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Re: Texas Utilities Electric Company,
Docket Nos. 50-445A and 50-446A.

Dear Lee and Bill:

Transmitted herewith is a copy of Steve Collier's report of his meeting with Pitt Pittman of TUEC on February 23, 1990. As you will see from a review of Steve's report, there was a frank exchange of views and some tentative progress appears to have been made.

If you have any questions, please do not hesitate to call me.

Very truly yours,

John Michael Adragna

JMA/dm
Enclosure

SISP review completed

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March 7, 1990

Mr. John Adragna
Miller, Balis & O'Neil
1101 Fourteenth Street N.W.
Suite 1400
Washington, D.C. 20005

SUBJECT: NRC Comanche Peak License Enforcement Proceeding
Report of Settlement Meeting with TU Electric

Dear John:

I am writing to provide you with a summary report of my discussions with TU Electric. As you will recall, we agreed during our last meeting with TU Electric at the NRC on January 25, 1990 that I should meet with TU Electric staff to discuss power supply arrangements. On Friday, February 23, 1990 I met with Mr. Pitt Pittman, Vice-President, and Mr. Henry Bunting, Manager of Inter-Utility Services, in TU Electric's offices in Dallas, Texas.

The meeting began with my informal presentation of a power supply scenario for Cap Rock Electric. I described to Pitt and Henry a power supply scenario involving five basic components:

(1) Load Shifting

Cap Rock Electric is currently negotiating with other electric utilities to directly interconnect and serve 20 to 30 megawatts requirements load now being served by TU Electric.

(2) Peaking Generation

Cap Rock Electric is negotiating with vendors to lease or otherwise acquire approximately 10 to 15 megawatts of mobile, gas-fired peaking generation.

(3) Cogeneration Projects

Cap Rock Electric currently has the option to take advantage of a contract for 40 megawatts of cogeneration capacity in Sherman, Texas, and is considering the alternative of 10 to 30 MW of cogeneration capacity in or near Cap Rock Electric's service territory.

(4) Partial-Requirements Service from TU Electric

Cap Rock Electric would expect to purchase from TU Electric the balance of its power supply requirements not met by the first three items set forth above.

(5) Additional Bulk Power Purchases

As Cap Rock Electric's power supply plan comes together, we will be investigating all possible bulk power resources that may become available to augment the first four items set forth above, including economy energy and other opportunity transactions.

Pitt asked for more detail on a possible time line for the five components of our power supply plan. I explained that I would only be able to provide a tentative time line since negotiations for the various components are still under way, and the availability and terms of the necessary coordinating services are still uncertain. I then provided the following estimates:

(1) Load Shifting

Cap Rock Electric would shift load as quickly as possible, but would, at a minimum, have to wait until it received certification for, and completed construction of, new transmission facilities once it had a contract for the shifting of load. Some load might be shifted within a year or two, but shifting significant requirements load to alternative wholesale suppliers could require two to three years.

(2) Peaking Generation

Cap Rock Electric would hope to have peaking generation available for the 1991 summer peak. We would prefer to begin to utilize it immediately, but we would probably not be able to obtain TPUC certification until the 1991 summer peak.

(3) Cogeneration Projects

The finalization of contracts, financing arrangements, and construction would require approximately two to three years from initiation to completion.

(4) Partial-Requirements Service from TU Electric

Cap Rock Electric may elect to terminate its all-requirements contract and begin receiving partial-requirements power immediately after TU Electric changes its wholesale rates as provided in our all-requirements contract.

(5) Other Bulk Power Purchases

Cap Rock Electric has no anticipated time line, although the HL&P economy energy contract is still in force and could be utilized immediately.

Pitt then asked for further explanation of our intentions as regards partial-requirements service. I explained that we would rely upon TU Electric to provide the difference between Cap Rock Electric's total load requirements and the power supply resources obtained in Items 1, 2, 3, and 5 above. I pointed out that the total amount of partial-requirements power would decline considerably over time as compared to the total amount of all-requirements power that Cap Rock Electric is currently purchasing. I did suggest that the amount of partial requirements power being purchased might fluctuate from year to year, either up or down. Specifically, the partial-requirements power purchases might increase as load grows for that portion of our system load not being met with new power supply alternatives.

