

April 4, 2011

Mr. Thomas R. Boyko
Regional Manager
Western Area Power Administration
Sierra Nevada Region
114 Parkshore Drive
Folsom, CA 95630

Subject: City of Lodi Comments on Notice of Proposed Power, Transmission, and Ancillary Services Rates

Dear Mr. Boyko,

The City of Lodi (Lodi) provides the following comments in response to the Notice of Proposed Power, Transmission, and Ancillary Services Rates published on January 3, 2011 by Western Area Power Administration (Western) in the **Federal Register, Vol. 76, No. 1**. Lodi, as a member of the NCPA Pool, shares its comments with Western as well as acknowledges NCPA's comments on behalf of the NCPA Pool.

Lodi appreciates the opportunity to provide comments on this most important rule making process. Lodi recognizes and acknowledges the significant time and effort Western and its staff has committed to develop its final proposed rates, including the informal process. Given the growing challenges and ever changing nature of the electric utility industry, Lodi understands and greatly appreciates the value of being a Central Valley Project (CVP) Preference Power Customer.

Western and the CVP Preference Power Customers have now operated under the Post-2004 Power Marketing Plan for over five (5) years. One goal of the Post-2004 Power Marketing Plan was to develop a marketing plan that treated all CVP Preference Power

Customers equally, regardless of customer size, power allocation or host balancing authority area. Lodi believes that equal and fair treatment of all CVP Preference Power Customers should be a primary and key objective of Western when developing power, transmission and ancillary services rates. Lodi's comments provided herein are focused on developing rates that are fair and equitable to all CVP Preference Power Customers. Furthermore, Lodi provides comments on related issues not specifically addressed in the Federal Register Notice or the 2012 Rate Brochure, but which are issues that Lodi believes are important and impact the value CVP Preference Power Customers receive from the CVP.

Variable Resource Scheduling, Portfolio Management and Scheduling Coordinator Charges

Western is proposing to use a three percent (3%) inflationary adder to annually index its Variable Resource Scheduling Charge, which Western charges as part of the Custom Product Power service. Rather than using a fixed inflationary adder to adjust the Variable Resource Scheduling Charge, Lodi recommends that Western conduct an annual review of its actual costs of providing this service to ensure that charges assessed by Western for Variable Resource Scheduling services are set to recover actual costs, and to ensure that customers who benefit from such services are charged accordingly. It is Lodi's understanding that the former Variable Resource Scheduling Charge was increased twenty-three percent (23%) because Western had no standard mechanism or process in place to properly assess the actual annual costs of this service. Lodi believes Western should

institute a charge that is equal to the actual cost of providing these services, rather than using an assumed inflationary adder that may not be sufficient to cover costs of providing this service. Lodi also suggests that the annual cost review performed by Western take into account both over and under collections from prior periods, and factor such over or under collected amounts into the next effective rate.

In addition to reviewing the Variable Resource Scheduling Charge annually, Lodi requests that Western also adopt and implement a policy to conduct an annual review of actual costs for its Portfolio Management and Scheduling Coordinator services. During a recent cost study, it was discovered that rates charged for Portfolio Management and Scheduling Coordination were not sufficient to cover the costs of providing the services. This type of under collection has a direct and negative impact on customers who are not utilizing the services by increasing their costs; therefore Lodi proposes that Western implement a policy to review its costs of service for providing Portfolio Management and Scheduling Coordination services on an annual basis to ensure Western properly charges for these services in the future.

Energy Exchange Program Rate

Lodi requests that Western adopt an annual rate for the Energy Exchange Program. The Energy Exchange Program (Program), as currently designed, applies a monthly rate for Exchange Energy. Use of a monthly rate can negatively impact Lodi because we have a relatively large load and therefore have the ability to absorb large amounts of surplus

