

August 10, 2004

Code: E-120-900

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

Dear Ms. Dietz,

The Redding Electric Utility (REU) would like to take this opportunity to thank Western staff for providing its customers the opportunity for an on-going dialogue concerning Western's 2005 Proposed Rate Adjustment. REU is encouraged that with the recent announcement of the Western sub-control area, many of the remaining rate uncertainties can now begin to stabilize.

REU understands that the costs associated with the CVP transmission needed to deliver the Western Base Resource are included in the Base Resource power revenue requirement. REU agrees with Western's rate approach wherein every kWh of energy delivered from CVP generation resources over the Western transmission system to a preference customer's load must include a cost component that pays for the underlying Western transmission system. This approach is appropriately consistent with the cost causation rate philosophy that has always been the foundation of Western's power and transmission rates.

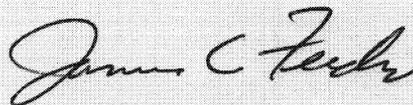
However, REU believes that it is inappropriate for Western to utilize two different cost allocation methodologies within its CVP transmission rate calculation. It is REU's understanding that at this time Western is proposing to dramatically change the transmission rate determinant for the delivery of CVP generation only. Western proposes to allocate the transmission costs associated with the delivery of the CVP Base Resource based upon the expected monthly CVP generation as determined in the March hydro forecast of the prior Federal fiscal year. Western's historical approach has been to reserve sufficient CVP transmission capacity needed to deliver the maximum output from the CVP Base Resource generation on an annual firm take-or-pay basis. Western's historical firm peak generation reservation approach coincides with how Western has sold and proposes to continue to sell Western transmission service to its direct connect customers - on a firm, annual peak capacity, take-or-pay basis. Unfortunately, Western's transmission rate proposal mixes the two distinctly different rate allocation methodologies causing Western's firm transmission customers to bear a disproportionate share of Western's overall annual transmission

costs. This improper mixing of transmission rate methodologies has the problematic affect of increasing the CVP transmission customer rates by approximately 38%. For REU alone that translates to about a \$670,000 rate increase in one year. REU believes that the proper rate recovery methodology for the capital investment and ongoing operations and maintenance expenses associated with transmission facilities represents a capacity related investment that is based upon the firm peak delivery capability of facilities. Thus, transmission rates should be allocated based upon the same firm peak delivery capability to insure full and impartial cost recovery. Transmission rates based upon some varying component of usage will invariably cause continuous over/under cost recovery problems.

Finally, with regard to the overall rate category of control area services, REU believes that we have somewhat of a chicken and egg problem. While the public rate process is about to close, Western just recently announced its decision with regard to joining the SMUD control area. Additionally, many of Western's proposed control area service rates have not been fully integrated with Western's draft contract for interconnected operations that was publicly released on August 3, 2004. While REU, Western, and other CVP customers have been attempting to clarify many of the ancillary services rates issues, like operating reserves and regulation, we have been working without a complete picture of how the proposed rates coordinate with Western's anticipated provision of such services. Therefore, REU would recommend that Western consider extending the customer comment period with regard to only the control area services until both Western and the potential sub-control area customers have had an opportunity to fully discuss the draft contract. With all parties diligently working together, these discussions should be completed within the next 60 days. At that time, REU believes that both Western and its potential sub-control area customers will have a much clearer perspective on the application of rates to control area services. Otherwise, any comments REU could possibly provide today would only be speculative observations about a moving target.

Thank you for this opportunity to comment on Western's rate proposal.

Sincerely,



James C. Feider  
Director