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June 3, 2015

Mr. Subhash Paluru, PhD
Senior Vice President & Regional Manager
Sierra Nevada Region
Western Area Power Administration
U.S. Department of Energy
114 Parkshore Drive
Folsom, California 95630-4710

SUBJECT: Post 2024 Power Marketing Plan

Dear Mr. Paluru:

The Northern California Power Agency (NCPA) is pleased to provide you with our initial comments regarding Western's informal presentation on the Post 2024 Power Marketing Plan (Plan) for the Central Valley Project (CVP)

NCPA Members currently purchase about 40 percent of the power marketed by Western from the CVP power resources. Our Members therefore have a substantial and vital interest in Western power, and have been preference customers pursuant to Reclamation Law for a number of years. We are pleased to see Western beginning the process of developing the Post 2024 Plan for the CVP, and we were encouraged by a number of the ideas presented in the initial informal presentation on the Plan.

Our comments which follow focus on the major common issues that NCPA Members are considering in the development of the Plan. Individual NCPA Members may also have other specific matters that they will also comment upon. Please also note that our comments should be considered as initial comments, and we may comment in more detail or raise additional issues as the Plan is developed further by Western.

Major Topics and Issues:

1. **Market Area**: We concur with Western that the Market Area for the Plan should be the same as the market area presently served by Western in the Sierra Nevada Region. This Market Area includes Northern and Central California and portions of Northern Nevada. We also agree with Western that the market area boundaries should match the Sierra Nevada Regional boundaries and not be constrained by some of the historic limitations that might have been applicable under prior agreements with the Pacific Gas and Electric Company.

2. **Products and Services**: We generally agree with Western that the Plan should continue the present power products and services offered by Western, including base energy resources and custom products for those customers that request and pay for such products. We recommend that Western continue to seek out new ways to enhance the value of a CVP power allocation. There are many changes underway

in the California power market, and it is important for Western and its preference customers to continue to work together to maximize the value of CVP power allocations.

3. **Term and Termination:** Western's informal Plan proposal suggests a 30 year term with "take or pay" contract provisions. CVP power unfortunately is currently challenged by multi-year drought conditions and the excessive, improper Central Valley Project Improvement Act (CVPIA) costs assessed by the US Bureau of Reclamation (Reclamation). As Western knows, NCPA has challenged the Reclamation allocations of CVPIA costs.

It is important to note, however, that the Post 2024 Plan as informally proposed would continue to provide a variable, uncertain amount of hydroelectric power that might be priced in conjunction with the CVPIA at levels well above market prices in California. For this current calendar year, it appears that Western may once again not have sufficient CVP power to even meet First Preference and County of Origin obligations, resulting in zero base energy allocations in some months but with continuing obligations for payment and no energy delivery. Our recommendation, in light of these factors, is that the Plan must provide for a one year termination off ramp provision for any CVP preference customer, that may be exercised one time, for any reason, particularly including the regulatory risks and uncertainties that we have in California. This provision would more fairly balance a 30 year contractual commitment.

The termination notice option should also allow individual preference customers to reduce their CVP allocations (thereby maintaining a smaller allocation) as they may choose, in light of California's Renewable Portfolio Standard (RPS) rules. It is possible that some CVP preference customers might experience situations in wet water years with excess power given the possibility of 50 percent RPS requirements or similar California regulatory requirements. Longer contract terms (40 or 50 years) might also be appropriate if the off ramp feature is included.

4. **The Washoe Project**

We generally concur with Western's proposal regarding the Washoe Project to continue to include that project under the CVP Plan. We recommend that Western continue to seek out ways to maximize the value of the Washoe Project, such as obtaining Renewable Energy Credits or other mechanisms that would increase the value and reduce repayment costs.

5. **Resource Pools**

NCPA understands the need for small resource pools that can provide allocations to new and existing preference customers. We recommend that the Plan first provide for any such resource pools by utilizing any power allocations that may have been turned back to Western so that the withdrawals from existing customers are avoided or minimized. We concur that the size of the resource pools and the timing should be no greater than the two percent and one percent levels suggested in the Plan. We recommend that Western closely follow Reclamation Law with regard to preference customer qualifications, and that future preference customers have at least a 500KW minimum load to qualify.

6. **Operational Considerations**

We recommend that the Plan continue to provide for maximum operational flexibility for CVP preference customers so that each preference customer can best utilize their percentage allocation daily, hourly, and in real time to maximize the value of the CVP allocations. We recognize that Reclamation has limitations on resource flexibility, however we urge Western to continue to work with Reclamation to enhance and improve the operational flexibility of CVP hydro resources. NCPA and its Members will also continue to work with Western and Reclamation to assist with procurement challenges and other operational situations that might impact CVP hydro resources.

7. **New CVP Preference Customers**

We also recommend that Western include in the Plan a cost adjustment adder for new entrant CVP preference customers to reflect their fair share of the CVPIA and CVP costs that current preference customers have experienced. In addition to long term capital investments in the projects, CVPIA costs paid by power have been quite substantial and have exceeded the appropriate allocation that Reclamation should have been applying under the CVPIA statute, resulting in substantial and excessive costs being paid by current CVP preference customers. New preference customers should therefore be charged an equitable adder to reflect the substantial costs already paid for by the current preference customers. Current allotees should receive their base resource prior to any allocations to new preference customers.

As noted above, individual NCPA Members may, as appropriate, also have additional Member specific issues that they will also raise with Western. We appreciate this opportunity to share with you our initial comments and thoughts on the Plan, and we commend Western for being proactive and customer-oriented in developing this Plan. Please contact me should you have any questions regarding our comments.

Sincerely,

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General Manager
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cc: Mr. Mark Gabriel
Ms. Sonja Anderson
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Interconnected Pool Members