

The Northern California Power Agency (NCPA) and its members have actively and constructively participated in all facets of the process emanating from the Secretary's March 16 Memorandum on the federal power marketing agencies (PMAs). Throughout, we have raised concerns about process, scope and cost. Regrettably, the pre-read materials and the Folsom workshop have only served to sharpen and intensify our concerns.

Flawed Process

From the beginning, NCPA and other PMA customer representatives voiced concern that this process started without any consultation with PMA customers. There was no attempt to assess the physical state of PMA assets, the scope and limitations of PMA statutory authority, or the objectives and opinions of PMA customers. Rather, DOE chose to issue edicts that demonstrate a misunderstanding of the role and mission of the PMAs and a disregard for the legislative requirements that govern the relationship between the PMAs and their customers.

PMA customers are not merely "another stakeholder." We repay the entire federal investment, with interest, of the PMAs; we have long-term, take-or-pay contracts with the PMAs; and we provide direct funding, through a variety of tools, to overcome shortfalls in federal appropriations and ensure the efficient functioning of the PMAs and the federal operating agencies.

DOE's decision to impose a top-down directive is fraught with peril. Each PMA -- and each PMA marketing area -- is unique. The resources, operating characteristics, finances, customer base, and statutory guidelines are all different. The one-size-fits all approach taken by DOE ignores these differences and will result in inefficiencies, unsound policy directives, and a host of unnecessary missteps. NCPA believes that only a collaborative approach can produce positive and meaningful results.

Inappropriate Scope

The purpose of this proposal, as explained by DOE, appears to be constantly shifting. What started as an exercise to "modernize" the PMAs and achieve a broad list of policy objectives from demand-side management to electric vehicle deployment became an effort to integrate variable renewable resources, and more recently has been justified as a necessary step to ensure transmission grid reliability. Yet even as the justification shifts, the one constant is an apparent failure to understand the mission of the PMAs, their statutory authority, and their operational limitations.

NCPA and its members share the Secretary's goals on energy conservation, demand side management, renewable resource development and integration, cybersecurity, and greenhouse gases. We disagree, however, that Western should assume the leadership role in meeting these goals:

- California already has established standards for most of these policy objectives, and NCPA and its members are on or ahead of schedule in meeting these standards;

- Under California law, most renewable generation will be provided within the State -- and California has already asserted that no additional transmission is needed to meet these goals;
- Western's transmission authority is limited, with narrow exceptions, to building and operating lines needed to move power from federal hydropower resources to Western's preference customers. In general, Western cannot build transmission unless it is needed for this core statutory purpose.

Western owns thousands of transmission miles and these assets are an important feature of the nation's electric transmission grid. As a transmission owner, Western is an active participant in numerous groups addressing system reliability, transmission planning, and transmission access. Western is a responsible and productive participant in these efforts. Western is not, however, positioned or authorized to "lead" any of these efforts -- nor should they. Western unilaterally leading any of these efforts or activities would create confusion, duplication and inefficiency.

Western has limited authorities to promote third-party transmission construction and renewable resource access (e.g., Transmission Infrastructure Program (TIP) and Section 1222 of the 2005 Energy Policy Act). These mechanisms have not been widely used. However, NCPA believes this outcome is a reflection of project economics and other factors -- not a failure of Western or a need to significantly reshape the programs' application and evaluation processes.

DOE has placed considerable focus on PMA participation in an Energy Imbalance Market (EIM) in order to promote integration of intermittent renewable resources. NCPA believes that programs like EIM should advance when supported by on-the-ground operations and economics. It is with that construct in mind that Western and several Northern California public power agencies have participated in EIM discussions and evaluations by the Northwest Power Pool.

More studies are needed on transmission congestion and system dispatch issues to properly assess whether an EIM would increase power system efficiency or economically integrate variable resources. It is worth noting that the recent National Renewable Energy Lab (NREL) study showing \$1.5 billion in EIM savings did not allow inter-hour scheduling in the model. This assumption conflicts with the Federal Energy Regulatory Commission (FERC) Order XXX requiring inter-hour scheduling. The second NREL study that allowed inter-hour scheduling shows the EIM benefits are only \$148 million. Thus, even the NREL studies show the savings is achieved from implementing policies other than EIM. In addition, the NREL study did not complete a physical deliverability study to ascertain whether transmission was even available to achieve the remaining savings shown by the study.

It is also important to note that the majority of the savings shown in the NREL study are the result of increased dispatch of coal generation. This outcome not only conflicts with the stated

goals of EIM, it runs counter to California law. Finally, in assessing the costs and benefits of Western participation in an EIM, it is important to appreciate the limited ancillary services that are available in Western's Central Valley Project (CVP). CVP operations are dictated by river regulation and there is very little flexibility in the system to support EIM.

Cost Concerns

Policies and programs do not exist in a vacuum. They have costs and under the PMAs governing statutes, those costs are borne by PMA preference customers. That is the policy established by Congress, but Congress didn't simply say that preference customers are an open cash register. Rather, Congress has repeatedly endorsed the critical concept of "beneficiary pays." According to this standard, PMA customers should repay costs that are commensurate with demonstrable -- and necessary -- benefits. There should be no cost shifting. In establishing the TIP and Section 1222 programs, Congress affirmed this essential and guiding principle.

Moreover, DOE's stated adherence to provision of "cost-based rates" misses an important statutory and policy distinction. The statutory standard governing Western's rates is that power is sold "at the lowest possible rate consistent with sound business principles." This two-part rate standard -- "lowest possible cost" and consistency with "sound business principles" are the only valid lens with which to judge the initiatives suggested by DOE. If a proposed policy or program unnecessarily drives up costs, fails to provide needed and compensating benefits, is economically unsustainable or operational unnecessary, then it must be rejected. Any new initiative undertaken by Western must serve the objectives of Western and its customers and must reflect the least-cost means of meeting that objective.

Not only should DOE respect and uphold these policies, it is what the law requires.

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