

Mr. James C. Feider
Director
Redding Electric Utility

Testimony on behalf of
Redding Electric Utility
Transmission Agency of Northern California

And

Northern California Power Agency
Before the Committee on Resources
Water and Power Subcommittee
" Opportunities and Challenges on Enhancing
Federal Power Generation and Transmission"

February 10, 2005

Mr. Chairman, it is an honor to appear before you today. I am Jim Feider, the Electric Utility Director at the City of Redding. In addition, I serve as the Chairman of the Transmission Agency of Northern California (TANC), a joint powers agency that worked in partnership to finance and construct the Harold T. (Bizz) Johnson Intertie, also known as the California Oregon Transmission Project – which added 1600 MW of transmission capability between the Pacific Northwest and California. The City of Redding is also a member of the Northern California Power Agency (NCPA), a joint powers agency for 18 public power systems from throughout Northern California that are all wholesale power customers of the Western Area Power Administration (WAPA), and receive power from the Central Valley Project (CVP). I am testifying today on behalf of all three entities – Redding, TANC, and NCPA – and, Mr. Chairman, I am pleased to note that the Turlock Irrigation District (TID), which serves many consumers in your District, is a member of both TANC and NCPA. In addition, I serve as the Chairman of the CVP Operations and Maintenance Governance Board that was established to provide customer funding primarily for Western and Reclamation operation and maintenance activities.

Mr. Chairman, I commend you for holding this hearing. The federal power program is a very important component of the power supply of the broad based entities served by the Central Valley Project including 26 municipal utilities, 25 irrigation and water districts, 24 Federal and State facilities, and 4 Native American tribes. The CVP generation and transmission facilities are critical to the long-term planning of Western's power customers as it provides consumers with certainty and durability in the integration of cost-based federal power with customer developed resources resulting in reliable power at stable and affordable rates.

We are entering a new era: Western began this year with a new power marketing plan; Western also established new arrangements for the operation of its transmission facilities; and, the federal resource has recently been reduced as a result of the Ninth Circuit Court of Appeals decision regarding implementation of the Trinity River Record of Decision (ROD).

The power customers of the CVP are ready to meet these challenges and opportunities, and I would like to share with you my views on the role of Western's customers today, and in the future.

Before doing so, however, I wish to raise my concerns with the Administration's FY 2006 budget proposal to tax federal power customers an escalating 20 percent per year until the power costs match "market rates". This radical change from the legal requirement that federal power be sold at cost-based rates would have a devastating impact on the CVP power and water customers and the consumers they serve. In fact, this Administration proposal is contrary to existing law (PL 102-377, Sec. 505) that bars the Administration from studying such a proposal. Mr. Chairman, this Committee that has jurisdiction on this matter should not consider such a breach of long-standing congressional policy in order to unfairly tax our consumers. A 20 percent increase would cost CVP power customers approximately \$10 million the first year alone, harming fixed income consumers, battering small businesses and threatening the economic viability of numerous large businesses. And these increases would be followed by more and more. Mr. Chairman, this is quite simply a selective tax that would reach into the pockets of homeowners, businesses, farmers, schools, hospitals and industry.

Moreover, the objective it seeks – pricing federal power at market rates – should not be seen as a desirable objective. Additionally, those in search of lower energy prices through so-called competitive markets have found that goal to be quite illusive. This observation deserves careful consideration before we wreck additional havoc on the electric consumers of California.

Overview of the Central Valley Project

The Central Valley Project (CVP) has 18 dams that create reservoirs with a storage capacity of 13 million acre feet, 615 miles of canals, 5 pumping plants, and 11 power plants consisting of 38 hydroelectric generating units. The combined installed capacity of the power plants in these dams is 2,068 megawatts, and the system generates an average of more than 4.5 million megawatt hours of electricity per year. CVP transmission facilities owned and maintained by Western include 1296 circuit miles of transmission and 18 substations.

As you know Mr. Chairman, the federal power program pays its way. Federal power customers like Redding pay rates that are set to recover the entire federal investment, with interest. In addition, power rates pay a portion of the irrigation costs as well as contributing to environmental restoration of the region through the CVPIA restoration fund.

Despite this stellar financial record, federal budget rules and competing budget pressures create a situation where federal appropriated funds are not always available to make needed investments in repair, replacement and rehabilitation of facilities, or to fund other CVP operations and maintenance expenses.

In response to this challenge, the CVP customers stepped forward and initiated a program to advance funds to finance this important work, with the funds reimbursed over time through bill credits. This program began with the advanced customer funding of \$21 million to pay for the rewind of the Shasta Dam generators starting in 1994. A more comprehensive agreement was executed between the customers, Western and the Bureau of Reclamation (Reclamation) in 1997 that provides a program for advanced customer funding of both power-related capital investments and Operations and Maintenance (O&M) expenses. CVP customers will advance over \$30 million every year to cover power-related O&M expenses of Western and Reclamation.

