PLUMAS-SIERRA RURAL ELECTRIC COOPERATIVE
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Your Touchstone Energy® Cooperative

April 4, 2011

Mr. Thomas R. Boyko
Regional Manager
Western Area Power Administration
Sierra Nevada Region
114 Parkshore Drive
Folsom, CA 95630

Subject: Comments on Notice of Proposed Power, Transmission, and Ancillary Services Rates

Dear Mr. Boyko,

Plumas Sierra Rural Electric Cooperative (PSREC) provides the following comments in response to the Notice of Proposed Power, Transmission, and Ancillary Services Rates published on January 3, 2011 by Western Area Power Administration (Western) in the Federal Register, Vol. 76, No. 1. PSREC appreciates the opportunity to provide comments on this most important rule making process. We recognize and acknowledge the significant time and effort Western and its staff have committed to develop its final proposed rates, including the informal process and respectfully request that you consider our comments. In addition we support the comments of the Northern California Power Agency on the proposed rates and similarly request that you carefully consider and incorporate these comments in your final rates.

Western and the CVP Preference Power customers have now operated under the Post-2004 Power Marketing Plan for over five (5) years. One goal of the Post-2004 Power Marketing Plan was to develop a rate structure that treats all CVP Preference Power customers equally, regardless of customer size, power allocation or host balancing authority area. Fair treatment of all CVP Preference Power customers should be a primary and key objective of Western when developing power, transmission and ancillary services rates. Our comments provided are focused on developing rates that are fair and equitable to all CVP Preference Power customers.

Variable Resource Scheduling, Portfolio Management and Scheduling Coordinator Charges

Western is proposing to use a three percent (3%) inflationary adder to annually index its Variable Resource Scheduling Charge, which Western charges as part of the Custom

Product Power service. Rather than using a fixed inflationary adder to adjust the Variable Resource Scheduling Charge, PSREC recommends that Western conduct an annual review of its actual costs of providing this service to ensure that charges assessed by Western for Variable Resource Scheduling are set to recovery actual costs, and to ensure that customers who benefit from such services are charged accordingly. Western should institute a charge that is equal to the actual cost of providing this service, rather than using an assumed inflationary adder that may not be sufficient to cover costs of providing this service.
In addition to reviewing the Variable Resource Scheduling Charge annually, PSREC requests that Western also adopt and implement policy to conduct an annual review of actual costs for its Portfolio Management and Scheduling Coordinator services to ensure that revenues are collected to cover actual costs.

Energy Exchange Program Rate

PSREC also requests that Western adopt an annual rate for the Energy Exchange Program. The Energy Exchange Program, as currently designed, applies a monthly rate for energy that is exchanged in the program. Use of a monthly rate can negatively impact PSREC because its assignment of Base Resource percentage to NCPA, when combined with other NCPA Member assignments of Base Resource percentage, results in NCPA's aggregated load being of a size where surplus Exchange Energy is able to be absorbed a majority of the time; therefore the collective NCPA Pool Members tend to be allocated Exchange Energy during months when total Base Resource deliveries are lower than average. This results in a rate for Exchange Energy that in many cases can be disproportionately high as compared the rates charged for Exchange Energy during month where the amount of Base Resource deliveries are above average. To improve equity in the Energy Exchange Program we propose that Western use an average annual rate for Exchange Energy to levelize the cost of the program over the course of the year. Use of an annual rate is equitable because all recipients of Exchange Energy will pay similar rates for such energy, and the Power Revenue Requirement (PRR) that is used to derive the Energy Exchange rates is also an annualized cost.

