



Redding Electric Utility

TO: WESTERN AREA POWER ADMINISTRATION
FROM: REDDING ELECTRIC UTILITY
SUBJECT: **COMMENTS OF REDDING ELECTRIC UTILITY ON WESTERN'S
PROPOSED CENTRAL VALLEY PROJECT 2025 POWER MARKETING
PLAN**
DATE: AUGUST 4, 2016

I. INTRODUCTION

Redding Electric Utility (“Redding”) appreciates the opportunity to provide written comments addressing Western Area Power Administration’s (“Western”) proposed 2025 Marketing Plan published at 81 Fed. Reg. 27433 (May 6, 2016).

Redding’s 93,000 residents continuously benefit from Redding’s unique relationship with Western. Western’s Sierra Nevada Region (“SNR”) markets the base resource from the Central Valley Project (“CVP”) and Washoe Project hydro systems. Redding currently receives nearly 8% of the CVP’s base resource, which equals roughly 30% of Redding’s power supply. Western’s base resource has been the most cost-effective, renewable, and carbon-free resources in Redding’s power supply portfolio.

Redding’s two direct connections with Western’s transmission system facilitate the delivery Redding’s allocated share of the base resource. As a “direct connect customer,” Redding not only receives CVP preference power, but Redding also purchases additional transmission service from SNR’s 230kV transmission facilities to import firmed and shaped renewable wind power from the Pacific Northwest. Redding’s long-standing interconnection and contractual rights to SNR’s long-term transmission service form a vital element of Redding’s aggressive investments in renewable resources to meet California’s 50% renewable standard.

II. 2025 MARKETING PLAN

Western published its 2025 Marketing Plan in the Federal Register on May 6, 2016, 81 Fed. Reg. 27433. Before publishing the Marketing Plan, Western engaged in a series of meetings with its customers to identify their concerns. The Marketing Plan generally addresses how Western’s available power will be allocated amongst its existing and potential new customers for a thirty year period, beginning on January 1, 2025, the day after the existing Sierra-Nevada Region contracts expire. The Marketing Plan also addresses the eligibility requirements for allocations, and the contractual commitment required of customers seeking an

allocation. While those contracts will expose customers to future Western rate determinations, those rates are not currently known, nor are the precise contract terms specified. However, the proposed plan would require customers to commit to pay for their allocated share of the Base Resource at whatever rate Western's future process determines, regardless of whether or not they need the power when it is available. (Marketing Plan Sections V(D), (F) and (G)).

III. REDDING'S COMMENTS

Redding appreciates the efforts of Western's staff in formulating the Marketing Plan, and working with customers throughout the stakeholder process. Redding is generally supportive of the proposed Marketing Plan, but has concerns about the clarity of certain terms. The 30 year commitment has considerable financial and operational implications for Redding and its customers, making it imperative that the Marketing Plan be clear on the fundamental terms it imposes on customers.

Redding is supportive of Western's proposal to continue existing customers allocations at ninety-eight (98%) percent of the existing allocations. The existing customers have helped fund Western's system and rely on it for their power supply needs. Maintaining at least ninety-eight percent of the existing allocations ensures continuity for existing customers that want to continue receiving Western's power and related services. Western's commitment to explore requested custom products likewise provides needed certainty and continuity for existing customers, and provides an opportunity for customers to explore new means of utilizing the Base Resource and transmission assets managed by Western. Limiting the allocations to ninety-eight percent allows for the entry of new customers that may not have been able to receive allocations in prior marketing efforts. The efforts to spread the benefits will again be addressed in 2040, when existing allocations will be reduced by another one (1%) percent to form an additional pool for new allocations. Redding supports the proposed plan as it provides substantial continuity and certainty for existing customers while also fostering efforts to spread the benefits of the Central Valley Project and Washoe Project.

Redding supports Western's continued commitment to provide transmission services using the Central Valley Project transmission system. Redding also appreciates Western's commitment to make surplus transmission services available in a manner that aids and is beneficial to the Central Valley Project. As the proposed plan indicates, the services and rates for such services will be determined in the future. Redding encourages Western to continue exploring means to make the best use of its surplus transmission on all of its assets in the Central Valley Project, including the Pacific AC Intertie, and the Path 15 upgrade, in ways that minimize costs for the Central Valley Project, while honoring existing commitments to transmission customers.

Redding supports the concept of flexibility included in in the proposed plan. Western notes that the electric utility industry continues to evolve, and proposes flexibility to make changes in how the Base Resource is marketed if it is deemed to benefit Western and its customers. (Marketing Plan Section VIII) Western indicates that the changes would be implemented through negotiation and revisions to individual customer contracts. Redding supports the recognition of changes in the electric utility industry, and supports the proposed flexibility. As Redding understands it, the determination of a deemed benefit to Western and its

customers would be a mutual determination. That is, neither Western nor its customer could unilaterally determine that the Marketing Plan should change. While this seems apparent from the reference to negotiated revisions to contracts, the Marketing Plan is not entirely clear on who will deem the benefit to exist. This point should be clarified in the final Marketing Plan.

One area of flexibility that customers have requested remains absent from the proposed Marketing Plan. In light of the changes in the industry, including regulatory changes requiring ever increased levels of renewable resources, carbon limitations for load serving entities in California, proposed CVP enhancements, and increasing Central Valley Project Improvement Act (“CVPIA”) costs, the proposed thirty year term creates significant risks for Western’s customers. To address those risks, customers have sought off ramps from the contractual commitment under certain circumstances. Redding would support an ability of customers to exit their contractual commitment at five year intervals during the term, after a change to the rates or terms of service, or after a significant regulatory change. Given the uncertain nature of the industry, and the uncertainty regarding the types and levels of costs that may be included in rates in future years, such a provision would provide a reasonable means for Western’s customers to protect their utility ratepayers from risks of paying for power that can not be used, or that has become uncompetitive. While Redding recognizes that Western requires some certainty in its customer base, that certainty can be addressed through notice periods, which would give Western time to explore alternative means for marketing power.

One term that within the proposed plan that should be clarified is that “Allocation percentages shall be subject to adjustment.” (Marketing Plan Section V(B)) The proposed plan does not in any way limit this clause. An unfettered ability to adjust allocations would be inconsistent with the customer’s obligation to commit to the allocation, and to pay for the allocated power regardless of need. Other proposed clauses would allow for changes in allocations due to changes in eligibility. (Marketing Plan Section V(N)) If clause V(B) is intended to cover the same circumstances as clause V(N), then it should be deleted. If it is intended to cover other circumstances, the circumstances need to be specified so customers have an understanding of the nature of their commitment to an allocation.

Another term that should be clarified is Section V(I), which provides: “Contracts will include clauses specifying criteria that customers must meet on a continuous basis to be eligible to receive electric service from Western.” It is not clear if the referenced eligibility criteria is the same criteria set forth in Section IV(B)(3) of the proposed plan, which identifies the eligibility criteria for receiving allocations. If the criteria are the same, the proposed plan should clarify that by reference. If Western intends to include criteria in the contracts that differs from the criteria for eligibility for an allocation, then the nature of the intended ongoing criteria should be explained in the plan.

IV. CONCLUSION

Redding appreciates Western’s efforts in developing the proposed 2025 Marketing Plan, and is generally supportive of the proposed 2025 Marketing Plan, subject to the clarifications and adjustments discussed above.