

CALPINE

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Debbie R. Dietz
Sierra Nevada Customer Service Region
Western Area Power Administration
114 Parkshore Drive
Folsom, CA 95630-4710
ddietz@wapa.gov
VIA U.S. Mail and Electronic Mail

DUBLIN OFFICE
4160 DUBLIN BOULEVARD, SUITE 150
DUBLIN, CALIFORNIA 94568-3139
925.479.6600
925.479.7300 (FAX)

Dear Ms. Dietz:

Pursuant to the May 12, 2004 Notice published in the Federal Register, Sutter Energy Center (SEC) and Calpine Corporation (Calpine) respectfully submit these comments on the 2005 proposed rate adjustment for the Western Area Power Administration - Sierra Nevada Region (Western). As a preliminary matter, SEC and Calpine thank Western and its staff for the assistance and information provided to customers on its rate proposal throughout the comment period.

SEC is the only generation resource owned by an independent power producer, as well as the only gas-fired combined cycle generator, interconnected to Western's transmission system. SEC is northern California's first newly constructed power plant, with a base load capacity of 535 megawatts, and began providing California with much-needed electricity in July 2001. SEC was developed and interconnected to Western's transmission system with the express intent that SEC would participate in the energy markets available in the California Independent System Operator (CAISO) control area.

SEC receives transmission service from Western under a long-term firm point-to-point transmission service agreement that was executed on August 30, 1999, and is scheduled to terminate on March 31, 2011. The transmission service agreement expressly recognizes the parties' understanding that the point-to-point transmission service to be provided by Western originates and terminates in the CAISO's control area.

Extension of Comment Period

During the rate comment period, Western announced its decision to join the Sacramento Municipal Utility District (SMUD) control area as a sub-control area. However, Western has not indicated to what extent the sub-control area decision will cause Western to modify the proposed rate adjustment noticed in the Federal Register. Moreover, without an opportunity to review the sub-control area agreement to be executed between Western and SMUD, Calpine and SEC cannot ascertain whether the sub-control area agreement (i) will ensure Western's ability to meet its contractual obligations to SEC under the transmission service agreement; or (ii) will negatively affect the reasonableness or justness of Western's proposed rates on SEC. For these reasons, Calpine requests that Western extend the comment period on its 2005 rate adjustment proposal until customers have had an opportunity to review the effects of the sub-control area decision on

Western's transmission service and rates. In the interim, SEC and Calpine offer the following specific comments.

Allocation of Transmission Costs to Power Deliveries

Western's 2005 proposed rates adjustment indicates that Component 1 for the CVP transmission service is expected to increase by 63 percent. This increase is largely due to the decrease in the denominator, e.g. the sum of the total firm point-to-point transmission and the network integration transmission service reserved on CVP transmission system, caused by Western's proposed change in the methodology used for reserving CVP transmission for Western power deliveries. In contrast, if Western retains its current methodology for reserving CVP transmission, Component 1 of the CVP transmission rate would only increase by 32.5 percent.

Currently, Western reserves transmission capacity for the CVP generating plants based on the maximum output of the plants. This reservation approach assures Western that transmission capacity is always available for CVP generation and is consistent with the primary purpose of the CVP transmission system. In fact, the CVP transmission system was designed to ensure that CVP generation could be delivered to Western's customers under all operating conditions. Tellingly, while performing the long-term transmission services studies for SEC, Western made the assumption that CVP generation would be operating at its maximum capacity under all operating conditions.

Pursuant to the proposed 2005 rate adjustment, for ratemaking purpose only, Western proposes to reserve only 807 MW for CVP generation -- an amount equal to the average expected CVP generation. SEC and Calpine strenuously urge Western to continue to reserve the amount of CVP transmission adequate to cover the maximum CVP generation. Otherwise the cost risk for transmission capacity designed, built, and operated for the benefit of CVP generation will be unfairly shifted to other CVP transmission customers.

Reactive Support and Voltage Regulation

Furthermore, Component 1 of the CVP transmission rates has an embedded charge for reactive support and voltage regulation provided by CVP generation. As a generator, SEC provides this service as well, but does not receive any compensation for it. Should SEC be required to pay for reactive support and voltage regulation in its transmission rates, it would be equivalent to double charging: once for the service while paying the transmission rates and then a second time when SEC provides the service. Reactive power is essential to ensuring voltage stability to maintain system reliability. The North American Reliability Council (NERC) has determined that the transmission system cannot function without an adequate reactive power supply.¹ Furthermore, in its Final Report on the August 14 blackout, the U.S.-Canada Power System Outage Task Force (Task Force) found that "[r]eactive supply is an important ingredient in maintaining healthy power system voltages and facilitating power transfers."² To the extent Western

¹ NERC Planning Standards, I. System Adequacy and Security D. Voltage Support and Reactive Power at 19 (Approved by Board of Trustees September 16, 1997).

² Final Report, pp. 107.

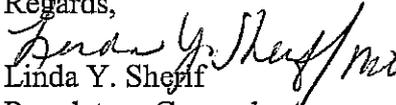
compensates its own generation for providing the above services, then other Western customers (including SEC) that provide the same service must also be compensated.

Regulation and Operating Reserves

Lastly, under the new rate proposal, Western has proposed charging the CVP transmission customers for both regulation and for Operating Reserves (spinning and non spinning reserves). As a generator, SEC has the capability of self-providing these quantities. SEC and Calpine, therefore, request that Western develop provisions that would allow CVP transmission customers to self-provide both regulation and Operating Reserves.

SEC and Calpine thank Western for this opportunity to provide comments on Western's 2005 rate adjustment proposal. Should Western have any questions or concerns regarding any matter raised here, please contact Linda Y. Sherif, regulatory counsel, at 925 479-6696 to discuss this matter further.

Regards,


Linda Y. Sherif
Regulatory Counsel