Proposed Rate Schedule CV-RFS4 - Regulation and Frequency Response Service

Consistent with the comments by NCPA, PSREC proposes that Regulation and Frequency Response Services be restructured to be consistent with how services are provided under Rate Schedule CV-SPR4 (Spinning Reserve Service) and Rate Schedule CV-SUR4 (Supplemental Reserve Service). CVP generation capacity should not be reserved "off-the-top" to provide regulation and frequency reserves to a subset of customers who take such service in the Western sub-balancing authority area. This practice is not fair and equitable for all CVP customers, because the "off-the-top" reservation of CVP generation misappropriates CVP generation that could otherwise be made available to all CVP Preference Power customers as Base Resource. Even though Western is proposing a cost-of-service rates for this service, those CVP Preference Power customers who do not take regulation and frequency response services from Western are harmed due to lost opportunity cost and the cost of acquiring alternative sources of power that can be more expensive than Base Resource energy.

Central Valley Project Composite Power Costs "Safety Value"

As discussed in the 2012 Rates Brochure, in addition to the CVP PRR, CVP Preference Power customer are allocated costs attributable to the CVPIA Restoration Fund, and power customers are required to pay a larger share capital costs due to the irrigator's inability to pay capital costs. PSREC is very concerned with the ever increasing cost of the CVPIA Restoration Fund obligation which Western collects as a surcharge to the CVP PRR on behalf of the United States Bureau of Reclamation (Reclamation). CVPIA Restoration Fund obligations are forecasted to escalate over time given current CVP operations. Increasing CVPIA Restoration Fund obligations are even more concerning when viewed in tandem with looming CVP operational changes that may reduce the amount of generation made available to Preference Power customers. If operational constraints result in decreased water deliveries, power customer's contributions to the CVPIA Restoration Fund will continue to increase due to the irrigator's inability to pay capital costs. This cost spiral will create significant cost burdens on our customers.

PSREC recommends that Western consider mechanisms such as those proposed by NCPA like a "Safety Value" to allow Western to adjust or suspend the collection of certain costs during extended periods of low generation. Western currently has discretion in how CVPIA Restoration Fund costs, and other costs due to related legislation, are assessed and allocated to CVP Preference Power customers. PSREC requests that Western explore and consider development of a trigger mechanism or threshold under which Western could suspend or terminate certain cost recovery when the composite costs of Federal power exceeds alternative power costs.

SVS Transmission Cost Repayment

As discussed above, PSREC believes that Western must develop rates that are fair and equitable to all Federal power customers. Such rates must recognize and be designed to equitably allocate the costs of products and projects to those customers who are the beneficiary of the services. PSREC is concerned with the proposed allocation and assignment of costs attributed to the construction of the Sacramento Voltage Support (SVS) project. PSREC shares many of the concerns raised by Calpine Construction Finance Company, L.P., and NCPA in their comments filed in this rate making process. Over time Western has claimed that the SVS is being constructed to support the continued reliable operation of Western's transmission system, therefore costs associated with the project should be allocated equally to all CVP Preference Power customers. Over time the term "reliability" has become more a term of art rather than science, and we question Western's assumptions as to which customers receive the predominate benefits of the SVS project.

While we agree that studies have shown that the SVS is required to support reliable operations, and for that reason do not challenge the project itself, but believe that a limited number of Federal power customers will receive direct benefits from this project. In accordance with the principles of cost causation, customers who receive the lion share of the benefits should carry a lion share of the costs. PSREC disagrees with Western's decision to allocate all $87 million of construction costs equally among CVP Preference Power customers. We do not argue that we receive no benefit from the project, but we do not receive equal benefits as those Federal power customers directly impacted by the SVS. We therefore, encourage Western to reevaluate its decision to spread SVS construction costs evenly across all Federal power customers, and rather adopt a cost allocation method that recognizes the level of benefits received to ensure Western's costs remain just and reasonable.

For questions regarding these comments submitted on behalf of PSREC please contact Mike Brozo at 916-956-5846 or mbrozo@psrec.coop. Thank you again for your effort throughout this rate making process, and thank you for the opportunity to submit these comments.

Sincerely,

Judy V. May, CFO
for
Robert W. Marshall

Judy V. May for Robert Marshall
General Manager
Plumas-Sierra Rural Electric Cooperative