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Testimony on "The Power Marketing Administrations: A Ratepayer Perspective"
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Introduction

Chairman McClintock, Ranking Member Napolitano, Congressman LaMalfa, members of the Subcommittee, I want to thank you for holding this hearing today and for the opportunity to testify regarding Redding's perspective of the Power Marketing Administrations (PMAs). My name is Barry Tippin and I am the Director of the City of Redding's Electric Utility. The City of Redding is located in Northern California and has a population of approximately 90,000. The City of Redding has owned and operated its Electric Utility since 1921. Redding has over 43,000 electric customers and a peak electric demand of 240 Megawatts (MW). Redding's Electric Utility is a vertically integrated publicly-owned Utility, which means that Redding owns generation, transmission rights, and distribution facilities in order to reliably serve Redding's customers; the Utility is governed by the Redding City Council.

Redding has a long partnership with the Western Area Power Administration (WAPA). Redding entered into its first contract with WAPA for hydroelectric energy from the Central Valley Project (CVP) in the 1960's. Located near the base of Shasta Dam, Redding currently receives nearly 8 percent of the electricity output from the CVP hydro system, which amounts to roughly 30 percent of Redding's power supply. Federal hydropower from the CVP system has traditionally been the most cost-effective, renewable, and carbon-free resource in Redding's power supply portfolio.

In the 1970's, Redding contracted with WAPA to build two interconnection substations that allowed Redding to completely disconnect from its surrounding investor-owned utility, Pacific Gas & Electric. These interconnections are the only delivery points Redding has to import energy from outside of the City, including our CVP energy. Because Redding's electrical distribution system is interconnected to WAPA's transmission system, Redding is referred to as a "direct connect customer." Redding depends on the reliability of WAPA's system to enhance our own reliability – if WAPA's system has an issue, so will Redding's.

In the early 1990's, Redding, as a member-participant of the Transmission Agency of Northern California, built the California-Oregon Transmission Project in partnership with WAPA. Through long-term transmission contracts with WAPA, Redding gains access to its 135 MW entitlement of this transmission. Redding purchases additional transmission service from WAPA that enables us to move generation resources across WAPA's transmission facilities to our distribution system, including Redding's firmed and shaped renewable wind power from the Pacific Northwest, which is a critical component used to meet California's 33 percent renewable portfolio standard requirements.

Redding is a member of the Balancing Area of Northern California (BANC), which evolved from the Sacramento Municipal Utility District-Western Control Area about 10 years ago. CVP generation and WAPA transmission facilities are located within the BANC footprint, which enhances the cost-effectiveness of Redding's CVP energy.

Redding's long-standing interconnection and contractual rights to WAPA's system is a vital component in Redding's ability to provide cost-effective and reliable service to its customers. Redding's collaboration with WAPA is essential and necessary for meeting California's renewable energy and carbon standards as well as the challenges of the future. Redding is more than simply a WAPA customer, we are partners.

However, recent California mandates for renewable energy, energy efficiency, and greenhouse gas reductions have added significant costs to all of California's electric ratepayers. As a direct consequence, California ratepayers pay some of the highest electric rates in the country. Redding just enacted a rate increase earlier this year, in part due to California's mandates, as well as increasing regulatory obligations being imposed on the electric industry.

Because increases to WAPA's rates are directly translated into increases for WAPA customers, like Redding, we are keenly interested in ensuring the CVP is managed in the most cost-effective way for our customers. Redding's successful and long-standing relationship with WAPA has, to date, provided us with the rate stability and reliability that Redding's electric ratepayers deserve. However, efforts such as the one announced in a March 16, 2012, memo by the Department of Energy (DOE) are concerning because such efforts will have rate impacts that will ultimately be borne by Redding and its electric customers. Additionally, WAPA's desire to gain new authority to access additional capital has us worried that we may be paying for upgrades to the WAPA system in a region that will not directly benefit the ratepayers of Redding. Further, environmental enhancement objectives, whose costs are being borne by WAPA's customers through an adder onto our energy rate, seem to be increasing with no end in sight.

