

**From:** Michele Blanco <mblanco@calpine.com>  
**To:** "jmurray@wapa.gov" <jmurray@wapa.gov>  
**Date:** 8/12/2004 11:12:25 AM  
**Subject:** MSTR Letter from Calpine

<<Letter - Proposed MSTR 7-2-04.pdf>>

Jack,

Here is an electronic copy of the letter mailed to Western on July 2, 2004.  
We have record of this letter being mailed via USPO. Regrets that it wasn't  
received on your end, and my misunderstanding of this.

Regards,

Michele A. Blanco, P.E.  
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July 2, 2004

Mr. Tyler Carlson  
Regional Manager  
Department of Energy  
Western Area Power Administration  
Desert Southwest Regional Office  
P.O. Box 6457  
Phoenix, AZ 85005-6457

Re: Proposed Multi-System Transmission Rate (MSTR)

Dear Mr. Carlson:

Calpine has participated in the informal customer meetings that Western has conducted regarding Western's proposed Multi-System Transmission Rate (MSTR). Based on the information shared at the meetings, we've determined that South Point Energy Center, LLC (SPEC) will be adversely affected by an increase in the effective rate for our rights on the Central Arizona Project if Western imposes a new MSTR. The total increase in Calpine costs would be in excess of \$700,000 a year. From our perspective, the MSTR would in effect force us to subsidize other Western transmission customers. Furthermore, SPEC would not realize any new or additional benefit from the proposed consolidation of operations across the Projects as envisioned under the MSTR.

We understand that Western has evaluated several options for the implementation of the MSTR, and that one of these options included grand fathering existing customers under the existing tariff structure until the expiration of their existing contracts. Calpine believes that this is the only option that is fair, non-discriminatory, and consistent with our transmission service agreement, Contract No. 99-DSR-11050. We entered into a 40-year business relationship with Western based on the fundamental premise that Western's transmission rate structure was defined around specific transmission Projects. Section 8.0 of *Specifications For Long-Term Firm Point-To-Point Transmission Service* of our service agreement explicitly lists the transmission components, essentially the Parker Davis and Central Arizona Projects, for which we may be assessed transmission charges. The MSTR scheme violates our long-term transmission contract by exposing us to additional transmission charges for transmission components that are not identified in Section 8 and lie outside Western's contractual authority to impose.

We appreciate the time that Western has taken to discuss and review their proposal with its customers. However, Calpine cannot support Western's proposal to move to the MSTR within a 5-year convergence timeframe. We are also concerned that adoption of the MSTR could set a precedent in favor of Western fundamentally disrupting long-term contracts through major changes in rate making methodologies. We believe that the creation of such a precedent would be troubling to all of Western's power and transmission customers. Therefore, if Western chooses to go forward with the MSTR

proposal we strongly urge Western to grandfather existing transmission customers so that they are not adversely impacted.

Your attention to this matter is appreciated. If you have any questions about the foregoing, please contact me at (925) 479-6816.

Sincerely,

A handwritten signature in cursive script that reads "Mike Rogers".

Mike Rogers  
Vice President