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March 10, 2010

Darrick Moe, Regional Manager
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Re: February 17, 2010 WAPA Customer Meeting; Request for Comments by March 3, 2010 and then extended to March 10, 2010 concerning allocation of surplus funds

Dear Darrick:

Thank you for the interesting and informative discussion that your staff provided for us at the February 17th meeting in Phoenix. I thoroughly enjoyed it and I thought it highlighted the need to distinguish ratemaking from budgeting and the difficulties in dealing with monetary concepts that are treated differently in these two processes. I am not sure I will ever fully understand the budgeting process nor am I sure I even want to. But the meeting did serve a very important purpose and for that I thank you.

Concerning the responses you requested by March 3rd and then extended to March 10th, I think the best way to respond is to deal with this subject as actually two subjects: What to do about the current situation; and what to do about the situation long term.

There are certain commonalities to both. In applying surplus funds to projects that await construction funding, you have to go through what has been a subset of the discussion and decision process already embodied in the Joint Planning Agreement, the Ten-Year Plan and ratemaking. In short, you have to prioritize. In order to prioritize, you have to have criteria to apply. That is true whether you are talking about this immediate situation or the longer term approach. One thing that I thought was missing from the February 17th discussion was this very subject – the criteria to be applied.

We already effectively apply criteria in putting things in the queue. Indeed, that was the original purpose of the Joint Planning Agreement, that is to begin a 15 year ahead look at projects before they reach the Ten-Year Plan and then the five-year window for ratemaking. The lack of construction funding has dampened the enthusiasm for the approach that we negotiated and agreed

upon with Western but money has a way of getting people interested and it is obvious from the attendance at the February 17th meeting that people are interested.

It is also obvious to me that there aren't very many people around anymore who went through this sifting process that we put in place a number of years ago. The lack of familiarity with the origins of the process has raised a number of questions and needs to be treated again in some dialogue. And this is true in my view both for customer representatives and Western's staff. It very well may be, as some have suggested, that the Joint Planning Agreement mechanism can be used to deal with this subject by tweaking it appropriately. It may be that an offshoot of the current Ten-Year Planning process may be helpful. Whatever path this process takes, it is obvious that customers want oversight equivalent to the AOF process for decisions made about surplus prepayments. Deciding how to approach this subject on an ongoing basis is one of the elements of the long-term plan that needs to be addressed.

Having said this, I did not hear at the meeting, nor have I heard since, any objection from DSW customers to allocating the current surplus prepayments attributable to Parker-Davis transmission O&M charges to Parker-Davis related construction. I did hear a lot of questions about how to do it, as a premise to developing a longer term program. That should be addressed before a final decision is made on this \$15 million in order to continue to promote the collegiality that I think exists around this subject right now.

In addition to letting us know how you would allocate the \$15 million and why before you actually do so, three other major issues remain. First, are you willing to negotiate an AOF-like agreement and process for dealing with surplus prepayments? Second, are you willing to confine the use of such surpluses to the project from which they were collected? To DWS-managed projects? As to the second issue, some, including some in other Western areas, fear the creation of a de facto revolving fund. See your Responses to Questions 12-14, dated March 3, 2010. Third, although talked to death on February 17th, the issue of paying twice remains. (Response to Question 7.) If you use money you have already collected from us to acquire assets, those capital assets are prepaid. If you book them into the PRS, you are treating them as having originated in an appropriation that must be repaid. What's missing here?

As you know, written comments on the budget are due in the House Energy and Water Development Subcommittee by March 19, 2010 and in its Senate counterpart by April 1, 2010. We need to fashion some comments and, as helpful background, know where we are going over this short-term decision making process. I do not suggest that we would file testimony that discusses this but we need to accurately outline the plight of Western DSW concerning lack of construction funding and not claim something isn't getting fixed that, by virtue of applying these surplus monies, is getting fixed.

Any help you could be on that would be appreciated.

Darrick Moe
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Thank you again for the opportunity to comment and to be involved in this interesting development. I look forward to working with you on it.

Sincerely,

/s/

Robert S. Lynch
Counsel and Assistant Secretary/Treasurer

RSL:psr
cc: Debby Emler
IEDA Presidents/Chairmen and Managers