A PUBLIC AGENCY
NCPA
NORTHERN CALIFORNIA POWER AGENCY

651 Commerce Drive
Roseville, CA 95678

(916) 781-3636

www.ncpa.com

COMMENTS OF THE NORTHERN CALIFORNIA POWER AGENCY ON THE PROPOSED CENTRAL VALLEY PROJECT 2025 POWER MARKETING PLAN

(MAY 6, 2016 FEDERAL REGISTER, PP 27433-27439)

The Northern California Power Agency (NCPA) appreciates the opportunity to provide comments on Western Area Power Administration's (Western) proposed Central Valley Project (CVP) 2025 Marketing Plan. NCPA is a non-profit California Joint Powers Agency with 15 members located throughout Northern and Central California.[1] Our Members are preference customers who, in total, purchase more than 40 percent of the CVP power marketed by Western.

NCPA and its Members work closely with Western to develop improvements to the CVP system, including transmission, operations and maintenance of key facilities and net billing arrangements that minimize the need for federal appropriations. NCPA regularly participates in federal/state legislative and regulatory proceedings that financially impact Western and the NCPA members. Consistent with these efforts, each NCPA member is carefully considering the various features of the proposed Marketing Plan, and to that end, NCPA offers its thoughts on the positive aspects of the proposal, while providing recommendations for Western's consideration as it finalizes the 2025 Marketing Plan.

I. POSITIVE ASPECTS OF THE PROPOSED MARKETING PLAN

There are several aspects of the Proposed Marketing Plan that we support and encourage Western to incorporate in the final version of the 2025 Marketing Plan. These aspects include the following:

<u>Extension of Base Resource and Products and Services</u>

We concur with the Marketing Plan's proposal to extend existing base resource agreements at 98% of the current allocations. We also agree with Western's proposal to offer custom products and services, while leaving the decision to purchase custom products and services for each preference customer to determine.

<u>Proposed Provision for Future Changes in the Electric Utility Industry</u>

NCPA supports Western's proposed provisions on Page 27439, Section VIII and as further clarified on June 1, 2016, to include in the new contracts the ability to potentially make changes in how the federal

[1] NCPA members include the cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah, as well as the Bay Area Rapid Transit District, Port of Oakland, and the Truckee Donner Public Utility District, and Associate Member is the Plumas-Sierra Rural Electric Cooperative.

resource is marketed by mutual agreement with the preference customers. This may be appropriate in light of the significant changes that continue to impact the electric utility industry, such as the increasing requirements for additional renewable resources. We commend Western for including this provision in the proposed Marketing Plan, since this ability to adjust the federal resource by mutual agreement will be important as the electric utility industry continues to rapidly evolve.

Transmission Services

NCPA generally supports Western's proposals for Transmission Service as described in Section VII on Page 27439 and as clarified by Western staff on June 1, 2016. Western should work with each preference customer to ensure that appropriate transmission arrangements are completed to provide for delivery of power made available by the Marketing Plan.

We are pleased that Western is considering all of its transmission assets in the Marketing Plan, especially the Pacific AC Intertie assets that can be used to benefit and aid the CVP. Western should continue to carefully manage all of its transmission assets so that CVP costs can be minimized and the benefits from its transmission assets shared with all preference customers. Besides Western's Pacific AC Intertie assets, we encourage Western to carefully review its entire transmission portfolio, including its Path 15 upgrade share so that CVP customer costs are optimized as much as possible.

II. RECOMMENDED CHANGES NEEDED IN THE FINAL MARKETING PLAN

Provision for Termination or Reduction of a Base Resource Allocation

The proposed Marketing Plan provides for a 30-year new contract term, beginning on January 1, 2025 and extending to December 31, 2054 (see Page 27437, Section IV.A.1) with extension of 98 percent of the existing Base Resource allocations. In Section V.D.on Page 27437, Western proposes that customers would pay all applicable rates and charges for the Base Resource power whether they can actually use the power (or not). This is, as Western staff confirmed on June 1, 2016, a 30-year "take-or-pay" contract proposal. Unfortunately, the future prices and the quantities of power to be received are not set within the proposed Marketing Plan. The existing portfolio of generation projects are the basis for the offer, and it is understood that new facilities are not being developed to serve the commitment. Therefore, to achieve a just and reasonable balance for such a thirty year, take or pay obligation, it is appropriate that there be reasonable termination (and allocation reduction) provisions that any preference customer can utilize under such a long term contract.

