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May 22, 2007

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Ms. Sonja A. Anderson
Acting Power Marketing Manager, Sierra Nevada Region
Western Area Power Administration
114 Parkshore Drive
Folsom, CA 95630-4710

Subject: Resource Adequacy Plan (April 25, 2007 FRN)

Dear Ms. Anderson,

During the May 9 formal public meeting regarding Resource Adequacy (RA), the Trinity Public Utilities District (TPUD) provided verbal comments. This letter is intended to reiterate or clarify some of our earlier comments and it is due, in large part, to the to comments made during the informal public meeting with the CAISO on May 16 regarding RA.

Discussions during the informal May 16 meeting seemed to support the TPUD's verbal May 9 comments to the effect that, after the rhetoric is removed RA is ultimately about increasing profits for generators in hopes that they will build more generation. In fact one CAISO representative stated that arguably "energy only" contracts do not encourage new generation and RA should provide such encouragement.

Without new encouragement, the concept of keeping supply low to raise prices by not building new generation will remain a prime objective for those who have no sense of an obligation to serve end users. While the TPUD does not agree that RA is the best means to encourage construction of new generation, we do agree that, without the obligation to serve, more encouragement is needed. BUT such encouragement should be paid by the customers of those utilities that are under resourced. The TPUD's customers should not be paying to encourage new generation, as long as the TPUD continues to have generation rights that are sufficient to meet its load for the next several decades. Yet that is exactly what Western is proposing.

During the informal May 16 meeting the CAISO seemed to define RA in a manner that was somewhat contradictory to how Western had been defining RA Unfortunately, a crystal clear definition of RA remains elusive, hidden behind the foggy language used by the CAISO, such as "forward procurement markets". But during the informal May 16 meeting the CAISO seemed to be consistent in defining RA as the <u>sum total</u> of what, prior to deregulation, we referred to as Operating Reserves (spin, non-spin, regulation, single contingency, etc.) plus what use to be called Planning Reserves (the "fudge factor" used to accommodate the uncertainty of the future with and obligation to serve whatever the load might be). The TPUD's May 9 verbal comments regarding the amount

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of RA Western proposed were based on the now apparent false premise that RA was purely what used to be Planning Reserves. Our suggestions regarding Western's proposed 5% and 10% RA levels needs to be considered in the light that at that time RA was believed to be only what use to be called Planning Reserves.

Never the less our basic point about RA levels remains. The TPUD and perhaps a few other Western customers have much less future uncertainty than the "average", either on a State wide basis or just in consideration of all Western customers. Our low load growths and low sensitivity to weather, makes our planning uncertainty less problematic. Thus after what use to be called Operating Reserves are met very little additional installed capacity (Planning Reserves) is needed, certainly not 5% and 10%. Further given our First Preference entitlement, Western should consider that any reasonable level of TPUD Planning Reserves has already been met many times over.

The TPUD recommends that Western consider procuring, from the market, only the RA needed to meet what used to be called Planning Reserves. Add that procurement to what used to be called Operating Reserves, that Western is already obligated to provide, and present the sum total as Western's RA level. If so, while Western's <u>total</u> RA level may be more than 5% or 10%, the amount of RA Western <u>purchases</u> for Planning Reserves should arguably be less.

During the informal May 15 meeting, everyone but the CAISO seemed surprised by how the CAISO intended to use Local Capacity Area Resource Requirements "Local RAR". It now appears that the intent of Local RAR is just another means to the end result of Deregulation, if it is allowed to continue; every consumer pays the same rate, no matter how high. It now appears that Local RAR is a means to subsidize those areas of the state that use environmental issues to prevent new generation near their new homes, while they continue to constructed new homes and raise the need for local generation. Thus instead of making those areas pay to fix the problem they created, Local RAR appears intended to make everyone pay.[1]

The CAISO seemed to suggest that how much of the local RAR subsidy Western customers might be forced to pay will be based on how much RA is provided. If so, there is likely an optimum point whereby the cost of one more unit of RA will cost more than the resulting increase in the amount of the subsidy that the unit of RA would avoid. Given the apparent amount of confusion about Local RAR, this matter will likely will be yet another evolving and amorphous target created in the pursuit of a "competitive market". Nevertheless, we request that Western monitor it and seek to meet the aforementioned optimum point.

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[1] If this logic had merit, which it does not, then everyone should be paying to fix the problem created in the TPUD's service area, associated with distribution lines traversing rugged mountainous areas with less than 11 meters per mile of line. If the TPUD is to pay to fix the Bay Area's generation/transmission problem, then the Bay Area should pay to underground the TPUD's distribution system.

The TPUD's main concern with Western's RA proposal is in the allocation of costs; specifically, we believe that the proposed allocation would not be fair. Under Western's proposal some Western customers (those that do not have to meet the RA tariff requirements) would get to maintain their benefit and pay nothing, while others who need a lot of what used to be called Planning Reserves would pay the same proportion as those that need less, or as in the TPUD's case need none. During the May 9 meeting we offered three alternatives that would more fairly allocate the costs, which are briefly summarized below:

Include RA purchased from the market in the Base Resource Revenue requirement.

