



Highlights of [GAO-03-383](#), a report to Congressional Requesters

FEDERAL ENERGY REGULATORY COMMISSION

Charges for Hydropower Projects' Use of Federal Lands Need to Be Reassessed

Why GAO Did This Study

Hydropower projects generate power valued at billions of dollars. For projects located on federal lands, FERC is required to assess "reasonable annual charges" to use these lands. FERC agrees that fair market value is the most reasonable basis for assessing these charges. This report examines FERC's annual charge system and the extent to which it reflects the federal lands' contributions to hydropower. GAO described and assessed FERC's annual charge system, estimated the fair market value for the use of federal lands, and discussed the implications of higher charges on consumers and project owners.

What GAO Recommends

FERC should reconsider its current system and develop new strategies and options for assessing annual charges that are proportionate with the economic benefits conveyed to hydropower licensees.

While FERC is developing this strategy, it should better manage its current system by verifying the amount of federal lands hydropower projects use and resolving discrepancies among its multiple billing and land databases.

In its comments, FERC disagreed with our valuation of federal lands but agreed with our recommendations to resolve discrepancies among its databases. The National Hydropower Association also disagreed with our valuation of federal lands.

www.gao.gov/cgi-bin/getrpt?GAO-03-383.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Barry T. Hill at (202) 512-3841.

What GAO Found

Since 1987, FERC's charges for hydropower projects on federal lands have been based on a linear rights-of-way fee schedule that was originally used to determine the annual fees other agencies charged for the rights to locate, among other things, powerlines, pipelines, and communication lines on federal lands—uses that are generally less valuable than hydropower. FERC chose this system primarily because it was simple and predictable and would not subject the commission to appeals from the electricity industry. However, this system has no relationship to the economic benefit of the federal lands used to produce hydropower. In addition, in implementing this system, FERC does not ensure that (1) the charges it collects achieve the hydropower annual charge program objectives, (2) it has accurate information on the amount of federal lands licensees use, or (3) its billing system collects all charges due the federal government for the use of its lands.

The annual charges FERC currently collects from hydropower projects for the use of federal lands are significantly less than the annual fair market value of these lands. For this report, GAO defined this value as the value of the annual economic contribution that the use of federal lands makes to the production of hydropower. According to GAO's analysis, FERC is receiving less than 2 percent of the annual fair market value for the use of these lands. In performing its analysis, GAO examined multiple electricity market scenarios, including three that estimated the value of federal lands using actual industry data from three recent years. Under these scenarios, the fair market value for the use of federal lands by GAO's sample of hydropower projects is at least \$157 million annually and, under some market conditions, hundreds of millions of dollars more. In comparison, FERC collected about \$2.7 million in annual charges from these projects in 2002.

GAO reached these conclusions on the basis of its analysis of a stratified random sample of 24 projects that use federal lands. This sample was drawn from 56 projects that collectively account for about 90 percent of the hydropower produced on federal lands. Although this sample of 24 projects was not representative of all hydropower projects on federal lands, these projects produced about 60 percent of all electricity generated by FERC-licensed hydropower projects that use federal land and represent about 35 percent of all federal lands used for hydropower production.

If FERC decides to collect annual charges that more closely reflect the fair market value for the use of federal lands, the implications of such a decision for consumers and hydropower project owners would depend on (1) how much of the fair market value FERC chooses to recover and how it decides to implement these higher charges and (2) whether the affected electricity market is still fully regulated or has been restructured.