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CITY OF SANTA CLARA

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August 10th, 2004

Ms. Debbie Dietz
WAPA Rates Manager
Western Area Power Administration
114 Parkshore Drive
Folsom, CA 95630-4710

Re: Federal Register / Vol. 69, No. 92 / Wednesday, May 12, 2004

Dear Debbie,

SVP appreciates the opportunity to submit written public comments on Western's rate proposal. SVP fully supports the comments on Western's rate proposal submitted by Eleven (11) Northern California Power Agency (NCPA) members that are Non-Direct Connected Customers.[1]

In the comments below SVP will focus on two specific areas of concern that appear to be inequitable if not discriminatory treatment of some of Western's customers. The two areas of concern are as follows:

1. Non-Direct Connected (NDC) preference power customers being required to pay CAISO transmission charges in addition to Western's Transmission charge for all of their Federal Energy deliveries (i.e., pancaked transmission rates).

2. Sub Control Area (SCA) customers having rates for, and terms of access to, CVP ancillary services which differ from those offered to all other preference power customers.

Pancaked Rates for Western Federal Energy Deliveries to NDCs

Western, in an earlier FRN[2] regarding Operational Alternatives for Post-2004 Operations, expressed its concern that NDC customers are subject to pancaked transmission rates for all deliveries of Federal Power. In that FRN Western also considered a remedy for this rates issue regarding NDC preference power customers:

> "Western is considering the possibility of assessing charges on the PACI associated with the cost of off-system deliveries to its Project Use loads and Preference customers served via the

[1] NCPA-NDC Members (NCPA Non-Direct Connect Members) consists of Alameda Power & Telecom, City of Biggs, City of Gridley, City of Healdsburg, City of Lodi, City of Lompoc, City of Palo Alto, Plumas-Sierra REC, Port of Oakland, Silicon Valley Power, and City of Ukiah.
[2] December 2, 2003 vol. 68 No. 231 67433 (http://www.wapa.gov/sn/customers/FRNs/2003/2003-12-02-OpAlternative-P04.pdf)

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> ISO-controlled grid. The intent of Congress, when it authorized the construction of the PACI, was to assure that Federal Project Use loads and Preference customers would receive power as if Federal facilities had been constructed. Although this cost would in effect result in rate pancaking for PACI users, Western believes these costs are relatively minor and assures the intent of Congress continues to be met."

In Western's latest FRN[3] and Rates Brochure there is no evidence of Western's prior stated concerns, nor is a remedy offered for pancaked rates on NDC's Federal Power deliveries.

In earlier rate discussion forums Western also considered a remedy for this issue:[4]

> "The costs incurred for delivery of Federal power over PG&E/ISO transmission systems that are facility related costs and more than Western's estimate of embedded costs will be included in the PACI transmission ARR. These costs will be recovered from entities taking transmission service on the PACI. The details for transferring these ISO/PG&E T&D facility charges to Western are not available at this time."

Because, in Western's latest filing, there is no apparent remedy for these pancaked transmission rates, SVP contends that the present filing is not consistent with Western's earlier filed decisions.

SVP asserts that Western correctly understood the intent of Congress and therefore proposed a solution that would be in compliance with Congress' intent.

In the 1960s Western was on track to expand its transmission system to direct-connect all of its preference customers until PG&E intervened and offered transmission services in lieu of Western continuing its CVP expansion. If Western had continued its efforts to expand its transmission network, all preference power customers would have comparable transmission rates for deliveries of Federal Power. Therefore SVP suggests the following alternatives:

- Eliminate the inequitable transmission rates and comply with Congress' initial intent by combining all transmission costs (e.g. Western's Transmission Revenue Requirement and third party costs) for delivering Federal Power to all preference

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[3] Federal Register / Vol. 69, No. 92 / Wednesday, May 12, 2004 Page 26370 (http://www.wapa.gov/sn/customers/FRNs/2004/FRN-ProposedRates.pdf)

[4] Western's May 14, 2003 informal rates discussions, Q & A, pages 50-53 at WAPA Q & A document (http://www.wapa.gov/sn/initiatives/post2004/rates/CustCmtsResponses.pdf)

customers. This would produce a Transmission Revenue Requirement that would be allocated evenly among all Western Federal Power deliveries.

- For a long term solution, and in light of the termination of Western's PG&E contracts, SVP would encourage Western to resume its earlier efforts to expand its transmission system for the benefit of all Western's customers.

SVP endorses the comments made by representatives of BAMx[5], City of Palo Alto and SVP at Western's Public Comment Forum held on June 17, 2004. Additionally, while these concerns were made known to Western in other forums, SVP has attached here the BAMx letter of January 23, 2004 and Western's response of February 3, 2004 to ensure that these concerns are duly entered into the record of Western's rates proceeding.