Exchange Energy; therefore the Lodi tends to be allocated more Exchange Energy during months when total Base Resource deliveries are lower than average. This results in Lodi being charged a rate for Exchange Energy that in many cases can be disproportionately high as compared to the rates charged for Exchange Energy during months where the amount of Base Resource deliveries are above average. To improve equity in the Program, Lodi proposes that Western use an average annual rate for Exchange Energy to levelize the cost of the Program over the course of the year. Lodi has the opinion that use of an annual rate is equitable because all recipients of Exchange Energy will pay similar rates for such energy. Furthermore, the Power Revenue Requirement (PRR) that is used to derive the Exchange Energy rates is also an annualized cost. Lodi proposes that Western establish an annual rate for the Energy Exchange Program using the following formula:

$$\text{Annual Energy Exchange Rate} = \frac{\text{Annual PRR [Oct - Sept]}}{\text{Total Forecasted CVP Base Resource [for the period of Oct - Sept]}}$$

The Total Forecasted CVP Base Resource should be derived from the 12-month rolling forecast utilized by Western and the CVP Preference Power Customers to forecast Base Resource allocations.

Since the proposed annual Energy Exchange Rate formula utilizes forecasted data, Lodi also proposes that Western should review and update the rate as part of Western's annual mid-year budget evaluation process that is conducted in April of each Federal fiscal year.

Pending such review, if either the annual PRR or forecasted CVP Base Resource (the 12-

month rolling BR forecast) are updated, Western should make adjustments to the annual Energy Exchange Rate to be applied prospectively for the balance of the Federal fiscal year, while also factoring amounts over or under collected during prior months of said fiscal year.

Proposed Rate Schedule CV-RFS4 - Regulation and Frequency Response Service

Lodi proposes that Regulation and Frequency Response Services be restructured to be consistent with how services are provided under Rate Schedule CV-SPR4 (Spinning Reserve Service) and Rate Schedule CV-SUR4 (Supplemental Reserve Service). Lodi believes that CVP generation capacity should not be reserved "off-the-top" to provide regulation and frequency reserves to a subset of customers who take such service in the Western sub-balancing authority area. Lodi believes this practice is not fair and equitable for all CVP Preference Power Customers, including Lodi, because the "off-the-top" reservation of CVP generation misappropriates CVP generation that could otherwise be made available to all CVP Preference Power Customers as Base Resource. Even though Western is proposing a cost-of-service rate for this service, those CVP Preference Power Customers who do not take Regulation and/or Frequency Response services from Western, like Lodi, are harmed due to lost opportunity costs and the cost of acquiring alternative sources of power that can be more expensive than the Base Resource.

Rather than reserving CVP generation capacity and energy "off-the-top" to provide this service to customers located in the Western sub-balancing authority area, Lodi proposes

that customers who have such obligations be required to self-provide their need, and Lodi proposes that these customers be able to use their respective allocation of Base Resource to meet their regulation and frequency response obligations. During periods when the amount of Base Resource allocated to customers who have a regulation and frequency response obligation is not sufficient to self-provide their needs, Western should procure such services and pass the associated costs onto the customers who require this service, rather than utilizing the capacity and energy of CVP generation to benefit a sub group of Western customers.

Lodi believes this proposal will result in a more equitable and fair use of CVP generation for all Preference Power Customers and that this is consistent with other services implemented by Western.

Central Valley Project Composite Power Costs "Safety Valve"

As discussed in the 2012 Rates Brochure, in addition to the CVP PRR, CVP Preference Power Customers are allocated costs attributable to the Central Valley Project Improvement Act (CVPIA) Restoration Fund, and power customers are required to pay a larger share of capital costs due to the irrigator's inability to pay capital costs. Lodi is most concerned with the ever increasing cost of the CVPIA Restoration Fund obligation which Western collects as a surcharge to the CVP PRR on behalf of the United States Bureau of Reclamation. CVPIA Restoration Fund obligations are forecasted to escalate over time given current CVP operations. Increasing CVPIA Restoration Fund obligations are even

more concerning when viewed in tandem with looming CVP operational changes that may reduce the amount of generation made available to Preference Power Customers. If operational constraints result in decreased water deliveries, power customer's contributions to the CVPIA Restoration Fund will continue to. If CVPIA Restoration Fund surcharge obligations continue to increase, and the amount of CVP generation available for Preference Power Customers declines in the future, the cost of taking service from Western may force Lodi to strongly consider termination of its relationship with Western and its Federal power allocation.

