ATTACHMENT

State of California

The Resources Agency

Memorandum

Date: April 14, 2004

To: Honorable Michael Peevey, President
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

From: **Department of Water Resources**

Subject: Water Code §§ 80016 and 80106 Request—Allocation of Power Purchase Agreements with Kings River Conservation District and City and County of San Francisco

The California Department of Water Resources ("DWR" or "Department") hereby requests that the California Public Utilities Commission ("CPUC" or "Commission") allocate to the investor-owned utilities ("IOUs"), for operational and administrative purposes, the DWR power purchase agreements with Kings River Conservation District ("KRCD") and with the City and County of San Francisco ("CCSF"). These power purchase agreements are intended to support the development of peaker projects. Both projects are located in NP 15. The agreements have 10-year terms from the date of commercial operation. Although neither of these projects has a commercial operation date prior to 2005, the Department believes it is important to allocate these resources now in light of long-term planning efforts being undertaken by the IOUs and the Commission.[1]

By way of background, in December of 2002 the Department entered into contracts with KRCD and CCSF in connection with the settlement agreement with Williams Energy Marketing & Trading ("Williams"). As a result of the settlement agreement with Williams, KRCD received two LM-6000 combustion turbines and the CCSF received four LM-6000 combustion turbines for the purpose of developing and operating generation facilities. The Department has completed an analysis of these resources in light of the CPUC Decision 02-09-053, which allocated DWR's long-term power contracts among the IOUs. This analysis is attached and is intended to assist the Commission in its evaluation of how to allocate these resources among the IOUs. Copies of DWR's contracts with KRCD and CCSF are available at http://www.cers.water.ca.gov/contracts.html. DWR anticipates that these contracts would be administered by the applicable IOU pursuant to the operating and servicing arrangements.

[1] On April 1, 2004, the IOUs filed long-term procurement plan outlines in Rulemaking 01-10-024. Comments on those outlines are due April 15, 2004. In addition, on April 1, 2004, the CPUC adopted Rulemaking 04-04-003 to examine, among other issues, IOU long-term IOU procurement matters. The Department recommends that the IOUs incorporate the KRCD and CCSF peaker projects into their outlines for their long-term procurement plans.

DWR requests that the Commission allocate the KRCD contract and CCSF contract to the appropriate IOU. Consistent with its past practice, DWR is willing to assist the Commission and the parties to this proceeding in connection with this request. If you have any questions or need additional information, please contact me at (916) 574-2733.

Peter S. Garris
Deputy Director
California Energy Resources Scheduling

Attachment

cc: Honorable Loretta M. Lynch, Commissioner
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Honorable Carl W. Wood, Commissioner
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Honorable Geoffrey F. Brown, Commissioner
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Honorable Julie M. Halligan, Administrative Law Judge
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Honorable Mark S. Wetzell, Administrative Law Judge
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Honorable Meg Gottstein, Administrative Law Judge
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Mr. Paul Clanon, Director
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Service List Rulemaking 01-10-024 (via electronic mail)

Service List Rulemaking 04-04-003 (via electronic mail)

CPUC Briefing –
Allocation of CCSF and KRCD "Peaker Projects"

Prepared by:

California
Energy
Resources
Scheduling

Department of
Water Resources

Briefing Outline

- Background / Overview of "Peaker Projects"
- Allocation Criteria Adopted by CPUC Decision 02-09-053
- Summary of Findings
- Appendix – Review Current Allocation of CDWR Contracts

Background

- As part of the Settlement Agreement reached with Williams Energy in Nov-'02, six LM-6000 gas turbine generator sets were transferred and assigned to California Attorney General's (AG) office
- Subsequently, the AG transferred ownership of four LM-6000's to the City and County of San Francisco (CCSF) and two LM-6000's to the Kings River Conservation District (KRCD) for the purpose of developing, acquiring, constructing, and operating a generating facility
- In Dec-'02, CDWR entered into separate Power Purchase Agreements with CCSF and KRCD for capacity and energy
- CCSF and KRCD are pursuing steps towards development of their respective projects
- CDWR is requesting that the California Public Utilities Commission (CPUC) allocate the CCSF and KRCD contracts to an investor owned utility (IOU) for operational management consistent with the criteria adopted by CPUC Decision 02-09-053