These issues create uncertainty, making it difficult to effectively develop long-term rate forecasts and resource plans. I would like to discuss four issues that are providing Redding with great uncertainty due to their current and potential impact on WAPA's rates: the status of the DOE's efforts to alter WAPA's core mission, WAPA's Access to Capital Initiative, the Central Valley Project Improvement Act (CVPIA) Restoration Fund, and efforts by California's State Water Resources Control Board to change the timing of flows from the CVP through California's Delta ecosystem.

Secretary Chu's March 16, 2012 Memo

The March 16, 2012, memo from DOE Secretary Chu proposing significant structural changes to the PMAs, caught the PMA customers by surprise. While I agree that there is a need to periodically review any organization's strategic plan, the manner in which this task is undertaken is critically important to ensure a positive outcome. For instance, I am in the process of doing this for my organization and am doing so in a collaborative manner with my staff and stakeholders to ensure broad input on the future direction of Redding's Electric Utility. DOE's attempt instead relied on edicts rather than collaboration. A strategic direction was developed and a plan was put forth without consulting the customers and ratepayers. What transpired after the issuance of the memo was a predictable response from the PMA customers and stakeholders.

Secretary Chu designated WAPA as the first PMA up for review to determine how to achieve DOE's goals as outlined in the memo. While Redding appreciates any efforts to improve the cost-effectiveness and reliability of the preference power and transmission service Redding receives from WAPA, any changes to WAPA's core mission or to Redding's existing long-term contractual relationship with WAPA for CVP energy, could have significant impacts on Redding's customers. The value of Redding's CVP contract is crucial to Redding's ability to comply with California's renewable recourse and greenhouse gas laws. If CVP power is reduced, Redding would be obligated to find an alternative resource, most likely from a resource with higher carbon emissions that would require Redding to incur additional carbon costs through the state's cap-and-trade program.

Redding participated vigorously in the DOE's Joint Outreach Team process. Redding voiced objection to DOE's approach that at times, seemed to seek solutions to non-existent problems and to pursue a predetermined one-size-fits-all solution where one cannot exist due to the unique and diverse nature of WAPA's customers.

Redding does not support many of the final recommendations issued by Secretary Chu, as they are likely to impose unnecessary costs on Redding to potentially subsidize new non-core activities. However, I am pleased to see that the Joint Outreach Team recognized WAPA has a number of initiatives already underway, and stressed inclusion of the customers in the prioritization and implementation of the recommendations going forward, essentially bringing the process back to a bottoms-up approach.

That said, there is still much uncertainty as to the timeline for implementation of the recommendations and corresponding studies, how these activities will be funded, exactly how the customers will be included in the study process, what will happen with results of the various studies, whether DOE will include the customers in the process of deciding whether to proceed with study results, and what the impact will be to Redding's existing contracts.

Redding sincerely thanks this Subcommittee for voicing their concerns that DOE's plans, which lacked congressional and customer input, could increase electricity costs for utility customers with little, if any, associated benefits. I believe the oversight hearings held by the House Natural Resources Committee, as well as the 167 signature bipartisan letter to Secretary Chu, made an impact that resulted in the softening of DOE's message and recommendations from the draft to final version, clearly recognizing the importance of Congressional and customers' concerns. Congress has guided the PMAs since their inception, and has established the rules governing their operations; Redding encourages you to continue to closely monitor DOE's efforts and to take the appropriate steps necessary to protect PMA customers from shouldering unwarranted costs and risks.

WAPA's Access to Capital Initiative

Recently, WAPA has been pursuing what is referred to as the Access to Capital Initiative to identify and develop a long-term funding strategy. The stated purpose of the Initiative is to find a sustainable funding strategy to meet WAPA's long-range capital needs and to create a safety net in order to ensure WAPA continues to operate a reliable system. As a direct connect customer and participant in WAPA's various transmission facilities, Redding is, of course, supportive of WAPA maintaining a reliable system – as I said before, WAPA's reliability translates into Redding's reliability. What I do not understand is WAPA's premise that it does not have adequate mechanisms already in place to meet its capital funding needs in order to fulfill its Congressionally-authorized core mission to deliver federal hydropower. WAPA has two types of funding sources: appropriations from Congress that are repaid by its customers with interest, and customer advances. It is also unclear what issues within the system WAPA is trying to fix.

