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August 8, 2003

Tom Carter
Power Operations Manager
Western Area Power Administration
180 Parkside Drive
Folsom, CA 95630

Dear Tom,

Thank you for this opportunity to comment on Western's evaluation of operational alternatives for the post 2004 period. Roseville supports Western's efforts to develop and study alternatives to joining the California Independent System Operator (ISO) either by signing a metered sub-system agreement or by the formation of a federal control area (FCA). In general, we agree with the comments of the Northern California Power Agency and the Transmission Agency of Northern California regarding the uncertainty of ISO costs and operational procedures. However, Roseville is the largest municipal utility directly connected to, and solely dependent on, Western's electric system so we are naturally concerned how the alternative that Western selects will affect Roseville and its customers. Since the Navigant study did not consider the costs and benefits of the alternatives applied to individual customers, each customer must form its own estimations. Roseville believes that Western must strive to ensure that all of its customers will be better off as a result of its choice of a post 2004 operating regimen. Consequently, we reserve judgment as to which of the alternatives being considered is beneficial to Roseville.

Roseville believes Western should further evaluate the operating regimen options it has identified by determining the cost impact on its individual customers. Ultimately, Western recovers all of its costs from its customers. Western needs to remain aware that, while the FCA may appear cost effective or operationally advantageous in the aggregate, there may be individual winners and losers that are not apparent in the current analysis. Western should strive to mitigate individual customer impacts to ensure that all participants benefit by the decision.

Roseville is concerned with the disconnection between the operational plans, post 2004, and the associated rates being formulated for that period. At the informal rates presentation on May 14, 2003, Western provided estimated rates for transmission, power resources and control area services beginning January 1, 2005. As a transmission dependent customer of Western, Roseville is very concerned that Western is proposing a

substantial increase in their transmission rate with no demonstrated change in the nature of the service. Roseville believes that a cost increase of this magnitude is unwarranted and conflicts with several of Western's stated evaluation criteria for operational alternatives including cost effectiveness, certainty, durability and operating transparency. If rates for one of Western's services can change by the extent indicated in one year, it calls into question the durability and certainty of Western's cost allocation and rate process.

We understand Western's inability to conduct the evaluation of alternatives concurrent with rate considerations. Nevertheless, the uncertainty of costs to Roseville, particularly on the cost of transmission under the alternatives is unsettling. Transmission is the one primary area that Western can provide cost certainty to Roseville.[1] However, at this point in time Western cannot provide any specific definition as to what the transmission rate will be, nor how the rate will be applied under each alternative.

We are equally concerned with the cost allocation being considered with regard to the PACI. As we stated in our comments following the May 14th informal rate presentation, there is no just and reasonable basis for the rate treatment being considered.

At the appropriate time, Roseville encourages Western to consider additional alternatives to the ISO such as merging with the Sacramento Municipal Utility District's (SMUD) control area or the extension of the Bonneville Power Agency control area into California. The possible benefits that Western could capture by joining with another agency include economies of scale in the operation of a control area as well as greater access to northwestern markets.

Thank you for the opportunity to comment on the post 2004 operational alternatives. Roseville looks forward Western's response to the concerns raised by all parties and to seeing additional detail on Western's plans for control area operations and cost recovery as it becomes available.

Sincerely,

Tom Habashi

Tom Habashi

[1] Western has made very clear that the cost of the Ancillary Services associated with an FCA are a function of the cost of supplementing Western's ability to provide the services. Moreover, Western states the charge for operating reserves will be the higher of CVP rate or market rate.