

Hydropower Storage Reallocation Team



June 23, 2016

Storage Reallocation Methodology Concerns at Hydropower Projects



- Southwestern and other Power Marketing Administrations (PMAs) have historically disagreed with some of the Corps methodologies used for evaluating the impact to the hydropower purpose in storage reallocation studies:
 - Determining hydropower capacity and energy lost
 - Valuing the lost capacity and energy
 - Term of subsequent financial credits due to hydropower purpose
- Underdetermining and/or undervaluing the lost capacity and energy has several consequences:
 - Skews study results to favor reallocation from the conservation pool versus the flood pool or other water supply options.
 - Reduces the financial credit due to the hydropower purpose for the reallocation (cost burden remains without the benefit).

Storage Reallocation Additional Concerns at Hydropower Projects



- Several reallocation studies underway in Southwestern's marketing area exceed what was understood to be the Corps' maximum discretionary storage reallocation authority per Corps regulations implementing the Water Supply Act of 1958 (WSA) - lesser of 50,000 acre-feet or 15% of total storage.
- Difficulty discerning on Corps financial reports, provided to the PMAs for repayment purposes, the revenues foregone financial credit (1st credit) due for water supply storage reallocations in effect.
- No process for PMAs to submit to the Corps request for the replacement power purchases financial credit (2nd credit).

Hydropower Storage Reallocation Team (HSRT)



- To address these various concerns, the Corps and two PMAs (Southeastern and Southwestern), with support from DOE HQ, have formed a working group called the Hydropower Storage Reallocation Team (HSRT).
- Draft Charter, in process
 - Purpose: The purpose of the HSRT is to address issues associated with the reallocation of water storage to water supply that negatively impacts the renewable hydropower purpose and does not provide for proper compensation, including cost-shifting, reduced production, and increased electricity rates.
 - Mission Statement: PMAs and USACE partner to generate, transmit, and market reliable hydropower services at the lowest possible cost consistent with sound business principles to benefit the nation.

Hydropower Storage Reallocation Team (HSRT) - Tiger Teams



- HSRT “Tiger Teams” created to focus on particular areas of concern:
 - Team 1 - Focused on seeking resolution on the methodology differences by consensus, and ensuring processes are in place so that the proper revenues foregone credit (1st credit) is provided from the Corps planning function to the Corps finance function.
 - Team 2 - Focused on ensuring the Corps and PMA finance functions have processes in place to apply and document the proper revenues forgone credit (1st credit) to the hydropower purpose, as well as determine a method for applying any past revenues foregone credits due that were not previously applied.
- Request for replacement power purchases (2nd credit) is currently being worked outside of the Tiger Teams; Southwestern working on the first request of this kind.

Hydropower Storage Reallocation Team (HSRT) – Progress Thus Far



- HSRT Meetings: 3/9/2016, 4/27/2016, 5/20/2016
- HSRT Team 2 Meetings: 4/20/2016, 6/9/2016
- Action Items Completed:
 - Corps compiled data for study on impact of actual water supply withdrawals not restricted to storage yield for determining energy losses.
 - Southwestern provided white paper on its water supply storage reallocation comments related to "seriously affect" per WSA.
 - PMAs provided examples of the Corps financial reports; Southeastern provided white paper on handling differences from various Corps districts.
 - Corps provided its Lake Lanier storage reallocation legal opinion and two special case hydropower credits documents.
 - PMAs/Corps created Tiger Teams (scope) and drafted HSRT Charter.
 - Corps performed "deep dive" of Bull Shoals water supply storage reallocations/contracts financial process and credits applied.

Hydropower Storage Reallocation Team (HSRT) - Going Forward



- Action Items Outstanding:

- PMAs/Corps finalize and get executive approval of HSRT Charter.
- Corps to provide information on flood storage methodology utilized in current water supply storage reallocation studies.
- Corps HAC to conduct study on impact of actual water supply withdrawals not restricted to storage yield for determining energy losses.
- Southwestern to provide white paper on using critical year capacity for determining benefits foregone, addressing concerns of "double dipping".
- Southwestern to provide white paper on methodology to determine replacement power purchases and draft request package for 2nd credit.
- Corps to follow-up on developments concerning Corps districts' storage accounting, in particular where it's not performed.
- Corps to share it's new methodology being developed on a project-specific basis to determine "seriously affect" for WSA reallocations.
- PMAs to provide presentation on how the storage reallocation issue impacts PMA rates and importance to the federal hydropower program.
- Next Meetings to be scheduled: Team 1 week of 7/11, HSRT 7/25/2016

Hydropower Storage Reallocation Team (HSRT) - Questions?

