Arizona G&T Cooperatives
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August 15, 2024 *Sent Via Email*

Mr. Jack Murray
Regional Manager
Desert Southwest Office
Western Area Power Administration
P.O. Box 6457
Phoenix, Arizona 85005-6457

**RE: PROPOSED 2028 PARKER-DAVIS PROJECT POWER MARKETING PLAN**

Dear Mr. Murray:

On behalf of Arizona Electric Power Cooperative (AEPCO), I am providing comments in response to the Proposed 2028 Parker-Davis Project Power Marketing Plan announced in the Federal Register on May 20, 2024 (Proposed Marketing Plan).[1] As noted by an AEPCO representative at the July 19 public comment forum, AEPCO remains concerned about certain aspects of the Proposed Marketing Plan for the Parker-Davis Project post-2028. The discussion below is intended to supplement comments already provided to the Desert Southwest Office (DSW) staff for inclusion in the public record.

Proposed New Resource Pool Contravenes WAPA Policy

As previously noted, AEPCO remains concerned over the proposal to create a new resource pool for the Parker-Davis Project while the Colorado River basin continues to endure a persistent drought. In particular, Western Area Power Administration (WAPA) and DSW are asking existing contractors to make additional sacrifices at a point in time in which DSW has been unable to meet the Contract Rate of Delivery (CROD). Although WAPA indicates that capacity allocations for new customers will be made from new capacity associated with a turbine rewind, there is an absence of associated energy for a new allocation. Indeed, there has been a deficit of energy to meet existing capacity allocations for several years because of the persistent drought.

AEPCO supports the efforts that DSW has taken to address the deficits that have accumulated because of the adverse hydrological conditions.[2] The proposal to adopt a Quarterly Energy methodology to reflect actual energy availability should reduce the potential for accumulated deficits and ensure greater rate stability. However, the fact that WAPA is adopting the Quarterly Energy methodology while simultaneously proposing a new resource pool presents a conflict that

[1] Fed. Reg. Vol. 89, No. 98, at 43841 (May 20, 2024).

[2] *See* Proposed Marketing Plan at 43844.

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P.O. Box 670 • 1000 S. Highway 80 • Benson, Arizona 85602 • (520) 586-3631 Phone • www.azgt.coop

cannot be reconciled on the basis of the record presented to date. The creation of a Quarterly Energy methodology admits that the Parker-Davis Project resource cannot sustain the energy deliveries associated with the allocated capacity.

As explained in the Proposed Marketing Plan, WAPA intends to "first take away energy from the contractors' withdrawable allocations up to the total reduction, when available."[3] Although this may help to achieve the "widespread use" objective, this approach also undermines WAPA's policy directive to provide power at the lowest possible cost.[4] Indeed, to the extent that WAPA reduces energy allocations, customers with longstanding allocations are forced to seek higher-cost replacement energy.

On this point, the record to date does not explain how promoting widespread use ensures that the power is sold at the lowest possible cost. Rather, the facts presented in the Federal Register Notice indicate that increasing widespread use will lead to higher rates for customers with existing capacity allocations because those customers will be forced to replace reduced energy allocations with higher-priced resource alternatives. The Federal Register Notice fails to reconcile this proposed departure from the longstanding policy of keeping rates as low as possible, consistent with sound business principles, with an increased dilution of the resource under the guise of promoting widespread use of the power.[5]

<u>Changing Operational Patterns Requires Caution in Proposing Changes</u>

In materials presented by WAPA at the public information forum on June 20, WAPA discussed changes for minimum scheduling. In particular, WAPA intends to revise minimum scheduling parameters to "provide scheduling flexibility, reduce purchase power costs, minimize sales in low load hours, and meet water requirements."[6] The first three objectives are supported by AEPCO. However, it remains unclear how the fourth objective of meeting water requirements will affect schedules and it appears that this impact has not been fully examined by DSW personnel.

The Federal Register Notice refers to the history of using the Parker-Davis Project to control floods and regulate downstream flows.[7] Furthermore, under the current scheduling paradigm, power customers are required to schedule twenty-five percent of power in off-peak hours to meet operational requirements, including water deliveries. While the proposed elimination of the

[3] *Id* at 43855.

