

Subcommittee on Water, Power and Oceans

Doug Lamborn, Chairman

Hearing Memorandum

March 19, 2018

To: All Subcommittee on Water, Power and Oceans Members

From: Republican Staff, Subcommittee on Water, Power and Oceans (x5-8331)

Hearing: Oversight hearing entitled “*Examining the Proposed Fiscal Year 2019 Spending, Priorities and Missions of the Bureau of Reclamation and the Four Power Marketing Administrations.*”
March 21, 2018 at 2:00p.m. in 1324 Longworth House Office Building

The Subcommittee on Water, Power and Oceans will hold an oversight hearing on the President’s Fiscal Year 2019 (FY19) budget requests for the Bureau of Reclamation and the four Power Marketing Administrations (PMAs). The hearing will take place on **March 21, 2018, at 2:00 p.m. in 1324 Longworth** and will consist of one federal agency panel.

Policy Overview:

- Our nation’s multi-purpose water storage and conveyance projects have provided benefits to the American people for generations. Water deliveries and hydropower generation from these facilities are being curtailed due to drought, litigation and federal regulation.
- With our national debt currently exceeding *\$20 trillion*, Congress must ensure that agency spending is appropriate and transparent in light of limited federal dollars.
- Parts of the West are suffering from drought conditions, and a host of factors, including conservation, operating efficiencies and new storage can help alleviate this situation.

Witnesses (listed in alphabetical order):

Mr. Mark Gabriel
Administrator, Western Area Power Administration
Lakewood, Colorado

Mr. Elliot Mainzer
Administrator, Bonneville Power Administration
Portland, Oregon

Mr. Kenneth Legg
Administrator, Southeastern Power Administration
Elberton, GA

Mr. Mike Wech

Acting Administrator, Southwestern Power Administration
Tulsa, OK

Mr. Timothy R. Petty, Ph.D.

Assistant Secretary for Water and Science, U.S. Department of the Interior
Washington, D.C.

Background:

Bureau of Reclamation, Department of the Interior:

FY18 President's Request (Net current authority)	\$1.06 Billion
FY18 Annualized Continuing Resolution (CR)	\$1.25 Billion
FY19 President's Request	\$987.0 Million

Throughout much of the last century, U.S. Bureau of Reclamation (Reclamation) projects played a significant role in the settlement of the West by providing a reliable source of water and power for irrigated agriculture and rural and urban communities. Specifically, Reclamation manages 492 dams and 338 reservoirs with the capacity to store millions of acre-feet of water to assist in flood control, recreation, agricultural irrigation, and municipal and industrial use for millions of Americans.¹ Reclamation's reservoirs and dams generate enough emissions-free electricity to serve at least 3.5 million homes annually.² This is accomplished through the operation of 53 hydroelectric power plants which generate 37 billion kilowatt hours of electricity annually.³ This accounts for 15 percent of the hydroelectric capacity and generation in the United States.⁴

Map of Reclamation Regions



Source: U.S. Bureau of Reclamation

The federal government provided the initial capital contribution to build the vast majority of these early projects, however, the water and power customers who benefitted from the facilities entered into long-term contracts with the federal government to repay their part of the initial taxpayer investment.

¹ Bureau of Reclamation FY19 Budget Justification at Water and Related Resources - 1

² Id at 1.

³ Id at 1.

⁴ Id at 1.

The Administration's Reclamation Budget Proposal

Serving as Reclamation's principal operating account, the Water and Related Resources Account is proposed at \$891.0 million, a decrease from the FY18 annualized CR level of \$1.148 billion.⁵ Of this amount, the following sub-programs are proposed:

WaterSMART Program – As authorized under Public Law 111-11, this program includes grants designed to encourage water conservation.⁶ The grants require local cost-sharing; however, the grants do not require recipient repayment.⁷ Reclamation proposes to fund WaterSMART at \$19.9 million,⁸ a decrease from the FY18 annualized CR level of \$83.0 million.⁹

Rural Water Projects – The proposed budget includes \$34.0 million for rural water projects. This includes construction funding of \$13.795 million, and \$20.16 million for operation and maintenance.¹⁰ Reclamation's rural water supply program is currently operating under the authorities of Public Law 109-451, which established a program to assess potable water supply needs and to identify options to address those needs through appraisal investigations and feasibility studies.¹¹

Dam Safety Program – A total of \$88.1 million is provided for Reclamation's Safety of Dams Program, which includes \$64.5 million to correct identified safety issues.¹²

Ecosystem Restoration/Climate Adaptation/Endangered Species Activities – The budget proposes \$19.3 million for Endangered Species Act Recovery Implementation programs including \$12.4 million in the Great Plains Region to implement the Platte River Endangered Species Recovery Implementation program, and \$4.3 million for the Upper Colorado and San Juan River Endangered Fish Recovery programs.¹³

