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Testimony on the "The Chu Memorandum: Directives Could Increase Electricity Costs for over 40 Million Families and Small Businesses."

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Mr. Chairman, on behalf of the Power and Water Resources Pooling Authority, or the "Pooling Authority," I greatly appreciate the opportunity to testify before the Committee on Natural Resources, with respect to the issues raised by the March 16, 2012 Memorandum issued by Secretary of Energy Chu ("Chu Memo") on potential reforms to the Power Marketing Administrations, including the Western Area Power Administration ("Western").

The Pooling Authority is a joint powers agency that was formed by eight Irrigation Districts pursuant to California law. The Pooling Authority is a publicly-owned retail electricity provider that serves the aggregated electric energy needs of its eight Irrigation District members, as well as six other types of water districts. Collectively, we refer to these 14 districts as the Pooling Authority's Participants. Virtually all of the electricity provided by the Pooling Authority is used by its Participants for pumping water and water treatment.

The Pooling Authority's Participants are diverse, and include the Glen Colusa Irrigation District located amidst the rice fields north of Sacramento, the Sonoma County Water Agency which spans from world-famous Napa Valley to the Pacific coast, the Santa Clara Valley Water District serving part of the Silicon Valley, and the Arvin-Edison Water Storage District which supports the agriculture in the southern San Joaquin Valley. The Pooling Authority's retail electric load varies depending upon hydrological conditions, which can greatly affect pumping to serve our Participants and their growers. The Pooling Authority's electric load ranges between approximately 300 and 500 gigawatt hours of energy per year, with a peak load of nearly 110 megawatts during the summer irrigation season in dry years.

Using this power, Pooling Authority Participants deliver water to growers that farm over one million acres of farmland in California's Central Valley. All totaled, the Pooling Authority's Participants deliver over 3.85 million acre-feet of water annually for various purposes.

The retail customer load that the Pooling Authority serves consists mainly of the pumping and water treatment load of its 14 Irrigation and Water District Participants. Each Participant has a Western allocation for power that they have assigned to the Pooling Authority. In the aggregate, the Pooling Authority represents nearly 7% of the

Western Base Resource power allocations. Each Participant also has one or more contracts with the Bureau of Reclamation for water supply from the Central Valley Project ("CVP"). The Pooling Authority relies on its Western Base Resource contract for approximately 50% of its energy needs across all water conditions. In wet years, the Western Base Resource may serve more than 90% of the Pooling Authority's aggregate load requirements. As you can see, the future of Western, which has been brought into question by the Secretary's Memo, is of critical importance to the Pooling Authority Participants and their water customers.

My message today is simple. Changes to the PMAs that shift emphasis away from their statutory duties, which include power deliveries to their customers, will raise costs to the Pooling Authority. Higher costs to the Pooling Authority means higher water delivery costs to the farm communities that Pooling Authority Participants serve. Our communities have struggled in the depressed economic climate of the past several years. Pooling Authority Participants cannot afford the increased costs that would likely flow from shifting Western's mission away from service to its customers and toward the purposes set forth in the Chu Memo, namely integration of renewable resources.

Although the Chu Memo was short on specific proposals, the goals of a modern and secure infrastructure, increased renewable resource development, and transmission improvements are goals the Pooling Authority shares. But we are already doing all of this and more, and we achieve these goals using our existing partnership with Western. These goals include: (1) Grid Modernization - In the Western Sierra Nevada Region, Western customers formed a partnership with Western and the Bureau of Reclamation ("Reclamation") to prioritize and fund improvements to and modernization of federal generation and transmission, with customer dollars not reliant on annual appropriations. The Western system is reliable and modern, due in large part to the partnership between Western and its customers, and without using taxpayer dollars; and (2) Renewable Resources Development – the Pooling Authority is pursuing and will comply with California's aggressive renewable energy goals to achieve 33% renewable resources by 2020. Even a relatively small entity like the Pooling Authority will invest millions of dollars beyond our base costs for power to achieve these goals. Changes to Western will actually disrupt Western customers' ability to comply with California's renewable energy mandates, and will likely increase the use of fossil fuels to supplement Western's carbon-free hydropower.

