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Testimony on
The Department of Energy
Memorandum to Power Marketing Administrations

Committee on Natural Resources
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Good morning, Chairman Hastings, Ranking Member Markey, and Members of the Committee. My name is Scott Corwin. I am the Executive Director of the Public Power Council (PPC). We are a trade association representing the consumer-owned electric utilities of the Pacific Northwest with statutory first rights (known as “preference”) to purchase power that is generated by the Federal Columbia River Power System and marketed by the Bonneville Power Administration (BPA).

At the Committee’s April 26 hearing, I observed that the Secretary’s March 16 memorandum appeared to be a solution in search of a problem. The power marketing administrations already are leaders in pursuit of forward-looking energy policy. But, their leadership arises from regional initiatives that are derived from the many statutory directives they already follow. While the Department has offered varying explanations for its initiative, issued additional written materials, and conducted several workshops in the footprint of the Western Area Power Administration (WAPA), there is no more clarity, nor compelling rationale, today than there was at the beginning of this process.

A variety of justifications have been given - ranging from renewable energy development to electric system reliability. However, these justifications do not hold up in light of a factual review of the status of other processes already underway in the PMA regions. While meetings and conferences on energy topics in all corners of the country have grown exponentially in recent years, implementation of the Memorandum’s objectives appear to have created another set of meetings that were mostly for information only, or were redundant of other efforts, or both.

As you know, the Department’s efforts to date have focused on the WAPA. While BPA has not been a direct participant in this process, PPC has closely monitored this effort since the Department has stated that BPA could be the next focal point. As part of our monitoring efforts, I attended the July 31, 2012 DOE workshop in Loveland, Colorado. The conclusions I have drawn from that session and my observation of the rest of this initiative are:

1. DOE is only now beginning to understand the relationship between the PMAs and their customers. PMA customers are not simply another stakeholder group. Our

relationship with the PMAs is embedded in statute. We are legally and contractually bound to repay the costs of the federal hydropower system. In many cases, we also shoulder the costs of other features of the multipurpose dams that generate federal hydropower. This is a partnership, and DOE's failure to understand that dynamic up-front was a key flaw in this exercise.

2. DOE does not fully understand the rate-setting standards for the PMAs or their importance. We appreciate that the Department has acknowledged the importance of cost-based rates. But the statutory rate standards go beyond simply "cost-based rates." Federal law requires PMA rates to be "the lowest possible rate consistent with sound business principles." This more detailed definition makes clear that: costs should be incurred, and added to PMA rates, only when they produce comparable and necessary benefits; PMAs policy and acquisition decisions should be "least-cost" and PMAs should be conservative in their business decisions. A proper application of this standard would obviate some of the policy initiatives outlined in the Secretary's memo.
3. The initiatives, policies and processes arising from the Memorandum would duplicate existing efforts. At the beginning of this process, PPC and others noted that some of what DOE seemed to be driving toward was already underway in the Northwest. The closer I review this effort, the more apparent it becomes that, if applied to BPA, we would be creating new efforts and processes that parallel efforts already underway. We would have the same people, discussing the same topics, putting enormous strain on limited resources. What this tells me is that DOE wasn't able to understand what is occurring in the region, or it doesn't like the expected conclusions and is hoping a second bite of the apple will produce a different answer.

PPC appreciates and extends its thanks to the many members of Congress of both parties, especially those representing us in the Northwest, who have weighed in with the Department of Energy regarding the Memorandum. We also offer our thanks to members of the Appropriations Committee for including funding prohibitions in legislation and to Chairman Hastings for his recent introduction of H.R. 6247 doing the same, and including many other provisions beneficial to clean, renewable hydropower.

Background on the Nature of PMAs

For generations people have gathered around the great waters of the Northwest for food, for transportation, for irrigation, for recreation, and then for power. As in other areas with great waterways, this uniquely public resource of navigable water creates a unique source of clean and renewable power to be shared among the citizens of the region from whence that power was derived. Thus were formed the Power Marketing Administrations to ensure the power value of these public resources was sent to those within the region best able to pass the benefits through to the end consumer.

The PMAs and the treasured assets with which they are entrusted, being funded regionally, are not just another tool for federal policy pursuit. These are statutory creatures with a rich history from which evolved specific missions, specific goals, and specific purposes. Because

of the public and regional nature of the assets, the process around them is very public and regional. In a sense, the people were asked to take ownership and stewardship of the mission for these local assets, and their representatives in Congress likewise work to protect the assets and the needs of the citizens within the region.

BPA and its customers have worked and struggled together with the Army Corps of Engineers and the Bureau of Reclamation to keep this power supply reliable and affordable while fulfilling myriad statutory and regulatory mandates. We have nurtured this incredible renewable resource of hydropower, and it has helped enable new renewable resources. We have achieved staggering levels of energy conservation to make more efficient use of existing resources. And, we have become the world's foremost experts in anadromous fish passage.

