



August 8, 2003
E-120-900

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

Dear Mr. Carter:

Redding Electric Utility (REU) respectfully submits the following written comments as a supplement to the comments I presented at the Western Area Power Administration's (Western) Public Comment Forum held on July 30, 2003. These and REU's oral comments are in response to Western's Federal Register Notice (FRN) dated June 12, 2003 (FR Doc. 03-15885), regarding post-2004 operating decisions.

REU is owned and operated by the City of Redding for the benefit of the some 85,000+ residents of Redding, California. REU serves some 40,000 metered customers and has a peak load of nearly 250 MW. REU is a member of the Transmission Agency of Northern California (TANC) and has approximately 104 MW of associated transmission rights between the California-Oregon border and central California (Tracy/Tesla Substations). REU also is directly connected to Western's grid and is a Western firm-power customer as well as a Western transmission customer.

REU recognizes, given that the current arrangements (Contract 2948A and Contract 2947A) with Pacific Gas and Electric Company (PG&E) will expire on December 31, 2004, that alternative arrangements need to be developed. REU commends Western for initiating this very difficult process in a timely manner so that all arrangements can be implemented before the existing contracts expire.

REU also recognizes that Western, as a federal power marketing agency, must abide by existing federal statutes and regulations that do not bind or constrain other electric utilities operating in California. Accordingly, any arrangement ultimately adopted must, as a minimum, meet Western's mandates to serve federal irrigation pumps while repaying the federal investment in power facilities by marketing power to customers at the lowest possible cost consistent with sound business principles. Moreover, Western is statutorily prohibited from studying the transfer of facilities or functions from federal control.

During the 16 months remaining, Western's customers, like REU, have four basic choices:

1. Join the California Independent System Operator's (California ISO) control area;
2. Form a new control area as a group (as proposed by Western);
3. Join an adjacent control area (SMUD/BPA/Western alternative); or
4. Form their own individual control area.

After thoughtful review of all the options, REU believes the expansion of Western control area services into northern California is the best option for all of Western's customers. However, as discussed below, a variant of this, participation in an adjoining control area may also be quite workable. REU, at this time, does not believe forming its own control area around the City of Redding to be a preferred option. REU also does not believe that its business priorities of reliably serving its customers at cost-based rates, as outlined in REU's public comments, can be best served by direct participation in the California ISO control area.

REU has three primary objectives that must be met by its chosen control area provider:

1. Reliability of grid operations;
2. Cost-effective administration of control area services; and
3. Compatibility with REU's business model.

REU has reviewed the track record of Western's control area services in the other western states and concluded that Western has the ability to operate control areas efficiently and offer reliable service on a cost-effective basis. As noted in the attached map (Exhibit 1), Western operates four complicated control areas throughout the western United States. The control areas are:

Desert Southwest Region - Western Area Lower Colorado
Rocky Mountain Region - Western Area Colorado Missouri
Upper Great Plains Region - Western Area Upper Missouri-East
Upper Great Plains Region - Western Area Upper Missouri-West

Western's vast control area experience in the Western Electricity Coordinating Council (WECC) establishes an internal network of support for the Sierra Nevada Region to readily handle all reliability and seams issues. REU also believes that Western's approach to control area services is consistent with REU's business model – reliable, cost-effective service to all of our customers.

REU believes retail customers are best served when each member of the control area has sufficient resources to meet load under a range of uncertainties (resource adequacy). REU also believes that it is essential that **FIRM** transmission exist to assure delivery of remote resources to load under a variety of conditions (firm physical transmission). Western's business model throughout the western United States places emphasis on both resource adequacy and firm physical transmission. In juxtaposition to this resource-based model is that of the California ISO. The California ISO has consistently failed to either adopt or support a resource-adequacy standard similar to that suggested in the Federal Energy Regulatory Commission's (FERC) Standard Market Design. Similarly, the California ISO has consistently rejected the construct of firm physical transmission rights and in its most recent Market Design 2002 (MD02) filing has proposed policies that limit the economic value of firm physical transmission rights currently secured by legal contract.