During the May 9 meeting the TPUD pointed out that the operation of regulating reservoirs, from the Trinity River Division of the CVP, could be changed to meet RA (the Planning Reserves portion) for the TPUD and Project Use, without affecting water deliveries. This possibility is now even more valid after learning at the May 16 meeting that the operational change would only have to meet capacity needs over and above what use to be called Operating Reserves. The TPUD recognizes that such a change may require partial or total control of the units by the CAISO, and that both the operational change and transfer of control would reduce the value of the CVP resources.

The TPUD does NOT advocate changing the operations of the regulating reservoirs to accommodate planning RA . The TPUD points the theoretical possibility out to demonstrate that ALL Western Customers benefit from Western choosing to purchase planning RA for First Preference and Project Use instead of providing it from the CVP.

We believe that such RA purchases are no different than the Base Resource Purchases made as a result of the 2004 Marketing plan. Both are being done to maximize the value of CVP output for EVERYONE'S benefit[2]. Therefore the RA purchased for First Preference and Project uses should be included in the Base Resource Revenue Requirement just like the Base Resource Purchases are included.

[2] It has been suggested that those Western customer that are not subject to the RA tariff do not benefit from the RA purchased and should therefore not share the cost. But that misses the point, twice. First, those customers do benefit from results of being able to continue to maximize the value of CVP generation, which is what the alternative of purchasing RA for Project Use and First Preference does. Second, just because a customer is subject to the RA Tariff does not necessarily mean that the customer benefits from the RA purchased. It is more likely, than not, that the benefit will go to those utilities that no longer sense an obligation to serve their customers, that is, utilities that are not Western's customers. Because that RA is not likely to be called upon by Western as much as it will likely be called on for those who seek to maximize profits instead of serving customers.

Change the allocation method.

If Western chooses to reject the inclusion of RA costs in the Base Resource Revenue Requirement it could spread the RA costs needed to maintain the value of the CVP resources to just those customers who are burdened by the RA tariff, but in a manner that is more equitable than proposed. The costs could be allocated among only those Western customers who are not entitled to meet their entire load with CVP entitlements. The allocation could be based on either the customer's entire load or on that portion of the load not met by the CVP entitlement[3]. Either allocation method would more closely distribute the costs of planning RA based on the customer's need for what used to be called Planning Reserves, than would Western's proposed allocation.

Leave the establishment of RA levels up to those LRAs that choose to do so.

Based on the May 16 meeting it appears that the CAISO considers many of Western's customers as the Local Regulatory Authority (LRA) that is charged with establishing the appropriate level of RA. Thus, instead of establishing a RA level for all, as a single group, Western could set a "default" RA level for those customers that do not act to establish a RA level. Under this alternative Western should buy an amount of RA based on what each customer, as an LRA, elects or the default. The cost allocation would then be based on whichever means was used to decide how much RA to purchase for each customer.

If Western were to adopt this third alternative the TPUD would likely consider that our 300% reserve margin as adequate, and hold our RA level to only that needed to meet what use to be called Operating Reserves, which Western is already obligated to provide. Therefore Western would not purchase any RA, for what use to be called Planning Reserves, for the TPUD. Except, however, if Western were to help the TPUD understand how the purchase of RA may help us to avoid paying a portion of the Local RAR subsidy then we would likely establish the resulting RA level.

Under this third alternative all parties should consider that in any given hour a megawatt or two of CVP power that another customer may be planning on consuming, could get diverted to meet the TPUD's load. Therefore, when Western is developing the "default" or when other Western Customers acting as their own LRA consider their RA level they should take under consideration how the TPUD's load is to be met. For

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[3] The work "entitlement" is being used to mean Project Use and First Preference. The TPUD does not know if any Western Customer can meet its entire load with just its share of the Base Resource. If so, then that customer would also be excluded from the proposed allocation alternative.

parallel reasons how Project Use's load is to be met should also be considered.

Of the three alternatives the first one would be the most costly for the TPUD, particularly following the removal of most of our load from the CAISO control area. While we do not believe that alternative is the fairest for the TPUD, we realize it's the fairest for the group of all Western Customers taken as a whole. In this case the TPUD places more value on what is fairest to the group than what the impact would be to the TPUD.

This RA issue was one of those rare instances when the TPUD used its limited personnel and finances to participate in the related FERC process. During that process we tried to emphasize that a utility with a 300% reserve margin should not be forced to purchase RA from the market. In the end, FERC found that:

> "With respect to Trinity's request that we reject any CAISO tariff provision that would force Trinity to purchase additional energy from anyone other than WAPA, we reiterate here that the CAISO's proposed tariff revisions at issue in this proceeding do not interfere with the resource adequacy decisions of LRAs and do not require purchases of energy or capacity from any particular entity."

But yet Western's proposal would no only interfere with the Resource Adequacy decisions of the TPUD's LRA, it would also require that the TPUD pay the cost of purchasing capacity from a particular entity.

The First Preference clause in the TRD act of 1955 was intended to mitigate the severe local impacts to Trinitarians, caused by the TRD. Many of the charges created by the CAISO, that now pass through Western to the TPUD, have eroded the value of the mitigation provided by Congress, with no offsetting benefit. If Western adopts a policy that requires the TPUD to pay for a portion of the RA Western purchases from the market, the mitigation will further erode, subverting the intentions of Congress. We urge Western to either adopt one of the three alternatives described above, or change its proposal some other way, such that the TPUD does not effectively purchase RA from the market.

Sincerely,

Rick Coleman
General Manager

RC/ss