

From: SNR SNR-FY12RateCase (SNR SNR-FY12RateCase)
To: Smith, Mark J.
Date: 1/20/2011 2:24 PM
Subject: Re: Questions from Calpine

Mark: Thank you for participating in our public process. We received your questions and provided Western's responses in bold below.

>>> "Mark J. Smith" <Mark.Smith@calpine.com> 1/17/2011 12:51 PM >>>
Good Afternoon,

The following questions reference your 2012 Rates Brochure:

CPN-1 On Page 33, in Table V-1, you describe the estimated Annual Revenues, by year, which includes an estimate of Transmission of about \$21.1 million. This is described as revenues from CVP PTP and NITS. The same data are reflected in Appendix B, page 2 of 9.

Yes.

* Tables VIII-3 and VIII-4 both indicate a transmission revenue requirement (and rates calculations) intended on recovering \$37.3 million. Please reconcile the Table V-1 revenue estimate with the Table V-III-3 revenue requirement estimates.

Table VIII-3 is Western's estimated 2012 total transmission revenue requirement (TRR). Table V-1 is Western's Power Repayment Study (PRS) projected revenues. The difference between \$37.3, estimated 2012 TRR, and \$21.1 million PRS in transmission, is how the revenue is categorized when billed by Western and subsequently included in the PRS. For example, CVP transmission to deliver Custom Product Power is included in Table VIII-3, and in Table V-1 it is included in the power column, not the transmission column. Additionally, Western's use of the transmission system to deliver Base Resource is also included in power revenue.

	\$21.1	million (Table V-1) PRS
+	\$ 4.6	million (estimated CVP transmission to deliver custom product power)
+	\$11.6	million (estimated merchant's use of CVP transmission to deliver base resource)
	\$37.3	Estimated Transmission Revenue Requirement (Table VIII-3)

* Is the CVP revenue requirement expected to grow beyond the estimate in Table V-III-4 in years 2013-2016? If so, please provide those estimates.

The estimates provided in the Table VIII-4 are Western's most current estimates.

CPN-2 Why do the Transmission Revenues in Table V-1 escalate by 21 percent when Total costs escalate only 4 percent?

Pursuant to Western's existing and proposed transmission rate design, Western's O&M, depreciation and interest costs are assigned to transmission based on a ratio of transmission assets to total assets. With the anticipated completion of new facilities, such as, Shasta DBDB and Sacramento Voltage Support (SVS) project, that ratio is projected to increase approximately 10%; thereby assigning more costs to transmission. The existing ratio is 48%; the projected ratio is 59.54%.

CPN-3 Is Western allowed to reasonably discriminate in pricing? That is, if significant transmission investments predominantly benefit one group of customers and not others, does federal law prohibit Western from charging differentiated rates, based on an allocation of benefits?

Western sets its rates at the lowest cost possible, consistent with sound business principles. Federal law requires Western's rates to generate sufficient revenue to recover the cost of producing and transmitting energy, within the period of cost recovery permitted by law, of the capital investment allocated to power and costs assigned by Congress to power for repayment. Within these parameters, Western had discretion on how it sets its rates. As a matter of policy, Western has filed an open access tariff with the federal energy regulatory commission. Western provides open transmission access and does not unduly discriminate. As part of this rate process, each CVP facility was researched in order to determine its functional use. The costs for CVP facilities that support transmission

(excluding generation ties and radial lines) are included in the TRR. Customers using transmission service pay transmission related costs.

CPN-4 Please provide a short description of each of the 6 projects listed as "Western's Additions" listed in the first section of Appendix F (from Trinity to Tracy). Additionally, please describe the last entry on that page, a \$15.5 million replacement in 2016.

- 1. Trinity Weaverville Line - A 60kV line from Trinity to Weaverville substations in Trinity County.**
- 2. Folsom Loop - Looping of the SMUD 230kV Orangevale -Lake line in and out of Folsom Substation.**
- 3. SCADA and IT Upgrades - IT upgrades related to safety and security system upgrades, including security monitoring, heat, smoke and intrusion detection, and Critical Infrastructure Project compliant physical access controls. SCADA replacements of old SCADA/AGC system with new EMS system. Included hardware and software replacement.**
- 4. Sacramento Voltage Support - Construction of two additional lines from O'Banion Substation, one each to SMUD'S elverta and Natomas Substation.**
- 5. Shasta DBDB - Modifications and additions to reconfigure Shasta yard from a Main and Transfer to Double Bus Double Breaker scheme.**
- 6. Tracy DBDB - Modifications and additions to reconfigure Tracy 230 kV yard from a Main and Transfer to a Double Bus and Double Breaker scheme.**
- 7. Replacements in 2016: As stated in the Rates Brochure, Appendix F, Page 1, Paragraph 2, "Replacements were based on assets currently included in the PRS and scheduled for replacement based on standard Western-wide replacement factors including inflationary increases." Based on the PRS model, 2016 replacements are primarily related to a sub-station equipment, scheduled for replacement after 29 years at 68.51% of its original investment, adjusted for inflation. When financial data becomes available and before the rate filing, Western plans to update replacement projections based on budget information rather than computer scheduled replacements for FYs 2012-2016.**

CPN-5 Please confirm that a generator that is also a transmission rights holder would not be charged for both Energy Imbalance and Generation Imbalance if that entity does not serve load.

Yes, if that entity does not serve load, there is no energy imbalance service charge.

CPN-6 Table V-7 indicates that Western predicts "Net Revenue" in the range of \$13-14 million each year. Why is Western over-collecting the revenues required for operations and repayment?

Net revenue in excess of operations or annual costs is used to repay capital investments, replacements, and aid to irrigation. The Power Revenue Requirement (PRR) is an estimate of revenues and costs including investment and repayment projections. Any deviations from estimate to actual will increase or decrease annual project repayment. Project repayment is measured over the long term to ensure repayment is met and maintain rate stability.

CPN-7 Please provide a weblink to the location of questions and answers regarding the Brochure.

Here's the link to all public documents.

<http://www.wapa.gov/sn/marketing/rates/ratesprocess/formalProcess/index.asp>

Western's responses to questions will be posted on that site soon.

Thank you again for participating in our public process.

Regina Rieger
Rates Staff, Sierra Nevada Region
Western Area Power Administration

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We will continue to review the Brochure and may have additional questions.

Mark J Smith

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