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May 25, 2007

Ms. Sonja A. Anderson
Acting Power Marketing Manager
Sierra Nevada Region
Western Area Power Administration
114 Parkshore Drive
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Re: Notice of Proposed Final Resource Adequacy Plan for Transactions in the California Independent System Operator Corporation's Balancing Authority Area.

Dear Ms. Anderson:

Background

Pacific Gas and Electric ("PG&E") appreciates this opportunity to provide its comments on the Western Area Power Administration ("WAPA") draft Resource Adequacy ("RA") plan, as published at 72 Fed. Reg. 20528 (Apr. 25, 2007). PG&E would like to thank WAPA for putting forth its RA plan for public comment and review. PG&E was also pleased to be able to participate in the May 16th conference call between WAPA and the California Independent System Operator ("CAISO"). This was a fruitful discussion, which clearly assisted WAPA to a better understanding of the CAISO tariff requirements with respect to RA, as well as the concepts and terminology incorporated within that tariff.

PG&E believes that, as a result of the May 16th conference call, WAPA intends to substantially revise the RA plan that it made available for public comment. The fundamental issues discussed in that call make clear that the current draft WAPA RA plan does not meet the requirements of the CAISO tariff, and that the final plan reflecting WAPA's intent subsequent to that call will differ in many important ways from the draft. The issues discussed, and that remain to be addressed, include the CAISO tariff options for reserve sharing versus non-reserve sharing LSEs; elimination of confusion between capacity and energy, operational reserves and planning reserves, and resources used to meet load versus those made available to the CAISO to ensure reliability; and incorporation of the obligation to assume responsibility for local reliability needs, compliance with the permissible forecasting methods relevant to determining RA, limitations on reliance on liquidated damages ("LD") contracts, and observation of RA import allocations. Due to the breadth and depth of the changes necessary to meet minimum tariff requirements, PG&E believes that WAPA's existing plan is not sufficiently representative of the plan that will ultimately be submitted to the CAISO to allow publication of the current draft to serve as providing adequate public notice. PG&E therefore anticipates that WAPA will make its revised plan subject to further public review and comment. PG&E looks forward to the opportunity to comment on the revised plan when WAPA publishes its next draft.

Comments

PG&E is a Northern California-based investor owned utility located within the control area. PG&E has been involved with efforts to ensure that California has sufficient resources to assure reliability for the benefit of all users of the CAISO-controlled grid, including proceedings at the California Public Utilities Commission ("CPUC"), the California Energy Commission ("CEC"), and, with respect to the CAISO, at the Federal Energy Regulatory Commission ("FERC"). PG&E's interest in ensuring the success of these efforts, as well to ensure that the cost of these efforts is equitably shared by all those who benefit from resulting grid reliability, leads PG&E to contribute these comments for WAPA's consideration in revising its draft RA plan.

The unitary nature of reliability within the CAISO control area cuts across jurisdictional lines and requires mutual cooperation. As WAPA notes in the preamble of its notice in the Federal Register, FERC has required that "each LSE serving load within the CAISO-controlled grid maintain adequate resources and not ''lean on'' others to the detriment of its customers and grid reliability as a whole" (quoting California Ind. System Operator Corp., 116 FERC ¶ 61,274, P 1116 (Sept. 21, 2006). Consistent standards also allow for more equitable sharing of both reliability obligations and associated costs. PG&E expects that WAPA will keep these precepts in mind when revising its plan.

On its face, WAPA's currently proposed RA plan calls for a seasonal Planning Reserve Margin (PRM) ranging from 5 to 10%.[1] The description of this PRM in its plan, and the discussion on May 16th, make clear that WAPA's plan confuses the PRM element by misapplying capacity and energy issues, collapsing operational and planning reserve concepts, avoiding its obligations to make resources available to the CAISO and to contribute to local RA needs, misunderstanding RA import allocations, and providing for load forecasting methodologies that are not permissible under the CAISO tariff. Although the WAPA proposed plan appears insufficient to avoid undue and inequitable reliance on other load-serving entities that provide substantially more capacity (and make it available to the CAISO for reliability), it is difficult for PG&E to fully conclude this due to the limitations of the current draft.

