Dear DSW Customers and Interested Parties:

On September 22, 2010, DSW hosted an informal meeting where proposed methodologies for ancillary services were presented to the customers. Outstanding questions from that meeting were answered, with information and examples put on Western's website at http://www.wapa.gov/dsw/pwrmkt/ANCSRV/ANCSRV.htm. Subsequently, on February 15, 2011, Western published a notice in the *Federal Register*, initiating a formal public process to adjust ancillary service rates. The proposed rates outlined in the notice were unchanged from the proposals laid out during the September 22, 2010 meeting.

Since publication of the *Federal Register* notice, Western has held a Public Information Forum and Public Comment Forum to allow customers and interested parties the opportunity to make comments and/or provide feedback on the proposed rates. Feedback has *recently* been received which indicates there is some confusion over how the proposed rates might effect customers.

In order to provide additional clarification prior to the end of the consultation and comment period, Western has prepared the attached spreadsheet, comparing the existing rates for Ancillary Service rates against the rates as proposed in the notice published on February 15, 2011 and the proposed rate brochure. Adhering to the scheduled closing date for comments of May 16, 2011 is important in allowing Western to proceed with the implementation of these new rates in a timely fashion, please provide any comments you may have by that date. The attached information will also be posted to the website at http://www.wapa.gov/dsw/pwrmkt/ANCSRV/ANCSRV.htm.

We appreciate your continued interest in this public rate adjustment process. If you have additional questions, please call Jack Murray at 602-605-2442 or Gloria Jordan at 602-605-2649.

Regards,


Deborah K. Emler
Assistant Regional Manager
   for Power Marketing

# Ancillary Services Comparison

| Rate | Existing Charge/Assessment | Charge based on Proposed Rate Formulas |
|---|:---:|:---:|
| **Schedule 1 to Tariff** | | |
| Scheduling Service | $26.85 per **tag** | $26.32 per **Schedule** |
| e.g. 5 monthly tags, | | |
| 5 of which result in a schedule     = | $134.25 | $131.60 |
| Applicable to transactions with entities not taking transmission service over Federal transmission system in WALC | | |
| | | |
| **Schedule 2 to Tariff** | | |
| Reactive Supply (VAR support) | .0798 mills/kWh | **no change** |

**Schedule 3 to Tariff**
Regulation Service*
  e.g., "Customer A" (monthly example billing)
21,000,000 energy kWh monthly CP

| | | |
|---|:---:|:---:|
| $.0002481 per kWh (existing energy based rate) | $5,210.10 | $7,407.00 |
| 45,000 kW monthly CP capacity | | |
| $.1646 kW-month (proposed capacity-based rate) | | |
| Proposed move to capacity-based rate to more accurately reflect the nature of the product/service. | | |
| | | |
| "Customer A" with Intermittent generator serving | n/a-new provision | |
| load in WALC: | under proposed rates | |
| 45,000 kW load | | $7,407.00 |
| 80,000 kW (nameplate capacity) | | $13,168.00 |
| Total | | $20,575.00 |

\*Examples assume "net" loads--loads less Federal entitlements
per proposed Rate Schedule

**Schedules 4 and 9 to Tariff**

Energy/Generator Imbalance Service\*

| | | | |
|---|---|---|---|
| Example Schedule | 80000kWh | | |
| Example Actual | 75000kWh | | |
| Imbalance | 5000kWh (5MWh) | | |

| Peak Hour Penalty | | None-within bandwidth | 100% x 4MWh |
|---|---|---|---|
| | | (+/- 1.5%; 5MWh min) | 110% x 1 MWh |
| | | 100% return | 1.1 MWh assessment |
| | | | |
| Off Peak | | None-within bandwidth | 100% x 4MWh |
| | | (+1.5% to -3%, 5MW | 110% x 1MWh |
| | | min for under-delivery) | 1.1 MWh assessment |
| | | | |
| Off Peak (if 5MWh=**over** delivery) | | 100% x 2MWh | 100% x 4MWh |
| | | 140% x 3MWh | 140% x 1 MWh |
| | | 4.2MWh assessment | 1.4 MWh assessment |

\*Bandwidths & assessment structure identical for Energy and
Generator Imbalances.  Energy Imbalance based on metered load;
Generator Imbalance based on metered generation.  In lieu of financial
settlement (based on Dow Jones Palo Verde Average or other identified index)
Western may accept settlement in energy.

**Schedule 5 to Tariff**

| Operating Reserve-Spinning Reserve Service | Pass-through cost + cost to Procure | **no change** |
|---|---|---|

**Schedule 6 to Tariff**

| Operating Reserve-Supplemental Reserve Service | Pass-through cost + cost to Procure | **no change** |
|---|---|---|