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August 7, 2003

Mr. Tom Carter
Power Operations Manager
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Sierra Nevada Customer Service Region
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Dear Mr. Carter,

Turlock Irrigation District (TID) respectfully submits the following comments in response to the Western Area Power Administration (Western), Sierra Nevada Region, Federal Register Notice, dated June 12, 2003 (FR Doc. 03-1585) regarding post-2004 operating decisions.

TID, as an irrigation district organized under the California Water Code, is engaged, among other things, in generating, transmitting, and distributing electric power in its service area. Turlock serves over 77,000 customers and, at peak, delivers over 400 MW to its retail consumers. TID is one of Western's customers and will provide services to two additional Western customers, Patterson Irrigation District and Merced Irrigation District.

As a preface to TID's comments, TID strongly supports the comments submitted by the Transmission Agency of Northern California (TANC).

Our oral comments stated that TID supports the five factors to be considered by Western in deciding the route it takes post 2004. For Turlock, all five factors: Flexibility, Certainty, Durability, Operating Transparency, and Cost-Effectiveness, are important. However, given the volatile nature of the energy industry and, especially, the costs and

procedures of the California Independent System Operator (CAISO), any estimate of Cost-Effectiveness must be considered uncertain at best. Furthermore, and above all, a sixth essential factor is Reliability. In TID's estimation, the option that meets the six factors best, in balance, is the creation of a Federal Control Area (FCA).

Listed below, in outline form, are TID's major reasons to support a FCA and reasons for Western and its customers not to subordinate themselves unnecessarily to the CAISO or the CAISO Tariff.

1. Flexibility
    a. A FCA allows for choice concerning which Regional Transmission Organization (RTO) Western SNR joins. Other alternatives require that Western joins the RTO that the CAISO desires.
    b. The formation of a FCA allows Western customers to choose when and to what extent, they want to participate in the volatile CAISO market.
    c. The option of a FCA retains the possibility of local control better than alternatives that have been presented thus far. The ability for local boards to determine the business plan for local utilities is extremely important to TID and other Western customers. Although we are willing to assist our electrical neighbors when possible, we do not want an outside organization interfering with our application of our consumers' limited resources to our consumers' needs. Western is customer-focused and respects the local nature of its customers' operations.
    d. TID believes that the customers of Western should be able to choose what business environment they prefer to operate within. Customer choice was the linchpin in many arguments advocating competitive markets and California's electric industry restructuring. A Western FCA will give customers a choice between operating under the volatile CAISO market structure and a cost based, relatively predictable model. Under a Western FCA, customers will have the choice of participating

and being a part of the CAISO if they choose. If Western chooses any of the options that make it subordinate to the CAISO or the CAISO Tariff, Western will have made the choice for many Western customers.

e. A FCA will provide Western the flexibility to operate its resources to benefit its customers and not as dictated by a tariff which may adversely impact Western's customers.

f. A FCA would allow Western the ability to establish protocols that complement Western customers control areas.

2. Certainty

a. Under a FCA, charges will be based on costs. Under an alternative CAISO approach, the cost of transmission from generation to load will be set by a market that cannot be forecast with any certainty. Although there may be ways to partially hedge the uncertainty, there are costs associated with the hedges and the hedges are not perfect.

b. Costs under a FCA would be more controllable by Western and the method of passing those costs through to Western customers will be well defined. Western has a history of working closely with its customers so that most charges can be foreseen with relative accuracy.

c. The Western rate process is open and generally results in a fair allocation of costs based on cost causation principles. This can be contrasted to the CAISO method of allocating costs, which does not accept meaningful direction from stakeholders representing consumers. Rather, the CAISO seems willing only to socialize costs in order to make it seem that the costs of CAISO services are less prohibitive.

d. Under a CAISO arrangement, numerous costs are market driven. As we have seen, market driven pricing does not protect consumers during times of scarcity. TID does not believe that Western should force its customers into a poorly designed untested market.

