



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

DEC 03 2003

Mr. Robert S. Lynch
340 E. Palm Lane Suite 140
Phoenix, AZ 85004-4551

Re: Proposed Multiple System Transmission Rate (MSTR) for the Intertie, Central Arizona,
and Parker-Davis Transmission Systems

Dear Mr. Lynch:

Thank you for your comments and feedback on the October 30, 2003 customer meeting. We appreciate the opportunity to interact on issues that are important to both Western and our customers. It's especially important for lines of communication to be open when we are looking into changing procedures that have been in place for long periods of time.

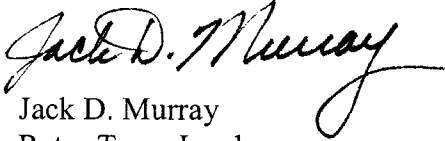
In your letter, you mentioned that the Parker-Davis Advancement of Funds Contract No. 98-DSR-10870 (AOF Contract) states that "...the contributors will not pay more than they would in a regular Parker-Davis rate proceeding." You also make the observation that this may have an affect on implementation of a MSTR rate. Apparently you are referring to the Governing Principle set forth in section 11.18 of the AOF Contract, which states that "...a Funding Party will have advanced no more under this Contract than it would otherwise have paid in rates for that Funding Year." The purpose of this provision in the AOF Contract was to recognize that the Funding Parties advance fund based on the gross revenue requirement and that distributions from the Generation Escrow Account were to be used to ensure that, within two years, the cash out of pocket for a Funding Party would be the same as if they had been paying a power bill without advance funding. The AOF Contract Governing Principle does not pertain to the design or implementation of rates. A rate design that results in a different rate for Parker-Davis Project Firm Electric Service customers does not conflict with the AOF Contract nor does it preclude use of that rate design. Additionally, the AOF Contract deals only with advance funding for generation related expenses while the MSTR process would be used to set rates for transmission service.

During the October 30 meeting, you made comments and restated them in your letter of October 31 that suggest various methods to lessen the economic impact of going to a multiple system transmission rate. Western agrees with this philosophy. The process Western has undertaken has been aimed at achieving one goal, and that is to move to a common transmission rate while mitigating negative economic impacts to our customers as much as possible. The possibilities you mentioned in your letter will be investigated for their feasibility and reported at the next customer meeting.

We also agree, to a point, with your assertion that it's better to have as many informal meetings as necessary to iron out issues with the MSTR before going to the formal process. We also agree that we can make this work and are encouraged by similar statements from our customers. At some point, we will have to settle on the most appropriate methodology and move forward with a formal rate process. Your letter was also seeking additional information on assumptions used in the rate designs. All the underlying assumptions used in illustrating the rate design have been presented in previous meetings and may be reviewed on our website at www.wapa.gov/dsw/pwrmtkt/pwrmtkt.htm and clicking on the "DSW Multiple System Transmission Rate Process" icon.

Again, we appreciate the opportunity to interact with our customers and will be in contact regarding the scheduling of our next meeting. If you have any questions or need additional information, please feel free to contact me at (602) 352-2442.

Sincerely,

A handwritten signature in black ink that reads "Jack D. Murray". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Jack D. Murray
Rates Team Lead