WAPA 2025 Marketing Plan

Comments of the Sacramento Municipal Utility District

8/3/2016

The Sacramento Municipal Utility District (SMUD) thanks the Western Area Power Administration – Sierra Nevada Region (WAPA) for the opportunity to provide comments during this formal process to adopt its 2025 Marketing Plan. In general, SMUD is pleased with how WAPA has conducted business under the 2004 Marketing Plan and supports WAPA establishing a 2025 Marketing Plan that does not deviate significantly from the 2004 Marketing Plan.

SMUD attended the July 12, 2016 meeting that WAPA held in Folsom, California (July 12 Meeting) to collect public comment, where many WAPA customers (Customers) commented. SMUD would like to echo many of the comments made by Customers at that session, and herein raises additional issues.

Specifically:

Term of New Contracts

As caveated below, SMUD generally supports WAPA moving to new power contracts that have a 30-year term, instead of the current 20-year terms. However, with a move to a 30-year term, Customers will also be exposed to increased risks due to the take or pay nature of the power contracts. The potential for increasing Central Valley Project (CVP) power costs and a diminishing value of CVP power makes 30-year commitments more risky than 20-year commitments, unless WAPA includes early “reduce-or-terminate” provisions in its power contracts.

Early Termination/Allocation Reduction Provisions

Most Customers providing public comment at the July 12 Meeting urged WAPA to include early termination provisions within the power contracts in lieu of the current language in the current General Power Contract Provisions (GPCPs) that allows Customers to terminate when a rate action is triggered. SMUD agrees that specific language should be included in the body of the power contracts that allows a customer to reduce or terminate its taking of CVP power upon notice to WAPA. Such language could be structured to give Customers a “reduce-or-terminate” option that comes up on a regular cycle (for example, once every 2 years), and should not be conditioned upon a rate action by WAPA.

GPCPs Termination Triggered by Rate Change Action is Not Sufficient Risk Protection for Customers

At the July 12 Meeting, WAPA asked customer whether or not the GPCP termination language would satisfy Customer requests for termination language. Customers replied, "No." SMUD agrees.

GPCPs specifically trigger a termination right when WAPA "promulgate[s] a rate changing a rate." The risks that Customers are asking to mitigate are factors affecting CVP cost and value that are not necessarily related to WAPA rate action. There are three significant risk factors the GPCP protections do not directly address:

1. Continually increasing CVP Improvement Act (CVPIA) Restoration Fund costs;
2. Declining CVP Base Resource production due to increasing operational changes to accommodate environmental demands on CVP system water; and,
3. Diminishing CVP power values because of decreasing ability to produce CVP power at the most valuable periods due to changes in water management and operations.

Continually Increasing CVPIA Restoration Fund Costs

A significant and increasing cost component of CVP power is the escalating CVPIA costs. Those costs are treated as pass-through expenses, not subject to WAPA rate action. As such, increasing CVPIA costs do not drive rate actions, yet they are a significant component of CVP power cost.

For Calendar 2016, SMUD is projecting that SMUD's CVPIA costs will be 42% of its Base Resource costs from the CVP. Indeed, all Customers are concerned that CVPIA Restoration Fund costs will increasingly be a disproportionate share of overall CVP power costs. Having only the GPCP provisions would not give Customers protection from the CVP cost impacts occurring because of continually increasing CVPIA Restoration Fund costs.

Declining Base Resource Production from the CVP due to Water Management

With increasing calls on water flows from the CVP system to meet Delta water Quality, Endangered Species actions, and expected future Reasonable and Prudent Alternatives conditions under Biologic Opinions, Customers have no guarantee that the amount of CVP generation available under current conditions won't further decline over time. In fact, this is a likely scenario. This will result in lower CVP energy production over which to spread increasing costs. Because WAPA rate actions establish total revenue requirements, and not per unit costs, the GPCPs don't protect customers from increasing per unit costs due to declining CVP power production. Given the likelihood that this decline in CVP power production will continue, SMUD believes it is essential it be addressed outside of the GCPCs.

Diminishing CVP Power Values Due to Water Management Impacts to Power Production

In addition to power production being lost, water management and CVP operation changes over time have moved water availability for power production to periods and times of the year where power is less valuable to power Customers. Because WAPA rate actions establish total revenue requirements, and do not consider the value of CVP power generated, the GPCPs do not protect customers from declining value of CVP production due to water management shifts to periods when power is less valuable.

Provisions for Reallocation of Returned Allocations

In its verbal comments, the Northern California Power Agency proposed that WAPA should have a provision in its 2025 Marketing Plan regarding how it will manage returned allocations from Customers that either do not opt for new power contracts in 2025, or exercise early termination. SMUD agrees that such a provision would be helpful and therefore supports the proposal.

Custom Products

SMUD supports Western continuing to offer custom products. Western's process for establishing custom products involves appropriate customer input, and insures that Western's other customers may even benefit indirectly from the offering of custom products.

Allocations to Create 2024 and 2040 Resource Pools

SMUD believes that Western's approach to broadening CVP Base Resource availability to more qualifying preference customers is balanced appropriately between the interests of existing and potential new Base Resource customers. The proposed 2% in 2024 and 1% in 2040 are sufficient to broaden the preference customer base without overly penalizing existing Base Resource customers.

Changes in the Electric Utility Industry

SMUD supports Western incorporating in the 2025 Marketing Plan specific allowance to negotiate changes to Power Contracts should changes in the electric utility industry/ markets be significant enough that CVP transactions would need to be managed differently than might be articulated in the contracts.