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Ms. Janet Barbieri, Project Manager
Sites Project Authority
P.O. Box 517
Maxwell, CA 95955

Dear Ms. Barbieri:

The Northern California Power Agency (NCPA) is pleased to submit the following comments on the North-of-the-Delta Offstream Storage (Sites Reservoir Project) Investigation Draft Feasibility Report (Report) that is being considered and developed by the Sites Project Authority (Authority).

NCPA members are located throughout Northern and Central California and in total purchase more than 40 percent of the Central Valley Project (CVP) power that is marketed by the Western Area Power Administration (WAPA). Our members have a long-standing interest in helping to keep CVP power available and price competitive. Our members provide substantial funding for the operation and maintenance of WAPA and Reclamation activities and programs, including the Central Valley Project Improvement Act (CVPIA). We note that the City of Roseville, one of our members, is also a member of the Authority. In addition, several of our members (the Cities of Biggs, Gridley and Redding) are in close proximity to the proposed Sites Reservoir Project.

We note currently that Sites Reservoir Project will be developed as a non-federal project. Nonetheless, absent clear assurances, NCPA is concerned that CVP power customers could incur direct or indirect costs associated with the project. Moreover, if at some future point federal ownership is pursued, then—in addition to assurances of cost protection—it is vitally important that the underlying project assumptions are accurate.

The following are our recommendations:

1. Power Costs from the Sites Reservoir Project Must Not increase CVP Power Costs

We were pleased to note that the Authority has stated on Page ES-12, second paragraph, that:

“All alternatives were developed on the premise that there would be no adverse impacts to the CVP, SWP or their contractors.”

We agree with this premise for all alternatives; however, we are concerned that the Report and the future construction and operation of the Sites Reservoir Project could still lead to increased costs for the CVP power contractors. Increased CVP power costs could result from the Sites Reservoir Project via increased Project Use pumping (at the Tehama-Colusa Canal for intake water deliveries to Sites Reservoir, the Jones pumping plant and perhaps other pumping stations). Project Use pumping for the CVP directly reduces the amounts of base resource energy made available to CVP power contractors, resulting in a cost increase for the remaining amounts of CVP power.

Increased costs to CVP power from the Sites Reservoir Project could also come from aid to irrigation costs that are paid by CVP power customers. Aid to irrigation charges, pursuant to Reclamation law, assign certain costs to power customers that are beyond the ability of CVP irrigation districts to pay. We note that the Tehama Colusa canal irrigation districts have received aid to irrigation benefits. New and increased costs from the Sites Reservoir Project might lead to similar new aid to irrigation costs that could be assigned to the CVP power customers.

Since the Sites Reservoir Project will be a non-federal project and the Authority (not Reclamation) will own and operate Sites Reservoir Project, it will not be a CVP reservoir. It is, therefore, important that no Sites Reservoir Project power costs, either directly or indirectly, or in some re-directed manner, be assigned to the CVP power contractors.

The Report should clearly state that there will be no additional CVP Project Use power associated with the Sites Reservoir Project and its operations, including pumping for the delivery canals and at Jones for purchased water. In addition, there should be no CVP aid to irrigation costs assigned to CVP power contractors because of the Sites Reservoir Project or its operations. As well, the Report should clearly confirm that there would be no such cost increases to CVP power contractors, either directly or indirectly, from the construction and operation of the Sites Reservoir Project.

2. Estimated Power Benefits from the Sites Reservoir Project Appear Overstated

Due to the potential for the project to be developed as a federal dam, constructed or operated by the Bureau of Reclamation (which could result in costs borne by CVP power customers), NCPA is concerned about the accuracy of the underlying project analysis. The Report estimates that generation operations can more than offset the costs of energy for pumping operations, by selling power when prices are high and buying power for pumping when prices are low. The Report states on Page ES-31, first paragraph, that:

“This energy recovery operation would offset the cost of pumping, and modeling results suggest that the revenues generated would be greater than the energy costs.”

Pumped storage operations typically require significantly more energy for pumping than can be produced in the generation mode when water is released. Water to fill Sites Reservoir Project will need to be pumped at several locations (the Tehama-Colusa canal intake, Sites reservoir and the forebays and other pipeline facilities). When the water is released from Sites Reservoir Project to return to the Sacramento River, significantly less energy will be produced than was used to fill the reservoir. It is therefore a highly optimistic assumption that power generation can provide more than enough revenue to cover the pumping operations. We note that the California Department of Water Resources' "incidental" analysis in Appendix H estimated substantial negative net present values for the combined Sites Reservoir Project pumping and generation operations—not a substantial annual net revenue gain for the project.

In Table ES-3 and Table ES-4, the Report estimates that the project would provide \$20.2 Million in annual power benefits from the sale of 47 Gwh/year of power generation when water is released from Sites Reservoir Project in Alternative D. This projection assumes that the project could sell power from the Sites Reservoir Project at an annual average price of about \$430/Mwh. Current average wholesale power prices in the California ISO NP15 market are much lower than this assumed power sales price. As a result, the \$20.2 Million in annual power benefits is overstated. The estimated annual benefits should have been reduced to reflect both realistic power sales prices and the costs for purchasing power for the pumping operations. The Sites Reservoir Project will most likely be used to maximize water deliveries, not power operations. On-peak and off-peak power pricing is unlikely to dictate the operations of the Sites Reservoir Project.

Furthermore, the power appendices (H Part -1 and H- Part-2) were based upon 33 percent Renewables Portfolio Standard requirements, rather than the current state law which requires utilities to meet a 50 percent requirement. Higher renewable resource development in California has been further lowering wholesale power costs in California and will likely impact power sales revenues for Sites Reservoir Project when power is generated. The power appendices need significant updating and revision. Our recommendation is that the Authority should obtain current and future market values from WAPA and then update and revise the projected power benefits for the project.

3. Future Constraints May Limit Power Pumping and Generation Operations

If federal development is pursued, NCPA is also concerned that the analysis insufficiently considers operational risks. As the Authority knows, there are numerous state and federal agency proceedings that may limit the Sites Reservoir Project's pumping and generating operations. On Page ES6, the draft Feasibility Report states that

“Water would be pumped into the reservoir during periods of low demand when the energy cost is reduced.”

While this is an important goal, whether the project can actually operate in that way will depend on a number of future regulatory matters, including, but not limited to, the biological opinions, California Water Board permits and their unimpaired flow decisions, the National Marine Fisheries Service decisions regarding winter run Chinook and temperature requirements in the Sacramento River, the renewal of consultation by both Reclamation and the State Water Project, and potential revisions to the Bay Delta Standards, to name just a few. As a result, in estimating power costs and benefits for Sites Reservoir Project operations, we recommend that the draft Feasibility Report be revised to use less optimistic assumptions for pumping when energy costs are low. Pumping operations may need to occur when the opportunity for water deliveries into Sites Reservoir Project occur, not necessarily when energy costs are low.

We also recommend that the Authority consult with WAPA on transmission interconnection matters for the project; it appears that these future costs may be understated.

Thank you for your consideration. Should you have any questions, please contact me at (916) 781-4203 or jane.cirrincione@ncpa.com.

Sincerely,



JANE CIRRINCIONE

Assistant General Manager, Legislative and Regulatory Affairs

JC:cp

cc: David Murillo, Regional Director, Mid-Pacific Regional Manager, Bureau of Reclamation
Dr. Subhash Paluru, Sierra Nevada Regional Manager, Western Area Power Administration