REU not only supports the expansion of Western control area services into northern California for the reasons of grid reliability, cost effectiveness, and business-model compatibility, but also from years of experience. REU for the past 20 years has been a

customer of Western for both resource supply and transmission services. REU has found Western to be a reliable energy supplier, a competent transmission provider, and customer sensitive. It is only logical that REU would seek control area services from Western when REU requires such services. REU believes its customers have been well served by Western over the past 20 years and believes that its customers will be well served by Western in the additional service of control area services in the future.

Again, after considering all this, REU strongly supports the expansion of Western control area services into northern California.

COMMENTS OF THE CALIFORNIA ISO

REU is very concerned about recent efforts by the California ISO (that has only been in existence for five years) to engage in a systematic campaign of disinformation intended to misrepresent the benefits and costs of a Western control area in northern California and distract attention away from the colossal failure of the California ISO to develop, maintain, and provide reliable, cost-effective control area services. REU believes it is important to address several of the more fallacious assertions recently submitted by the California ISO in written and oral comments.

The Fallacy of Balkanization – The California ISO suggests in its July 30, 2003, comments that “. . . Creation of a Federal Control Area would, essentially, “dis-integrate” the present integrated configuration of the northern California grid . . .” This statement fundamentally misrepresents the current arrangement between Western and PG&E under Contract 2948A. Under Contract 2948A the Western system is not part of the California ISO grid. It is separate and apart from the California ISO grid. Expansion of Western control area services into northern California would not result in a “dis-integration” of the current configuration it would in reality recognize the existing configuration. Western’s grid certainly does interface with the PG&E-owned grid, currently managed by the California ISO, but Western’s grid is separate and distinct from the PG&E grid. For the California ISO to suggest otherwise is incorrect.

In fact, a careful examination of the California electrical configuration suggests that it is comprised of several distinct grids that have been artificially consolidated by political mandate. The only meaningful attempt to create greater physical integration has been the recent effort by Western to upgrade Path 15 and improve the transfer capability between northern and southern California. This affirmative action by Western to physically improve the grid is an example of why REU supports the Western control area expansion into northern California. In a similar manner, Western and its public-power partners acted immediately to install a second 500kV transformer at Western’s Tracy substation. The additional transformer alleviated a serious overloading situation and helped improve the service reliability to all of northern California. While the California ISO debates ad nauseam whether the state should add transmission or generation (the famous wires vs. non wires debate) Western astutely recognized the need and moved forward. REU believes that a responsible control area operator initiates actions needed to maintain grid reliability over time. Rhetoric is not a substitute for action. The California ISO continues to focus on the allocation of limited transmission while Western seeks to ensure there is adequate transmission. The California ISO’s constant unveiling of yet another complicated and

elaborate congestion management scheme through unending tariff changes is not a substitute for Western's straightforward approach to the elimination of congested paths.

The Fallacy of the "Seams Issue" – The California ISO states, "... the primary concerns with Western's proposal is the transmission "seams" issues that would result from creation of a new control area carved out of the current configuration ..." As previously noted, the California ISO has a fundamental misunderstanding of the current configuration. The Western grid is not part of the California ISO configuration, regardless of the California ISO's fantasies to the contrary. They also have a fundamental misunderstanding of the origin of the "seams issue." As those familiar with the west recognize, there is a "seams issue" between the California ISO and the rest of the WECC. The issue(s) arise from the California ISO's anomalous scheduling time lines and complex protocols. The anomalous time lines and protocols exist regardless of the control area arrangements made by Western and its customers. The policy question for Western customers, like REU, is whether they will be part of the WECC norm or part of the California ISO exception. REU strongly believes that it is prudent to be part of the WECC mainstream rather than isolated by the anomalous protocols of the California ISO. The California ISO criticism is in fact compelling evidence for the development of a Western control area.

