



Leesa Nayudu
Director – Origination

Sempra Generation
HQ14D
101 Ash Street
San Diego, CA 92101-3017

Tel: (619) 696-4442
Fax: (619) 696-1805
Mobile: (619) 884-1192
Lnayudu@SempraGeneration.com

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Jeff Atkinson
President
WSPP, Inc.
30 "C" Street, SW
Ephrata, WA 98823

Dear Jeff:

As highlighted in the letter from Bob Schwermann on behalf of the WECC Market Interface Committee (MIC), the WSPP Executive Committee has been asked to consider recent developments in the WECC that may affect the market in general and WSPP Schedule C transactions in particular.

As a member of both the MIC and the WSPP Executive Committee, I would like to recommend that the Executive Committee authorize WSPP to issue a letter to its membership immediately following the Executive Committee Meeting to address the MIC's concerns. I know that the topic of contingency reserves is one on which there is much to disagree about, but it is now clear that market participants have an obligation to resolve the issue on at least a case-by-case basis for each transaction they enter into. Although the Executive Committee may want to wordsmith (or reject) them, the following are some of the issues that I believe should be highlighted in the letter:

- WSPP Operating Procedure #1, issued August 9, 1995, establishes the communications needed for interchange schedule implementation. Compliance with this procedure is a condition of membership for all WSPP members, and applies to all WSPP members for WSPP transactions. Section 2 B. of WSPP Operating Procedure #1 requires that the "Sending Control Area" (also known now as the Source Balancing Authority or BA) disclose to the "Receiving Control Area" (also known now as the Sink Balancing Authority or BA), "and all Intermediary Control Areas" or BAs, the "reserve responsibility" prior to the start of the transaction.
- WSPP Operating Procedure #1, Section 2 B. further provides that: "In addition, the seller, if different from the Sending Control Area, shall disclose [the reserve responsibility] to the Sending Control Area, and the purchaser, if different from the Receiving Control

Area. shall disclose [the reserve responsibility] to the Receiving Control Area.” In reality, this is probably not commonly done today.

- WECC INT-BPS-014-0 (Identification of Contingency Reserve Responsibilities in the e-Tag). effective October 1, 2007 applies to Balancing Authorities, Interchange Authorities, and Purchase-Selling Entities (Tag Authors, Generation Providing Entities, or Load Serving Entities, i.e., WSPP members). Its purpose is to require the identification in the e-Tag of the Reliability Entity responsible for carrying contingency reserves and the obligation amount so that all parties to the e-Tag have a mutual understanding of contingency reserve responsibilities and obligations for every interchange transaction.
- BAs and/or their Reserve Sharing Groups typically are required to carry contingency reserves for imports into the BA if the source BA does not agree to carry contingency reserves for the transaction. BAs are not required, and some BAs and Reserve Sharing Groups do not offer, to carry contingency reserves for exports from the source BA. See, e.g., NWPP Response to the new WECC Interpretation of Load Responsibility, dated October 11, 2007.
- WSPP members should be aware of seams issues that have arisen or are likely to arise due to the Operating Reserves issue that may be disruptive to the market. The CAISO and other BAs may be limited in the types of products they are willing or able to accept or provide, especially initially. In addition, it is believed that the CAISO will make payments for Operating Reserves associated with energy imports under MRTU, but these payments will be made to Scheduling Coordinators. There is no clear mechanism for the transfer of those payments to the source BAs that actually provide the reserves.
- It is not necessary for either a buyer or a seller to carry Contingency reserves in order for a product to be scheduled as “firm.” According to NERC and WECC standards, Contingency reserves are an obligation of Balancing Authorities, not of buyers or sellers that are not necessarily BAs. The obligation of sellers is to DESIGNATE which Balancing Authority is responsible for carrying Contingency reserves. This does not preclude buyers and sellers from mutually agreeing, as part of the transaction negotiations, upon which BA will be responsible, as long as they do not commit a source BA that is not willing to provide Contingency reserves for exports.
- The WSPP contract language is vague enough to allow different interpretations of the reserve responsibility associated with Schedule C transactions.
- In designating the Contingency Reserve obligations, parties to a WSPP transaction should follow the following guidelines:
 - For Schedule A transactions, the sink BA will have the Contingency Reserve obligation, and if the schedule can be interrupted at the sole discretion of the source PSE within 10 minutes or less, the sink BA must carry 100% reserves.

- For Schedule B transactions, the sink BA will have the Contingency Reserve obligation (7% for thermal generation, 5% for hydro generation).
 - For Schedule C transactions, the seller will designate which BA will have the Contingency Reserve obligation.
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- Even though it is the seller's responsibility to designate which BA will have the Contingency Reserve obligation, in order to ensure that a tag is not subsequently rejected. Buyers also have a responsibility to make sure that this discussion occurs. Members should be aware that the WSPP agreement does not provide damages if there is a dispute regarding the provision of contingency reserves.
 - WSPP members are encouraged to review with their counterparties any existing confirmations, and sellers should designate the contingency reserve obligation associated with those confirmations prior to December 4, 2007 (when e-Tag v1.8 will be implemented, requiring the designation of contingency reserve obligation).
 - WSPP members should consider modifying their standard confirmation forms to add the designation of contingency reserve obligation.
 - WSPP members should consider working with ICE and Brokers to ensure that transactions executed through these mediums also allow market participants to meet the requirement to designate the contingency reserve obligation.
 - The WSPP should consider a longer-term objective of completely de-coupling capacity and/or energy sales from the sale of Operating Reserves (or transfer of Load Responsibility) in standard commercial transactions.

In addition to addressing these issues, I recommend that the letter include as attachments the following four reference documents:

- WSPP Operating Procedure #1
- WECC INT-BPS-014-0, Effective October 1, 2007 (Identification of Contingency Reserve Responsibilities in the e-Tag)
- WECC Interpretation of "Load Responsibility"
- NWPP Response to the new WECC Interpretation of Load Responsibility (dated October 11, 2007)

I look forward to our Executive Committee discussion of this recommendation. Thank you for your openness and support on this issue.

Sincerely,

Lecsa Nayudu
Director – Origination