WAPA's regions, in close collaboration with their customers, have each developed capital funding tools compatible with their needs and statutory authorities. Let me give you an example: Redding is located within WAPA's Sierra Nevada Region (SNR) that primarily markets the output from the CVP in Northern California. When Congressional appropriations decreased for the Bureau of Reclamation during the 1990's and WAPA appropriations were anticipated to decrease, CVP power contractors worked with the Bureau of Reclamation and WAPA's SNR region to develop the CVP Operations and Maintenance (O&M) Funding Program in order to secure an adequate funding source to properly maintain the CVP facilities. This funding agreement was executed in 1997 and is designed to be used in the event that an appropriations bill or Continuing Resolution is not enacted to fully fund SNR's program.

The Funding Program has nearly 30 CVP Preference Power Customers as participants; it is administered by a Governance Board comprised of 10 customer representatives, plus one representative each from Bureau of Reclamation and WAPA. The customers voluntarily advance funds for selected O&M and Capital Improvement Programs. The customers review the condition of the Bureau of Reclamation and WAPA power facilities, work with the agencies to prioritize O&M decisions, advance needed funds, and ensure the completion of operation, maintenance, and upgrade work. SNR customers have provided nearly $300 million of advanced funding for both the Bureau of Reclamation and WAPA to date.

Through this cooperative program with the Bureau of Reclamation and WAPA, a secure funding source has been established to perform needed annual O&M activities as well as capital improvements on CVP power facilities, thus backstopping reliance on federal appropriations. As a result of this program, the condition of facilities in the SNR has improved, increasing efficiency and enhancing reliability of the system.

As I stated before, I am unclear as to why WAPA needs additional funding authorities and am concerned what this additional authority would do to WAPA's rate structure. Redding believes that most of, if not all, SNR's needs are being met by the current funding mechanisms including the CVP O&M Funding Program, and Redding is concerned that its customers will be paying for upgrades to WAPA's system in an area outside the SNR region that does not benefit Redding.

Redding encourages WAPA to continue to work with its customers on a regional and project-by-project basis to identify its needs and determine cooperative funding opportunities. These concerns are echoed by many of Redding's colleagues in a letter sent to WAPA's administrator earlier this month that I have attached to my testimony.

Central Valley Project Improvement Act

As I mentioned earlier, Redding receives nearly 8 percent of the electricity output from the federal dams in Northern California that make up the CVP, which represents 30 percent of REU's power portfolio. Federal hydropower from the CVP system has been one of the most cost-effective, renewable, and carbon-free resources in REU's power portfolio. However, CVP power costs have significantly increased in recent years due to increasing costs associated with the environmental mitigation provisions in the CVPIA.

The CVPIA, created in 1992, identified 34 restoration activities eligible for funding in an effort to restore fisheries populations believed to be impacted by the federal dams. The CVPIA Restoration Fund is derived from surcharges on water and power users, such as Redding, who receive the benefits from the CVP. These charges are passed on to Redding's customers.

Since the CVPIA began in 1992, over $1.5 billion has been spent on restoration activities; Redding's customers currently contribute over $2 million annually to the Restoration Fund, which has amounted to over $20 million to date. Because of an existing cap on payments made by the water contractors, shortfalls in total Restoration Fund obligations have been made up by the CVP power contractors. Thus, Restoration Fund assessments that averaged less than $10 million per year for CVP power customers from 1993 through 2007, have skyrocketed to more than $25 million per year from 2008 to 2011. CVP power customers have paid between $1.76 to $14.43 per Megawatt-hour into the Fund since 2005. This cost adder has had a significant impact to our WAPA rates, making Redding's WAPA power less affordable than it needs to be and, at times, making it more expensive than energy available from other sources.

