



The current of the Valley

Connections

Summarizing Regional Energy Issues and News

September 2004



Volume 2, No. 9

Energy Watch

Energy Plan 'Over-Optimistic?'

An initial assessment by California's Legislative Analyst Office (LAO) of the California Performance Review states that Governor Schwarzenegger's proposal to consolidate the state's energy agencies is problematic. It says savings from reorganizing California's entire state bureaucracy are overestimated. The LAO called Schwarzenegger's plan to squeeze the energy agencies into one large department "premature." The office says the plan for saving \$32 billion over the next five years would only actually save between \$10 billion and \$15 billion. The office does support the California Performance Review's (CPR) recommendation to unify and coordinate state policy on energy efficiency. The LAO said that the rationale for some of the CPR proposals are "not clear" and "lack sufficient detail" to determine whether a proposed consolidation would improve state government

FERC Developments

- The Federal Energy Regulatory Commission (FERC) has ended several show-cause orders. The commission approved contested settlements between its trial staff and Sempra Energy Trading, Coral Power, Dynegy Power Marketing and the City of Glendale. The settlements approved on July 28 each require parties to deposit money into a Treasury account.
- Federal energy regulators have ordered Enron Corp. to forfeit \$32

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Peaker Plant Wins Investment Grade Bond Rating

Green lights continue to light up for the Kings River Conservation District's peaker power plant development.

With site development already beginning for the project near North and Chestnut avenues in Malaga, Moody's Investors Service has assigned a Baa1 rating to \$52.8 million in revenue certificates of participation that KRC D Power plans to issue soon.

The certificates were expected to be priced by late September. Bond proceeds will finance construction of a 97 megawatt, two-unit peaking generation project and necessary reserves when closing occurs October 6.

What will emerge by next summer is a much-needed addition to the Fresno area's electrical supply, creating crucial peaking power for the central San Joaquin Valley and adding value to the region's energy portfolio. Those are among KRC D Power's leading objectives.

"This is an incredible opportunity for California ratepayers to receive the lowest-

possible-cost new peaking power capacity," said KRC D General Manager David Orth.

Moody's officials say they considered a number of factors in the rating assignment.

They included limited construction and technology risk, the importance of the new generation project as a strategic resource for the Fresno area and the A2 credit rating on the California Department of Water Resources. Also considered were several credit risks associated with the DWR power purchase agreement that explain a credit rating several notches below DWR's rating. These risks include agreement termination provisions and DWR's ability to trigger a replacement agreement under certain conditions with an equally rated electric utility.

Moody's said bond security includes KRC D's obligation to make payments under the installment agreement with the KRC D District Public Financing Corporation. KRC D's obligation is payable from net revenues derived from the project, primarily

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Community Choice Aggregation

CPUC Holds CCA Public Goods Charges Hearing

The California Public Utilities Commission has held a hearing to hear oral arguments on energy efficiency administrative options.

The September 30 hearing included discussions over whether public goods charges should apply to Community Choice aggregation (CCA).

The Kings River Conservation District and the 14 cities it surrounds in parts of Fresno, Kings and Tulare counties are studying the feasibility of establishing an ambitious CCA program under which the cities would purchase electrical energy from generators other than investor owned utilities. KRC D Power is also holding discussions with Fresno and Kings counties on the possibilities.

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KRCD Power proposes to develop new base-load generating capacity to be that supplier in order to add reliability, value and cost efficiency and savings to the region's power system and supply.

The CPUC specifically asked oral argument participants to be prepared to answer a series of questions, including whether Community Choice Aggregators and potential sub-administrators should be allowed to compete for, or be specifically granted, an allocation of PGC funds to select localized or targeted programs.

