

WSPP

July 18, 2008

From: WSPP Reserves Task Force

To: WSPP Members and other interested parties

Re: WSPP WANTS YOUR INPUT

Please read this memorandum and respond to three questions:

- 1. Has the task force identified all the issues that need to be addressed?**
- 2. For contracts entered before BAL002 implementation, should the task force provide optional approaches to resolve disputes about reserves, or optional mediation procedures?**
- 3. What items would you like more clarification on in the next reserves workshop?**

Thank you for your continued interest and involvement in the WSPP reserves issues. As we await the expected approval and implementation of BAL002, our intent is to unearth (and resolve) as many issues as possible that may arise once the standard is in practice. Below is a brief recap of what BAL002 will accomplish. Following that is a list of issues that may remain to be addressed.

Please review the issues list and let us know of additional issues you see and any comments or concerns you may have. The task force will digest the information and attempt to formulate recommended resolutions. At the least, we will frame and vet the issues, and address them at the next workshop.

We intend to hold the next workshop just prior to BAL002 implementation.

If you would like to discuss the task force's work or any BAL002 issues, please contact any of the task force members. (Contact info below.)

WSPP Reserves Task Force

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Impact of BAL002 on Markets and WSPP Service Schedule C

The implementation of BAL002 is dependant upon regulatory approvals, and would begin 90 days after FERC approval.

The standard would effectively “unbundle” reserves from traded energy, thereby placing responsibility for the provision of contingency reserves on BAs and removing that responsibility from the transacting parties (other than in a BA capacity). Service Schedule C at § 3.3 requires that firm capacity transactions be “backed by Seller’s capacity reserves.” Some parties have interpreted this phrase to require the provision of contingency reserves bundled with firm energy. With the implementation of BAL002, neither party would be required to provide such contingency reserves, under § 3.3 or otherwise. BAL002 would resolve the contract question, at least prospectively, and would otherwise separate contingency reserves from energy trading transactions.

BAL002 would not require any change to the product definition under WSPP Schedule C, or to the Schedule C phrase “scheduled as firm energy per the [WECC].” Even so, we may consider whether any clarifying changes to Service Schedule C are advisable.

WSPP Schedule C transactions will affect a BA’s contingency reserve obligation via their impact on that BA’s net generation.

Remaining Issues

Confusion over WSPP Schedules/WECC Product Code matrix

WECC Product Codes are developed for use in transmission scheduling. The WECC codes are not commercial product definitions. The parties are free to define their products themselves or use standard product definitions such as WSPP Schedule C. Once the parties have determined the product they are trading, they then apply the WECC code most closely aligned with the product. The WECC codes are not product definitions that define transactions, they are scheduling codes to help reliability on the transmission grid.

The WSPP phrase “scheduled as firm energy per the [WECC]” can include WECC codes other than firm energy. (See the “Energy Product Codes” presentation under the “Reserves Issues Materials” button on the WSPP internet site.) More than one WECC code potentially can apply to a given WSPP Agreement service schedule or other product definition. The applicable code may depend on additional specifics in the parties’ confirmation.

More specifically, Schedule C at § 3.8 states:

“C-3.8 Firm Capacity/Energy Sale or Exchange Service shall be interruptible only if the interruption is: (a) within the recall time or allowed by other applicable provisions governing interruptions of service under this Service Schedule mutually agreed to by the Seller and the Purchaser, (b) due to an Uncontrollable Force as provided in Section 10 of this Agreement; or (c) where applicable, to meet Seller’s public utility or statutory obligations to its customers;. . . If service under this Service Schedule is interrupted for any reason other than pursuant to Section C-3.8(a) or (b) [i.e., (c)], the Non-Performing Party shall be responsible for payment of damages as provided in Section 21.3 of this Agreement or in any Confirmation.”

The WECC product code for firm energy (G-F) states:

“This product may be curtailed only in the event of a reliability condition or to meet Seller’s public utility or statutory obligations for reliability of service to native load. A G-F product cannot be interrupted for economic reasons.”

G-F would be an appropriate code for Schedule C Energy provided the Schedule C interruption conditions for the applicable confirmation are consistent with the WECC G-F conditions. If they are not consistent, a different WECC code may be appropriate for the tag.

The IPP issue

Some have questioned whether a sale of energy from a single source generator can properly be treated as WSPP Schedule C and tagged as WECC G-F. We will discuss how and whether the WSPP Agreement addresses this matter, and the relationship, if any, of WECC product codes to a single source firm product.

A related concern is what happens if a party sells such power as WSPP Schedule C, but a party tags the schedule as G-FC? There appears to be some confusion over whether or not tagging energy as a contingent schedule can alter the commercial arrangements. The answer appears to be that that commercial arrangements, that is, the parties’ confirmation, would determine the tagging code, and not the other way around. But, we need to address the nuts and bolts of how this actually works – or should work.

The existing contracts question

If BAL002 is implemented, questions may remain over what obligations to provide reserves, if any, accompanied the sale of Schedule C transactions prior to the effective date of BAL002, and possibly even more so prior to September 7, 2007. Some parties see potential disputes concerning whether or not long-term Schedule C transactions, entered into prior to BAL002, with terms extending beyond BAL002, were priced to include reserves that would no longer be required or provided. How is the product change, if one occurred, addressed economically.

The Task Force has set out no substantive position on this matter. It is struggling over whether it should venture down the path of providing the membership with alternatives for how disputes regarding treatment of older deals may be handled. On one hand, the Task Force has no

standing (and possibly no business) in framing issues and arguments over interpretations of the WSPP Schedule C product as applied to specific contracts between counterparties. (Your contracts are between you and your counterparty.) On the other hand, at the Reserves Workshop in Las Vegas it seemed that the membership was seeking leadership and direction.

If the task force were to offer up alternatives for how to resolve disputes under these old contracts, it would be with the provisos that: (1) the task force has no official standing or authority, and acts only in an advisory manner; (2) suggestions that the task force develops would be just that – suggestions; (3) even the suggestions would not be agreed to by all task force members, and (4) the suggestions would not be formal or official positions of WSPP or its legal counsel about the WSPP Agreement.

Procurement of unbundled reserves

Under BAL002 BAs would be responsible for self-supplying or procuring contingency reserves. WSPP is considering a contingency reserves service schedule to facilitate the development of a market for contingency reserves.

Are there additional issues, questions, or concerns?

What is the format in which I respond?

Any format, venue, and communication device you prefer. We look forward to hearing from you.

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