Overview of the CCSF and KRCD "Peaker Projects"

Project	[illegible] (KRCD)	City and County of San Francisco (CCSF)
Number of [illegible]	2	4
Estimated Plant [illegible] (MW)	90	180
Description of Power Plant	Combustion Turbine - Simple Cycle	Combustion Turbine - Simple Cycle
Location of Power Plant	Fresno, CA - Interconnection at PG&E Malaga Substation	TBD within City of San Francisco - North of PG&E Martin Substation
CAISO Zone	NP-15	NP-15
Contract Operation Date (COD)	Contract: Dec, 2004 Target: Mar, 2005	Contract: Jun, 2005 Target: TBD
Contract Duration	10 Yrs. from COD	10 Yrs. from COD
Operational Description Max hours of Operation	Dispatchable - Peaking 2,500 Hours/Year	Dispatchable - Peaking 2,500 Hours/Year
Contract Cost Structure	Cost-of-Service - including capacity payments, plus energy payments (heat rate x gas price + VOM)	Cost-of-Service - including capacity payments, plus energy payments (heat rate x gas price + VOM)

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Allocation Criteria Adopted by CPUC Decision 02-09-053

(Interim Opinion on Procurement Issues: DWR Contract Allocation pgs. 33-36)

Adopting of ALJ Alternate:

- "...reach a reasonable middle ground between the utilities' proposals with respect to the comparison metrics and net short calculations considered in the proceeding."
- "...reaches an appropriate balance in allocating contracts among the utility portfolios that involve some delivery uncertainties."
- "...reaches a reasonable outcome in terms of SP-15 and NP-15 zonal allocation: PG&E takes scheduling and dispatch responsibility for all quantities that have NP-15 specified delivery points, and contracts with SP-15 specified delivery points are allocated to the southern utilities. This allocation of responsibility avoids necessitating an inter-zonal transfer or a sale of these quantities if a transmission path is congested."
  - Note, each of CDWR peaker contracts ("combustion turbines") was allocated to the IOU in which the resource resides (with the exception of Sunrise which was converted into a combined-cycle facility)

Initial Comparison Table of Proposed Allocation Criteria

		PG&E	SCE	SDG&E
Contract Resource Located within IOU Service Area		Yes	No	No
Contract Capacity Needed by IOU		Yes	Yes	No
Requires Inter-Zonal Transfer		No	Yes	Yes
Total CDWR Contract MW's Allocated (for Jul '05 - MWs rounded)		4,500	3,500	2,600
Dispatchable "Peaker" Contracts (Combustion Turbines only)	Number of Allocated Contracts	8	1	3
	Peaker Contracts Capacity-MW (Jul '05)	1,050	80	140
	Peaker Capacity as a % of Total Contract MW	23%	2%	5%
	Peaker Capacity MW's Expiring (Yr-end '05)	180 (Calpine SJ)	0	0
% Increase if CCSF and KRCD are Allocated to IOU				
Compared to Total MW's Allocated (Jul-05)		6%	8%	10%

Note: A delay in the CCSF project beyond Summer '05 would impact the results above.

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Summary of Findings

- In the Commission's contract allocation decision (D.02-09-053), all of CDWR's NP-15 contracts were allocated to PG&E. CDWR's SP-15 contracts (with the exception of the Coral contract) and Sunrise (ZP-26) were allocated to either SCE or SDG&E
- Qualitative assessment of allocation alternatives :

PG&E	SCE	SDG&E
· Provides additional peaking capacity · PG&E has not filed with the Commission plans for any significant resource additions beyond 2004 · The 180 MW from the CCSF project would increase local reliability in the City of San Francisco and may allow for retirement of older generation in the area · Allocation of the 270 MW capacity from both the CCSF and KRCD contract would offset the 180 MW of CDWR contract capacity that expires at year-end 2005	· Provides additional peaking capacity, however, inter-zonal and deliverability issues may defeat the benefit of such allocation · SCE has filed to pursue a 1,000 MW combined-cycle resource addition within their service territory	· Allocation to SDG&E would not satisfy SDG&E grid reliability criteria requiring resources interconnected to their system · SDG&E has filed to pursue two +500 MW combined-cycle resource additions within their service territory

