

June 12, 2007

To: Jeff Britz, City Manager
City of Lemoore

From: Thomas Haglund, Chair
San Joaquin Valley Power Authority

David Orth, General Manager
Kings River Conservation District

The San Joaquin Valley Power Authority and Kings River Conservation Districts' responses to questions sent to us at the request of your Mayor.

1. What is the term of office for SJVPA board of directors? When are they up for reelection? Why was it recommended that they be city managers or their designee rather than elected officials as is the case in Ohio and Massachusetts? That way city staff would spend their time attending to city business. Please comment on the fact that their city salaries and benefits constitute a subsidy that the taxpayers are bearing that should rightfully be included in the PA's budget and be factored into the electric rate structure. Board members in Ohio and Massachusetts serve without compensation.

Response – Article 4 of the SJVPA Joint Powers Agreement (JPA), effective November 15, 2006, establishes provisions for Governance and Internal Organization. The City of Lemoore approved the JPA by Ordinance No. 2006-09 dated November 7, 2006. Article 4.2.1 of the JPA provides that board members are appointed by the governing body of each member of the Authority and shall normally be the City Manager/Administrator or his or her delegate. Article 4.3 of the JPA establishes the Terms of Office, which are essentially at the pleasure of the CCA Member governing body.

The governance structure of the San Joaquin Valley Power Authority is similar to that of the Central San Joaquin Valley Risk Management Authority of which the city of Lemoore is a member. The governance structure provides for stability and expertise over time as is exemplified in the Risk Management Authority model.

Section 8.1.3 of Program Agreement 1 (PA-1) addresses potential recovery of costs incurred by CCA Members. This section acknowledges that CCA Members have incurred and will continue to incur various costs related to the CCA Program. In consideration of this, PA-1 provides that the SJVPA Board may establish discounted rates for CCA Members or provide for other comparable economic benefits.

It is entirely appropriate, for cities and counties that so choose, to dedicate staff time and resources in the furtherance of a CCA program. CCA is a benefit to the citizens, business and industry of the community, can only be offered by the city as an aggregator, and

therefore becomes a program of the city much like water, sewer, storm drain and other enterprises or programs offered or operated for the benefit of the city.

2. What mechanisms exist to allow current solar customers who do not opt out to maintain net metering benefits? What cautions or warnings will alert future or potential solar customers that there is currently no provision to take advantage of that feature and would that have a negative effect on solar development?

Response - Solar customers currently served on the PG&E net metering tariff may maintain net metering benefits, with some restrictions. Net metering customers electing not to opt-out of the CCA Program will be billed for PG&E and the Authority's charges based on the net meter read at the end of the month. Customers will therefore continue to get credit for the full retail rate for solar production during the billing month. The CPUC has initially decided that CCA customers should not be eligible for the billing option that allows customers to be billed based on net meter reads over the course of a calendar year. (Under this billing option, customers can benefit by using excess solar production in a month to offset consumption in a different month within the same calendar year.) The Authority CCA Implementation Plan on page 59 describes the Authority's intent to work with PG&E and the CPUC to establish a comparable net energy billing option for CCA customers. It is anticipated that this issue will be addressed with the CPUC in the next twelve months. The Authority has obtained a list of net metering customers from PG&E so that specialized outreach efforts can be made with these customers so that they are fully informed of the impact that enrolling in the CCA program would have on their net metering arrangement.

3. Please comment on the fact that in Ohio by law, customers have the option every two years to opt out with no penalty.

Response – Conducting an unconditional opt-out process every two years would make it practically impossible to provide customers with rate stability beyond a 2-year time frame. To address the potential for customers opting out every two years, the CCA Program would be forced into a series of 2-year supply commitments, which would not deliver low and stable rates to customers. Securing long-term energy supplies for Program customers will provide the desired rate stability, and the Program will need reasonable assurances that customers will either remain in the Program or that their leaving will not negatively impact the remaining customers by shifting costs of supply commitments to the other customers.

A discussion of the proposed fees for customers that elect to terminate service after the free opt-out period begins on page 62 of the SJVPA Implementation Plan. The SJVPA Board will set "cost recovery charges" annually for CCA customers wishing to depart. Nothing would prevent the SJVPA Board from establishing a "no charge" cost recovery charge under certain conditions, as described in the Implementation Plan. The cost recovery charge will be zero as long as the cost of the Program's supply portfolio remains

at or below market. It should be noted that with the CCA models in other states there are no utility exit fees that the CCA customers must bear.