Inequality in Rates for Ancillary Services (A/S)

If Western intends to allow Sub Control Area (SCA) customers access to its A/S on terms and prices different from that which it offers to its other preference power customers then this would result in discriminatory rates.[6] SVP desires to have access to Western's A/S at identical rates offered to SCA customers.

SVP would suggest that Western does not have "surplus" A/S unless and until it has offered it to all of its preference power customers at similar rates. Today's CAISO market will accommodate such an exchange of A/S, thus we encourage Western to utilize this capability to avoid discriminatory treatment.

Extension of Western's Rates Comment Period

SVP encourages Western to extend its rates comment period to the close of business September 10th, 2004. We recommend this extension due to:

1. The complex issues involved at this time, e.g. numerous contract and settlement negotiations.

2. Recent efforts among many Western customers to better understand the issues and arrive at mutually acceptable alternatives regarding the rates issues.

SVP appreciates Western's consideration of its comments.

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[5] Cities of Santa Clara, Palo Alto and Alameda

[6] FRN of May 12, 2004, pages 26375-26376, states that Ancillary Services which are surplus to the SCA will be sold at prices consistent with the CAISO markets.

Junona A. Jonas
Director of Electric Utility
Silicon Valley Power
City of Santa Clara

Attachments: Signed BAMx Ltr to WAPA on Cost Shift.pdf
Wapa Feb3 Ltr-BAMx.pd

Bay Area Municipal Transmission Group

January 23, 2004

Mr. Jim Keselburg
Regional Manager
Sierra Nevada Region
Western Area Power Administration
114 Parkshore Drive
Folsom, CA 95630

Re: Development of Mitigation Strategies to Address Potential Differential Rate Impacts on non-Direct Connect Customers

Dear Jim,

The Bay Area Municipal Transmission Group (BAMx), consisting of the electric utility systems for the cities of Alameda, Palo Alto and Santa Clara (Silicon Valley Power), wishes to convey a concern about potential cost shifts to non-direct connect Western customers alluded to by Western in its Proposed Decision on Operational Alternatives for Post-2004 as published in the Federal Register Notice (FRN) on December 2. BAMx agreed not to raise these concerns in its comments on the FRN, so as not to detract from the current operational alternative decision making process. BAMx appreciates Western's sensitivity to these potential rates issues noted by Western in the FRN and urges Western to develop mitigation strategies to address potential differential rate impacts on non-direct connect customers. Specifically,

1. The Proposed Decision discusses the potential for significant cost-shifts to non-direct connects as compared to current costs under Contract No. 2948A. Western notes that it is considering alternatives to minimize potential cost shifts as part of its formal rates process. FRN page 67434.

2. The Proposed Decision also notes that the MD02 LMP proposal could result in differential rates for non-direct connects, which might not be consistent with Reclamation Law and policy and Western might need to develop mitigation strategies. FRN page 67433. As Western indicated in the Proposed Decision, the impacts of MD02 to Western's customers must be addressed. FRN page 67436.

BAMx appreciates Western's recognition and sensitivity to these "significant cost increases to off-system loads" and considerations for equitable treatment to minimize such costs increases. BAMx urges Western to continue such recognition and equitably address these issues in its proposed rates for the Post 2004 Marketing Plan. We look forward to working with Western as it develops its Post- 2004 marketing plan and rates.

Sincerely,

BAY AREA MUNICIPAL TRANSMISSION GROUP (BAMx)

Junona A. Jonas General Manger Alameda Power & Telecom City of Alameda	John Ulrich Utilities Director City of Palo Alto Utilities City of Palo Alto	Ron Garatt, Acting Director of Electric Utility Silicon Valley Power City of Santa Clara

Department of Energy
Western Area Power Administration
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Date 2-12-04	To Doug Boccignone	From Girish Balachandran
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Bay Area Municipal Transmission Group
Mr. John Ulrich
Utilities Director
City of Palo Alto
P.O. Box 10250
Palo Alto, CA 94303

Dear Mr. Ulrich:

Thank you for your January 23, 2004, letter concerning the Western Area Power Administration's (Western) recognition of the need to develop mitigation strategies to address potential differential rate impact between the direct and non-direct connected customers to the Federal transmission system. Western shares your concern that a balanced and equitable approach to deal with this issue needs to be developed and expects to address it in its upcoming rate setting process scheduled to begin on or about March 2004.

We look forward to hearing your thoughts on this and other rate setting issues when Western moves forward to setting its rates for post-2004 operations. Thank you for your continuing interest in this very important matter. If we can be of any further assistance, please do not hesitate to contact us again.

Sincerely,

James D. Keselburg
Regional Manager

Identical Letter to:

Ms. Junona A. Jones
General Manager
Alameda Power & Telecom
P.O. Box H
Alameda, CA 94501-0263

Mr. Ron Garatt
Acting Director of Electric Utility
Silicon Valley Power
1500 Warburton Avenue
Santa Clara, CA 95050-3713