- Though the specific cost detail of each contract are still under development, CDWR believes the Commission should allocate the CCSF and KRCD contracts to an IOU as early as possible to support the on-going long-term planning initiatives of each IOU
  - Cost allocation of these two contracts, as with the original contract allocation decision, should be left to the Permanent Allocation Phase of CDWR's Revenue Requirements currently before the Commission

Appendix –
Review of Current Allocation of CDWR Contracts

Summary of CDWR Contract Allocation

Contract Type	Contracts by Allocation		
	PG&E	SCE	SDG&E
A. Firm Quantity & Price	Goldman Sachs Group - NP-15 Prod. (formerly Allegheny) EXPIRED El Paso - NP Intercom EXPIRED Calpine 1 Calpine 2 Constellation - Prod 2 EXPIRED Coral	Constellation - Prod 1 EXPIRED Dynegy - firm El Paso - SP Goldman Sachs Group - SP-15 Prod. (formerly Allegheny) Williams Gas Supply Contract[2]	Morgan Stanley Primary Power EXPIRED Williams - Prod A, B, C Williams Gas Supply Contract[2]
B. Firm Price, Unit or System Contingent	Clearwood Soledad	Mountainview (formerly PGE Trading) Sempra (became tolling Jun.'03)	Shell Wind Energy (formerly Cabazon) Shell Wind Energy (formerly Whitewater - Hill)
C. Tolling Unit or System Contingent	Coral (starting '06)	Dynegy - system Sempra (starting Jun '03)	
D. Tolling Dispatchable	Calpine 1 - Product 2 EXPIRED Calpine 1 - Product 3&4 EXPIRED Calpine - San Jose PacificCorp	High Desert	Sunrise Williams - Prod D
E. Tolling Peaking	Calpeak (Panoche, Vaca-Dixon) Calpine - 3 GWF Wellhead (Fresno, Gates, Panoche)	Colton Power (formerly Alliance Colton)	Calpeak (El Cajon, Escondido, Border)

Notes:

(1) Terminated/Cancelled projects not shown. For PG&E, Capitol Power and Santa Cruz County contracts have been terminated. Also, a sixth Calpeak project (Lodi) was cancelled.

(2) In Oct'-03 the CPUC allocated a gas supply contract amongst SCE and SDG&E which resulted from the renegotiation of the Williams power contract.

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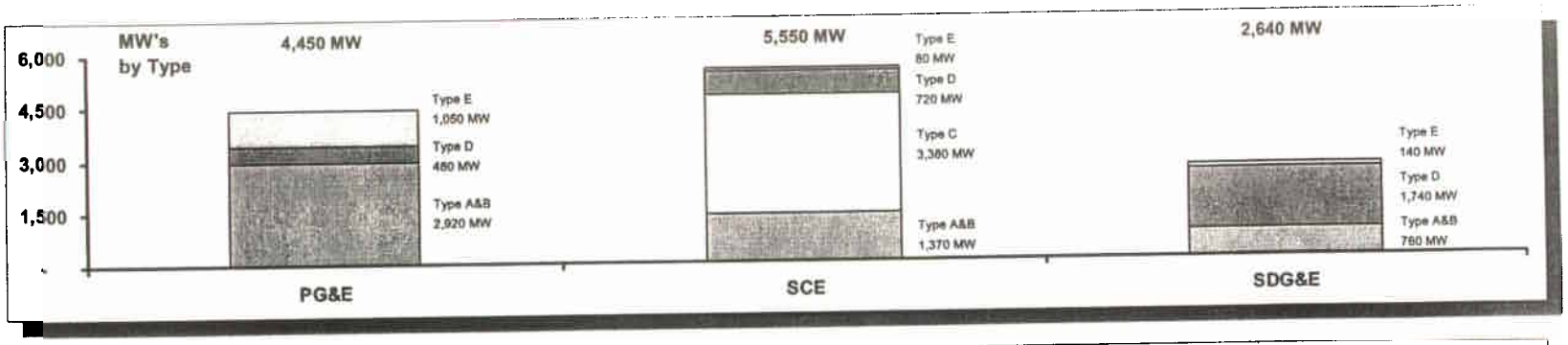
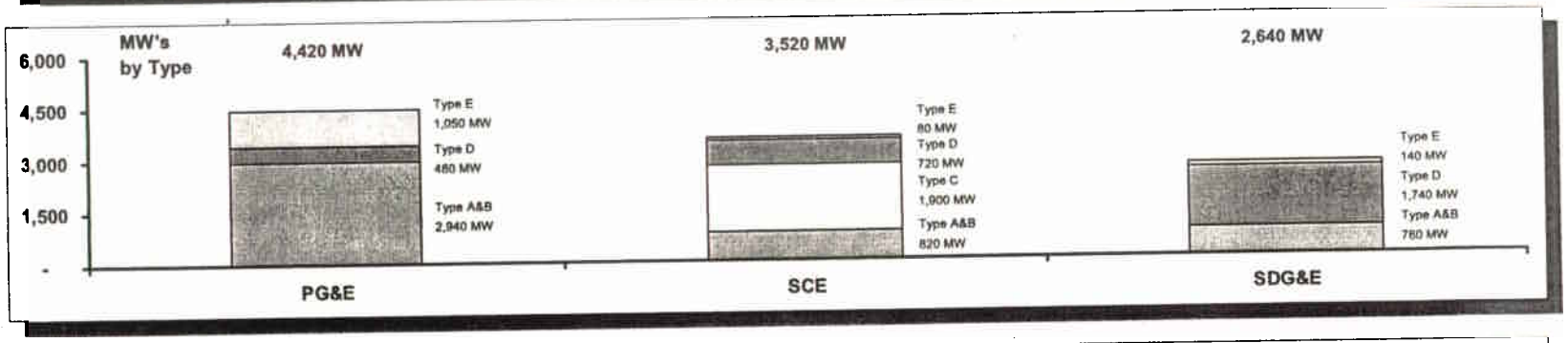
Near-Term Outlook on Contract Capacity (MW's) Allocated
(based on contract types)

