



ENERGY OUTFITTERS, LLC

September 20, 2004

Mailed and E-Mailed

Mr. J. Tyler Carlson
Regional Manager
Desert Southwest Customer Service Region
Western Area Power Administration
P. O. Box 6457
Phoenix, AZ 85005-6457

Re: Proposed Multi-System Transmission Rate

Dear Mr. Carlson,

The Western Area Power Administration ("Western") has initiated and requested formal comments on a rate adjustment process for a firm transmission rate for the Parker-Davis Project ("P-DP"), the Pacific Northwest-Pacific Southwest Intertie Project ("Intertie"), and the Central Arizona Project ("CAP"). The rate adjustment process proposes a single Multi-System Transmission Rate ("MSTR") with a five-year transition period. K. R. Saline & Associates, PLC has participated on behalf of its clients¹ in the informal and formal discussions regarding the MSTR and these comments are made on their behalf. Additional consultation between Western and Western's customers is needed before Western moves to develop a MSTR. Therefore we are not supportive of the proposed MSTR at this time and are unlikely to become supportive given the limited benefits the proposal provides to our clients and the majority of Western's transmission customers. We urge Western to reopen the informal discussions with customers in order to allow continued development of a customer choice approach which could gain greater customer support.

¹ These comments are submitted on behalf of Aguila Irrigation District, Buckeye Water Conservation & Drainage District, Chandler Heights Citrus Irrigation District, Electrical Districts Nos.1 and 3 of Pinal County, Electrical District No. 4 of Pinal County, Electrical District No. 5 of Pinal County, Electrical District No. 5 of Maricopa County, Electrical District No. 6 of Pinal County, Electrical District No. 7 of Maricopa County, Electrical District No. 8 of Maricopa County, Gila Resources, Harquahala Valley Power District, McMullen Valley Water Conservation & Drainage District, Maricopa County Municipal Water Conservation District No.1, Ocotillo Water Conservation District, Queen Creek Irrigation District, Roosevelt Irrigation District, San Carlos Irrigation Project, San Tan Irrigation District, Tonopah Irrigation District, the Town of Thatcher, and the Town of Wickenburg.

K. R. Saline & Associates, PLC

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The MSTR as currently envisioned will provide limited benefit to the majority of Western transmission customers and subjects existing customers of the P-DP, Intertie 230/345-kV and CAP systems to the risks associated with the unsubscribed portion of the Intertie 500-kV system. The MSTR proposes a five-year transition period (steeped rate) which slowly but surely transfers the cost recovery obligations for a portion of the Intertie 500-kV system to the existing P-DP, Intertie 230/345-kV and CAP transmission contractors. That transfer of cost recovery obligations will negatively impact many of Western's transmission customers who have overwhelmingly rejected the MSTR proposal.

In response to a customer comment that the MSTR is an unfair and inequitable subsidy, Western stated that the MSTR is not a cross subsidy from one project to another because the projects will be financially segregated. This is an amazing response to a legitimate customer concern. While the position may be part of Western's legal position, the bottom line is the proposed MSTR is a massive cross subsidy for the Intertie 500-kV system on the backs of Western's captive P-DP, Intertie 230/345-kV and CAP transmission customers. While Western afforded the P-DP firm electric service and priority use power customers protection against the cross subsidies, the southern division CRSP firm electric customers were not afforded such protection and will see the cost of delivering their bundled CRSP firm electric service product increase as a result of the MSTR. This is an unacceptable discrepancy.

In-lieu of the proposed MSTR, Western should consider reopening the informal customer meetings and focus on an approach that is acceptable to Western's customers and which allows existing contractors to maintain their current status while attempting at the same time to eliminate multiple transmission rates for those customers who desire Western's assistance. The general framework of the Customer Choice approach is set forth below:

- a. Western would continue to account for and develop project-by-project rates as it does today and as proposed under the MSTR.
- b. The cost allocated to all unsubscribed and short-term non-firm sales of available transmission capacity would be moved into the Customer Choice MSTR rate which on day one would be approximately the same as the existing 500-kV Intertie Rate.
- c. Those costs would be offset by new users and customers who elect to move to the Customer Choice MSTR. If a customer elects to move to the

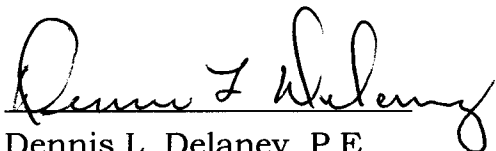
Customer Choice MSTR, the cost allocation of their existing contract moves with them.

- d. Customers with contracts that expire would have the right to renew their existing stand-alone contract or to move to the Customer Choice MSTR.

A Customer Choice MSTR approach does not result in undesired cost shifts to the majority of contractors while at the same time it provides an opportunity for customers to develop increased efficiencies. We urge Western to consider such an alternative approach, particularly in light of the burden the current proposal lays on so many customers. Customers would be better served by further discussions than by the adoption of an approach so dramatic as the proposed MSTR.

We look forward to further dialogue with Western regarding this matter.

Sincerely,



Dennis L. Delaney, P.E.
K. R. Saline & Associates, PLC

CC: Client Representatives