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Oversight Hearing
The Power Marketing Administrations: A Ratepayer Perspective

Committee on Natural Resources
Subcommittee on Water and Power
United States House of Representatives
June 26, 2013

Good morning, Chairman McClintock, Ranking Member Napolitano, and Members of the subcommittee, and greetings to our Northwest Representatives on the Natural Resources Committee. My name is Scott Corwin. I am the Executive Director of the Public Power Council (PPC), a trade association representing the consumer-owned electric utilities of the Pacific Northwest that purchase power and transmission marketed by the Bonneville Power Administration (BPA). Our member utilities have service territories in portions of seven western states and serve over 41% of the electricity consumers in the region.

Today, I would like to touch upon the core mission of the Bonneville Power Administration (BPA), and how the agency interacts with its power customers. Then, I will discuss some of the issues that may warrant continued oversight of this subcommittee in order to ensure that the "beneficiary pays" principle is met and that citizens of the Northwest continue to receive the value from the long-term contracts they signed for the power from the Federal Columbia River Power System.

Preference Power Customers' Interaction with the Bonneville Power Administration

Brief Background on BPA—The Bonneville Power Administration is a ratepayer-funded agency that is part of the Department of Energy (DOE). It markets the renewable hydropower of the 31 federal dams in the Columbia River Basin, as well as the power from a nuclear plant and several smaller generation plants. This generation ranges from the relatively small three megawatt (MW) diversion dam in Boise to the 7079 MW Grand Coulee Dam in central Washington. The dams are owned and operated by the U.S. Army Corps of Engineers and the Bureau of Reclamation. The agency also owns and operates over 15,000 circuit miles of high voltage transmission lines. While the Administrator of BPA reports to the Deputy Secretary of Energy, there is a strong history of, and

need for, close coordination with Congress and with the consumers in the region footing the bill for BPA's operations.

Preference and Local Control—Preference rights to federal power were granted to the consumer-owned utilities that have the mandate to pass the benefits through to the citizens of the Northwest who are their owners. This ideal is just as important and relevant today as it was in the early part of the 20th century because it stands as a way to ensure that the value of public resources flows to the public, and it also serves as a standard against which other utilities may be measured. Consumer-owned utilities with preference rights are guided always by the principle of local control; they are service-oriented, cost-conscious, and consumer-focused.

For BPA the core mission under the law is the provision of clean, cost-based, affordable and reliable electricity. BPA is to do this at "the lowest possible rates to consumers consistent with sound business principles." 16 U.S.C. Section 838g. Over the years, the authority of BPA has been refined and expanded. But, in each case Congress has given specific authority and direction to BPA.

Certainly, one could dream up an endless array of grand new missions for an institution, like BPA, that has the ability to draw from its own revenue base. But, most of the new missions suggested would diverge from the "beneficiary pays" ethic. And, there is no more critical or noble mission than providing, at cost, the reliable electricity that drives every aspect of modern life in the home, in the hospital, on the farm, or in the server farm.

BPA is not supported by taxpayer dollars. It is a statutory creature with a rich history from which evolved specific missions, specific goals, and specific purposes. Because there is a captive set of ratepayers that fund these specifically authorized purposes, BPA programs receive a high level of regional review. BPA is not just another tool for any and all federal policy pursuit.

During the recent process to select the new Administrator of BPA, we appreciated the oversight of the Northwest Congressional delegation and the approach of the Deputy Secretary of DOE who took into account our regional input for selection criteria. This led to an excellent choice in Mr. Drummond, an experienced utility professional with decades of regional experience.

The customers still have the occasional dispute with BPA. But, we have found that recent years have seen the agency build an experienced leadership team that has instilled an ethic of outreach to customers on important policy matters before they are decided.

Local Control Leads to Local Initiative – Throughout its history, BPA has achieved its core mission (providing affordable power) by partnering with consumer-owned utilities in the region. It is the local utilities that have the expertise and local knowledge to know what will work, and what will not, for the citizens that they serve in their areas. We have found that top-down directives from the outside rarely work as well as solutions crafted by regional parties who have knowledge of the unique nature of each power system.

In the Northwest consumer-owned utilities listen to their customers and act accordingly. For example, with or without specific mandates, these utilities have been making substantial investments in energy efficiency and various forms of renewable power for decades. And, I appreciate the subcommittee inviting Snohomish County Public Utility District No. 1 to testify today. As a BPA customer, and a member of PPC's Executive Committee, Snohomish PUD is a good example of the achievements that are possible by retail utilities with leadership at the local level.