In recent decades, we've been faced with a host of new challenges in the form of volatile energy markets, transmission constraints, new intermittent generation, environmental concerns including emissions and renewable portfolio standards, a renewed focus on system reliability, energy security concerns, and unstable economic conditions. The PMAs have met these challenges and are forging ahead into the new frontier as well as any large utility can in this setting.

This Saturday, there is a celebration at Bonneville Dam marking the 75th Anniversary of BPA. Over this time, the primary mission of BPA is and always has been to provide reliable electricity at affordable prices. Throughout this history the agency has accomplished this mission well, partnering with consumer-owned utilities to bring economic benefit to citizens of the region through cost-based power. Today, BPA must continue to pursue its core obligations as it evolves to meet new challenges.

To fully understand why consumers are very concerned about potential changes to the mission or function of PMAs, one must truly understand how PMAs work with their customers. While federal in nature, BPA is not supported by taxpayer dollars. Rather, customers pay for all of the power costs incurred by BPA. The agency is a pass-through entity with respect to its costs and obligations. And, consumer-owned utilities likewise must pass costs on to their consumers. Because of this, extensive *regional* processes have grown up around budget and rate setting, and any major policy that the agency pursues.

Power costs borne by PMAs are borne by the region, so the regional view weighs heavily in the decision-making. Along with this regional consideration is a close relationship with the region's representatives in Washington, D.C.—the Northwest Congressional delegation. In a simplified analogy, if the power customers who have paid for the Federal Columbia River Power System are the shareholders, the region's Congressional delegation is viewed as the Board of Directors. These directors have a long history of working in a bipartisan way for the good of the region. The Northwest Congressional delegation has responded time and again to defend the value of the Columbia River system.

We have found that directives from outside the region rarely work as well as solutions crafted by regional parties with knowledge of the unique nature of each power system. Lending context to ratepayer concerns about the DOE memo is the long history of proposals to shift the mission of the PMAs, and shift the value from these regionally funded entities. Over the years this has taken the form of federal deficit reduction proposals that would have the effect

of imposing a regional tax to benefit the federal budget. It has also taken the form of pressure from FERC and others to create new forms of standardized markets or bureaucratic institutions that threatened to add higher costs to customers in exchange for worse access to power from the federal system.

Cost Concerns

While the Northwest has been hit hard during the last few years, BPA, with its legally mandated cost-based rates, has been an important economic engine. Any additional costs on BPA customers without corresponding benefits risks sacrificing the power rates that have been a lifeline for the Northwest economy. After recovering some from the enormous increase following the West Coast energy crisis in the last decade, BPA power rates have started to go up again with an almost eight percent increase last year, and potential for a double digit increase next year.

Under statute, BPA has an imperative to focus on the least-cost means of achieving policy objectives that fall within its authority. Redesigning rates to achieve various policy goals has the potential to threaten the important rate design principle of “cost causation” in which costs are paid by the parties that cause the action. Direction to pursue policy objectives that would impose costs on BPA ratepayers without offsetting benefits is a dangerous threat to the region.

BPA Processes and Customer Achievements

BPA continues to achieve greatly in the areas of the Memorandum’s focus without new statutes or directives.

- BPA has achieved the highest rate of wind penetration of any balancing authority in the country (42 percent by generation to peak load). This spring, BPA’s system passed the mark of integrating 4,700 megawatts of wind generation, and expects to have 5,000 megawatts of this variable resource connected to its system by 2013, several years ahead of estimates. This is a ten-fold (1000 percent) increase over the amount of wind on the BPA system in August of 2006.
- BPA and its customer utilities achieved 130 average megawatts of energy efficiency last year, exceeding targets and adding to the nearly 5000 average megawatts of efficiency achieved by the Northwest region since passage of the Northwest Power Act in 1980. In addition, BPA now has a tiered rate structure that effects efficiency, and there are dozens of demand response projects underway in the Northwest.
- BPA owns and operates over 15,000 circuit miles of high voltage transmission lines. The agency responds to new needs and requests through extensive regional processes that analyze many considerations such as environmental impact, system operational impact and reliability, cost, risk, potential for recovery of cost, feasibility, and alternative options. As of the start of the fiscal year, BPA had underway 217 miles of new 500 kilovolt lines, 82 miles of rebuilding for 230 kilovolt lines, and 3 new substations.

- BPA and its customers are involved in myriad processes developing solutions to issues relating to energy efficiency, integration of renewable resources, development of possible imbalance services constructs or imbalance markets, open access tariff development, network open seasons for transmission development, transmission planning and cost allocation, associated rate case and budget setting processes, and many other efforts.

Conclusion

The Power Marketing Administrations and their utility customers have worked well together for 75 years in a regionally focused process of policy development. These processes are reflective of a collaborative spirit, and of the many operational, economic, and political dynamics unique to each region. Together, the PMAs and their customers have created an impressive record in addressing the many new challenges facing the energy industry, with more progress being made each day.

Future initiatives must continue to be consistent with each PMA's statutes and responsibilities, and must not create costs to ratepayers without reciprocal benefits. Previously, I testified to the lack of need for the DOE Memorandum and to some of our concerns about its implications. The process to date has not changed our view in both of those respects.

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