

# Comments of Silicon Valley Power, City of Santa Clara On the Proposed Central Valley Project 2015 Power Marketing Plan (May 6, 2016 Federal Register, PP 27433-27439)

The City of Santa Clara and its electric department, Silicon Valley Power (SVP) appreciate the opportunity to provide comments on the 2025 Power Marketing Plan (Plan) proposal by the Western Area Power Administration (WAPA) in the May 6, 2016 Federal Register (pp. 27433 – 27439).

Santa Clara is located in Santa Clara County, which is in the South Bay area of Northern California.. The City has owned and operated its electric distribution system since 1896. SVP currently receives a 9.60341% percent allocation of CVP power from WAPA and views its WAPA power entitlement as an important component of the power resource mixtures.

The 2025 Central Valley Project (CVP) Plan proposal is important to SVP's future. The Plan calls for a 30 year contract extension (2025 to 2054) of 98% of the existing Base Resource contracts currently held with WAPA. Since the Plan proposes that there would be a "take or pay" financial obligation, it represents a multi-million dollar, three decade decision for SVP at a time of great industry change and uncertainty.

SVP staff is working to meet California's 50 percent Renewable Portfolio Standard and deal with the many other changes impacting the electric utility industry. Therefore, the proposed Plan merits careful review on how it might impact SVP in meetings its customers' future power requirements. While WAPA's CVP power has currently suffered from the ongoing drought plus CVPIA Restoration Fund assessments causing high prices, hopefully it will once again be a cost-effective component of the resource portfolio. SVP appreciates WAPA's efforts to engage in the development of the Plan and looks forward to a continued collaborative relationship.

SVP supports the comments made by the Northern California Power Agency (NCPA). In addition to and in further emphasis of some particular points in NCPA's comments, SVP would like to emphasize concerns regarding costs of the project. These comments are in three major areas.

- Enhancing WAPA's marketing of its transmission services.
- Avoiding allocating costs for entity specific projects to all other preference customers.
- Providing for a financial "safety valve" or price limiter for the CVPIA Restoration Fund assessments, which are resulting in above market rates for preference power customers.
- Including a termination clause in the body of the new agreements to implement the Plan.

### *Enhancing WAPA's marketing of its transmission services.*

WAPA's transmission assets, especially the PACI, can be used to improve the economic benefit of the CVP to preference customers. WAPA should carefully manage and use all of its transmission assets to maximize and enhance economic and operational benefits to allow CVP costs to be minimized and benefits to be shared with preference customers. The use of assets to participate more fully in the

energy market could help to ameliorate the negative impacts of the CVPIA overcharge to preference customers that is making the Western power uneconomic in the market place. SVP encourages Western to carefully review and manage its entire transmission portfolio in the most effective and efficient manner.

*Avoiding allocating costs for entity specific projects to all other preference customers.*

If there are occasions where WAPA is providing a custom service or facility for voltage support or some similar benefit to a specific entity, according to WAPA's Open Access Transmission Tariff (OATT), the costs for such a project must be paid by that individual agency. In sections 16 and 27 of WAPA's OATT, it clearly states that a transmission customer receiving a service or benefit that requires expansion or modification of the transmission system, must be responsible for costs associated with such work. If WAPA does not follow its own OATT and allocates these costs to other agencies, these other customers, including potentially SVP, must be authorized an off ramp from the CVP.

*Providing for a financial "safety valve" or price limiter for the CVPIA Restoration Fund assessments, which are resulting in above market rates for preference power customers.*

In addition to the CVP Power Revenue Requirement (PRR), CVP preference power customers are allocated costs attributable to the CVPIA Restoration Fund. Power customers are required to pay a larger share of capital costs due to interpretation of enabling legislation. SVP is most concerned with the ever increasing cost of the CVPIA Restoration Fund obligation which WAPA collects as a surcharge to the CVP PRR on behalf of the Bureau of Reclamation. CVPIA Restoration Fund obligations continue to escalate over time. Since October 2003, SVP has paid \$25.2 million toward the CVPIA, out of an estimated \$1.6 billion spent to date on restoration activities (on a plant investment of \$4 billion)<sup>1</sup>. These increasing CVPIA allocations, particularly in combination with decreased water deliveries due to the drought, has made the power through Western's system uneconomic compared to that available on the market.

In order to contain these costs, WAPA must include a "safety valve" in the Plan. This safety valve could take one of several forms. One form could be a specific agreement that WAPA will suspend the collection of non-essential costs and projects when CVP generation levels are reduced, allowing Federal power to be assessed at rates equal to or near alternative power costs. Another option for WAPA when developing a safety valve could be the inclusion of a specific price cap for preference customers, whenever Federal power exceeds the North of Path 15 wholesale power market average price.

*Including a termination clause in the body of the new agreements to implement the Plan.*

This is, as Western staff confirmed on June 1, 2016, a 30 year "take or pay" contract proposal, beginning on January 1, 2025 and extending to December 31, 2054. Unfortunately, the future prices and the quantities of power to be received are not set the proposed Plan. WAPA proposes that customers would pay all applicable rates and charges for Base Resource power whether they can actually use the power or not or whether they receive power or not. To achieve a just and reasonable balance for such a 30 year, take or pay obligation, it is appropriate that there be reasonable termination (and allocation reduction) provisions that any preference customer, including SVP, can exercise under such a long term

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<sup>1</sup> As tracked and reported by NCPA in June 2016.

contract. Particularly in such a time of unsettled and changing industry, executing a 30 year “take or pay” contract with no or little room for termination can be a very risky proposition.

It is clear from statements given by WAPA management at customer forums, that the Plan includes the same termination provisions that are presently included in WAPA's General Power Contract Provisions (GPCPs). 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). SVP recommends with NCPA that a clear termination (or allocation reduction) provision be included in the body of the new agreements implementing the Plan.

SVP understands that WAPA needs reasonable certainty for financial planning of its operations and related staffing. This advance notice provision provides ample financial coverage, especially in light of WAPA's ability to re-market CVP power. WAPA has used two-year notice provisions in other key agreements, including the termination provisions of its Path 15 transmission project and the PACI exchange agreement, both of which were approved by FERC. There is clear precedent in major WAPA agreements for a reasonable termination notice provision. WAPA's final Plan should clearly state that preference customers have the option to terminate or reduce their contracts when rates are extended.