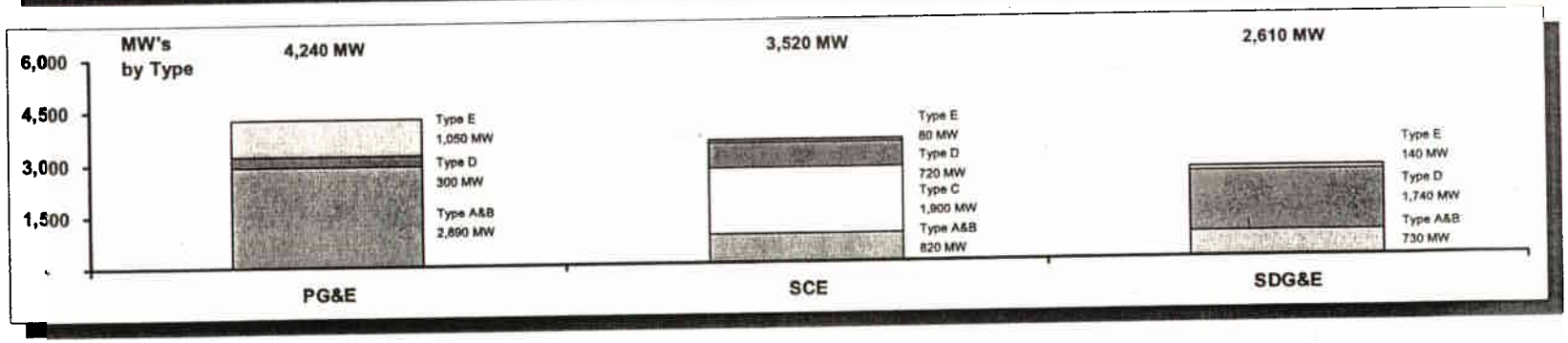
Year '04
Total
12,600 MW



Year '05
Total
10,600 MW



Year '06
Total
10,400 MW



Note: Based on Jul-MW, MW's may not add due to rounding.

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CDWR Contract MW's Expiring in the Near-Term

	2004	2005	2006
Total Contract MW's Expiring	2100 (Year End)	315 (Year-End)	13 (Nov'-06)
by Contract Allocation			
PG&E		180 MW - Calpine SJ 50 MW - El Paso	13 MW - Soledad
SCE	2,100 - Dynegy	50 MW - El Paso	
SDG&E		35 MW - Morgan Stanley	

(END OF ATTACHMENT)

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