

From: SNR SNR-FY12RateCase (SNR SNR-FY12RateCase)
To: Mark.Smith@calpine.com
Date: 2/23/2011 3:23 PM
Subject: Response to Calpine's 2/22/2011 Questions

Mark: Western's responses to your questions are listed below in bold. Thank you for your participation in our public process.

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

>>> "Mark J. Smith" <Mark.Smith@calpine.com> 2/22/2011 2:13 PM >>>
Just a couple more.

CPN-15
In CPN-9, Western states that it signed a contract for 270 MW of capacity, but only included an incremental 126 MW in the rate calculation. Why?

Western executed a contract for up to 270 MW capacity. At the time of the rate forecast, Western estimated its cost and related transmission available for sale. Actual cost and available transmission will be determined when the project is completed and Western determines the amount of transmission that is available for sale up to 270 MW.

CPN-16
Please generally identify the specific benefits that Calpine/Sutter will receive as a result of the SVS project.

The SVS project supports Western's bulk electric system and improves reliability. Western is constructing the SVS facilities for the continued reliable operations of Western's transmission system, and as a result, all of Western's transmission customers receive benefits.

CPN-17
Please confirm that with SVS, Sutter's operational status will no longer be included in operational procedures intended to avoid voltage collapse on the SMUD/Western system?

Sutter's operational status is outside of the formal rate process. Please contact Pete Garris, Power Operations Manager, at (916) 353-4008 or garris@wapa.gov for information regarding Sutter's operational status under Western's operating procedures after the completion of SVS.

-----Original Message-----

From: SNR SNR-FY12RateCase [<mailto:SNR-FY12RateCase@wapa.gov>]
Sent: Wednesday, February 02, 2011 1:13 PM
To: Mark J. Smith
Subject: Response to Calpine's 1/27/2011 Questions

Mark: Thank you for participating in our public process. Western's responses to your questions are listed below in bold.

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

>>> "Mark J. Smith" <Mark.Smith@calpine.com> 1/27/2011 12:09 PM >>>
Thanks.

Some follow-on questions.

CPN-8 Did Western consider incremental pricing for the 126 MW of new capacity created by the SVS project? If not, why did Western not apply the "greater of" principle of rate design supported by FERC.

The SVS Project supports Western's bulk electric system. Western is constructing the SVS facilities for the continued reliable operations of Western's transmission system and as a result all Western's network

customers receive benefits from the expansion. The expansion is necessary regardless of any transmission requests in Western's transmission queue. As a result, Western believes incremental pricing is inappropriate for the upgrade.

CPN-9 Has Western executed contracts for the incremental 126 MW of PTP capacity created by SVS?

Western executed a contract in May 2008 with up to 270 MW capacity contingent upon adding Network Transmission facilities and upgrades including the construction of the O'Banion-Elverta and O'Banion-Natomas 230kV Transmission Lines that may create ATC on the requested path, which is already obligated under contract. For 2012 rate forecasting purposes, Western forecasted 126 MW of transmission capacity sales due to the additional network capacity.

CPN-10 Please provide the incremental revenue requirement incurred solely as a result of the SVS project. Please include O&M, depreciation and interest expense.

The estimated 2012 increase in the Transmission Revenue Requirement due to SVS is as follows (Facility Value: \$57.4 million assumed completion in April 2011):

O&M Expense:	\$5.3 million
Depreciation Expense:	\$1.0 million
Interest Expense:	\$0.3 million
Total:	\$6.6 million

CPN-11 Please provide the estimate of incremental pricing for the SVS, assuming 126 MW of new capacity, in dollars per kw-mo.

As stated in response to CPN-8, Western did not use incremental pricing for SVS.

CPN-12 If Western cannot answer CPN-10 or CPN-11, please comment on the following assumptions:

Incremental O&M	\$4.0 MM (difference between 6/29/2009 escalation and Rate Brochure)
Depreciation	\$2.4 MM 35 years SL, base \$85 MM
Interest	\$4.14 MM 4.875 percent of \$85 MM
Total	\$10.54 MM

Rate on 126 MW $\sim 10.54\text{MM}/1000/126/12 = 6.71$ per kw-mo

N/A

CPN-13 Please provide the price for existing capacity if incremental pricing were applied to the SVS project and embedded costs were used for existing rates.

Western did not use incremental pricing, but based on the data in CPN-10 Western's rate with and without SVS follows:

SVS assuming 126 MW of capacity and \$57 million asset:	\$1.32 (\$/kW mo.)
SVS assuming 0 MW of capacity and no asset:	\$1.15 (\$/kW mo.)

CPN-14 Please provide any analysis or documents in Western's possession that discuss or describe the entities that benefit from Western's SVS project.

The attached document explains Western's process of functional assignment. Because SVS was deemed to support the bulk electric system reliability, all transmission customers benefit.

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