Department of Energy
Western Area Power Administration
Desert Southwest Customer Service Region
P.O. Box 6457
Phoenix, AZ 85005-6457

APR 13 2005

Dear Parker-Davis Project Customers:

At the Parker-Davis Project (P-DP) Annual Planning meeting held February 10, 2005, customers requested that Western Area Power Administration (Western) look at incorporating language into the P-DP Firm Electric Service (FES) contract amendment that would allow for a reduction in energy delivery obligations based upon Bureau of Reclamation (BOR) projected hydro conditions in lieu of making rate-based power purchases. Attached is a process outline for an Opt In Program wherein the delivery obligation for all P-DP FES customers is adjusted based upon projected hydro conditions. Thereafter, any customer may choose to have Western purchase the energy that they were reduced on a pass-through-cost basis.

Please send in your comments regarding the Opt In Program by April 26, 2005. After evaluating the comments received, Western will host an information meeting to further discuss this proposal.

If you have any questions, please contact Penny Casey at 602-605-2585.

Sincerely,

Jean Gray
Assistant Regional Manager
for Power Marketing

Attachment

Parker-Davis Project Firm Electric Service
Opt-In Program
Proposal

The purpose of this document is to present a proposal that would allow Parker-Davis Project (P-DP) Firm Electric Service (FES) energy delivery quantities to be adjusted annually based on Bureau of Reclamation (BOR) projected hydro conditions, in lieu of making rate-based energy purchases. What follows is a hypothetical scenario of how this Opt-In Program would work.

- Assume that the total P-DP FES Contractual Obligations are 1000 GWhs and that there are 5 customers:

Customer	Annual Energy Delivery Obligation
A	200 GWhs
B	200 GWhs
C	200 GWhs
D	200 GWhs
E	200 GWhs
TOTAL	**1000 GWhs**

- Assume that the annual estimate for P-DP generation during the upcoming year based on BOR projected hydro conditions is 900 GWhs, which represents a generation level that is 10% below the contractual obligations of 1000 GWhs.
- Under the existing P-DP FES Contract, Western would make 100 GWhs of rate-based energy purchases in order to firm up the contractual obligations.
- However, under the proposed Opt-In Program, the energy delivery obligation for each customer would be adjusted proportionately by 10%. Thereafter, each customer would have the option each year to have Western purchase power for them on a pass-through-cost basis up to the energy delivery level of their contract.

Yearly estimate of P-DP generation @ 900 GWhs represents:
= 10% adjustment
= 100 GWhs rate based purchase power under existing contract terms; or
= 20 GWhs reduction to each customer under proposed Opt–In Program

Customer	Adjusted Annual Energy Delivery Obligation
A	180 GWhs
B	180 GWhs
C	180 GWhs
D	180 GWhs
E	180 GWhs
TOTAL	**900 GWhs**

- After the adjustment, the energy delivery obligation for this annual season would be 900 GWhs.

- Assume that under the Opt-In Program, Customers C, D, and E exercise the option for Western to purchase power for them. As a result, Western would make purchases of 60 GWhs on a pass-through-cost basis for Customers C, D, and E.

- The cost of 60 GWhs @ $50/MWh = $3,000,000, which would be the pass-through-cost to customers C, D, and E.

- Customers C, D, and E would advance $3,000,000 to Western prior to the power being purchased. The money would be deposited into a trust account for each customer who elects to exercise the purchase power Opt-In Program.

- Based on the actual cost of the power purchases, there would be provision for customers to provide additional funds, if necessary, and provision for an after-the-fact accounting and true-up.

During the annual operating year, the actual generation will most likely be different than the estimated generation which was formulated prior to the beginning of the year. The actual generation compared to the estimate would be treated as follows:

- If the actual P-DP generation is only 900 GWhs, there would be no change from the scenario described above. The Opt-In customer purchases would be paid for from each customer's trust account as they are received. The customers who did not Opt-In would be billed for and pay only for their adjusted annual energy amount.

- If the actual P-DP generation is only 800 GWhs, then there would be 100 GWhs of rate based purchases in order to meet the contractual obligation to all customers of 900 GWhs.

- If the actual P-DP generation is 1000 GWhs, then the extra 100 GWhs over the 900 GWh contractual obligations would be disposed of as it is today. That is:

    1. Issue excess energy to the P-DP FES Customers;
    2. Make deposits to energy banks; and/or
    3. Make surplus energy sales and deposit the revenue into the Generation Trust Account established under the P-DP Generation Facilities Advancement of Funds Contract.

On a going forward basis, the energy bank balances will be used as they are today. That is, the energy bank balances will be taken into consideration for meeting contractual obligations when formulating the annual operating plan. Under the Opt-In-Program, the energy bank balances will be considered before making the annual adjustment to contractual obligations for delivery of energy. The energy bank balances would also be used to offset purchases if the actual generation is less than the adjusted contractual obligation.

The Central Arizona Project surcharge would not be assessed to the power that is purchased for those Customers participating in the Opt-In–Program on a pass-through-cost basis.