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September 20, 2004

Jack D. Murray
Rates Team Lead
Western Area Power Administration
P.O. Box 6457
Phoenix, AZ 85005-7457

Dear Jack:

We have received your letter of September 2, 2004, wherein you responded to a number of questions regarding the Multi-System Transmission Rate (MSTR) asked by customers at your Public Comment Forum on August 11, 2004.

SRP has two major comments and objections to the MSTR rate proposal, neither of which have been adequately addressed by Western despite SRP's attempts to seek satisfactory explanation (see attached comments on Western's responses).

1. The MSTR rate results in a subsidy of the 500kV Intertie Project by the Parker-Davis, CAP and 230-345 kV Intertie Project customers. SRP does not believe that Western has the authority to include the revenue requirement shortfall of one project in a rate that is charged to and consequently overcollects revenue from customers of other projects. This would become a license for Western to be arbitrary and capricious in its allocation of costs and is counter to the principle of "lowest possible cost consistent with sound business principles."
2. The MSTR rate benefits only 8 customers out of 40, and disadvantages the other 32 customers based on what each customer currently pays for its transmission rights compared with what each would pay after the 5-year transition to the MSTR rate (according to the information attached to your September 2 letter). This is neither fair nor equitable and also does not support the principle of "lowest possible cost consistent with sound business principles."

SRP does not support the MSTR rate proposal, SRP is significantly adversely affected by it (\$288,000/year increase in costs), and SRP strongly objects to Western's imposition of such a rate.

Sincerely,

A handwritten signature in blue ink that reads "Mark S. Mitchell". The signature is written in a cursive, flowing style.

Mark S. Mitchell
Manager, Power Marketing

Attachment

ADDITIONAL COMMENTS ON WESTERN'S SEPTEMBER 2, 2004 RESPONSES TO PUBLIC COMMENTS

The first three of the questions included were asked by Jim Trangsrud representing SRP. Unfortunately, your responses fall short of any satisfactory answer or explanation being requested.

The first question and third question were intended to have Western quantify the number of its customers that benefit from the MSTR and the number that are adversely affected, and to compare that result to those who may benefit from a customer proposal that had been referred to as OATT 1st. You state "approximately 58% of DSW's customers either realize a cost benefit due to elimination of pancaked rates or experience no cost impact by transitioning to a MSTR." However, the list of DSW transmission customers attached to your response to public comments lists 40 customers, 32 of which show an increase in cost by the end of the 5-year period of transition to the MSTR, and only 8 of which show a decrease in cost by the end of the same period. Your "approximately 58%" statement was not supported by any further comment or explanation and certainly is contradicted by your own material.

In your responses to public comments, you also state that "total savings among all customers upon implementation of the MSTR in FY 2009 is approximately \$3.5 million." This also has no further comment or explanation and is not supported by your attached spread sheet. That sheet shows a cumulative net cost increase to a set of 32 customers of \$1,311,984 and a cumulative net cost decrease to a set of 8 customers of \$697,362. The difference between the two cumulative totals is an increase of cost of \$614,622.

You did not answer the question of how many is meant by "some" customers that would benefit from the OATT 1st alternative. This makes it difficult to provide further comment. We know SRP would benefit from that approach as we have an existing contract that terminates in 2026, so under OATT 1st the rate would continue to be that of the 230-345 kV Intertie, which is less than the MSTR rate and SRP would currently benefit \$288,000/year compared to the transition to the MSTR. Your response that "approximately 25% of the total system reservation would expire within the rate evaluation period" suggests that 75% of the contracts would perhaps benefit from the OATT 1st approach and that 25% would not benefit. Again, no specific numbers of customers were given so no real comparison can be made.

The second question suggested the MSTR rate results in a cross-subsidy among DSW projects. You say there will be no transfer of revenues between power systems. But how then will the 500 kV Intertie Project, which will receive revenues from its customers under a MSTR rate and thus falls short of its specific project revenue requirements, receive the additional revenues it needs, and what will happen to revenues collected by 230-345 kV Intertie customers from a MSTR rate that then exceed that project's revenue requirements? You may call the shift of dollars something other than a transfer between projects, but one project undercollects from its customer and another project overcollects from its customers, but all revenue requirements are met. To SRP the result is a subsidy and we don't believe Western has the authority to require one project to subsidize another project.