BPA Costs, Rates and the Potential Impact to the Economy

For the second consecutive rate case, the power customers of BPA will be facing a significant rate increase. While customers were able to work with the agency through the budget process to ensure that the rate increase did not rise to the much higher earlier estimate, a 9% on average power rate increase this year will be burdensome to a region with continuing economic problems.

In addition to a below average water year and a soft West Coast power market, BPA has the significant budget challenges of refurbishing an aging hydro system and addressing regional demand for more transmission infrastructure. A prime example of a large investment that is in the interest of regional ratepayers is the replacement of the fifty-year old turbines in the Third Powerhouse at Grand Coulee Dam.

Compounding the hit to the economy from the power rate increase will be a BPA transmission rate increase of around 13% this fall. This is largely due to the costs of infrastructure additions and maintenance. Also, increased investments to ensure reliability and to integrate renewable generation will continue to drive costs upward.

Because the BPA capital and operations and maintenance budgets are already strained, customers have little tolerance for increased costs without corresponding benefits. We are working hard in the budget and rates processes to prevent allocation of costs without benefit. BPA has an imperative to focus on the least-cost means of achieving policy objectives that fall within its authority.

Any rate increase to achieve a top-down directed policy goal has the potential to threaten the important rate design principle of "cost causation". Under this key principle, costs are paid by the parties that cause the action or benefit from the program.

Threats of Top-Down Regulation—Good Intentions, Bad Effects

Consumer-owned utilities in the Northwest understand very well the need for a reliable electric grid. Also, they support the addition of cost-effective sources of renewable energy and energy efficiency. The track record in these areas is very good in the Northwest, so it is difficult to understand the push within certain corners of the federal government to create top-down command and control over these topics in power marketing administration areas.

There have been many examples of these federal initiatives that represent a top-down approach not mindful of local and regional needs. Over the years, various market structures have been suggested

for the Northwest in the belief that they would promote new generation or new transmission construction. But, the region continues to evolve in its own way and has managed to build new generation and transmission without centralized command and control.

FERC— A striking example of a federal top-down approach came just last Thursday from the Federal Energy Regulatory Commission (FERC) when it issued an order on filings submitted by some utilities in the Northwest, including the Bonneville Power Administration (BPA), on their transmission planning processes to comply with FERC Order No. 1000. In effect, FERC rejected key portions of the regional approach for transmission planning and cost allocation that has been working well in the Northwest (the regional planning entity is called ColumbiaGrid).

The dissent of FERC Commissioner Clark was notable. He stated, "The Commission has stressed throughout the Order No. 1000 process that flexibility and respect for regional differences would be a hallmark of this undertaking. I believe this order runs afoul of that stated principle." He also said, "By rejecting key elements of this filing, I am concerned that we may do more harm than good in this region." We agree with that assessment.

The irony to these top-down policy directives is two-fold. First, these one-size fits all directives do not recognize, and sometimes conflict with, the ability of regionally directed entities like BPA to move ahead without them. BPA has evolved to meet the challenges of a changing industry. It has achieved the highest rate of wind penetration of any balancing authority in the country (42 percent by generation to peak load) with over 4,500 megawatts of wind generation. This is a ten-fold (1000 percent) increase over the amount of wind on the BPA system in August of 2006. Also, BPA has a very effective transmission planning processes, and currently has about 300 miles of high voltage transmission lines underway.

Second, these directives overlook achievements of utilities at the local level. In fact, some of the so-called regional accomplishments are often driven by local creation and implementation of programs. For example, the 5000 average megawatts of energy efficiency savings achieved by the Northwest region since passage of the Northwest Power Act in 1980 largely happens at the local level. And, in the future, with a tiered rate structure, BPA's customers will be prepared to meet new demand for energy with a combination of new resources and energy efficiency.

EIM— Last year some regulators suggested that BPA should join a *West-wide* energy imbalance market (EIM), an idea that raised serious questions about costs and jurisdiction. Instead, parties within the footprint of the Northwest Power Pool are pursuing the capture of additional flexibility and efficiency across their systems to address energy imbalance. But, in addition to analyzing the costs and benefits of a locally-controlled EIM, an important part of the project includes further coordination on initiatives already underway to create efficiencies between parties bilaterally.

Challenges: Fish and Wildlife Cost Uncertainty

Another area of increasing regulation and budget pressure over the last two decades has been in fish and wildlife mitigation. In the federal Columbia River power system, measures are in place

covering every possible aspect of the fish lifecycle. These efforts cost around $700 million per year (about 25 to 30 percent of the wholesale power cost), and some of the measures impose large constraints on the production of clean hydropower.