e. Transmission allocation based on firm physical transmission rights adds certainty to our long-term and short-term planning. Most alternatives to a FCA produce a model where the natural volatility of

the energy market place is exacerbated by another whole layer of transmission price volatility. There are reasons why investors flock to relatively stable markets as compared to markets that carry additional volatility due to price fluctuations or other economic uncertainty. Firm physical transmission rights are important to long-term resource development decisions. A FCA, with typical operating rules, gives Western's customers the ability to reduce the transmission price uncertainty by building or arranging for firm physical transmission.

f. The CAISO market options, unlike the FCA, rely 100% on spot markets for the acquisition of CAISO Regulation and Reserves. Thus the CAISO options are inherently more volatile and unpredictable in cost than the FCA would be. Western's customers would benefit from the ability to participate in a FCA with a more stable environment.

g. The CAISO has revised charges, and attempted to revise others, retroactively, years after the fact. Western should not expose itself or expose its customers to this CAISO environment.

3. Durability

a. The FCA option will be based on contractual commitments between Western and its customers. Although the contracts may be amended from time to time by mutual agreement, the contract will provide certainty on how arrangements will be handled during the contract period.

b. CAISO operations are governed by a tariff, not by contracts. The CAISO rules are obviously not static; the CAISO Tariff has been the subject of 55 amendment filings, so far, in the CAISO's short history. MD02 will undoubtedly have unforeseen consequences, which will generate additional amendments. This is not a business model in which TID wants to participate. Western should assist its customers in creating viable alternatives.

c. The contractual relationship between Western and its customers, as well as the local control of municipal utilities withstood the test of a tumultuous market. The CAISO market clearly did not. We see no

compelling reason why TID, Western customers, and Western would want to commit to participating in such an unproven market environment where prices have been so volatile.

4. Operating Transparency
    a. Because the relationship between Western and its customers under and FCA will be cost-based and defined by contract, it will by definition be transparent.
    b. Western has a history of working with its customers in a cooperative and open manner so that each customer has the opportunity to provide meaningful input to the decision process. Western has shown that it will listen to its customers and not go off in directions opposed to their interests.
    c. It is difficult to determine how costs are allocated among CAISO participants, where the rate process at Western is far more transparent.
    d. A new FCA can share all information with adjacent control areas necessary for reliable operations, thus, the operations of neighboring control areas would not be adversely affected. Electronic communication could be put in place such that all applicable data could be communicated simultaneously to the FCA and neighboring control areas as deemed necessary.
    e. Contractual relationships could be established between third parties and the FCA such that the creation of the FCA would not adversely affect the third party's ability supply its customers. Those contractual commitments may be preferred over the uncertain market capabilities that some have now.
    f. If Western chooses not to form a FCA, it would have significant impacts on its customers and options available to those customers. As existing transmission contracts terminate on their terms, the customers could be held hostage by the ISO because there would be no other choice for some. Under such a scenario, there may be no hope of returning to the relative certainty and cost effectiveness that has been experienced in years past.

g. Western's FCA should be designed to allow all customers, irrespective of which control area they belong to, to benefit equally from Western's resources.

h. The CAISO has a history of imposing procedures and processes without regard to impacts on third parties. It has shown its disregard in treatment of existing contracts, restrictive scheduling timelines, unusual settlement intervals and import intervals, extended billing and payment timelines, self-provision barriers, and software changes, to give a few examples. Roadblocks have been established to prevent entities from taking full advantage of resources that lie outside the CAISO framework. A Western FCA would be more sensitive to minimizing operating impacts on third parties.

5. Cost Effectiveness

a. Navigant's study indicates that a FCA would result in savings to Western. The CAISO has criticized some details of the study. TID's view of the Navigant study is that it illustrates that the costs of the FCA will be at least comparable to the alternatives the CAISO has to offer. With 55 amendment filings in the CAISO's short history, no one can accurately project the costs of participating in the CAISO; CAISO processes change too often and CAISO costs escalate too rapidly. For TID, the study illustrates that, indeed, the FCA should be considered a viable option. Furthermore, TID has more faith in Western's cost controls, cost predictability, and cost stability.

b. With a FCA, there are real options associated with the business model. If desired, all or some of Western customers may participate in some manner in the CAISO market. However, they also will have the option not to participate. The optionality has a real value that Western should consider in its economic comparisons.

