SMUD
SACRAMENTO MUNICIPAL UTILITY DISTRICT
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August 8, 2003
AGM/ES 03-076

Mr. Tom Carter, Power Operations Manager
Western Area Power Administration
Sierra Nevada Customer Service Region
114 Parkshore Drive
Folsom, California 95630-4710

Subject: Western's Operational Alternatives for Post–2004 Operations

Dear Tom:

The Sacramento Municipal Utility District's ("SMUD") appreciates the opportunity to comment on the operational alternatives that Western Area Power Administration ("Western") is considering for the post-2004 period, pursuant to the Federal Register Notice dated June 24, 2003 (Vol. 68, No. 121) - namely, (i) creating a Western Control Area; (ii) joining the California Independent System Operator ("CAISO") as a Participating Transmission Owner; or (iii) joining the CAISO as a metered subsystem (singularly an "Operational Alternative" and collectively "Operational Alternatives").

SMUD is one of California's largest public power agencies, with a service area encompassing 900 square miles, a service area population of 1.2 million, and a total customer base of over 530,000 customers. Currently, Western furnishes 20 percent of our power needs. As Western's largest Preference Power Customer in the Sierra Nevada Region, SMUD has a vested interest in Western's implementation of the 2004 Power Marketing Plan, and the Operational Alternative ultimately adopted by Western. SMUD cannot overstate the importance of Western providing reliable and cost-effective power and transmission to its direct-connected customers in the post-2004 period.

SMUD commends Western for looking at a broad range of options to best meet its customers' post-2004 needs in the most efficient and cost-effective manner. As part of that process, SMUD urges Western to thoroughly investigate a full range of Operational Alternatives and carefully consider all public comments prior to making a final decision. As a starting point, SMUD believes that the Operational Alternatives should be considered from both a cost and a durability standpoint. In addition, as SMUD stated at the July 30, 2003 Public Comment Forum, absent a continuation of existing contractual arrangements, it is important to develop successor agreements, which are flexible, predictable and durable in order to meet the needs of both Western and its customers.

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Having recently completed the process of evaluating and forming a control area, SMUD appreciates why Western is seriously considering the alternative of forming a Western control area. After a year of acting as its own control area operator, SMUD believes its customer-owners have benefited from implementation of the SMUD control area through reduced and more predictable costs.

At the July 30th forum, several Western customers urged Western to broaden its analysis to consider joining adjacent control areas, such as those of SMUD or Bonneville Power Administration. Should Western elect to evaluate the alternative of joining the existing SMUD control area, SMUD staff will be happy to meet with Western to discuss this option and will work with Western in its efforts to complete a detailed analysis of the option, including the resulting benefits and burdens to Western and to SMUD. Please recognize that the SMUD Board of Directors has not taken an official position on other entities joining the SMUD Control Area; however, if there were a demonstrated benefit to SMUD, SMUD staff would intend to bring the issue forward to its Board for consideration.

In the post-2004 period, it is crucial that the any successor agreements that Western executes with the California Independent System Operator (CAISO), or with that of an adjoining control area like SMUD, be flexible, predictable and durable. These agreements must assure that Western's cost-of-service rates are stable and predictable in order for Western to continue to serve its customers with some expectation that the CVP Base Resource costs will be competitive and dependable. The operating protocols for Western's future operational alternative should be well established, honor existing bilateral contracts, and have the flexibility to allow for future operational scenarios that might enhance reliability or provide other benefits to Western and its customers. While these protocols should remain flexible, they should also strive to be as durable as possible and seek to avoid imposing unnecessary complexities on the affected parties.
The transmission services that Western will provide to Preference Power customers for delivery of the Base Resource must be both reliable and low-cost. Agreements developed to provide for this service should recognize the investment in facilities that the direct-connected customers incurred in the past to have their facilities interconnected with the federal transmission grid. In meeting its transmission revenue requirements, Western should avoid encumbering its services with numerous additional fees and charges that currently do not exist. In addition, Western should continue the well-established practice of setting charges in accordance with cost-of-service and cost causation principles.

Any agreements that Western develops must ensure Western its full rights to utilize Western's ownership share of the Pacific AC Intertie (PACI) transmission grid in order to efficiently make future Custom Product purchases necessary to meet the needs of the Western customers. SMUD believes that Western's contract and/or ownership rights on the PACI should play a key role in importing the needed supplemental power to support the CVP Resource, as Custom products.

Western's Intertie rights will become more important once Western's integration Contract (14-06-200-2948A) with PG&E terminates.

We applaud Western for looking at a broad and full range of alternatives and urge Western to ultimately adopt the option that best meets its customers' needs in the most cost-effective and efficient manner. Please contact me at 916.732.6757, or Brian Jobson at 916.732.5939, if you wish to discuss these comments further.

Sincerely,

James R. Shetler

James R. Shetler
Assistant General Manager, Energy Supply