Multiple Factors Threaten CVP Power

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

CVPIA Cost Assignment Must be Equitable

CVP power customers' share of annual CVPIA contributions 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, power customers' share exceeded 62%.

Draft 'True-Up' Proposal

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. Since then, Reclamation's proposal has changed dramatically. The currently pending "true-up" proposal would credit CVP power customers only $34 million. Even more troubling, the proposal includes numerous flaws that pose substantial risk to power customers over time, including:

- Basing cost allocation on investments rather than benefits, creating an inequity for power customers and a disincentive to make investments in CVP infrastructure;
- Providing inconsistent treatment of certain water and power investments;
- Using a single year as the baseline for costs rather than the traditional long-term average.

While we continue to work closely with Reclamation to resolve these serious issues, it is imperative that communities and districts be assigned a fair share of CVPIA costs. The outcome of the ongoing proceedings on this topic needs to bring about a resolution of the issues that treats both CVP water and power customers fairly, and avoids setting troubling precedents that create unsustainable and unworkable future cost structures.

Additional Risks to CVP Rate Competitiveness

Current long-term CVP contracts expire in 2024. WAPA will complete contract renegotiations this summer, and CVP power customers are already starting the process of gaining initial direction from their governing boards to sign new 30 year contracts. 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.

California Water Infrastructure

While there are many beneficiaries of the proposed projects to increase storage or divert Sacramento River water south of the Delta, CVP power customers will realize no direct benefits. Providing protections to CVP power customers from unwarranted cost shifts or reductions to CVP generation is critical.

Budget Initiatives on Privatization and Market-Based Rates

The Administration's FY 2021 budget, as in past years, proposes privatization of WAPA's transmission assets and a directive to sell power at market-based rates—measures that Congress has firmly and repeatedly rejected.

CVP power is sold at rates that cover *all* of the costs of the federal power system—with interest. There is no taxpayer subsidy; everything is paid in full by the customers. As well, CVP power customers provide advanced funding to both WAPA and the Bureau of 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, if implemented, would raise customer rates and threaten system operations. This constant, looming threat is another unnecessary cost and risk pressure.

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 a lynchpin of the entire CVP program, including repaying irrigators' CVP capital and restoration fund costs when relief is granted. Yet, a lack of predictability related to the cost of the resource, combined with the development of ongoing Reclamation policies that could establish unsustainable future cost burdens for power customers, is eroding the value of this critical carbon-free generation.

Federal Agency Action Needed

NCPA urges Reclamation to take action on currently pending issues to assure that the many public benefits this project provides to Californians continue to be realized. Cost predictability with regard to the future of this resource is critically important. To that end, the CVPIA True-up Proposal must be recalculated to assign an equitable cost share to all CVP beneficiaries, including CVP power customers, and Reclamation should adopt clear policies that protect CVP power customers from incurring direct or indirect costs related to new storage or water diversion projects that offer no power-related benefits.