4. It was stated over two years ago that KRCD had begun the process for building a 500 megawatt base load power plant. Yet, today we hear that the application has not even been submitted to the CEC and will not be considered for economic viability until late in 2008. Why the delay? It appears that the potential for litigation has caused the delay until after PA-1 is executed and long term power purchases are contracted for. Discussion of the power plant has slipped into the background noise. Originally the plant was to be on line in 2010. What is the current estimate for the earliest date the proposed power plant could be on line?

Response - There has been no delay in the process of developing the 500-megawatt, base load power plant. The current project schedule anticipates commercial operation in the fourth quarter of 2010.

SJVPA members are aware that KRCD has deliberately approached the development of the base load facility over the past several years, including analysis of over 200 potential sites, negotiation with two separate agencies regarding final site selection, and more recently preparation of the application to begin the rigorous permitting process governed by the California Energy Commission (CEC). The application will be filed before June 30, 2007 and will begin a 14-18 month public review and evaluation process conducted by the CEC.

While numerous concerns have been raised regarding the potential project location, no litigation or threats of litigation have been made.

5. If Lemoore signs PA-1, are we in it forever? Please comment on PG&E's claim that the city could be liable for millions of dollars, i.e. all the exit fees for all our residents as well as other charges thereby making it virtually impossible to withdraw. This does not seem to be choice. The only choice seems to be you're either in or you're out.

Response - Approval of PA-1 does not unconditionally obligate the City of Lemoore. PA-1 will not become effective and operative until several conditions as detailed in Section 4.3.1 are met; nine of 14 SJVPA members must also approve PA-1, the SJVPA Board must approve a power services agreement with KRCD, and the SJPVA Board must find, by resolution, that the financial objectives of the program, including a 5 percent discount in generation tariffs can be met.

Section 4.3.2 of PA-1 provides individual SJVPA members with an opportunity to terminate their participation if these conditions are not met within 90 days after nine of 14 members of the SJVPA have approved PA-1, and further provides that if the remaining membership is less than nine, the entire Agreement terminates. Section 11.4.1

allows SJVPA members to withdraw from PA-1 upon no less than 6 months written notice.

SJVPA members would not be responsible for payment of exit fees (the cost recovery charge described above) of all their residents under any circumstance. Article 11.4.3 specifies that SJVPA members electing to withdraw from the Authority will be responsible for exit fees associated with their “Eligible Member Loads”, meaning their own accounts (municipal buildings, etc). This does not extend to the payment of exit fees of other customers within the member’s jurisdiction.

Article 11.4 of PA-1 defines the obligation of CCA Members upon withdrawal from PA-1 in instances where the CCA member’s withdrawal causes customers to be returned to the utility. First, it is unclear that the CCA member’s withdrawal will automatically cause customers to be returned to the utility; after SJVPA gains experience as a community choice aggregator, such customers may be allowed to stay in the program in spite of the CCA member’s withdrawal. However, even if such customers are required to be returned to the utility, SJVPA plans to address the issue of potential liability associated with so-called reentry fees imposed by the utility and other possible costs of returning customers to the utility. First, we intend to address the return of customers in an orderly manner with advance notice so that we can greatly mitigate any costs the utility may incur in receiving the customers back to bundled service. This is consistent with processes described in CCA rules on file at the CPUC. Second, we are working with the utilities and the CPUC to identify the scope of the insurance and/or performance bond that is contemplated in Assembly Bill 117 and the CPUC's decisions as a necessary means of protecting against such potential liability. This requirement was codified in Public Utilities Code Section 366.2(e). (And, CPUC Decision 05-12-041, Ordering Paragraph 10, directs the CPUC Energy Division to develop and enforce terms related to this insurance and/or bond.) We have specifically asked for the CPUC Energy Division's help in specifying the scope and terms associated with insurance and bond provisions. With respect to the cost of such insurance or bond, we anticipate that this cost will be a cost of service under the CCA program to be recovered by CCA customers.

Neither the SJVPA nor the SJVPA members are responsible for any costs associated with an individual customer electing to return to utility service. Costs of such “reentry” are borne by the customer (PUC Section 366.2(a)(11)).