Most recently, the California ISO has claimed that the formation of the Western control area would create different market rules for Market Participants depending upon which specific line they are deemed to use at the California-Oregon Intertie (COI) and produce "seams and configuration" issues within the California ISO control area and the neighboring control areas. At last count the California ISO has introduced over 55 amendments to its tariff. One could counter that the California ISO introduces more different market rules in its tariff amendments that complicate, confound, and confuse the Market Participants than all the control areas in the United States combined. Therefore, it is likely that most, if not all, of the "seams and configuration" issues have been created by the California ISO. Further, after the Western control area is formed, Market Participants will likely shift to using the Western system rather than deal with the complicated, ever-changing rules and protocols of the California ISO. With Western owning and operating a major portion of the COI, more COI transfer capacity will likely be made available to the market on a real-time basis thus allowing energy markets in northern California to expand rather than contract. In ongoing discussions with marketers, independent power producers, as well as renewable energy producers, all have shared with REU staff that they prefer to do business with entities OUTSIDE the California ISO, because of the scheduling complexity and risk of payment associated with dealing in the California ISO markets. Such comments certainly are not a ringing endorsement for the California ISO and/or its markets.

The Fallacy of Added Complexity – The California ISO states, "... The complexity and workload associated with pre-scheduling, path congestion mitigation, real time path de-rates, loop flow management, disturbance recovery, and outage coordination would all be increased to the detriment of reliable, efficient operations of both entities ..." For most Western customers, most certainly including REU, it is inconceivable that any organization could create an environment of unmanageable complexity with the swiftness and thoroughness of the California ISO. The California ISO is the Dr. Frankenstein of complexity. An example is the growth in staff needed to operate the control area. When

PG&E managed the northern California area, it required some 40 employees, plus or minus. PG&E was able to schedule the loads and resources of the entire PG&E/Western control area and manage all existing contracts, integration contracts, and intertie contracts with the public-power utilities within its control area. To our recollection PG&E never called for rolling blackouts over the past 30 years. Yet, the California ISO now employs some 700 employees overall with hundreds of these employees tasked to performing the control area functions that it now finds so complicated and difficult to manage. Plus, the California ISO has a poor track record for operating a reliable control area where it routinely sends out stage emergency alerts of pending blackouts within its control area. Based on the number of employees and staged emergency alerts, the California ISO appears to be significantly less efficient and reliable than the old investor-owned control areas. With Western and its customers forming a separate control area and removing many of the existing contracts from the management of the California ISO, the California ISO's problems with existing contracts and "phantom congestion" should be greatly alleviated.

Another indication of the California ISO's commitment to enhanced complexity can be found in its recent Amended MD02 filing, dated July 22, 2003. In its section on *Congestion Management, Energy Market, Nodal Prices*, the California ISO states, "... The proposed IFM (Integrated Forward Markets) will adjust generation, load, import and export schedules and clear energy and A/S supply and demand bids to manage congestion using a SCUC (Security Constrained Unit Commitment) that respects linearized transmission constraints identified by an AC-based power flow and contingency analysis algorithm and a full network model (FNM) that includes all ISO control area transmission network busses and transmission constraints, and possibly a reduced network representation of the rest of the WECC system . . ." For the record this is but one paragraph amongst 40 pages that constitute the California ISO's latest initiative to add additional layers of complexity to a task that historically was performed in an almost routine manner.

In reality the formation of a Western control area should assist the California ISO in reducing complexity. The California ISO has consistently complained about having to administer the existing contracts of Western's customers. The Western control area will largely eliminate this requirement. The California ISO has repeatedly complained about a phenomenon they refer to as "phantom congestion." The Western control area will eliminate this issue for the COI. In summary, the Western control area will reduce the California ISO's tasks, including tasks the California ISO alleges are burdensome and labor intensive. Western would honor the existing contracts on the COI, and since the California ISO congestion management software would not be involved for all the capacity scheduled by Western, there would be no COI "phantom congestion." In fact, by the incorporation of both the Western-owned 500kV Malin-Round Mountain line and the 500kV California-Oregon Transmission Project (COTP) line in a Western control area, more intertie capacity would be available to California and the Market Participants than under the existing California ISO congestion system, further reducing the California ISO's alleged concerns about "phantom congestion." Western could easily run a secondary market to make available any unscheduled transmission capacity to Market Participants. The California ISO has refused to implement this straightforward fix because it would COMPLICATE its congestion management software and quite candidly would remove its arguments against existing contracts.