[4] WAPA has adopted on a mission-wide basis the directives set forth in the Flood Control Act of 1944, 16 U.S.C. §825s, which require the Administrator to "transmit and dispose of such power and energy in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles."

[5] Factually, there is no widespread distribution of energy if the resource lacks energy in the first instance for allocation.

[6] Slide deck for Proposed 2028 Parker-Davis Project Power Marketing Plan Public Information Forum, at p 41. June 20, 2024, accessed on August 13, 2024, at https://www.wapa.gov/wp-content/uploads/2024/06/Proposed-2028-P-DP-Power-Marketing-Plan-info-forum-presentation.pdf

[7] Proposed Marketing Plan at 43842.

twenty-five percent minimum could ostensibly improve resource availability and associated value, it remains uncertain at this stage of the marketing process whether such change will benefit power customers as promised.

Here, WAPA should improve transparency regarding scheduling requirements and operational needs other than hydropower generation. This should be accompanied by confirmation from WAPA that, although the scheduling may evolve to a more dynamic model, WAPA will provide suitable advance notice for customers to schedule the resource for maximum benefit. Moreover, until the effect of a new scheduling regime is modeled and understood, WAPA should refrain from any consideration of creating a new resource pool. While the record suggests a putative benefit for power customers, there is no documented modeling, and the effects of the change should be well known before moving forward with consideration of a new resource pool.[8] AEPCO believes that once this impact is understood and weighed in the context of meeting traditional WAPA objectives of widespread use of power at the lowest possible cost consistent with sound business principles, DSW should decide not to move ahead with a new resource pool.

<u>Continue Full Use of Transmission Resource</u>

The Proposed Marketing Plan proposes the use of transmission reserved for deliveries of the CROD notwithstanding anticipated deliveries of less than the CROD. AEPCO supports this proposal for several reasons. First, because of the possibility of receiving CROD, the power customer must retain transmission rights up to the CROD. This requirement should inure to the benefit rather than the detriment of the power customer during periods when CROD cannot be delivered. The proposal to allow use of the CROD strikes the correct balance and remains consistent with use of transmission facilities in other marketing areas.

AEPCO does note that the materials accompanying the Proposed Marketing Policy and shared at the June 20 public informational forum raise questions regarding the use of transmission capacity. In the published slide deck, WAPA has indicated that "[u]sage of transmission capacity will be comparable to service under WAPA's Open Access Transmission Tariff (OATT)."[9] The reference to WAPA's OATT suggests a divergence in WAPA's traditional practice of pairing an allocation of power with firm transmission rights over WAPA transmission facilities for the delivery of power.

Here, WAPA should clarify that such transmission rights remain tied to the allocation and are not severable. Furthermore, the allusion to WAPA's OATT should be clarified to state that firm power customers are not required to separately reserve transmission pursuant to WAPA's OATT. While WAPA may market transmission capacity excess for the mission of delivering preference power pursuant to the terms and conditions set forth in its safe harbor OATT, the use of transmission capacity associated with the Parker-Davis Project allocation should remain within WAPA's organic authorities and outside the purview of the Federal Energy Regulatory Commission.

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[8] To be clear, notwithstanding encouragement to pause consideration of developing a new resource pool until new scheduling requirements are understood, AEPCO continues to assert that dilution of the resource pool is inconsistent with existing WAPA policies.

[9] *See* note 6 *supra* at 42.

Support for the Proposed Marketing Plan

As noted by AEPCO's representative at the public comment forum, AEPCO supports the Proposed Marketing Plan to continue the allocation of power and energy from the Parker-Davis Project. Further, AEPCO appreciates the leadership that the DSW team has shown in addressing the rate impacts associated with purchased power activities due to poor hydrology. These are important steps to preserve the value of the hydropower resource for the Member distribution cooperatives served by AEPCO.

We appreciate the partnership that the DSW has forged with AEPCO through the allocation of the Parker-Davis Project resource and other initiatives. Our team is available to assist with the implementation of the Proposed Marketing Plan post-2028, and we welcome any questions you may have regarding our comments above.

Sincerely,

Patrick Ledger
Chief Executive Officer and Executive Vice President