

TRANSMISSION AGENCY OF NORTHERN CALIFORNIA

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August 8, 2003



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

Dear Mr. Carter:

The Transmission Agency of Northern California (TANC) respectfully submits the following comments in response to the Western Area Power Administration, Sierra Nevada Region Federal Register Notice dated June 12, 2003 (FR Doc. 03-1585), regarding post-2004 operating decisions.

TANC is a California joint powers agency that has fifteen utility Members, all of whom serve retail electric load in California. TANC owns approximately 80 percent of the California-Oregon Transmission Project (COTP), one of the 500-kV AC Interties with the Pacific Northwest. We also hold 300 MW of firm bidirectional transmission rights through Path 15 from PG&E, pursuant to the South of Tesla Principles. All of TANC's Member-owners are preference customers of Western consistent with Reclamation law.

1. TANC Strongly Supports Western Forming a Control Area or Joining Another Existing Adjacent Control Area

TANC applauds Western for considering alternative operating choices for the post 2004 time frame. TANC believes that 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. Western successfully and reliably operates four control areas in the Western Electric Coordinating Council (WECC). Western will use its expertise and decades of experience to reliably operate a control area in northern California. We believe this option is consistent with Federal policy for the operation of the CVP system. Furthermore, the Federal Control Area option promotes choice for Western and its customers including in which RTO to participate.

We have extensive experience in dealing with the CAISO and have found that its frequent tariff changes, lack of cost containment, inflexibility, complexity, and

A Public Entity whose Members include:
Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Modesto Irrigation District,
Palo Alto, Plumas-Sierra Rural Electric Cooperative, Redding, Roseville,
Sacramento Municipal Utility District, Santa Clara, Turlock Irrigation District, Ukiah

market design problems, do not provide Western and its customers with a viable business option. Given the CAISO history, we do not support any of the post 2004 operational options that would make the Western system subordinate to the CAISO or its Tariffs. The CAISO markets have been an expensive failure. We believe a Federal Control Area will revive the wholesale bilateral power markets in the West.

2. Operational Control of the COTP

We believe that the most cost effective and reliable option for operation of the COTP is to place its operational control under the proposed Federal Control Area. We believe that operation of the COTP by Western will increase transfer capability into California and allow more loads to be served in California. Operational control of the COTP while under the CAISO regime has historically suffered from overly conservative operating ratings and complex and disjointed scheduling protocols. These issues have led to reduced transfer capabilities and added costs for California consumers.

3. TANC Strongly Supports Honoring Existing Contracts and Agreements

TANC strongly believes in honoring existing contracts, and we are not enamored with Tariffs and revised Tariffs that can easily and quickly change the balance of benefits and burdens. We note that Western, also, uses and honors contracts for its power and transmission services.

Despite specific direction from the legislature in AB 1890 and numerous FERC Orders, the CAISO has consistently attempted to abrogate and undermine the balance of benefits and burdens in existing contracts. The CAISO is currently proposing a new set of complex market changes (Market Design 2002, MD02) that discriminate against existing contracts and will increase costs for California consumers. We also note that the CAISO recently proposed its 55th Tariff Amendment, which makes it difficult, at best, to quantify the costs and benefits of arrangements within the CAISO.

4. Western Evaluation Criteria

Western has chosen five decision-making factors: flexibility, certainty, durability, operating transparency, and cost effectiveness. We strongly encourage Western to appropriately weigh all of the five criteria that were proposed. However, given the rapid escalation of the CAISO costs, numerous inaccuracies of CAISO settlements, and extreme complexity and variability of CAISO market design, assumption-based cost forecasts in the CAISO environment are difficult to estimate and cannot be the most important evaluation criteria for Western and its Customers. We believe that the Federal Control Area option provides the best balance of the five decision-making factors and is consistent with the ideals of preserving local control for our elected City Councils and Boards of Directors.

