Multiple Factors Threaten Competitiveness of CVP Power

Historically, the federal multipurpose water projects of the Central Valley Project (CVP) have been an economic source of power supply for the Northern California Power Agency (NCPA) member communities and public entities across the state. However, a variety of factors have dramatically—and unnecessarily—raised CVP power rates above market alternatives, imposed resource uncertainty, and created significant risks.

These costs and risks threaten the viability of the CVP power supply. If left unchecked, CVP power customers will be forced to consider alternative power supplies when CVP contracts are renewed in 2025. If CVP power customers cease or reduce their purchases, the CVP power program—and all the related programs it supports—will face a financial crisis, since the Western Area Power Administration (WAPA) could be unable to sell its power at rates that recover its costs.

CVPIA Misallocation Pushes Power Rates Above Market Price

In an average water year, CVP power needs to be sold at roughly $25 per megawatt-hour (MWh) to cover the costs of generating power and to fully repay the federal investment in the power facilities. With the addition of an appropriate and proportional share of Central Valley Project Improvement Act (CVPIA) Restoration Fund contributions, CVP power should cost just under $30 per MWh—approximately the rate of market alternatives for power. However, in four of the last six years, because of a misallocation of CVPIA costs, CVP power has exceeded market prices.

CVP power customers' share of annual CVPIA costs should match the share of CVP capital costs assigned to power customers (roughly 26%). Yet, over the past decade, power customers paid more than 50% of Restoration Fund assessments—and in Fiscal Year (FY) 2015 and FY 2016, the power customers' share of the Restoration Fund share climbed dramatically to 85% and 71% respectively. In FY 2019, the power customers' share exceeds 62%.

The Bureau of Reclamation (Reclamation) initially proposed modest steps to credit CVP power customers $92 million in $10 million annual credits for prior CVPIA overcollections and provided the first credit in 2018. This effort was subsequently suspended by Reclamation. While Reclamation insists that these credits (known as "croffsets") are still on the table subject to additional analysis, the opportunity for FY 2019 credits is past, and the long-term outlook is uncertain. Communities and districts must be credited for payments for which they were erroneously charged.

Multiple Risks to CVP Rate Competitiveness

Cost Allocation Study

Accurately aligning costs and benefits is critical to the economic viability of the CVP. Since completion of the last cost allocation study in 1975, the availability and value of CVP power have been greatly diminished, while the economic value associated with other purposes of the project has increased. While the proposed cost allocation study released on January 17, 2019, would provide some improvement, it fails to account for critical CVPIA expenditures, important operational changes, and California's 60% renewable portfolio standard—thereby overstating the beneficial value of power and unduly inflating power costs.

California Water Infrastructure

While there are many beneficiaries of the proposed Water Fix project to divert Sacramento River water south of the Delta, CVP power customers will realize no direct benefits. Providing protections to CVP power customers from unwarranted costs or reductions to CVP generation is critical.

CVP Contract Renewal During Period of Risk and Uncertainty

Current CVP power supply contracts expire in 2024. WAPA will begin contract renegotiations this summer, and CVP power customers are already starting the process of gaining initial direction from their governing boards. While some progress has been made, the CVP resource faces a significant number of risks, uncertainties, and cost pressures. Compared to market alternatives, the outlook for CVP power is growing riskier and more expensive.

Budget Initiatives on Privatization and Market-Based Rates

The Administration's FY 2020 budget again proposes privatization of WAPA's transmission assets and a directive to sell power at market-based rates—proposals that Congress has firmly and repeatedly rejected.

CVP power is sold at rates that cover all the costs of the federal power system—with interest. There is no taxpayer subsidy; everything is paid in full for by the customers. As well, CVP power customers provide advance funding to both WAPA and Reclamation to finance upgrades, operations, and maintenance — reducing the need for congressional appropriations and ensuring the reliable and efficient operations of the federal dams and transmission assets. These budget initiatives would raise customer rates and threaten system operations. This constant, looming threat is another unnecessary cost and risk pressure that impedes CVP contract renewal.

Power Rate Risks Threaten Entire CVP Program

The economics of the CVP power system reach far beyond the 700,000 electric customers served by NCPA member communities—or even the other CVP power customers. Revenue from CVP power sales is the lynchpin of the entire CVP program. If CVP power customers reduced their allocations or left the system, there would be a resulting funding shortfall to maintain the power facilities which are required to deliver water and meet the environmental objectives of the CVPIA.

Federal Agency Action Needed

While Reclamation has initiated an effort to evaluate CVP cost and resource stressors, significant action is still needed to provide a comprehensive solution that restores the competitiveness of CVP power and the viability of the CVP system, and assures that the many public benefits this project provides to Californians continue to be realized.