, 2003 (FR Doc. 03-1585) regarding post-2004 operating decisions.

The City is located in the San Francisco Peninsula and serves a load of approximately 200 MW. The City has an 11.62% share of the SNR Base Resource. The City's Base Resource Contract specifies two delivery points, the Livermore Substation and the Tracy Substation. However, in the absence of a Western-CAISO contractual arrangement for transmission services for post-2004 Western energy deliveries to the City's Colorado Substation, the City may be obligated to pay the CAISO the Transmission Access Charge (TAC) and associated CAISO charge in the range of \$5-\$10/MWh for Western energy deliveries. The City at present expects to continue receiving non-Western energy to meet the balance of the City load under a Metered Subsystem Agreement (MSS Agreement) between CAISO and NCPA.

Our following comments are based on the City's objectives to: 1) provide electricity to City customers at low, stable, and predictable rates, and 2) obtain transmission services on a contractual basis to ensure operational and cost certainty.

We would like to congratulate Western for the comprehensive analysis provided in the Federal Register Notice and in the Navigant study, and for providing us the opportunity to participate in the public process and to voice our opinions and interests.

1. Firm Transmission Services Based on Contracts, and not based on Tariffs

The City values long-term transmission contracts for establishing firm transmission rights and obligations of load serving entities. Western has always utilized this approach to deliver Western energy to its customers. This provides cost and operational certainty that the CAISO tariff, and market cost based approach to service, does not provide.

P.O. Box 10250
Palo Alto, CA 94303

Mr. Tom Carter
August 8, 2003
Page Two

2. City Strongly Supports the Concept of a Western/Customer Control Area for Direct Connect Customers & Pursue Dynamic Scheduling Arrangements with the CAISO for Non-Direct Connect Customers

The City believes it is prudent for Western to pursue forming a Federal Control Area or joining another existing adjacent Control Area to provide reliability, flexibility, certainty, durability, operating transparency, and cost effectiveness for Western and its customers. This is despite the fact that the City in all likelihood will initially be located outside such a control area.

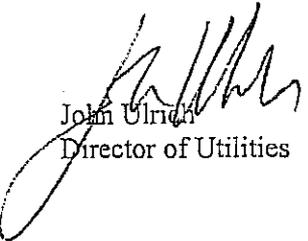
The City urges Western to work with the CAISO to come to a satisfactory arrangement to benefit both Western's direct connect and non-direct connect customers. The final outcome must ensure, as identified in Western's *Cost Effectiveness* decision-making criteria, that cost shifts are minimized and that relative cost-benefit ratios to SNR's customers be considered. To Palo Alto this means having continued access to Palo Alto's rights to Western's low cost generation and transmission assets.

3. City Urges Western to Consider a Contract based Sub-Control Area arrangement to serve non-direct connect customers

Currently, portions of City loads that are met by non-Western energy deliveries are served under an MSS Agreement with the CAISO. This agreement has some undesirable features, such as the agreement being subject to the vagaries of CAISO's tariff amendments. Palo Alto urges Western to consider a sub-control area contractual arrangement with the ISO that contains some of the positive elements of the ISO's MSS Agreement and reject the negative elements of the MSS agreement that include the high and uncertain ISO tariff based charges. A contractual based sub-control area solution is desirable to Palo Alto in the interim, until Western can include all its non-direct customers within its control area.

Thank you for giving us this opportunity to comment.

Respectfully Submitted



John Ulrich
Director of Utilities