Accounts outside of the Water and Related Resources budget include:

California Bay-Delta Restoration: The FY19 budget provides \$35 million for this program, which according to Reclamation, focuses on conserving and restoring the health of the ecosystem and improving water management.¹⁴ The Sacramento-San Joaquin River Delta (Delta) contains over 1,300 miles of levees and is home to more than 500,000 people.¹⁵

Policy and Administration: The account that finances Reclamation's central and regional management functions is proposed at \$61 million.¹⁶

⁵ Bureau of Reclamation FY19 Budget Justification at Water and Related Resources – 2.

⁶ Bureau of Reclamation FY19 Budget Justification at Bureauwide- 64.

⁷ <http://www.usbr.gov/WaterSMART/grants.html>

⁸ Bureau of Reclamation FY19 Budget Justification at Water and Related Resources – 3.

⁹ *Id.* at 8.

¹⁰ Bureau of Reclamation FY19 Budget Justification at Water and Related Resources – 5.

¹¹ <http://www.usbr.gov/ruralwater/>

¹² Bureau of Reclamation FY19 Budget Justification at Bureauwide – 13.

¹³ Bureau of Reclamation FY19 Budget Justification at Water and Related Resources- 10.

¹⁴ Bureau of Reclamation FY19 Budget Justification at California Bay-Delta Restoration Fund – 2.

¹⁵ *Id.* at 14.

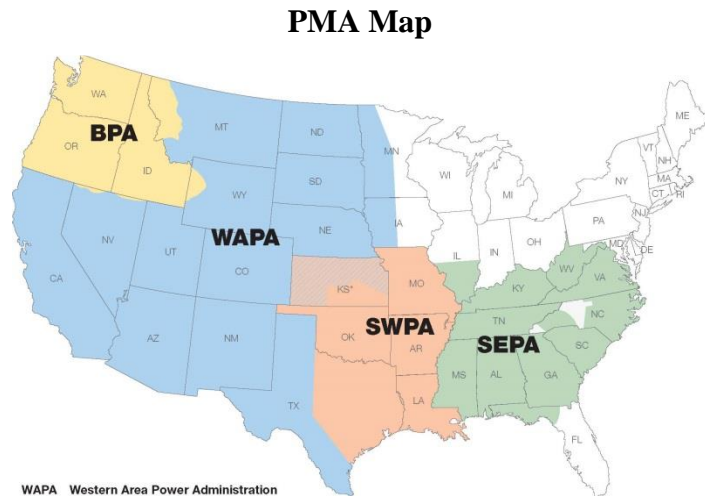
¹⁶ Bureau of Reclamation FY19 Budget Justification at General Statement – 13.

Central Utah Project Completion Act (CUPCA): The FY19 budget request is \$8.0 million, a decrease of \$10.4 million from the 2018 CR level.¹⁷ This account is managed by the Department of the Interior, not Reclamation.

Power Marketing Administrations (PMAs), Department of Energy:

General Background

Each PMA markets and delivers (via transmission lines) electricity generated at federal dams and reservoirs operated by Reclamation and the U.S. Army Corps of Engineers (Corps).¹⁸ Hydropower generated at these facilities, particularly in the Western United States, is first used to provide electricity to operate irrigation pumps.¹⁹ Any excess power is then primarily sold by the PMAs to preference customers, which, by federal statute, are non-profit rural electric cooperatives, public utility districts, Indian tribes, municipalities, and some irrigation districts.²⁰



Source: Department of Energy

Under numerous authorizing statutes, preference power is sold at cost-of-service based wholesale rates, which are designed to repay the federal capital investment (plus interest) in federal electricity generation and transmission facilities, annual operation and maintenance of such facilities and federal staffing.²¹ The rate structures are followed pursuant to 20 to 50 year contracts the wholesale customers enter into with the federal government. Rates also include the costs of environmental mandates and replacement power services resulting from these mandates. With a few exceptions over the years, the PMA budgets are designed to be financed 100% by ratepayers, as all initial appropriations are reimbursed.²²

The President's FY19 budget proposal would authorize the federal government to sell the transmission assets of the Southwestern, Western Area, and Bonneville Power Administrations.²³ Some, however, have expressed concerns over the proposal.²⁴

¹⁷ Central Utah Project Completion Act FY19 Budget Justification at Central Utah Project Completion Act – 1.

¹⁸ Bracmort, Kelsi. "Hydropower: Federal and Nonfederal Investment." 22 January 2013. R42579. Pg. 9.

