

August 10, 2004

Ms. Debbie R. Dietz
Rates Manager
Sierra Nevada Customer Service Region
Western Area Power Administration
114 Parkshore Drive
Folsom, CA 95630-4710

Dear Ms. Dietz:

Thank you for providing the opportunity to comment on the 2005 Proposed Rate Adjustment. The City of Palo Alto Utilities (CPAU) appreciates the chance to share ideas, concerns and questions. We congratulate Western staff on the rigorous analysis undertaken to define the base resource and the comprehensive approach taken in developing the rate proposal. We also appreciate the responsiveness of Western staff in providing information and clarifications on the rate proposals since they were originally presented in May 2004.

CPAU is participating in an eleven (11) Non-Direct Connect member letter commenting on rate design, particularly with respect to transmission cost pass through to non-direct connect customers. As indicated in the letter, Palo Alto is a strong proponent of comparable delivery cost for Federal power for all Federal customers.

Since there has been insufficient time to analyze the cost and rate impact of Western's operations decision to join the SMUD control area, we would like Western to consider extending the rate comments deadline by 30 days, until middle of September.

The following are specific comments related to the allocation of costs & Ancillary Services.

- CPAU supports Western's proposals to separate cost and revenues related to pre December 31, 2004 operations from the cost/revenues related to post-2004 operations.
- CPAU fully supports the fair allocation of costs, to balance the goals of pursuing original project objectives and reflection of cost causation.

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- CPAU is very supportive of Western's unbundling of special services to collect the separate costs for each, and to maintain the risks of each service with the subscribers.
- In general, CPAU is supportive of the methodology adopted to develop ancillary service rates. CPAU is interested in securing a base resource percentage share of A/S benefits regardless of the extent of the Federal Control Area. Rate setting methods should be explored to accomplish this for customers regardless of how long it may take for the FCA to reach them.
- Western faces a risk of unlimited usage of imbalance energy by customers in some Control or Sub Control Areas that have higher deviation charges. Western could mitigate against the risk of unintended consequences in its imbalance energy service rate by changing it in both Component 1 and Component 2 to be simply 300% of actual cost. This would eliminate the reference to market price. The revenue in excess of costs would be applied to meeting the Base Resource revenue requirements.

We hope these comments and suggestions will help in your development of rates that meet Western's valuable policy objectives.

Sincerely,

John Ulrich
Director of Utilities