

## Storage Reallocation Policy of SPRA

**Whereas**, under current regulations and policy, when the Corps of Engineers reallocates storage in an existing reservoir that has dedicated hydropower storage, hydroelectric energy and often capacity available from the project is lost; and,

**Whereas**, methods employed by the Corps to determine hydroelectric energy and capacity losses associated with storage reallocation greatly underestimate these losses; and,

**Whereas**, methods employed by the Corps to determine replacement cost for hydroelectric energy and capacity lost due to storage reallocation greatly underestimate these costs; and,

**Whereas**, under current regulations and policy, the Corps provides replacement cost compensation for hydroelectric energy and capacity lost due to reallocation only when the loss can be demonstrated, and then only for the term of the power sales contracts then in force at the affected project; and,

**Whereas**, when power sales contracts from affected Corps projects expire, compensation for energy and capacity reverts to revenues foregone by the U.S. Department of Energy Power Marketing Administration (PMA) responsible for marketing hydroelectric energy and capacity from the affected project; and,

**Whereas**, revenues foregone by a PMA represent only a fraction of the costs to replace hydroelectric energy and capacity lost due to storage reallocation; and,

**Whereas**, current regulations and policy governing the pricing of reallocated storage provide no incentives to minimize impacts on hydropower production for Municipal & Industrial (M&I) water supply customers seeking such reallocations; and,

**Whereas**, if storage reallocations are made from the flood pool of a Corps project rather than the power pool, impacts on hydropower are limited primarily to losses of supplemental energy (mainly non-peak energy) with limited losses of on-peak energy and capacity associated with the resulting reduction in dependable yield of the power pool; and,

**Whereas**, hydroelectric on-peak energy and capacity losses associated with storage reallocations from a project's flood control pool can be eliminated by reallocating sufficient storage to maintain the dependable yield of the power pool; and,

**Whereas**, existing Corps rules and regulations discriminate against federal hydropower customers, because when storage is reallocated at a Corps project with existing M&I water customers, sufficient storage is reallocated to maintain the dependable yield of the storage held by said M&I customers, while power customers are forced to accept a reduction in the dependable yield of the power pool; and,

**Whereas**, hydropower energy losses associated with a storage reallocation are calculated on the dependable yield of the storage to be provided to the M&I water supply customer, but the M&I water supply customer is allowed to withdraw more than the dependable yield of the contracted storage in most years, thus imposing additional uncompensated hydropower losses, and,

**Whereas,** hydroelectric energy is a renewable resource whose generation does not produce any greenhouse gas emissions; and

**Whereas,** any reduction in hydroelectric energy and/or capacity is generally replaced with energy and/or capacity generated from nonrenewable fossil fuels, resulting in an increase in greenhouse gas emissions;

**NOW, THEREFORE, BE IT RESOLVED:** That Southwestern Power Resources Association adopts the following policy concerning storage reallocations at existing Corps of Engineers reservoirs:

- Southwestern Power Resources Association does not oppose any M&I water storage reallocation at a Corps reservoir if there is a demonstrated immediate need for the yield of the reallocated storage and if the proposed reallocation is the most cost-effective way of obtaining the demonstrated immediate need for additional water supply.
- Those seeking reallocated storage from Corps reservoirs should be charged either (1) the cost of providing the storage based on the original construction costs of the project (sunk costs) or (2) the replacement costs for benefits lost (including any hydroelectric energy and/or capacity) due to reallocating the storage, whichever is greater. Such a policy would provide an incentive to M&I water supply customers to seek an alternative for new water supplies that minimize the impacts on hydropower.
- M&I water withdrawals should be limited to the dependable yield of the M&I water storage.
- When storage is reallocated from the flood pool of a Corps project with dedicated hydropower storage, sufficient storage should be reallocated to maintain the dependable yield of the storage already dedicated to both M&I and hydropower purposes.
- The responsibility to determine the hydroelectric energy and/or capacity losses associated with a reallocation and the cost to replace these losses should be assigned to the Administrator of the PMA that is affected by the reallocation and should reflect the losses incurred for the economic life of the project.
- Compensation calculated by the PMA Administrator should be provided by writing down the repayment obligations of the PMA for hydropower investments in Corps multipurpose projects. Thus, no money would change hands, but the cost of the federal power customers to replace lost energy and capacity would be offset by a corresponding reduction in their repayment obligations to the U.S. Treasury.
- Storage reallocation should be limited to the demonstrated immediate need (*i.e.*, additional M&I water supply needed within the next 10 years), plus sufficient storage to maintain the dependable yields of the power storage and existing water supply storage customers at the project.
- Reallocation of storage at an existing Corps reservoir should occur only when it is determined that the proposed reallocation is the least-cost alternative to providing the demonstrated immediate M&I water supply need.

**BE IT FURTHER RESOLVED:** That Southwestern Power Resources Association calls on Congress to enact legislation implementing such policy.

*Adopted by the Board of Directors of Southwestern Power Resources Association this 22<sup>nd</sup> day of April, 2010.*