We understand from clarifications provided by Western in the June 1, 2016 Public Information Forum that this proposed Marketing Plan does include the same termination provisions that are presently included in Western's General Power Contract Provisions (the "GPCPs") (see also Page 27438, V.K). The current GPCP provisions do provide for any customer (during a 90-day notification window) to terminate a purchase agreement following a rate change (or formula rate extension). NCPA requests and recommends that a clear termination (or allocation reduction) provision be included in the body of the new agreements that will implement the Marketing Plan.

NCPA understands that Western needs reasonable certainty for financial planning of its staffing and operations. We believe that a reasonable advance notice provision will provide ample financial coverage, especially in light of Western's ability to re-market CVP power (as described in other provisions of the proposed Marketing Plan). Western has utilized two-year notice provisions in other key agreements, including the termination provisions of its Path15 transmission project and the Pacific AC Intertie exchange agreement, both of which were approved by the FERC. Therefore, there is clear precedent within major Western agreements for a reasonable termination notice provision. As well, due to the vague language in the current GPCP, Western's final Marketing Plan should clearly articulate that preference customers have the option to terminate or reduce their contracts when rates are extended. This would eliminate the uncertainty and need to request clarification from the Administrator under the new Marketing Plan.

Market Price Limiter

In addition to the termination (and base resource allocation reduction) language recommended above, Western should include a provision in the 2025 Power Marketing Plan that would allow for the Market Price Limiter being discussed between NCPA, Bureau of Reclamation, and Western representatives. The Limiter would cap power customers' payments when power customers' combined CVP power and Restoration Fund payments exceed the annual average NP 15 market rate. Such a provision would ensure an equitable charge for CVP power compared to other power supply alternatives.

Visibility for Custom Products and Services

The proposed Marketing Plan provides for Western to offer, if requested by a customer, Custom Products and Services beyond the Base Resource allocation from CVP resources (see Page 27436, Section III of the May 6, Federal Register and clarifications provided by Western staff on June 1, 2016).

NCPA supports the concept of Western providing Custom Products and Services when requested and fully paid for by the CVP preference customer contracting for those services. We request that the final Marketing Plan also include provisions that would increase the visibility and availability of the Custom Products and Services, including the price, terms and conditions, available to preference power customers. As well, Western should provide periodic reports on the Custom Products and Services used by preference customers, including data on prices, terms and conditions for all such products and services.

III. OTHER PROVISIONS NEEDING CLARIFICATIONS

There are several provisions in the proposed Marketing Plan that should be clarified in the final Marketing Plan, consistent with comments made by Western staff on June 1, 2016 at the Public Information Forum:

- Page 27437, Section V.B. Western proposes that allocation percentages shall be subject to adjustment. This provision should be clarified to explain that any such adjustments would only be made under very limited circumstances. These circumstances would include the termination (or reduction) of a Base Resource allocation or very limited instances where a customer may no longer exist (due to a takeover or the closure of an end use load, such as a military base that was receiving CVP power).

- Page 27437, Section V.I. Western proposes that the new contracts would include criteria that a customer must meet on a continuous basis to be eligible to receive Western power. The criteria are not specified by the proposed Marketing Plan. This provision should be clarified, as was done by Western staff on June 1, 2016, to explain the very limited criteria that Western would require be met on a continuous basis. For example, the continued existence of the customer loads might be one such instance.

- Page 27437, Section 4.B.4.e. Western proposes that eligible Native American entities would receive greater consideration for an allocation of up to 65 percent of their total energy load. We note that many of the NCPA members have had power withdrawals made by Western in the past due to the Westlands withdrawable power and other resource pool allocations. These same members also were denied delivery of CVP power in prior years due to the artificial wheeling boundary of Contract 2948A with PG&E. We recommend that those members with small allocations because of the prior withdrawals should receive at least equal resource pool consideration with Native American entities.

- Priority for Base Resource Calculation. When Western develops the two day ahead base resource estimates, we recommend that whenever possible, Western develop the base resource allocations in a manner that provides all customers, regardless of their balancing authority area or other factors, with base resource allocations and capacity in as equitable a manner as possible. Western may be able to improve the equity among base resource customers by considering all aspects of its CVP portfolio of assets, including generation, capacity, ancillaries and transmission assets. Prior to the execution of new power purchase contracts, it will be important for all preference customers to be able to assess the probable benefits and costs of a new 30-year agreement.

Sincerely,

RANDY S. HOWARD
General Manager
(916) 781-4200