When the PRR is coupled with the CVPIA Restoration Fund surcharge, the total cost of Federal power has at times been greater than that of alternative power sources. Lodi deems that recent increasing CVPIA Restoration Fund obligations are directly responsible for Lodi's total cost of Western power being greater than alternative power sources. It is this situation Lodi hopes to alleviate.

A major looming threat to CVP generation is California Senate Bill X7 1 (the Delta Reform Act), which directs the California State Water Resources Control Board and the California Department of Fish and Game to implement a program that requires the agencies that operate water storage reservoirs in California to release a minimum of sixty percent (60%) of total inflows into a reservoir measured in every 14-day period. This legislation could have a major impact on storage levels in California reservoirs, and in particular these regulations could have a profound impact on hydroelectric operations in the Sacramento and San Joaquin river systems.

As an example, NCPA operates the Calaveras Hydroelectric project on the Stanislaus River, which is located upstream of the Federal New Melones reservoir. Analysis done by NCPA, using historical flow data, estimates that a sixty percent (60%) flow-through requirement would have reduced the maximum storage levels at NCPA's hydroelectric project by approximately 70,000 acre-feet in 2009 and 2010. Furthermore, due to the combination of natural flows and increased release requirements, spill at NCPA's hydroelectric project would have increased by approximately 19,000 acre-feet, resulting in a 38 GWh of lost generation annually.

Lodi provides this information to demonstrate that the Delta Reform Act, if implemented as written, could result in major reductions in the amount of storage and generation made available at impacted reservoirs. If CVP reservoirs are similarly impacted by this legislation, the amount of generation made available from said projects could be dramatically less than current levels, which would cause the per unit cost of Western Base Resource to increase sharply. Lodi fears that this risk coupled with increasing CVPIA Restoration Fund surcharge obligations would result in the cost of Federal power products being much higher than other power alternatives; therefore such power could become unmarketable.

Per Western's rules, if a CVP Preference Power Customer desires to stop receiving its Federal power allocation, such election would only be available after a new power rate is promulgated. While Lodi is not seeking to terminate its Federal power allocation at this

time, Lodi proposes that Western implement a mechanism(s) or "Safety Value" to allow Western to adjust or suspend the collection of certain costs during extended periods of low generation. Western currently has discretion in how CVPIA Restoration Fund costs, and other costs due to related legislation, are assessed and allocated to CVP Preference Power Customers. Lodi request that Western explore and consider development of a trigger mechanism or threshold under which Western could suspend or terminate certain cost recovery when the composite costs of Federal power exceeds alternative power costs. Since the CVP generation is "fuel-constrained", Western is unable to increase generation to manage the average per unit cost of Federal power when CVPIA Restoration Fund and other costs increase. As a result, Lodi believes the only practical mechanism available to Western to control the per unit cost of Federal power is to reduce overall costs assessed to CVP Preference Power Customers, and to suspend the collection of non-essential costs and projects when CVP generation levels are reduced, allowing Federal power to be assessed at rates that are near or equal to alternative power costs. Lodi does not want to terminate their contracts with Western at this time, but if the total composite cost of Federal power continues to increase so that the total cost of Federal power exceeds alternative power costs, the Lodi may be forced to reconsider its long-term relationship with Western.

Western's General Power Contract Provisions (GPCPs) currently state that CVP Preference Power Customers "by written notice to Western within ninety (90) days after the effective date of a rate change, may elect to terminate the service billed by Western under the new rate." Lodi seeks clarification from Western as to the meaning of "date of a rate change" as stated in the GPCPs. Does this language allow a CVP Preference Power Customer to

terminate its Federal power allocation each time a new PRR is developed and implemented? Lodi requests that Western clarify this provision in the GPCPs. Lodi requests this clarification such that we may factor the rule into our future strategic plans.

Termination of a CVP Preference Customers Federal power allocation would have negative impacts on Western because capital, operations and maintenance, and other costs would not be collected and returned to the Federal government. Also, without CVP Preference Power Customer contributions to the CVPIA Restoration Fund, the restoration of the environment is hampered.