The meaningful customer interface with the federal agencies that has resulted from this arrangement is most significant. Under the advanced funding agreement, each federal agency submits a detailed O&M work plan. The CVP Customer O&M Governing Board reviews the plan, and agrees on a customer O&M Funding program. The agencies then synthesize this information into their budget requests, which are ultimately sent to Congress. At the end of the fiscal year, the agencies prepare an annual report that incorporates the funding arrangements.

This advanced funding arrangement in addition to maintaining congressional oversight provides all parties – the customers and the agencies – with numerous benefits:

- A collaborative process to establish priorities and targets;
- An assurance that needed funds are available to make sure that the system is well maintained;
- Agency accountability, with customers able to ensure that funds are spent as agreed upon; and
- A mechanism to provide long-range planning.

The advanced customer-funding program should serve as a model for other efforts to provide alternative financing for the power marketing and the generating agencies. Customer involvement and oversight, and agency accountability, are essential.

Mr. Chairman, as I mentioned earlier, we are entering into a new area. One significant development is the new 20-year contracts executed between Western and its CVP power customers. Again, I would emphasize that these long-term contracts incorporate the principle of cost-based rates consistent with current law that requires that power rates be the lowest possible consistent with sound business principles. As you know, Western previously had a longstanding resource integration relationship with Pacific Gas & Electric that provided Western with a firm product to deliver to its wholesale power customers. With the recent expiration of those contracts, Western entered into a new arrangement with CVP power users. Beginning this year, Western now provides the CVP power customers with a fixed, percentage share of the hydro generation output of the system. As a result, CVP customers will purchase an energy product that varies with the output of the hydro system. This creates new responsibilities and challenges for the CVP power customers. I am pleased to report that we are up to the challenge: members of NCPA are constructing over 600 megawatts of new generation, as well as contracting for 60 megawatts from renewable resources to meet load growth demand and to firm the CVP hydro generation product.

Another significant change exists on the transmission front. At the beginning of this year, Western and Reclamation facilities were organized as a sub-control area of the Sacramento Municipal Utility District (SMUD) control area. This arrangement

will ensure that Western can operate its system in a reliable and cost-effective manner. As importantly, it ensures that the statutory purposes and obligations of the CVP can continue to be met and will remain the driving focus of CVP operations. We appreciate the tremendous efforts by both Western and Reclamation in accomplishing these new operating arrangements. We also greatly appreciate Chairman Pombo for his leadership and his considerable efforts in ensuring that practical solutions became workable realities.

Another major change of the CVP is the re-operation of the Trinity River. As a result of the Trinity ROD, Trinity River flows will now vary between 369,000 and 815,000 acre-feet per year (excluding safety of dam releases) depending upon the water year type, an average flow increase of approximately 260,000 acre-feet per year compared to the previous flow regime. Water diverted from the Trinity River to the Sacramento River flows through three different power plants, generating 1100 kWh for every acre foot of water. With this water no longer being diverted to the Sacramento River, the output of the CVP power system will be reduced by almost 10 percent and public power customers in Northern California will incur \$15 - \$22 million in costs per year to replace that power. Additional flows from the other CVP reservoirs into the Sacramento River will now be necessary to meet established Sacramento River Basin temperature and water quality requirements.

Generation Enhancements

Given the changes and challenges that I have outlined, what is being done – and what can be done –to enhance the generation resources of the CVP?

As I noted above, CVP power customers were the first PMA customer group to provide advanced funding to finance needed power system replacements and improvements. The Shasta Dam rewind and runner replacements of Units 3, 4, and 5 are nearing completion, which should result in additional generating capacity of approximately 100 megawatts, an 18% increase in peaking capacity. These improvements also increase the energy generated per acre-foot of water by about 4% (85,000 megawatt hours). This incremental energy would serve the entire needs of Redding (population 87,000) for the month of August when air conditioning demands are at the maximum. Shasta Units 1 and 2 are scheduled for upgrade in 2006 and 2007 respectively, which will further enhance peaking capacity by 34 megawatts. Similarly, CVP power customers are working with Reclamation and Western on turbine replacements at New Melones and Judge Francis Carr power plants. When complete, the New Melones investments will increase turbine efficiency by 3 to 5% resulting in another 10,000 megawatt hours of generation. The Judge Francis Carr replacement will occur in the 2008 time frame.

