

Forward Project Use Purchases

By: SNR Resources

Western Area Power Administration, Sierra Nevada Region
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Background

- Prior to the 2004 Marketing Plan Western was in an integration contract with PG&E (Contract 2948A)
 - PG&E met PU in all hours under 2948A
 - Negotiations for a replacement integration contract were not successful
- 2004 Marketing Plan was effective 1/1/2005
 - How PU would be met when CVP Generation was insufficient was a significant issue at Reclamation
 - Reclamation noted that PU was the top priority for power generated from the CVP

Background (continued)

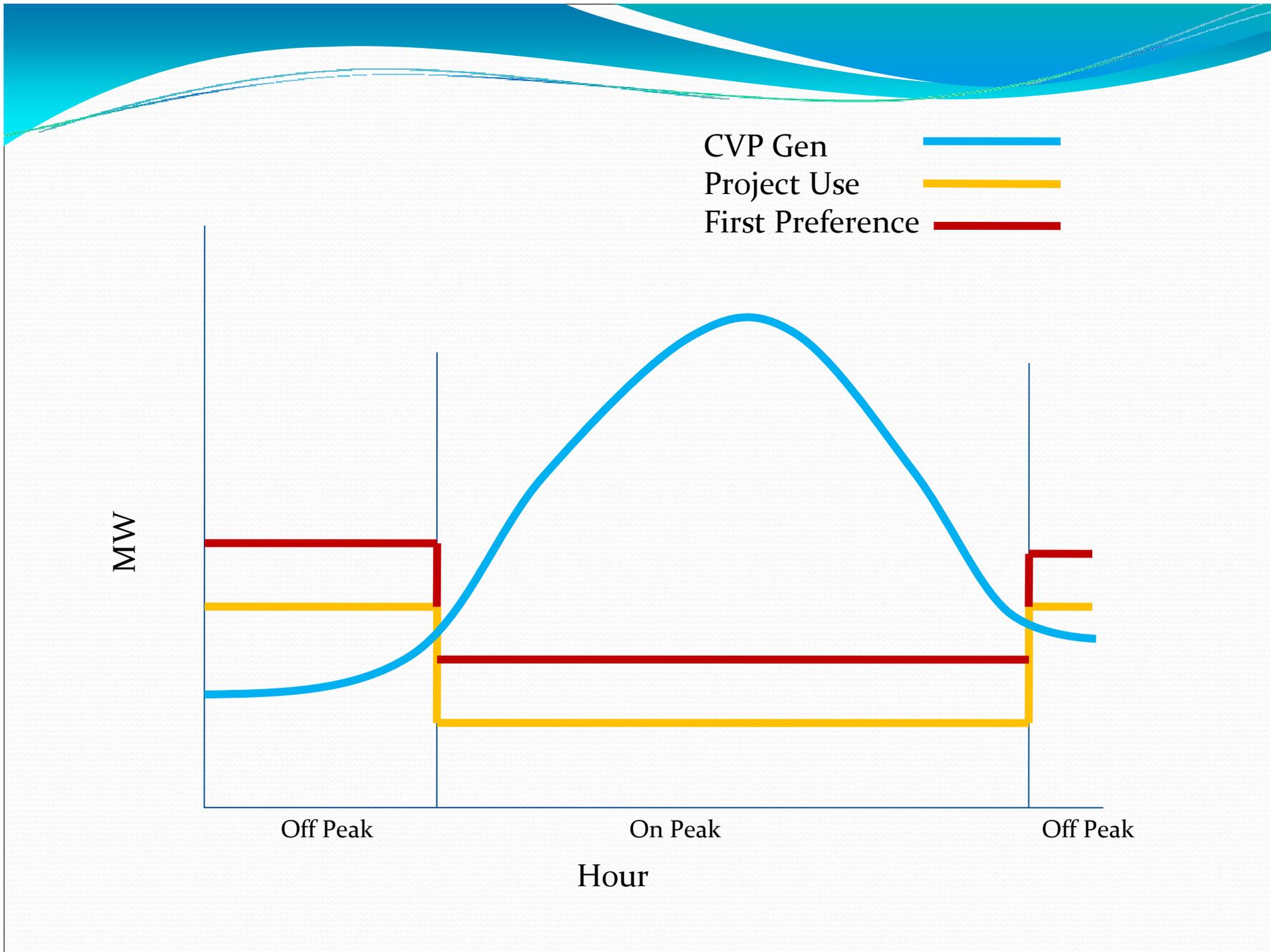
- One option open to Reclamation was to execute a capacity contract with a supplier (energy delivered only when needed)
 - Capacity contracts are pricey
 - The costs would be passed on to the power customers of the CVP
- Western and its power customers were not comfortable with the costs associated with this option
- Western made a commitment to Reclamation that it would meet PU in all hours regardless of CVP gen levels

Options for Meeting PU Requirements

- To determine times and amounts required Western performed an analysis based on Green Book data
 - 73 years of historical data updated to current conditions and requirements
 - Monthly Green Book data had to be further refined to look at hourly amounts
 - It was determined that in dry and critical years, (and even some hours under normal conditions) CVP gen would be insufficient to meet PU in many hours in Q4 and Q1
 - Two factors contributed significantly to these findings

Options (Continued)

1. Reclamation's policy to maximize on-peak generation
 2. Reclamation's policy to move PU pumping to off-peak hours when possible
- These policies maximize benefits of CVP gen to the power customers – but also create more hours when gen is insufficient to meet PU and FP loads



Considerations

- Three Options to purchase power
 1. Forward block purchases
 2. Day Ahead market odd-lot purchases
 3. Real Time odd-lot purchases
- Standard 25 MW blocks – market price – liquid market
- Odd-lots – higher priced – less liquid market
- Real Time – market liquidity ? - Price

Considerations (Continued)

- Customers pay the bills – Western is generally neutral on PU purchases
- Customers have made decisions on PU purchases through participation in CCC meetings
- Customers understand risk management and have opted for forward purchases
- Any excess energy from forward PU purchases become Base Resource energy

Future Considerations

- Western is reviewing its purchase power policies in light of new MRTU market structure
- Max Peaking processes are being reviewed as part of the above process
 - If max peaking is discontinued
 - Mismatch of on and off-peak load schedules will continue to exist on many days in light of Reclamation's policies of concentrating generation in on-peak hours and Project Use loads in off-peak hours
 - ISO import and export costs will be reduced
- Policies will be reviewed with updated Green Book