As recently noted by the California ISO's MD02 filing, "The Cal ISO's Department of Market Analysis ("DMA") has estimated that, if market power impacts are considered, it is reasonable to expect that the annual benefits of eliminating phantom congestion could well be in the hundreds of millions of dollars." Therefore, with the formation of a Western control area and the elimination of "phantom congestion" on COI, all of California would receive at least tens of millions of dollars in benefits at no cost to them. Rather than a cost shift, this would be more of a benefits shift.

Lastly, the California ISO alleges that there will be added complexity from multiple control areas at certain commercial hubs. Western has managed such interfaces successfully, without interruption, for many years (see attached Exhibit 1). For example, operation of a single hub in the Desert Southwest Region involves coordination with at least 12 other control areas, including the California ISO. Therefore, it would seem more appropriate for Western to manage the COI interfaces that would permit the California ISO to avoid situations that it finds difficult to manage.

The California ISO is legitimate in its recognition that there is excessive complexity in the California ISO control area. However, this arises from the protocols proposed and adopted by the California ISO itself, not from any effort of Western and its customers to remain separate and apart from the California ISO grid. Fewer participants, not additional participants, should help the California ISO simplify its operations, if in fact the California ISO has any genuine interest in simplification.

The Fallacy of Higher Costs – The California ISO states, ". . . Western's plan would result in a shift of transmission costs from Western's federal preference power customers to the rest of California's electricity consumers who use the California-Oregon Intertie (COI)." What the California ISO does not mention is important. On occasion the California ISO utilizes portions of COI, including the COTP, without paying for such use. Under the Western control area proposal, the California ISO would no longer receive free usage. In this sense there might be a cost shift or reallocation, one that is long over due.

A second observation is also of import. In the California ISO's Amendment 27 to its filed Tariff, the California ISO indicates that should the TANC members join the California ISO as new Participating Transmission Owners (PTOs), it would place an economic burden on the existing PTOs (the investor-owned utilities [IOUs]). This burden, labeled a "cost shift" in Amendment 27, according to the California ISO needs to be "capped" to protect the IOUs from the TANC members, including REU.

Now when the TANC members offer to participate in a different control area the California ISO says this will create an unfair burden on the IOUs. The California ISO seems to think that the TANC members create an economic burden when they do participate and when they do not. It raises the legitimate question of whether or not the California ISO has any analytic basis for its assertions regarding the cost shifts associated with either the TANC members joining the California ISO control area or the Western control area.

Customer Choice and Markets – The California ISO has indicated that it believes (or at least it used to believe) in "reliability through markets." The foundation of market allocation is customer choice freely exercised. The California ISO through its intervention

in the Western control area process, including its campaign of disinformation, seeks to deny Western's customers the freedom of choice. The California ISO does not walk its talk. If the California ISO genuinely believed in markets, customer choice, and competition, it would welcome the entry of Western as a competing control area operator. It would do so in the belief that customers, given a choice, would select the California ISO.

The fact that the California ISO seeks to deny Western's customers a choice says much about the California ISO itself. It says that the California ISO does not believe in competition. Or at least the California ISO does not believe that its control area services are competitive with what others can provide. The fact that the California ISO opposes the Western control area when Western's customers indicate a preference for such a control area indicates the California ISO's lack of respect for customer choice.