Pitt then asked if Cap Rock would be "hopping on and off" then TU Electric system. I told Pitt that this is not our intent. I also indicated to Pitt that I did not see how we could practically hop back on the system, particularly given TU Electric's position that partial-requirements power would only be sold if available. Assuming TU Electric's position were valid, we could only bring substantial load

back on to the system if TU Electric agreed that adequate capacity is available. I further explained that it would be Cap Rock Electric's intent to meet its future power supply requirements with the best possible purchased power or generation project alternatives. The only way that we would reestablish a significant amount of existing load with TU Electric would be on the basis of a mutually agreeable contract relationship, and only then if service by TU Electric was the best alternative available to Cap Rock Electric. But this, of course, is separate from our need to be able to reasonably adjust our partial requirements purchases to meet fluctuations in our load.

Henry then asked about Cap Rock Electric's plans for becoming a control area. We spent a good bit of time discussing this topic. I explained that Cap Rock would prefer to immediately become an independent control area in order to gain maximum flexibility in bulk power transactions. I pointed out that, under ERCOT's operating guidelines, we would have to own or otherwise control enough actual generation to meet our load in order to become a control area. I explained that, while we would prefer to be a control area, we could not be expected to do so at any cost.

I pointed that, even if we wanted to obtain the necessary generation to become an independent control area, we would not be able to gain TPUC certification if more economical power purchase resources were available. I then explained that, given Cap Rock's current power supply planning status, I did not see any way that we would be in a position to become an independent control area in the near term (i.e., five years or less). I suggested that we would continue to take all reasonable steps to become an independent control area, but that it could take ten years or more.

Pitt then had a series of questions and comments having to do with TU Electric being a "safety net" for Cap Rock Electric. Pitt seemed to imply that Cap Rock wished to ensure that TU Electric would be a safety net for Cap Rock Electric with regard to both long-range power supply and short-range standby. I explained that we would avoid using TU Electric as a default safety net in at least three ways:

(1) First, to the extent that we purchase firm power from other suppliers, those suppliers are responsible for backup, standby, etc. for that portion of our power supply.

(2) To the extent that we purchase or acquire non-firm resources (e.g., unit power purchases, generation projects, cogeneration projects, etc.) we would expect to carry or purchase the installed and spinning reserves as provided in the ERCOT operating guidelines. As a result, in the event of an interruption of any of our power supply resources, we would have the same opportunity and obligations as any other ERCOT utility in obtaining standby service, etc.

(3) I noted that, because we are surrounded by TU Electric's bulk power system, it is possible that a particular set of circumstances would cause our load to be served by their resources for some period of time. In the unlikely event that this should occur because Cap Rock Electric's contractual arrangements for generation and/or purchased power proved inadequate to meet a particular circumstance, TU Electric would be adequately compensated through its rates for standby and other support services. I suggested that pricing standby and backup at the full-requirements rate should more than adequately compensate TU Electric in the unlikely event that they became our default backup.

At this point, I reminded TU Electric that we have a fundamental difference of philosophy with regard to whether or not TU Electric is a safety net. I explained that, to the extent that TU Electric is in a position to provide essential coordinating services, and to the extent that Cap Rock Electric requires those services and pays for them at fully compensatory rates, this is not the same as using TU Electric for a safety net. I reminded Pitt and Henry that TU Electric does in fact surround Cap Rock Electric and, to a large extent controls the transmission system, control area, and bulk power system on which Cap Rock Electric has always relied and will continue to rely in the foreseeable future.

I identified for Henry and Pitt one circumstance in which TU Electric would, by default, provide default backup. This would occur when Cap Rock is importing firm power (or non-firm power and the associated firming services), through the TU Electric transmission system, and there is an interruption in TU Electric's transmission. In this case, we could be separated from our power supply resources and be stranded within the TU Electric system. We generally agreed that this would not be likely except in the case of system emergencies. I suggested that, in this case, to the extent

that we are purchasing firm transmission from TU Electric, that Cap Rock Electric would expect to have the same priority of service during the interruption as TU Electric's own retail customers. Henry and Pitt did not take issue with this idea.

Henry then asked a more specific hypothetical question. He asked what would occur in the event that Cap Rock is purchasing a substantial portion of its load requirement from a cogeneration project which has an unscheduled outage. He suggested a scenario in which the project freezes up during a cold spell and is unable to produce power. I responded that, since we would expect to carry or otherwise purchase installed and spinning reserves in accordance with the ERCOT operating guidelines, we would have the same opportunity as any other ERCOT utility to seek emergency standby and, if necessary, longer term replacement power, within ERCOT. I suggested that it was not likely that the lights would go out, but rather that Cap Rock Electric could pay a high premium for such standby and replacement power. Again, I explained that Cap Rock would seek to have standby arrangements in place, but would not expect to be required to have more arrangements or capabilities in this regard than are required by ERCOT.