¹⁹ *Id.* at 1.

²⁰ Submitted Testimony of Mr. Victor S. Rezendes, Director, Energy, Resources, and Science Issues, Resources Community and Economic Development Division, U.S. General Accounting Office, before the House Subcommittee on Water and Power, note 5. Released June 24, 1999.

²¹ Testimony of Mr. Mark Crisson, President & CEO, American Public Power Association

"Increased Electricity Costs for American Families and Small Businesses: The Potential Impacts of the Chu Memorandum" before the House Natural Resources Committee, April 26, 2012 at 2.

²² *Id.* at 21.

²³ President's FY19 Budget Request Appendix at 402, 404 and 409.

Highlights of the Western Area Power Administration (Western) Budget Request (focused on net budget authority):

FY18 President’s Request	\$70.6 Million
FY18 Annualized CR	\$71.5 Million
FY19 President’s Request	\$66.6 Million

Western, created in 1977, has the capacity to market and deliver over 10,500 megawatts of hydro-electricity produced at Reclamation and Corps dams.²⁵ Western serves about 700 wholesale customers over 1.3 million square miles in Arizona, California, Colorado, Iowa, Kansas, Minnesota, Montana, Nebraska, Nevada, New Mexico, North Dakota, South Dakota, Texas, Utah and Wyoming through a 17,000-mile federal transmission system.²⁶ These wholesale customers, in turn, supply 50 million retail customers.²⁷ Western is financed by annual customer funding and advance payments and appropriations, which are then reimbursed with interest through customer contractual repayment obligations.

Western’s base program is funded through three main appropriation accounts: the Construction, Rehabilitation, Operation and Maintenance Account (CROM), the Falcon and Amistad Operating and Maintenance Fund, and the Colorado River Basins Power Marketing Fund. Each is funded through a combination of advance customer funding, alternative financing and appropriations.²⁸ Within CROM, a “Program Direction” subaccount is geared towards staffing, financial systems and new security standards. The FY19 budget proposes 1,521 Full-time equivalents (FTEs), which is level with last year’s request.²⁹

While Western’s historic core mission has been to provide hydropower to its customers, the agency has ventured into new arenas. For example, Section 402 of the American Reinvestment and Recovery Act of 2009 (Public Law 111-5) provided Western with up to \$3.25 billion in borrowing authority to integrate renewable power developed primarily by third parties.³⁰ The program’s proponents maintain that the borrowing authority’s loans to wind and solar providers will speed up renewable energy integration since more funding will be available.³¹

However, the loan program has been plagued by controversy, beginning with a provision viewed as a potential taxpayer bailout if a project fails (emphasis added): *“If, at the end of the useful life of a project, there is a remaining balance owed to the Treasury under this section, the*

²⁴ <http://www.electric.coop/wp-content/uploads/2018/02/Joint-APPA-NRECA-Perry-Letter-2.26.18-2.pdf> .

²⁵ <https://www.wapa.gov/about/Pages/about.aspx>.

²⁶ <https://www.wapa.gov/newsroom/Publications/Documents/How-WAPA-Does-Business.pdf> at 1.

²⁷ *Id.* at 1.

²⁸ Department of Energy FY17 Congressional Budget Request -- Power Marketing Administrations. Western Area Power Administration at 65-66

²⁹ President’s FY19 Budget Request Appendix at 404

³⁰ Public Law 111-5

³¹ *supra*, note 29 at 11.

balance shall be forgiven.”³² The Department of Energy’s Inspector General issued a “Management Alert” on November 4, 2011, indicating that “Western had not implemented the necessary safeguards to ensure its commitment of funding was optimally protected” on its first project.³³ Western has since maintained that it has improved the program. The agency has eight projects currently utilizing the loan program.³⁴ However, the President’s budget request contains a proposal to repeal the borrowing authority managed by Western.³⁵

Highlights of the Bonneville Power Administration (Bonneville) Budget Request:

FY18 President’s Request	\$4.5 Billion
FY18 Annualized CR	\$4.14 Billion
FY19 President’s Request	\$4.42Billion

Bonneville, created in 1937, markets and delivers wholesale electrical hydropower generated at 31 Reclamation and Corps facilities (known as the Federal Columbia River Power System or FCRPS) to wholesale customers in Oregon, Washington and parts of Idaho, Montana, Wyoming and Nevada.³⁶ Bonneville, which also receives and markets an average of 1,000 megawatts of nuclear energy, serves 142 municipal, rural electric, public utility districts, investor-owned utilities and some energy-intensive industries. Covering over 300,000 square miles in the Pacific Northwest,³⁷ Bonneville has a large impact on the region’s electricity market, providing nearly a third of the region’s electricity sales and almost three-fourths of its transmission capacity.³⁸ The agency also sells a significant amount of “surplus” energy to California utilities in some water years.