c. In its evaluation of costs, Western should not need to reimburse the CAISO for its costs to connect to another control area. BPA and the CAISO do not and should not charge each other. Each control area

should bear its own costs as is done throughout most if not all of the US.

d. TID believes that a FCA that controls the COT and/or the COI in California would result in more efficient use of the transmission system than is now the case. Under a FCA, the rules for using the COI would allow for decisions closer to real time operations. This would enable entities to use the COI capability more effectively. This is true for all other transmission in the FCA, as well. The CAISO scheduling timelines are cumbersome and out of step with practices in neighboring control areas and existing contracts, resulting in less effective transmission utilization.

e. Both Western and the CAISO pass through all of their costs to their customers. Western has a history of controlling its costs. The CAISO saddles itself and all others with a great deal of legal and administrative costs that a Western FCA can avoid. One need look no further that the salaries of CAISO officers to determine that certain administrative costs are different between the two organizations. If another example is required, consider the legal costs that the CAISO incurs and requires of its customers. TID feels that Western keeps better control over its costs, its arrangements have been historically more cooperative, and less legal costs were required.

f. Western should not be persuaded to forego the FCA option because some indicate that it *may* not be the low cost option. If, as the CAISO, and perhaps others, purport, participating in the CAISO is the most cost effective approach, then over time, Western customers will migrate to the CAISO market. The CAISO has a mission of being the preferred transmission provider. If they meet that goal, Western customers will find ways to participate and join the CAISO. The contractual arrangement between Western and its customers must contemplate and allow customers to migrate out of the FCA. Let competition decide if Western or the CAISO is a better choice.

6. Reliability

a. Some have argued that a FCA will detract from reliable operations. TID disagrees. There were no control-area-wide rolling blackouts before the CAISO.

b. Control areas with multiple interconnections exist and operate reliably throughout the US. Information sharing, common elsewhere in the country, can provide data required for safe, reliable, and secure operations. Four regions of Western, as well as the Bonneville Power Administration and many other utilities in the West and throughout the United States, operate control areas with numerous interconnections.

c. It is TID's understanding that the COI is currently rated each day based on the results of studies by BPA and the CAISO. If the COI were under the control of Western, BPA and Western could determine the limiting factor as well as the BPA and CAISO do today. This will not prevent the CAISO from performing its own studies and providing input.

d. The current sharing of the COI capacity would not need to change with a FCA. TID understands that Western and others have attempted to extend the current arrangement but other parties were not interested in continuing the arrangement as it exists. There is no reason to think that a suitable sharing arrangement would be less likely to be achieved with a FCA than without one.

e. A Western FCA will provide for reliable operation using market rules that are well tested in other regions of the country. Western operates four other Western Electricity Coordinating Council control areas and has proven its ability to operate a control area with excellent reliability. Western has substantial experience and expertise to draw upon in operating its FCA reliably.

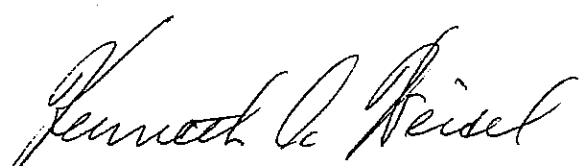
f. The CAISO market options, unlike the FCA, rely 100% on spot markets for the acquisition of Regulation and Reserves. There is no certainty of bid sufficiency. Thus the CAISO options are inherently less reliable than the FCA would be.

g. **The more effective utilization of import transmission that a FCA permits, as discussed above, will be a reliability benefit as well as a cost benefit.**

To TID, when evaluating the alternatives on their policy implications, it makes the most sense for Western to proceed with developing the FCA or at least a separate control area from the CAISO. The other alternatives do not meet TID's expectations for Flexibility, Certainty, Durability, Operating Transparency, Cost-Effectiveness, and Reliability in operations.

For the reasons stated above, TID urges Western to consider each factor with the appropriate weighting. If Western desires to create a new FCA, it must pursue the process without delay so that the Western FCA can be in operation before expiration of Western's contract 2947A. The decision is NOT premature as some suggested during oral comments. TID encourages Western to create a new FCA or become part of a control area apart from the CAISO in order to continue to meet its customers' needs.

Respectfully submitted,



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