In my time here today, I would like to emphasize just a few of the issues raised in the Chu Memo.

Reoperations of the Central Valley Project ("CVP"), Versus the Statutory and Practical Limitations on How Federal Dams are Operated.

The Chu Memo makes passing remarks that Western should engage in a centralized dispatch to better integrate Variable Energy Resources ("VERs") – Renewables. The Secretary goes on to imply that federal hydro facilities are ideal for integrating VERs. Notwithstanding our objections based on the potential cost increases to our Western power deliveries, the plain fact is that Western does not operate the federal dams; this is done by the Bureau of Reclamation (Reclamation).

Further, power delivery is a secondary, or even tertiary purpose of Reclamation in its operation of the CVP. The CVP authorizing legislation states that the project is to be used, first, for river regulation, improved navigation, and flood control; second for irrigation and domestic uses. Generation of electricity is a by-product of water releases made for the CVP project priority purposes. Federal law forbids power generation to impair the efficiency of the CVP for water delivery purposes. Any change in the CVP's statutory priorities would require congressional action.

Impacts on Water Deliveries

As the Committee is aware, California has long-standing disputes over water usage, which are not the purpose of this hearing. In order to achieve their objectives, the Secretary's proposals are likely to involve reoperation of federal generation. Under existing operations, power output from the CVP is already optimized to provide flexible peaking and ancillary service capability to existing power customers. It is difficult to envision how reoperation of the CVP would avoid trampling arrangements with existing customers like the Pooling Authority, which were developed through a thorough public process and are embodied in existing contracts.

What the Secretary is proposing is a cost shift to the Pooling Authority and other Western customers by fundamentally alternating how federal dams are operated in order to firm up renewable resources. And since water delivery obligations form the basis on how the CVP is optimized today, using federal hydroelectric resources to integrate wind and solar generation may shift water release patterns in a manner that could erode the benefits of the CVP to the Pooling Authority and, therefore, to the farm communities that we serve.

Using Western to Build Transmission

California utilities are building transmission at a tremendous rate, primarily to interconnect new renewable resources and comply with state law. Evidence of this fact is that the Pooling Authority's transmission costs have roughly tripled in the last five years as new transmission is added to the system.

Secretary Chu's Memo suggests that Western should take a leadership role to improve the transmission infrastructure in the West. The Secretary does not explicitly explain what a "leadership" role might entail. Our concern is that Western customers will be called upon to pay for this leadership, either through cost responsibility for new transmission, or by the diversion of attention and resources from Western's core mission.

Western's costs have always been allocated upon a principle that the "beneficiary pays" for new investment. Any use of Western to facilitate the development of new transmission must follow that principle. Further, this principle is not a vague notion of quantifying indirect benefits, but allocates cost responsibility to the direct users of the facilities. The Pooling Authority, as a direct user of existing transmission of Western-Sierra Nevada Region, pays for the cost of that transmission system. The Pooling Authority should not be forced to pay for a transmission line from Wyoming to California that interconnects wind resources, unless the Pooling Authority has contracted for those wind resources. Given that it is unlikely that these resources would qualify toward California Renewable Portfolio Standard credit because of limitations in state law, we are highly concerned about the prospect that Western will be used to spread transmission costs across the region. Such a result would eviscerate entirely the concept of "beneficiary pays."

Conclusion

I would like to conclude with the following observations and recommendations.

First, any effort to expropriate the value of the federal assets from Western customers in favor of renewable resource developers is a cost shift that Pooling Authority Participants, and the communities they serve, simply cannot afford.

Second, given that power generation from the CVP is constrained by statutory purposes and operated by Reclamation, it seems likely that some of the main objectives in the Secretary's Memo are outside of DOE control and contrary to law.

Finally, given that the Pooling Authority and others in California must already achieve by state law many of the objectives the Secretary espouses, it is difficult to see what benefits the Memo's proposals would bring with respect to the CVP.

The Chu Memo seems to be a solution in search of a problem, and an expensive one at that. The Pooling Authority urges the Secretary to start over, and work with the Pooling Authority and other Western customers as partners to craft improvements to PMA operations that work within the statutory and operational limitations of federal projects, and which appropriately reflect the roles of the PMAs to market power to its customers.