

IRRIGATION & ELECTRICAL DISTRICTS ASSOCIATION OF ARIZONA

R. GALE PEARCE
PRESIDENT

R.D. JUSTICE
VICE-PRESIDENT

SUITE 140
340 E. PALM LANE
PHOENIX, ARIZONA 85004-4603
(602) 254-5908
Fax (602) 257-9542
E-mail: rslynch@rslynchaty.com

CHARLES W. SLOCUM
SECRETARY-TREASURER

ROBERT S. LYNCH
ASSISTANT SECRETARY-TREASURER

E-MAILED ONLY

May 5, 2008

Mr. Bradley S. Warren, CRSP Manager
CRSP Management Center
Western Area Power Administration
150 Social Hall Avenue, Suite 300
Salt Lake City, Utah 84111-1580

Re: Proposed Salt Lake City Area Integrated Projects Firm Power Rate; Proposed Rate Increase;
your Federal Register notice of March 24, 2008, 73 Fed.Reg. 15519, *et seq.*

Dear Mr. Warren:

Thank you for extending the comment period on the proposed CRSP rate beginning October 1, 2008. As you noted in your Federal Register notice, the 2010 Work Program Review (WPR), which forms the basis of the Operation, Maintenance and Replacement (OM&R) expenses had not been completed and would not be completed by the original comment deadline. Unfortunately, that is still the case. Thus, we are in a situation where your customers must comment on this proposal with incomplete information, the very basis for the last extension. While it is unusual, we think Western should extend the comment period another thirty (30) days to and including June 4, 2008, and do so retroactively to today.

An additional reason for the comment deadline extension was to allow the development of a two-step rate increase which, at the time, was being proposed for a total of 18%. The process of evaluating that rate design, as well as the magnitude of the increase, has been significantly impacted by recent developments, further reasons to continue the comment period.

These developments have occurred, as you know, since your March 24, 2008 Federal Register notice. First, increased snowpack in the Upper Colorado River drainage has caused the Bureau of Reclamation to begin equalization releases from Lake Powell to Lake Mead pursuant to 602(a) of the Lower Colorado River Basin Project Act of 1968 and the recently adopted interim shortage criteria governing conjunctive operation of Lake Powell with Lake Mead. Those releases began on April 15 and are currently scheduled to continue through September. As we were leaving Denver last week after the CREDA Board meeting, reports were coming in of blizzard-like conditions at the Colorado River's headwaters. Thus, the currently proposed 653,000 acre-feet of equalization

Mr. Bradley S. Warren, CRSP Manager

May 5, 2008

Page 2

releases is likely to increase. This hydrologic development will make up for the 230,000 acre-feet of water spilled in the March artificial flood, will diminish if not totally avoid the necessity for any power purchases to firm CRSP generation and will affect the forecast of likely generation in the next water year beginning October 1 on which, in part, your proposed rate increase is based. The additional revenues from additional releases that must be anticipated for fiscal year 2009 will require a reduction in that proposed rate.

Second, S. 2739 has been sent to the President and he has indicated his intention to sign it. As you know, it is an amalgam of bills that passed the House and were packaged together in the Senate to be passed, concurred in by the House and sent to the President. Section 513 of S. 2739 contains the former H.R. 1662 concerning security costs. Because that bill will become law long before Western need forward its proposed rate order to the Department of Energy, you have time and must get revised figures on security costs from the Bureau of Reclamation for CRSP facilities before finalizing your proposal.

Third, it seems quite likely that many of the annual appropriation bills, including the Energy and Water Development bill, will not pass this year and a continuing resolution will direct Reclamation's and Western's economic future in fiscal 2009. Your proposed rate needs to anticipate that eventuality.

Simultaneously with receipt of these comments, you are receiving the comments of the Colorado River Energy Distributors Association, of which IEDA is a member. It goes without saying that we enthusiastically endorse those comments.

One of those comments zeroes very directly in on the proposed rate. CREDA recommends, and IEDA supports, a two-step rate in which the first step is zero. The support for concluding that this is a legitimate rate strategy falls in two categories. First, it is undisputed that the current rate will collect sufficient revenues to meet all proposed expenditures over the five-year rate window. In short, you don't need the money to pay your bills. Second, any rate increase is being driven by an artificial construct in the CRSP Act which anticipated the authorization and construction of future satellite projects associated with CRSP. The funds in question were to be collected not to provide for construction of these satellite projects but to provide monies for repayment of them once they had been authorized, appropriated for and completed. That dream has not been realized. CREDA proposes, and we support, postponing further collection of these monies beyond the five-year rate window because there is absolutely no possibility that any of these monies could be called on for repayment of the originally thought of satellite projects. None of these projects are even being studied for possible authorization for construction, let alone being proposed to be authorized and constructed. Thus, collecting money to repay projects that are not even being studied fails the rational basis test. It is within your discretion and we urge you to exercise that discretion to postpone this rate element beyond the five-year window.

Mr. Bradley S. Warren, CRSP Manager

May 5, 2008

Page 3

All of the above factors strongly support a measured approach to ratemaking for this project in this instance. CRSP is in great financial shape. You have announced that you will be making a payment, probably in the nature of about \$20 million, to the Treasury from the Upper Basin Fund this year. It has been a while since that has happened. Under these circumstances, holding the rate steady while adjusting for significantly increased hydrology and a change in law is perfectly appropriate and the sound course of action. We urge you to implement the two-step rate in that fashion.

Thank you for the opportunity to comment on this important rate process.

Sincerely,

/s/

Robert S. Lynch, Counsel and
Assistant Secretary/Treasurer

RSL:psr

cc: Tim Meeks, Administrator, Western Area Power Administration
Leslie James, Executive Director, CREDA
IEDA Presidents/Chairmen and Managers