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Dr. Subhash Paluru, PhD
Senior Vice President & Regional Manager
Sierra Nevada Region
Western Area Power Administration
U.S. Department of Energy
114 Parkshore Drive
Folsom, California 95630-4710

SUBJECT: Power Marketing Plan Comments

Dear Dr. Paluru:

The Northern California Power Agency (NCPA) is pleased to provide you with additional comments regarding the development of the 2025 Central Valley Project (CVP) Power Marketing Plan (Plan). Our comments are focused on the material presented by Western at the second informal customer meeting that was held on August 18, 2015 in Folsom.

NCPA members in total are continuing to purchase approximately 40 percent of the CVP power marketed by Western. Our Members value their long term partnership with Western, but we remain very concerned over certain aspects of the proposed Plan. While we are in general agreement that current marketing practices should be continued, such as the base resource concept, our following comments must necessarily focus on the issues that we believe need further thought and consideration by Western.

Major Remaining Issues

1. **Term and Termination Provisions**

   NCPA members are currently experiencing record, adverse base resource costs and limited deliveries. For federal fiscal year 2016, the CVP preference power customers are likely to be assessed Central Valley Project Improvement Act (CVPIA) Restoration Fund costs approaching $50 Million. When viewed against the limited CVP power deliveries, these costs are closing in on $30/MWH, nearly equal to the "regular" CVP power costs that Western must also collect for operations, maintenance and repayment of the CVP. In total, these costs are well above wholesale power market prices in Northern California, even in a drought year. The total CVP power costs, including the CVPIA, now regularly exceed NP15 wholesale energy costs by significant amounts. A further astounding aspect is that the CVPIA Restoration Fund has received over $1.6 billion since its passage in 1992. Yet, the project wish list of the fisheries agencies is unlikely to ever reach "completion" as was contemplated when the CVPIA was passed in 1992.

A second serious development is the continuing downward trend in the actual amount of CVP power that is being made available to preference customers. Reclamation recently unilaterally decided, despite an existing Record of Decision (ROD), to increase water deliveries down the Trinity River even though the ROD had already established the water release parameters for critically dry water years. These Trinity River water deliveries directly reduce CVP power generation by 1.1 MWH/acre-foot of water. Other CVP power generation facilities have also been impacted by operational decisions made for water quality or fisheries concerns. New Melones generation has been lost to the CVP system due to the substantial water releases made by Reclamation for fisheries and water quality requirements. From a planning perspective, such unpredictable and adverse changes further degrade the value and reliability of CVP power.

CVP preference customers are being asked in the development of the 2025 CVP Power Marketing Plan to sign a thiry year take or pay agreement, for a power product with an increasing, above market and uncertain price, along with a high degree of uncertainty as to what amounts of power can actually be delivered by Western. Moreover, the trend line of CVP energy deliveries is clearly down, even if adjusted for drought operations, since the CVP is now operated mainly for the Endangered Species Act, water quality, and fisheries requirements. Frequent, last minute water bypasses of generation are made by Reclamation which can also affect the reliability of the CVP system and the California power grid. A 30 year take or pay contract would normally specify price and the quantity of power to be delivered. Neither of these key features are being offered under the proposed 2025 CVP Power Marketing Plan.

In light of this, we again request that Western include a one year termination provision as a feature of the new Plan. The termination option provision should be inserted in the new contracts and it would enable any CVP customer to terminate (or reduce in part) their base resource allocation, for any reason, without being tied to CVP rate changes or rate extensions. The need for the one year termination provision would only need to be in place until Reclamation properly utilizes proportional billing for the Restoration Fund costs assigned to power or if the CVPIA legislation is amended to include an appropriate cost limitation provision.

The one year termination notice provision will provide sufficient and adequate administrative certainty to Western. Western can market such foregone power to other preference customers or (as Reclamation has suggested in the cost allocation study) it can market excess power in the NP15 power market. Given the unique challenges, CVPIA costs and constraints facing the CVP system, a one year termination clause will not create an adverse precedent for the other regions of Western since none of the other Western regions has the same multitude of costs, impacts and constraints. We stand ready to work with Western to draft the language that would provide for this termination clause. The precise language can be crafted for the CVP situation so that this provision would not be applicable to any of the other Western regions.

2. Resource Pools and New Customers

Our Members understand the general need for a very limited resource pool and the potential need to offer small amounts of power to new, qualified preference customers. We were pleased to see that Western is proposing to utilize first any CVP power allocations that are turned in by existing customers, prior to initiating any resource pool reduction in 2025 or 2040. The most recently proposed resource pool reduction mechanism remains unclear to us and should be further explained to define the existing CVP customers with "large" allocations relative to their peak load. We are encouraged that Western more recently announced that the resource pool concept will be discussed again informally with the preference customers.

3. New Issues

At the August 18, 2015 informal meeting, Western's staff briefly presented two new issues for customer comment. The first issue pertains to transmission, where Western noted that it has the authority to obtain equitable transmission rates for surplus available Pacific AC Intertie transmission capacity. The second issue pertains to potential future changes in the electric industry and the need to include provisions in the future contracts that would enable Western and the preference customers to collaborate on contract revisions that may be needed to deal with future significant changes in the electric utility industry.

NCPA supports both of these concepts. We have regularly encouraged Western to continue to identify and implement as soon as possible all savings and revenue opportunities for the CVP system, particularly since the current total cost of CVP power is above the market. With regard to future changes, we concur with the concept of making such changes by mutual agreement if and when they become appropriate as the electric industry continues to change.

In addition, we again request Western and Reclamation to continue to work with us to identify ways that all CVP preference customers can obtain the best operational value for a CVP power allocation. This should include but not be limited to resource adequacy, improvements to power forecasting, including an updated Green Book, and other measures that would enhance the value of the CVP hydroelectric system.

4. Timing of the Power Marketing Plan and the Proposed Formula Rate Extension

Western's staff recently advised the preference customers that the current schedule for completion of the 2025 Power Marketing Plan would call for the preference customers to execute base resource contracts in April, 2019. The proposed formula rate extension for the CVP would provide for new formula rates to be developed after a full rate proceeding, leading to the new proposed rates becoming effective in October 2019. The problem with these proposed schedules is that the preference customers are being asked to execute a binding, long term contract prior to knowing what the actual rate structure will be for CVP power, ancillary services and transmission. We therefore request that Western reconsider this discontinuity in the schedules and move the proposed date for execution of new contracts to a later date, such as April, 2020. This change will enable all customers to properly assess and consider the new proposed contracts along with the outcome of the future rate proceeding.

We commend Western for continuing to plan for the future. We support Western's efforts to identify ways to make the CVP resource more attractive and reliable for all CVP preference customers, and we stand ready to work with you on these important matters.

Sincerely,

Randy S Howard

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General Manager

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cc: Mark Gabriel
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