6. Article 5.1 of PA-1 states that one of the goals is to enhance local electric reliability and diversity through the development of Local Electric Facilities, including local renewable generation resources. Please comment or amplify what local renewable energy resources are being considered. Also in Article 5.1, another goal is to provide revenue to the CCA Members for their respective contribution to the development and ongoing operation of the CCA Program. This seems to imply that cities would receive a larger discount than would otherwise be available to residential customers. What revenues are we talking about for CCA members?

Response – KRCD is currently reviewing responses to a formal request for proposal process for 400 megawatts of renewable generation projects, with priority given to those projects that can be built in central San Joaquin Valley. These responses include approximately 400 megawatts of in-Valley solar, 100 megawatts of in-Valley biomass, and an unspecified amount of out-of-Valley wind capacity. In addition, KRCD is reviewing unsolicited proposals for additional solar, methane gas, and low-flow hydro projects in excess of 200 MW in capacity.

Section 8.1.3 of PA-1 addresses potential recovery of costs incurred by CCA Members. This Section acknowledges that CCA Members have incurred and will continue to incur various costs related to the CCA Program and in consideration of this, provides that the SJVPA Board may establish discounted rates for CCA Members or provide for other comparable economic benefits.

7. Article 5.3 of PA-1 states that CCA members shall procure from the Authority their Full Electricity Requirements for eligible member loads for the term of this agreement. Since there is no termination date specified, does this mean we are committed indefinitely to procuring electricity from the Authority? This appears to place unreasonable limitations on the independent ability of a member community to pursue a solar or other electricity generating initiative.

Response – Article 5.3 does not prevent CCA Members from pursuing alternative generation. Article 5.3 requires CCA Members to procure from the Authority their Full Electricity Requirements which are defined in Exhibit A to PA-1 as excepting all load that may be self-supplied by a CCA Customer through qualifying electric generation (which would include solar or other self-generated electricity).

8. Please clarify what is meant by Section 7.3.2: Waiver of Certain Rights. It appears to mean that a member community cannot opt out but can only withdraw.

Response – Article 7.3.2 provides that CCA Members have waived their right to opt-out notices as provided by Assembly Bill 117 and the CPUC Rules governing CCA implementation, and that the CCA Members have waived their right to opt-out of the CCA Program. The waiver of opt-out was established by the SJVPA Board in recognition that CCA Member participation is an appropriate condition of continued CCA Program support.

9. Have the increased rates due to the renewable portfolio standards been accounted for in the rate structure beginning in 2010. Please comment on the fact that PG&E already has substantial renewables while the PA will need to purchase renewables at a higher cost.

Response - The SJVPA Community Choice program must comply with the State of California Renewable Portfolio Standard (RPS), which requires that 20 percent of all energy delivered in 2010 come from renewable generation sources. Initially this energy will come from KRCD's full requirements energy supplier, Citigroup Energy and will be included in the initial 5 percent discount price structure. Over the interim and longer term, KRCD and the SJVPA intend to develop local renewable projects to meet or exceed the RPS. KRCD is currently reviewing a number of responses to a recent request for proposal for 400 megawatts of local renewable energy capacity. KRCD also intends to aggressively pursue the development of renewable projects on SJVPA Member facilities, including solar, biomass, and methane gas projects. KRCD has had preliminary discussions with Lemoore's staff regarding integrating all of Lemoore's proposed solar projects on city facilities into the SJVPA program. KRCD would be interested in negotiating a mutual agreement with the City of Lemoore regarding Lemoore's solar generation.

10. *Under what conditions could the PA terminate their agreement with Citigroup? Would the cities have any liabilities?*

Response – The SJVPA will not be a party to the agreement with Citigroup. KRCD will execute the agreement with Citigroup and be solely responsible for obligations set forth in that agreement. The SJVPA will execute a Power Services Agreement with KRCD, as defined in Section III.C of the Implementation Plan. Article 4.11 of the Joint Powers Agreement provides further guidance on the scope of the Power Services Agreement. It is anticipated that the Power Services Agreement will contain certain performance measures and objectives applicable to KRCD under this Agreement which, if not met, may ultimately lead to termination of KRCD's role as power services provider to the CCA Program.