



UTILITIES DEPARTMENT

CITY OF
**PALO
ALTO**

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August 3, 2016

Ms. Sonja Anderson
Vice President of Power Marketing
Sierra Nevada Customer Service Region
Western Area Power Administration
114 Parkshore Drive
Folsom, California 95630

SUBJECT: 2025 Power Marketing Plan

Dear Ms. Anderson:

The City of Palo Alto (Palo Alto) appreciates the opportunity to participate in Western's development of the 2025 Power Marketing Plan (Plan). Palo Alto is a long-standing customer of Western's and an active participant in various stakeholder processes and customer forums. Through such collaborative efforts, Palo Alto believes Western has developed a better product for all of its Central Valley Project (CVP) customers. Going forward, Palo Alto is committed to working with Western to develop a sustainable product, which continues to meet the community's need for a carbon-free resource.

First, we thank Western staff for its consideration of Palo Alto's comments during the informal process and willingness to accommodate our request to: a) extend the schedule for executing the 2025 Base Resource Contract (Contract); b) modify the product definition to include environmental attributes; and c) accept our input on the development and criteria for participating in the 2025 and 2040 Resource Pools. In addition to supporting the Northern California Power Agency's comments submitted through this formal process, Palo Alto offers the following comments:

1. Term and Termination Options

Palo Alto reiterates as its highest priority the need to have a clear termination provision within the Contract. Without an undisputable termination provision, a 30-year take-or-pay contract will be a difficult commitment for Palo Alto to make in the current environment of low cost renewable resources relative to the highly uncertain resource availability and allocated costs associated with the Base Resource. As such, Palo Alto supports NCPA's proposal that there be an opportunity for customers to terminate or modify their Base Resource allocation, for any reason, every five years throughout the term of the contract. To provide some certainty for Western, Palo Alto would support a reasonable notice requirement prior to terminating or modifying the Base Resource.



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Further, Palo Alto asks that the tentative schedule as proposed by Western and included on its website for the development and implementation of the Plan not include as one of its milestones a "One-Time Termination Option" in July 2024, but rather clarify that it is an opportunity to terminate before the contract goes into effect. Customers should also be allowed to reduce their allocation as opposed to fully terminating at that time.

2. Cap on Power Customers' Payment

In addition to the termination provision outline above, Palo Alto also strongly requests that the Plan include a cap on the costs that can be allocated to power customers under certain conditions. Such a mechanism is necessary to ensure that the Contract remains financially sustainable for customers and provides for a more proportionate allocation of costs between water and power customers. Given the disproportionate allocation of costs to power customers throughout the recent drought and the high cost of CVP generation relative to the market, without such mechanism in the contract, Palo Alto may not be able to commit to a 30-year contract.

3. Base Resource Product

First, Palo Alto requests that the Plan explicitly define the Base Resource product and list all applicable attributes including energy, capacity, ancillary services, reserves, transmission and environmental attributes.

Second, Palo Alto understands that the following uses of CVP generation must be satisfied first before the determination of available Base Resource is made:

- a. Project Use
- b. First Preference
- c. Maintenance
- d. Reserves
- e. System losses
- f. Transmission losses

The Plan does not identify any other obligations which may reduce the amount of Base Resource available; however Palo Alto understands that there may be existing and/or new obligations which may materially impact the amount of Base Resource available. If such is the case, then Palo Alto suggests that such obligations be explicitly identified and described in the Plan.

4. Custom Products and Services

Palo Alto supports the offering of custom products and services to improve the value of the Base Resource for all of its customers and Palo Alto supports Western's proposal to have all costs incurred by Western in providing these additional services be paid by those customers using the services. Further, to the extent that the products offered through this process reduce the value of the Base Resource to other Preference Customers by reducing the availability of electricity, capacity, reserves, ancillary services, transmission and/or environmental attributes,

- c. Palo Alto supports limiting allocations to no more than 100% of load, based on historical load, for all allocations and suggests a consistent method be used for existing and new customers in determining the load ratio of allocations. Specifically, for existing customers the proposed Plan suggests looking at five years of actual load (2019 to 2024) against actual Western Base Resource generation for the same period (Section IV.A.3); however the allocation criteria for new applicants only looks at load for a one year period (2017) versus Western Base Resource actual generation (Section IV.B.4.b).
- d. Section IV.B.2 needs clarification. For the 2025 Resource Pool, will allocations forfeited and/or allocations in excess of load for existing customers be returned on a pro rata basis or allocated by Western's full discretion? Palo Alto recommends that forfeited or excess allocations (where load exceeds allocations) be offered to existing customers on a pro rata basis.

7. General Criteria and Contract Principles

Palo Alto generally supports the principles to be included in the Base Resource Contract as included in the proposed Plan. As described in the comments above, Palo Alto requests that the Base Resource Contract include a clear definition of the Base Resource product and its attributes and clear termination provision. Additionally, Palo Alto seeks clarifications as follows:

- a. Will the 2007 General Power Contract Provisions (GPCP) be part of the Contract? If not, what set of GPCP will be included and when will customers be able to review/comment?
- b. What credit provisions, if any, will be required of existing and new customers to receive a Base Resource allocation?

Again, Palo Alto commends Western for its efforts thus far in incorporating the needs and interests of its customers in the development of Plan.

Sincerely,



Ed Shikada
Interim Director of Utilities

cc: Mr. Randy S. Howard
Ms. Sandee Peebles