Bonneville is self-financed and receives no direct annual appropriations from Congress.³⁹ Bonneville’s annual revenues vary, depending on hydrologic conditions, electricity prices, environmental regulations and other factors. Bonneville estimates that its overall FY19 budget obligations will be \$4.42 billion, all of which will be repaid by ratepayers.⁴⁰ The agency’s expenses include operational and capital costs including power purchases, staffing, infrastructure costs and environmental expenditures (Endangered Species Act compliance, etc.) among other things. The agency has proposed 3,000 FTEs,⁴¹ which is equal to last year’s level.

Many of Bonneville’s customers are concerned about the status of the Columbia River Treaty (CRT), which was signed by the U.S. and Canada in 1964. The CRT governs the development and operation of dams in the upper Columbia basin for power and flood control benefits in both countries. Each country can give the other a ten-year notice termination,

³² Public Law 111-5, Section 402.

³³ Management Alert, Western Area Power Administration’s Control and Administration of American Recovery and Reinvestment Act Borrowing Authority at 2.

³⁴ <https://www.wapa.gov/transmission/TIP/Pages/impacts.aspx>.

³⁵ Department of the Energy FY19 Congressional Budget Request in Brief, at 34.

³⁶ <https://www.bpa.gov/Finance/FinancialInformation/AnnualReports/Documents/AR2017.pdf> at 2.

³⁷ <http://www.bpa.gov/news/pubs/GeneralPublications/gi-BPA-Facts.pdf>.

³⁸ *Id.*

³⁹ Department of the Energy FY19 Congressional Budget Request in Brief, at 34.

⁴⁰ *Id.*

⁴¹ President’s FY19 Budget Request Appendix at 409.

beginning in 2014.⁴² The U.S. Government reached consensus on a high level position for negotiations of the Treaty in June 2015, and a lead negotiator was selected by the State Department in August 2015.⁴³ Various interests have different positions on the CRT, and the State Department and Canada will begin formal negotiations this year.

Highlights of the Southwestern (Southwestern) and Southeastern (Southeastern) Power Administrations (Southwestern) Budget Request:

Southwestern, created in 1943, has the capacity to market and deliver 2,181 megawatts of peak electricity produced at 24 Corps dams, and sells the power to over one hundred customers in Arkansas, Kansas, Louisiana, Missouri, Oklahoma and Texas. In turn, these entities ultimately serve over eight million end-use customers.⁴⁴ Southwestern operates and maintains 1,380 miles of high-voltage transmission lines⁴⁵ and primarily provides peaking power (power provided at peak times of the day) to its customers. Southwestern's FY19 budget request assumes \$10.4 million in appropriations authority.⁴⁶ This amount would be reimbursed by the agency's power customers. The budget proposal requests 194 FTEs,⁴⁷ which is level with last year.

Southeastern, created in 1950, delivers electricity produced at 22 Corps hydroelectric projects.⁴⁸ The agency sells wholesale peaking power to more than 491 preference customers in the states of Florida, Georgia, South Carolina, North Carolina, Tennessee, Alabama, Mississippi, Virginia, West Virginia, Kentucky and Illinois.⁴⁹ These wholesale customers, in turn, supply thirteen million retail customers.⁵⁰ Southeastern does not own transmission lines and depends on arrangements with third parties to deliver federal electricity.⁵¹ Southeastern's FY19 budget request does not request any federal appropriations, primarily because it does not own transmission. Southeastern is proposing 44 FTEs which has remained level over five years.⁵²

⁴² <https://www.bpa.gov/projects/initiatives/pages/columbia-river-treaty.aspx>.

⁴³ Department of Energy FY17 Congressional Budget Request, Power Marketing Administration, at 131.

⁴⁴ <https://www.swpa.gov/agency.aspx>.

⁴⁵ *Id.*

⁴⁶ *Supra*, note 37 at 33.

⁴⁷ President's FY19 Budget Request Appendix at 402.

⁴⁸ Department of the Energy FY19 Congressional Budget Request in Brief, at 33.

⁴⁹ <https://www.energy.gov/sepa/downloads/history-southeastern-power-administration-1990-2010>.

⁵⁰ Lane, Nic. "Power Marketing Administrations." January 2007. Congressional Research Service, document RS22564.

⁵¹ Testimony of Mr. Kenneth Legg, Administrator, Southeastern Power Administration, before the House Subcommittee on Water, Power and Oceans. 24 March 2015. Pg. 1.

⁵² President's FY19 Budget Request Appendix at 401.