Issues of Cost – In its initial comments, the California ISO basically threatens Western with the “added costs” that the California ISO intends to charge Western if the California ISO were to remain the COI path operator. First, if Western and TANC own two out of the three lines that compose the intertie, then Western should be the path operator, not the California ISO. REU supports Western becoming the COI path operator. Secondly, as a general rule, adjoining control areas do not charge each other for reciprocal services. Does the California ISO charge the Los Angeles Department of Water and Power (LADWP)? No. Otherwise LADWP would turn around and charge the California ISO. What's the point?! The point is, there isn't one. Most rational control areas have come to this conclusion, but the California ISO may need help. Further, with regard to the WECC Reliability Coordinator Service that the California ISO could perform for Western, most of Western's customers already pay for such WECC services in charges imposed by the California ISO. The California ISO would need to be careful that it is not double billing for a service that can only be provided once!

If the California ISO could be rational for a moment, such coordinated services and appropriate charges could be established to be quite routine.

With regard to Western's start-up costs, a majority of such costs were anticipated to be a part of the development of Western's 2005 Marketing Plan. Both Western and its customers have anticipated these costs and have already incorporated their inclusion in the current rates. Thus, Western's start-up costs are not an issue. It must be pointed out that whatever costs Western incurs to operate a separate control area, it is Western's customers, like REU, that will pay the costs. Thus, if Western's customers are willing to pay these costs, Western should give considerable weight to the customers' perspective on cost, not on the California ISO's or anyone else who does not actually pay the bills.

In the California ISO's prepared comments, the California ISO is gravely concerned over an estimated cost shift of \$8 to \$10 million per year from federal preference customers to the rest of California's electric consumers. It is ironic that the California ISO has significant concerns over the impacts on equity, efficiency, and competition in California with regard to the Western control area. Yet in the California ISO's recent MD02 filing at FERC, the very same California ISO has no such concerns with the huge cost shift issues associated with the implementation of the Day Ahead and Hour Ahead IFM based on the Locational Marginal Pricing (LMP) paradigm. When opponents of such a radical shift in

policy have asked to study and quantify the impacts of the proposed LMP paradigm shift, the California ISO has claimed that the study would be too costly and the results inconclusive. However, all the experts believe that the California ISO's LMP paradigm shift will cause significant cost shifts between generators as well as load regions.

REU would offer a potential fix for Western's alleged cost shift issue. Western could simply sell enough additional PACI transfer capacity to TANC and its members at an agreed upon rate sufficient to mitigate Western's additional grid costs resulting from expiring cost-based contracts.

Metered Subsystem (MSS) and Participating Transmission Owner (PTO) Alternatives – REU does not support either the MSS or the PTO alternatives as presented in Western's FRN. Both proposals are not cost effective for REU and neither alternative provides durability and certainty. At this writing the California ISO is marching forward with a major market-design change known as MD02, which makes the MSS and PTO alternatives even less acceptable to REU. Some of the implications of the changes now proposed by the California ISO are:

1. Having no LMP cost benefits study and refusing to do one allegedly because it is too complex and/or too costly;
2. Having publically acknowledged that the current MSS approach to self-scheduling of resources may well defeat the primary purpose of MD02 and the LMP scheme, which implies that most of the key benefits of the MSS will be stripped away by the California ISO in future tariff changes to accommodate the LMP scheme;
3. Having only initiated its Congestion Revenue Rights (CRR) study and developing a process with the California Public Utilities Commission for determining CRR allocation issues;
4. No basis in law to erode bargained-for Existing Contracts for transmission that will severely harm the several consumer-serving entities in California that are parties to those contracts, including several municipal utilities and state agencies;
5. Having no resolution on the resource adequacy issue of being handled by other state agencies;
6. Having strong concerns being raised by the state over its long-term contracts being subject to congestion costs and suppliers being able to game the LMP congestion system, which would require another complex mitigation scheme; and
7. Having no other market in the west in blind pursuit of LMP.

REU believes that, as previously noted, the California ISO's tariff is like the sands of the Sahara Desert, ever changing, with no durability. The only way to provide durability for

Western's customers is forming a separate control area. The California ISO's strident opposition to the Western control area demonstrates the value of the control area. It suggests that the California ISO also recognizes that the Western control area model has merit, that it is competitive, and that it will bring value to its customers.