SDG&E Battles City

San Diego Gas & Electric (SDG&E) is discouraging the City of Chula Vista in its Community Choice Aggregation efforts. The utility issued an analysis that says the city could potentially lose over \$1 billion if it goes forward with municipalization. The SDG&E report issued its analysis in response to a feasibility study, written by Navigant Consulting, Inc, that found Chula Vista could save about \$9.5 million per year by becoming a community-choice aggregator and providing power distribution services in new development, or green field, areas.

SDG&E noted a number of "significant oversights" in the city's assessment. The study's assumption that the city could buy power in the market at more than 5 percent less than SDG&E was dubious. The study also ignores reliability standards, according to SDG&E. The utility also asserted projected energy demands put forth in the study were unrealistic. On August 31 Chula Vista sent the CPUC an update on its CCA efforts. The city has conducted five peer reviews by energy experts, and states that it has a valid Community Choice Aggregation business model.

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Published monthly by KRCD's Public Information Staff with special assistance from Navigant Consulting Inc.

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million in profits from the Western energy crisis and ordered a review of the company's profits from 1997-2003. In upholding an administrative law judge's finding that Enron did not properly inform the Federal Energy Regulatory Commission (FERC) of a business relationship with El Paso Electric Co., the commission made clear Enron could be required to pay much more.

CPUC Looking At Who Pays

The California Public Utilities Commission (CPUC) has opened a new rulemaking to refine its policies on how capital gains that utilities earn from the sale of their assets should be allocated between ratepayers and shareholders [R04-09-003]. New rules are needed that "properly allocate gains and losses based on financial risks, provide incentives for prudent investment in and continued ownership of property necessary for service to utility customers, and do not provide utilities any unreasonable incentives for unnecessary and speculative investment to profit from gains on sale."

Southland Gas Merger OK'd

A California Public Utilities Commission decision allows Southern California Gas (SoCal Gas) and San Diego Gas & Electric (SDG&E) to combine their natural gas operations. The decision also will make SDG&E's natural gas transmission hub at Otay Mesa south of San Diego a joint receipt point for LNG from Baja California. SDG&E is sanctioned to spend more than \$200 million to expand the Otay Mesa facility to accommodate the additional gas. The decision also allows SDG&E and SoCal Gas to create one new rate for both utilities' customers, for gas delivery between any two points in their combined service areas.

The CPUC approved the utilities' request to combine systems and establish a new rate as part of its decision on a variety of issues involving long-term natural gas supplies. Otay Mesa would be able to accommodate up to 600 million cubic feet per day of LNG, provided the facility is expanded. The companies estimated the expansion would cost about \$206 million. Under the new rate, SoCal Gas customers' class average transportation rates will go up about \$0.002 to \$0.004 per therm, while SDG&E customers will see a rate reduction of \$0.02 to \$0.04 per therm. Final rates will be set in the second phase of the utilities' biennial cost allocation proceeding. The decision orders SDG&E, SoCal Gas and Pacific Gas & Electric (PG&E) to submit "non-discriminatory open access tariffs" for all new sources of natural gas supplies, including potential new LNG supplies.

Peaker Power Plant Agreement, continued

consisting of payments made by DWR to the District under the power purchase agreement.

KRCD Power plans a natural gas-fired, simple-cycle peaking plant. The capacity and energy will be sold to the California Department of Water Resources under a 10-year power-purchase agreement.

The state made the two units available to KRCD Power under a settlement of litigation between Williams Companies and the state arising out of the mid-2000 energy crisis.

Construction is expected to begin rolling in October with commercial operation expected in June 2005, just in time to help meet peak energy demands created by the valley's summer heat.

District board members on May 11 awarded a \$35.467 million contract for engineering, procurement and construction to BMZ, a joint venture of two firms, Barton Malow of Michigan and Zachary Construction of Texas.

During the summer, KRCD Power received authority from the Federal Energy Regulatory Commission and signed an amended power purchase agreement with the state DWR.

"These developments are another important signal that KRCD is a public agency that is reliable, competent, trustworthy, accessible and responsive," Orth said. "KRCD continues to demonstrate that it is a leading resource agency."