SVS Transmission Cost Repayment

As discussed above, Lodi believes that Western must develop rates that are *just* and *reasonable* to all Federal power customers. Such rates must recognize and be designed to equitably allocate the costs of products and projects to those customers who are the beneficiary of the services. Lodi remains strongly concerned with the proposed allocation and assignment of costs attributed to the construction of the Sacramento Voltage Support (SVS) project. Lodi shares many of the concerns raised by Calpine Construction Finance Company, L.P., in its comments filed in this rate making process.

Previously Western claimed that the SVS was being constructed to support the continued reliable operation of Western's transmission system, therefore costs associated with the project would be allocated equally to all CVP Preference Power Customers. Over time the

term "reliability" has become more a term of art rather than science, and Lodi questions Western's assumptions as to which customers receive the predominate benefits of the SVS project. Since the early 1990's it has been well known that voltage issues in the Sacramento and Placer counties have resulted in threat to native load. Numerous technical studies have been conducted, and such studies have indicated that increasing load in the region is the primary cause of voltage issues. The Findings of the Sacramento Area Voltage Support Project (DOE/EIS-0323S1)¹ state the following:

Western's Sierra Nevada Region (SNR) includes the greater Sacramento, California area. SNR maintains and operates numerous substations and more than 1,200 miles of transmission lines. These transmission lines are interconnected to other greater Sacramento-area transmission system owners, Load Serving Entities, and utilities, including Sacramento Municipal Utility District (SMUD) and the City of Roseville (Roseville). Western's system contributes to and is affected by voltage stability, reliability, and security of the greater Sacramento area transmission system. Transmission system studies in 2001/2002 and 2006/2007 showed that existing transmission lines in the greater Sacramento area have reached their maximum power transfer limits for serving the area's energy needs, particularly in the northern portion of the greater Sacramento area. Load Serving Entities and utilities in the area have taken interim measures to avoid potential uncontrolled system-wide outages. As a last resort, operators may be required to implement post-contingency load

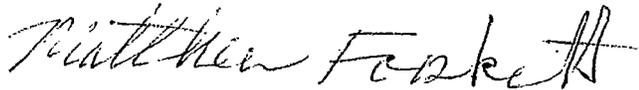
¹ Federal Register Vol. 73, No. 88, published on May 6, 2008

shedding and/or rotating blackouts. These measures provide limited voltage stability improvement and are not always available or preferred. In addition, load shedding and rotating blackouts can have significant negative impacts on utility customers. The transmission system studies showed that additions and upgrades are need to maintain system voltage stability, reliability, and security in accordance with NERC and WECC Planning/Operations Reliability Standards, and for Western to continue to meet its legislative and contractual requirements. The resulting system additions and upgrades would provide additional power-importing capabilities to the greater Sacramento area.

While Lodi agrees that studies have shown that the SVS is required to support reliable operations, and for that reason Lodi does not challenge the Project itself, but as described above, a limited number of Federal power customers will receive direct benefits from this Project. In accordance with the principles of cost causation, customers who receive the lion's share of the benefits should carry the lion's share of the costs. Lodi disagrees with Western's decision to allocate all \$87 million of construction costs equally among all CVP transmission customers. Lodi does not argue that it receives zero benefit from the Project, but Lodi does not believe it receives equal benefits as those Federal power customers directly benefited by the SVS because Lodi is located in the CAISO. Therefore, Lodi strongly encourages Western to reevaluate its decision to spread SVS construction costs evenly across all CVP transmission customers, and rather adopt a cost allocation methodology that recognizes the level of benefits received to ensure Western's costs remain *just* and *reasonable* and are not considered *arbitrary* and *capricious*.

For questions regarding these comments submitted on behalf of Lodi please contact Matt Foskett at 209-333-6765 or mfoskett@lodielectric.com. Thank you again for your effort throughout this rate making process, and thank you for the opportunity to submit these comments.

Sincerely,

A handwritten signature in cursive script that reads "Matthew Foskett". The signature is written in black ink and is positioned to the right of the word "Sincerely,".

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