It is our understanding, in exploring other alternatives such as the sub-control area, Western offered to extend current cost-based, contractual (non-tariff), firm transmission arrangements with PG&E and the California ISO. Both PG&E and the California ISO have made it very clear in writing that they have absolutely no interest in this approach making this alternative infeasible. Above, REU indicated that while it preferred expansion of Western control area services into northern California, it would consider Western participating in another control area. The conditions for Western participation in an adjacent control area are straightforward. Western should seek the standard arrangements for reserve and resource sharing. Under such an approach, Western would perform many control area functions itself and Western would only be charged for those control area functions it did not perform, and all arrangements would be secured by contract, **not tariff**, in order to ensure predictability and durability for 15-20 years. Western's sub-control area benefits must be extendable to all Western customers to the extent Western performs the functions on their behalf.

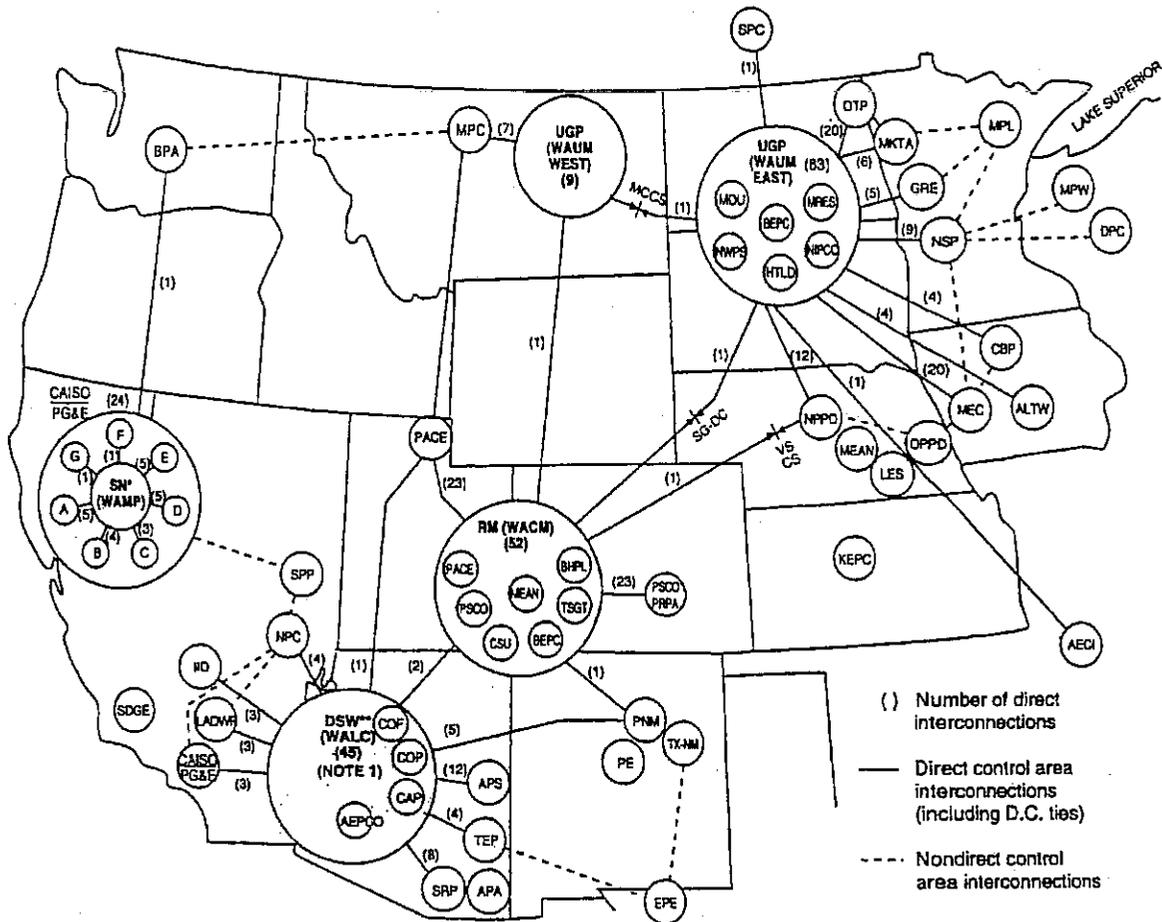
Thank you for this opportunity to provide comments to Western on this very critical issue. It is extremely important that Western's decisions be made in the next month or two so that all necessary arrangements will be in place and tested well in advance of January 1, 2005.