Pitt and Henry suggested that this sort of power supply interruption would be worse for Cap Rock Electric than for most ERCOT utilities because the generating unit would represent such a large portion of Cap Rock Electric's load. More specifically, Cap Rock Electric's largest single hazard (i.e., the largest unit or power purchase that might be interrupted) would be a much larger percentage of the load than for most of the larger diversified ERCOT utilities. I agreed that this might be true to some extent, but that other ERCOT utilities such as Brownsville had similar problems which did not prevent them from becoming a control area. I explained that Cap Rock Electric is taking considerable care to not supply all of its power supply requirements with any single generation or purchased power resource. Obviously, if Cap Rock Electric is buying firm power, it is gaining the benefit of the diversity of resources of the firm power supplier. Otherwise, we are limiting our purchase of any single power supply resource, whether it be generation or purchased power, to considerably less than our total load requirement.

At this point, Henry and Pitt seemed to be satisfied that Cap Rock Electric was not expecting to "hop on and off" the TU Electric system, nor expect TU Electric to provide a "safety net". Pitt then suggested that there might be a way to address the control area problem in a way that would

allow TU Electric to avoid being in the position of providing control area or scheduling services for Cap Rock or others. Pitt explained that they simply do not want to be in the position of being responsible for scheduling and control area services for other electric utilities, and specifically Cap Rock Electric. Pitt suggested that we stop taking notes and simply discuss a concept that he and Henry had cooked up but which had not yet been cleared with their management. He then described a scenario in which Cap Rock Electric would be an independent control area, and would purchase from TU Electric the regulating service that would be necessary during the time that Cap Rock Electric does not own or control adequate generation to entirely regulate its own load. Pitt emphasized that TU Electric would intend to provide the regulating service for only a temporary period of time and not forever. I responded that, if the regulating service were provided at reasonable rates and under workable terms and conditions, that this concept could be a workable one.

I then suggested to Pitt and Henry that I had been considering a similar idea but with a slightly different twist. I suggested that perhaps TU Electric might be willing to dedicate one of their existing gas generating units which they would back down when Comanche Peak comes on line as a regulating unit for Cap Rock Electric's load. Cap Rock Electric would pay TU Electric's actual costs for this unit and would use it as the control area regulating unit. Henry and Pitt reacted somewhat negatively to this concept since the regulating service would be provided by a single unit, and an outage of that unit would leave Cap Rock Electric without regulating service.

We discussed this independent control area concept at some length. I indicated to Pitt and Henry that workable terms and conditions for firm wheeling and partial-requirements power service by TU Electric would be essential to making the regulating service concept work. Cap Rock Electric would have to be able to contract for partial-requirements service to make up the difference between Cap Rock Electric's load and the other power supply resources that Cap Rock Electric obtains. I emphasized that we would have to have some ability to revise the partial requirements purchase amount upwards or downwards in a reasonable planning time frame. I suggested that the arrangements which Texas-New Mexico Power Company has with Houston Lighting & Power Company for partial-requirements service might provide an example. Under these arrangements, TNMP can revise its partial-requirements contract amount by as much as 10% per year with four years notice, but by not more than 50% in any five year period. Henry and Pitt indicated

that they would be willing to consider some reasonable terms and conditions to provide for updating the partial-requirements service amount with reasonable notice.

Our discussion focused primarily on Cap Rock Electric's power supply plan and the control area issue. We did not really discuss wheeling or standby/backup concepts much at all.

The meeting concluded with an indication by Pitt that he would pass the regulating service concept by his management. I indicated interest in a response as soon as practical. However, no specific schedule was set by Pitt as regards TU Electric's response. We agreed that, at such time as TU Electric's management might agree to the concept, that we would get together again to try to develop it more fully.

Pitt then asked me how I would characterize our meeting. I told Pitt that I considered the meeting to be positive and productive. I told him that I was encouraged that we had identified a concept that might bear further investigation. I told him that my representation to the NRC, if asked, would be that we had a productive meeting and had at least some grounds for further discussion. I further stated that I would not be able to represent to the NRC that we had the basis for a settlement, much less a settlement agreement. This response seemed satisfactory to Pitt and Henry.

I have had no further response from TU Electric with regard to the discussions from the meeting I have reported above. I have already spoken with you about my telephone conversation with Pitt Pittman yesterday in which he expressed his displeasure with our statement of position in Texas Public Utility Commission Docket No. 9300 (i.e., application of TU Electric for authority to change rates). Please feel free to pass this report on to Bill Lambe and Lee Dewey at the NRC.

Sincerely,

Steven E. Collier

Steven E. Collier, P.E.
Director of Power Supply

SEC:ma
cc David Pruitt