Our experience is that Locally Governed municipal utilities, water and irrigation districts, and cooperatives can, and do, provide reliable, cost effective service to their

customers. Through all the market turmoil, Western and its customers have remained financially sound to the benefit of their customers, power suppliers, and the markets in which they participate. Our locally elected City Councils and Boards do a great job of being responsible to our customers/owners for these utilities. Western has a long history of cooperating with and supporting its customers. The Federal Control Area option will enable Western to continue its tradition of providing its customers with flexibility, certainty, durability, and operating transparency, at stable cost effective rates.

For nearly twenty years, TANC has been and is an important partner and supporter of Western. We have partnered successfully with Western on projects such as the COTP that involved hundreds of millions of dollars in investment. We understand Reclamation Law and the unique responsibilities that Western has to its preference customers and to meet the Project Use power delivery requirements of the US Bureau of Reclamation. We also understand and have experience in working with Western at the operational level; Western's successful operations and maintenance work for TANC has demonstrated many of its skill sets on behalf of its preference customers.

As Western considers its Post-2004 operational options, we recommend that it bear in mind the strong desire of all its preference customers to preserve Local Control and Governance and not make decisions that would transfer these powers to an entity such as the CAISO.

5. Firm Physical Transmission Rights

Firm physical transmission rights are a prerequisite to a stable forward energy market. With known physical rights there is no need for unpredictable congestion management schemes, multiple markets, and there is no fictitious congestion. Without firm physical transmission rights it is commercially imprudent to contract in the forward markets. The CAISO provides transmission for a maximum period of one day, and those who are willing to pay the most get to use the transmission grid. This tends to increase delivery costs and creates complicated power scheduling protocols. Furthermore, what-the-market-will-bear transmission pricing interferes with the development of energy markets, which rely on buyers and sellers meeting without undue barriers.

6. Coordination of COI Schedules Should Be Between Western and BPA

Western owns an existing 500-kV AC Intertie line between Malin and Round Mountain substations with a transfer capability of 1600 MW. TANC, Western and others own nearly all of the 1600 MW COTP, the newest 500-kV AC Intertie to the Northwest. These two lines form two thirds of the 4800 MW California Oregon Intertie (COI). Given our preference that the COTP and Western's PACI line be in the same control area, it is therefore logical for Western to coordinate the operation of the COI with the Bonneville Power Administration (BPA), rather than conceding this coordination to the CAISO. This will also address the CAISO concerns over operational complexity and grid reliability. Such an arrangement will not affect

reliability of the interconnected systems. In the Northwest there are already multiple control areas and various Intertie owners. BPA has done a good job of coordinating these rights and we would expect Western to do a similarly good job in California.

The legislative history of the Intertie clearly supports an all-Federal connection between Western and the BPA system. We believe that Congressional requirements for the Western 500-kV line can best be met by having Western be the path operator for the COI. Appropriate operating procedures with the CAISO can be developed to ensure coordinated operations and ease the CAISO concerns of complexity.

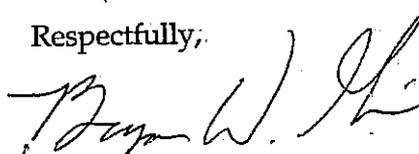
7. Durability (via contracts, not tariffs)

We believe in the durability of long-term contracts for establishing rights and obligations of load serving entities. Western has always utilized this approach to doing business. The CAISO has historically attempted to alter the rights and obligations of existing contracts. The CAISO utilizes tariffs that can and have been frequently changed. The CAISO files amendments too frequently to consider the CAISO Tariff durable or predictable.

We commend Western for publicly reviewing its options for post 2004 operations. Western and its customers should be able to choose which business environment they prefer to operate within. Customer choice is the linchpin in many arguments advocating competitive markets and FERC's RTO models. A Federal Control Area will give Western and its customers a choice between operating under the volatile CAISO market structure and a cost based, relatively stable priced regime. If Western chooses the CAISO options, Western will have eliminated the choice for many of its customers.

We urge Western to form a Federal Control Area or join an existing adjacent control area that will allow Western to preserve choice for its customers.

Respectfully,



Maury Kruth
Executive Director
Transmission Agency of Northern California