Sincerely,



James C. Feider
Electric Utility Director

Attachment



() Number of direct interconnections
 — Direct control area interconnections (including D.C. ties)
 - - - Nondirect control area interconnections

* SN does not operate a control area; it operates within the California ISO control area.
 **DSW (WALC) also has 12 pseudo ties with CRSP generators in the RM (WACM) control area.

- Company
- A Sacramento Municipal Utility District
- B Redding Electric Department
- C City of Shasta Lake
- D Roseville Electric Department
- E Contra Costa Water District
- F Lawrence Livermore Nat'l Lab
- G Modesto and Turlock irrigation districts
- AECI Associated Electric Cooperative, Inc.
- AEPCO Arizona Electric Power Cooperative
- ALTW Alliant Gas and Electric, Inc.—West
- APA Arizona Power Authority
- APS Arizona Public Service Company
- BEPC Basin Electric Power Cooperative
- BHPL Black Hills Power and Light
- BPA Bonneville Power Administration
- CAISO California Independent System Operator
- CAP Central Arizona Project
- CBP Combell Power Cooperative
- COF City of Farmington
- COP City of Page

- CSU Colorado Springs Utilities
- DPC Dairyland Power Cooperative
- EPE El Paso Electric Company
- GRE Great River Energy Services
- HTLD Heartland Consumers Power District
- IEC Interstate Energy Corporation (Alliant Energy)
- ID Imperial Irrigation District
- KEPC Kansas Electric Power Cooperative
- LADWP Los Angeles Department of Water and Power
- LES Lincoln Electric Service
- MRES Missouri River Energy Services
- MDU Montana-Dakota Utilities
- MEAN Municipal Energy Agency of Nebraska
- MKTA Minkota Power Cooperative
- MPC Montana Power Company
- MPL Minnesota Power and Light
- MPW Muscatine Power and Water
- MEC MidAmerica Energy Company
- NIPCO Northwest Iowa Power Cooperative
- NPC Nevada Power Company

- NPPD Nebraska Public Power District
- NSP Northern States Power Co.
- NWPS Northwestern Public Service Co.
- OPPD Omaha Public Power District
- OTP Otter Tail Power Company
- PACE PacifiCorp East
- PE Plains Electric (New Mexico)
- PG&E Pacific Gas and Electric Co.
- PNM Public Service Company of New Mexico
- PRPA Platte River Power Authority
- PSCO Public Service Company of Colorado
- SCE Southern California Edison
- SDGE San Diego Gas and Electric Co.
- SPC Saskatchewan Power Corporation
- SPP Sierra Pacific Power Company
- SRP Salt River Project
- TEP Tucson Electric Power Company
- TSGT Tri-State Generation and Transmission Assn.
- TX-NM Texas-New Mexico Power Company

- SN (WAMP) Sierra Nevada Region (Western Area Mid Pacific)
- DSW (WALC) Desert Southwest Region (Western Area Lower Colorado)
- RM (WACM) Rocky Mountain Region (Western Area Colorado Missouri)
- UGP (WAUM West) Upper Great Plains Region (Western Area Upper Missouri—West)
- UGP (WAUM East) Upper Great Plains Region (Western Area Upper Missouri—East)

| DC Tie Information | | Capacity | |
|--------------------|---|--------------|--------------|
| | | East to West | West to East |
| MCCS | Miles City Converter Station | 200 MW | 150 MW |
| VSCS | Virginia Smith Converter Station | 200 MW | 200 MW |
| SG-DC | Stegall DC tie (David Hamill Converter Station) | 100 MW | 100 MW |