While Redding supports the restoration goals of the CVPIA, Redding is concerned over the lack of oversight and accountability of the Restoration Fund. Redding and its partners have been seeking better accountability of the CVPIA restoration activities to no avail. Redding believes, based on the legislative record, that Congress intended these restoration activities to be essentially completed within 10 years of the law's enactment, except for on-going operational costs, so that Restoration Fund assessments could be reduced by 50 percent in accordance with the statute. We are now over 20 years and $1.5 billion into the program, with questionable success in restoring fish populations that are subject to ocean conditions, fishing, and other external factors outside of our control.

Redding thanks this Committee for its efforts in passing H.R. 1837 in 2011. That legislation included amendments to the CVPIA by adding both programmatic and fiscal accountability for accomplishing the restoration goals originally envisioned by Congress by capping the CVP power users' contributions to the Restoration Fund, similar to the cap currently afforded to the CVP water contractors, and by requiring that all CVPIA restoration projects be completed by

December 31, 2020, at which time annual collections from both water and power contractors would be reduced by 50 percent.

I understand that the Bureau of Reclamation, in collaboration with WAPA, is evaluating a variety of options to reduce the disproportionality of CVP power contractor obligations to the Restoration Fund, and to ensure restoration activities are moving forward toward completion. However, Redding encourages this Subcommittee to continue to push for a solution to the CVPIA Restoration Fund's escalating costs that appear to continue on in perpetuity, as the uncertainty of this program's funding is a significant impact to the economic viability of WAPA power for CVP customers.

California Delta Flows

Finally, I wanted to highlight to this Subcommittee that in August 2010, the State Water Resources Control Board in California outlined new Delta Flow Criteria that could threaten California's water supply, reduce the state's ability to meet its ambitious renewable energy portfolio standard, increase carbon emissions by more than one billion pounds each year, impose environmental threats to fish as well as federal wildlife refuges, and increase CVP power costs—while decreasing the reliability of electricity for consumers.

The intent of the effort is to improve aquatic resources in California's Delta ecosystem; however, the Board's proposal, which Redding does not support, calls for increasing CVP flow requirements for the winter and spring months that means less water will remain in reservoir storage for release during the summer and early fall. The Delta Flow Criteria includes a proposal that would require the Bureau of Reclamation to release an estimated 60 to 75 percent of unimpaired flows, resulting in CVP reservoirs being at "dead pool" (water levels below power plant intakes) for more than 50 percent of the time during the summer and early fall months—when water supplies are at their scarcest and hydroelectric generation is most critically needed.

Not only would the proposed flow criteria change the timing of flow releases and dramatically reduce the water that is available for delivery to municipal and agricultural customers, but it would reduce water storage supplies during California's driest months, impact recreational activities important to the economy of Redding, and reduce the average annual CVP and State Water Project hydroelectric energy production by 30 or 50 percent during the critical summer and early fall months. This would create significant cost impacts to Redding by requiring us to purchase alternative, and likely carbon emitting, energy generation resources.

The State Water Resources Control Board is just beginning to recognize the impacts of their proposal on hydroelectricity, water availability, and other environmental programs. Redding encourages you to monitor this effort and weigh in on the importance of developing a balanced and comprehensive approach to meet California's ambitious goals.

Conclusion

Redding's Electric Utility and its ratepayers have benefited from a long-standing partnership with WAPA. The CVP energy, transmission contracts, and interconnections we have with

WAPA are absolutely vital to Redding's ability to keep our rates low and our system reliable. However, top-down, non-core program pressures from DOE, WAPA's desire to fund system upgrades that may not be beneficial to Redding, the ever-increasing CVPIA cost adder, and proposals from the State of California to reduce electric generation during the peak energy usage times, all create uncertainty that these rates will continue to remain cost-effective and economical for the Redding ratepayers.

Redding looks forward to continuing to work collaboratively with WAPA in ways that benefit both the WAPA system and its customers.

In closing, let me say on behalf of Redding's City Council and its residents, that we appreciate the due diligence this Committee provides in its oversight of the PMAs, and I thank you for holding this hearing.

Attachments