Maintaining proper care for the environment is a role, and a cost, that BPA and the power customers take seriously. And, in light of the already high level of costs in this area, the appropriate allocation of costs is critical. There are clear statutory boundaries to the fish and wildlife payment obligations of ratepayers relating to the power system. BPA is not charged with being the guarantor of every ecosystem initiative in the Columbia Basin needing a funding source.

On the topic of salmon and steelhead survival, there are myriad impacts to these species outside of the hydropower system involving aspects of habitat, hatcheries, harvest, and predation. Even so, recent years have seen impressive numbers on salmon survival. The federal system in the Columbia Basin is on track to meet the 93% to 96% dam survival rate for migrating juveniles. And, in 2012 the adult return of sockeye was the largest observed since Bonneville Dam was in built in 1938.

A clear example of large potential costs without benefit is the tired old proposal to breach main stem dams on the Columbia and Snake Rivers. For example, the four lower Snake Dams alone provide about 1,100 average megawatts of renewable, emission-free energy which is approximately the amount necessary to power the entire city of Seattle. There would be an enormous cost to replace that base load power supply with thermal resources without any proven biological benefit. Current juvenile fish passage survival rates already are at or above 95% at all four dams. And, removal of these dams would not significantly improve access to historic spawning areas.

The 2010 supplemental biological opinion (BiOp) for operation of the hydropower system for salmonids was the result of massive work to create science-based consensus among states, tribes, and federal agencies. Later this year, the federal agencies will prepare another supplementary biological opinion. While the evolution of this BiOp represents enormous ratepayer costs, it is time to create some regulatory stability and move this plan forward to build on the success seen so far.

The BiOp has been dragged out in court for too long. For the long term health of the fish populations, and for consistency in planning and budgeting, we are looking for the court to finally lend some stability to the region.

Challenges: The Columbia River Treaty

Another issue presenting potential costs without commensurate benefit to BPA and ratepayers is the Columbia River Treaty with Canada that has been in place since 1964. Negotiated on the heels of the horrendous 1948 floods that killed 15 people and wiped out the town of Vanport, Oregon, the Treaty enabled dams and water storage for flood control and power production. The arrangement with Canada worked very well for five decades. But, a current review process is finding that key parts of the Treaty now weigh against the interests of the United States.

From the beginning, the focus of the Columbia River Treaty was upon flood control and power production. The United States paid Canada to provide flood control at key times by storing water behind new dams built north of the border. The extra power created by this new ability to store water and release it more evenly for use downstream was to be shared 50-50 by the U.S. and Canada. But, best estimates are that changes in river operations since the 1960s will have Canada receiving about ten times the power benefit that the U.S. receives. The impact to electricity rates, and thus jobs in the Northwest, is notable (depending on market values, we are overpaying around $250 million annually to Canada).

Either side can end most of the Treaty provisions, but must give ten-years of notice. The earliest that notice can be given is 2014. So, by the end of this year, the agencies in charge (Bonneville Power Administration and the Army Corps of Engineers, also called the "U.S. Entity") must make a recommendation to the State Department on whether the Treaty should continue, be terminated, or be renegotiated.

Complicating matters is a push to add elements to a renewed Treaty dealing with matters not originally contemplated, such as the fish and wildlife protections that have been the subject of various other laws. The goal of protecting and enhancing fish species is an important one. As discussed previously, the measures for fish in the Northwest are effective, extensive, and expensive. But, they are not always efficient. We are very concerned about some new proposals in the Treaty review process that would have the system take on more flood risk in the name of water flow for supposed fish benefit. And, there are other extreme proposals that would add over $1 billion in additional costs to power customers with questionable feasibility or ecosystem benefit.

Tomorrow, after a lengthy delay in a closed process dominated by state, federal and tribal agencies, BPA and the Army Corps of Engineers are going to release their Draft Recommendation for the Treaty. Full and immediate engagement between the U.S. Entity and those with utility and operational experience is critical to achieving the best results for the citizens and the economy of this region.

Conclusion

The core mission of the Bonneville Power Administration (provision of clean, affordable power) is critical to the people and economy of the Northwest. Through locally and regionally created solutions, utilities in the Northwest in partnership with BPA will be able to continue to meet the vast new challenges around our changing industry, and make the most of limited ratepayer dollars. With so much progress made on an array of tough issues, regional solutions should not take a back seat to one-size-fits-all proposals that, in the end, may not fit anyone.

Thank you very much for the opportunity to testify today. I look forward to answering any questions.