PG&E notes that the CPUC mandates a 15 to 17% PRM, and that the CAISO's default PRM is 15%. Although it is true that WAPA has some flexibility to determine its own PRM and is not bound by the CAISO default level, WAPA has the burden to show that any level proposed

[1] June to September planning reserve capacity of 10 percent; January to May and October to December capacity of five percent.

below the default would be sufficient to prevent leaning and consequent cost-shifting. It would be inconsistent with WAPA's federal charter, and unbecoming and unsuitable for a federal agency, to take undue and unfair economic advantage of other market participants who are contributing resources to ensure grid reliability that WAPA and its customers benefit from. Given the level of load served by WAPA's Sierra Region in California,[2] a PRM at least on par with the minimum adopted for CPUC jurisdictional LSEs, currently 15%, should be expected to prevent WAPA from leaning on other entities. PG&E hopes that, upon revisiting its plan, WAPA will reconsider its proposal and ensure that its next draft includes both a fully equitable PRM and a full explanation of how WAPA contends any departure WAPA may make from the CAISO's default standard does not constitute leaning and cost-shifting. The draft must also make clear how WAPA will meet its obligations as a reserve-sharing entity under the CAISO tariff, how it plans to stay within its allocated share of RA import capacity, how it plans to address its obligation to contribute towards local RA needs.

PG&E is also concerned that WAPA does not appear to have placed any restrictions on the use of LD contracts for fulfilling RA capacity needs, although again there was apparently some confusion on this subject in the May 16th call. LD contracts are energy contracts that do not reference a specific unit or resource backing obligation. These types of contracts raise concerns about deliverability and the possibility of double-counting of resources, resulting in the CPUC, CAISO and FERC having identified the use of such contracts for RA capacity as being of serious concern. Due to this significant concern, the CPUC mandated that use of LD contracts to meet RA capacity obligations be phased-out.[3] WAPA has a duty to address this concern, consistent with the CAISO tariff limitations on the use of LDs other than imports, and to ensure that the resources it contributes to the CAISO control area to promote reliability actually do contribute to that goal.

PG&E further notes that WAPA has developed counting methodologies that diverge from those in use for the majority of resources in the CAISO-controlled grid, and has not provided sufficient justification for this approach. These departures cause undue administrative burden to the CAISO, increase administrative expense, and may cause degradation to reliability due to resulting ambiguities and lack of clarity of resource value. In particular, WAPA and the CPUC's methodology differ when it comes to the counting of hydro resources. While the CPUC uses monthly production under a dry hydro-year metric, WAPA relies on a normal hydro-year standard and a rolling 12 month average. If WAPA believes that the use of its own metrics merit the increased cost and burden, are a better representation of the capacity it will have to offer to the CAISO on a monthly basis, and are worth the potential detriment to reliability, WAPA has an equitable obligation to explain its conclusions and to help minimize any resulting difficulty in assessing relative RA contributions of entities subject to the CAISO tariff requirements.

[2] Load served is equivalent of the annual electrical needs of 650,000 Californians with sales around 5.5 billion kilowatt-hours in an average water year. Source: http://www.wapa.gov/sn/about/

[3] CPUC Decision 05-10-042 (Oct. 27, 2005), section 7.4 (Liquidated Damages Contracts) provides for phasing out of LD contracts for RA by 2009 (Phase-out schedule: 2006 – 75%; 2007 – 50%; 2008 – 25%; 2009 – 0%).

Conclusion

PG&E again wishes to express its appreciation of this opportunity to provide input into WAPA's RA process. WAPA's acknowledgement that the reliability of the CAISO-controlled grid is both a shared benefit and a shared responsibility is also very much appreciated, and PG&E anticipates that WAPA's next draft will make substantial progress towards realization of the values underlying that premise. PG&E encourages WAPA to fully cooperate with the efforts of the CEC to assess the RA contributions and of all load serving entities within the State of California, and the efforts of the CAISO to ensure base, consistent, and critical contributions of all load-serving entities toward an effective and reliable grid. PG&E looks forward to the further contributions towards WAPA's ultimate adoption and submission of an RA plan that is fully compliant with the CAISO tariff and represents a fully equitable contribution toward the grid reliability we all depend upon.

We appreciate the opportunity to provide comments. If you would like to further discuss the contents of this letter, please contact Sebastien Csapo at sscb@pge.com or 415-973-7370.

Sincerely,

Sebastien Csapo
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Pacific Gas and Electric Company