I want to note, however, that advanced customer funding has limits. The customer power bills limit the amount that Western can credit back for customer advanced funding – Western cannot provide bill credits that exceed the actual bills. CVP power customers now fund a majority of Reclamation's power O&M activities and a significant portion of Western's O&M work, along with selected capital investments. When expenditures are greater than customer bills, there is a cap set on the use of customer advanced funding. Put another way: advanced customer funding is an important supplement to federal appropriations, but it cannot entirely substitute for these appropriations. Through the advanced funding program, Western, Reclamation, and the CVP customers have formed a good partnership and we look forward to continuing this partnership as it has greatly enhanced the understanding and requirements of the affected parties.

Just as a new partnership exists between the Reclamation, Western and CVP power customers to provide needed funding and ensure system reliability, so too is a new partnership needed on river operations.

Given the new operating paradigm resulting from both the recent Trinity River Record of Decision and the new Western marketing plan, coordination between the Bureau and Western is more important now than ever. The CVP system has a myriad of statutory responsibilities. Through coordination and creativity, the system can be managed in a way that provides the greatest distribution of benefits to each of the authorized purposes. We believe the federal agencies are up to this task and, with the subcommittee's blessing and approval, can move forward expeditiously and forge a revitalized partnership.

It is similarly critical that decisions on river operations be guided by good science and a balanced decision making process that includes input from all stakeholders. For instance, it is my observation that while Reclamation has effectively been meeting its operational goals, the setting of those goals has been somewhat hamstrung by rigid application of rules and requirements imposed by other agencies – and perhaps driven by outdated models.

As you may know Mr. Chairman, CVP reservoir levels were very low at the end of 2004 in spite of average precipitation. How and why did this occur? In the simplest terms, water was released out of reservoirs in 2004 for flood control and then the reservoirs did not refill to capacity. I believe this happened in part because of strict flood control curves and water quality standards that don't take into account improved technology for weather forecasts and river flow forecasts. Also, the ramp down rate after a flood event should be re-examined. The current biological opinion that stems from the Endangered Species Act restricts the rate at which flood control releases can be reduced.

We should all be asking: what operational changes are Reclamation making to its flood control release pattern to ensure that the reservoirs refill in precipitation years like 2004. A thoughtful review of this issue should produce a “win-win” result.

Similarly, it is my hope that the Department of Interior will use adaptive management practices on the Trinity River, rather than application of rigid rules, if the science demonstrates that those rigid rules are not needed to meet the environmental objectives. We should learn from experience and adjust our decisions to maximize environmental benefits and optimize downstream release patterns. For example, when safety of dams releases are made due to high water events, they could be utilized to achieve the geomorphic objectives in the river bed, thereby diminishing the need for such releases later in the year.

Transmission Enhancements

The California Oregon Transmission Project (COTP), which I mentioned earlier, is a great example of what can be accomplished in a partnership between Western and its customers. One key reason for this success: customer funding of major capital projects works best if customers receive ownership-like rights that accommodate long-term planning. In this way, the benefits flow directly to the retail customers of the participating parties – from Redding to Turlock. Put simply: those who assume the risk and responsibility should be rewarded with comparable benefits.

Members of NCPA and TANC see Western as a key player in future transmission enhancements as well. I am pleased that Western is in the process of studying a variety of transmission additions, including reinforcements in the Greater Sacramento area to better serve the Sacramento Municipal Utility District, Roseville and potentially Lodi, and extension of the Federal transmission system from the Central Valley (at the Tracy Substation) to the Bay Area to enhance service to Alameda, Palo Alto, Santa Clara and BART. In order for these proposals to move from study to construction, project specific funding arrangements must be linked to long-term ownership like rights.

On a final note, Mr. Chairman, I want to emphasize the importance of regional transmission planning and the participation of Western in those efforts in order to link future generation additions to meet growing energy needs in California and the West. In my opinion, the Western Electricity Coordinating Council (WECC) is the appropriate forum for these regional efforts, and I am hopeful that the role of WECC can be nurtured, with all regional transmission owners – Western, public and private utilities – participating in a vibrant and effective undertaking.

Conclusion

Mr. Chairman and members of the Subcommittee, a close review of Western’s and Reclamation’s CVP operations highlights a number of challenges. More importantly, however, are the successes that have occurred in response to these challenges. Working in partnership, Western and Reclamation and the customers have made significant strides to ensure that the federal system, both generation and transmission, operate in an efficient, reliable, and cost-effective manner. Moreover, through this partnership, the will and resources exist to make the investments – of time, ingenuity and capital – to improve and expand the system.

My colleagues and I in California look forward to continuing to work with you, and the members of the Subcommittee in fostering and solidifying this partnership.