

BPA PROPOSALS

OVERSIGHT HEARING
BEFORE THE
TASK FORCE ON
BONNEVILLE POWER ADMINISTRATION
OF THE
COMMITTEE ON NATURAL RESOURCES
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

PROPOSALS TO ALLOW BONNEVILLE TO BUY OUT ITS APPROPRIATED
DEBT AND THAT BONNEVILLE BE A GOVERNMENT CORPORATION

HEARING HELD IN WASHINGTON, DC
OCTOBER 28, 1993

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PROPOSALS TO ALLOW BONNEVILLE TO BUY OUT ITS APPROPRIATED DEBT AND THAT BONNEVILLE BE A GOVERNMENT COR- PORATION

THURSDAY, OCTOBER 28, 1993

HOUSE OF REPRESENTATIVES,
TASK FORCE ON BONNEVILLE POWER ADMINISTRATION,
COMMITTEE ON NATURAL RESOURCES,
Washington, DC.

The task force met, pursuant to call, at 9:45 a.m. in room 2226, Rayburn House Office Building, Hon. Peter DeFazio (chairman of the task force) presiding.

STATEMENT OF HON. PETER A. DeFAZIO

Mr. DeFAZIO. If we could come to order, we will move ahead here. The way things are in Congress, we try and do several things at once, so this hearing conflicts with the first-ever major reform of the Mining Act of 1872, which is going on in the Energy and Mining Resources Subcommittee of the Natural Resources Committee. I am on that subcommittee. Although I think we have got it pretty well covered, there may be some extraordinary occurrences which would require my personal attendance. Otherwise, I am attending via proxy. And obviously that has captured the attention of Mr. LaRocco and others who would like to have been here today, but are otherwise engaged.

So we will move ahead. We will establish a good record here. We are holding a hearing at a very timely place in the history of BPA. As many of you know, this week we finally have a firm nonpunitive proposal from the administration on the so-called buyout or repayment reform by BPA regarding the older appropriated debt. It is timely to have you here addressing that question and a number of the other questions that were put by the committee.

[Prepared statement of the Mr. DeFazio follows:]

OPENING STATEMENT OF THE HONORABLE PETER DEFAZIO
AT THE FINAL HEARING OF
THE BONNEVILLE POWER ADMINISTRATION TASK FORCE
OF THE COMMITTEE ON NATURAL RESOURCES
October 28, 1993

Today the Bonneville Power Administration Task Force completes its schedule of hearings on the past, present and future of the Bonneville Power Administration. Bonneville's importance as the economic engine of the Northwest probably cannot be overstated. The challenges and opportunities facing the agency today are more daunting than at any time in its recent history.

During this hearing, we will consider two issues: the Clinton Administration's proposal to allow Bonneville to buy-out its appropriated debt to the U.S. Treasury, and the possibility of restructuring Bonneville into a government corporation in order to achieve greater administrative efficiencies.

I'd like to take credit for incredible foresight in planning this hearing on Bonneville's Treasury debt nearly six months ago. But none of us could have predicted last April that we would have received a debt buy-out proposal from the administration just one day before this hearing. We owe a great deal to Speaker Foley, whose efforts on behalf of ratepayers in the Northwest for many long years have yielded what may be a long term resolution of this issue that is fair to both Northwest ratepayers and the federal government. We'll hear more about this proposal from Administrator Hardy later in the hearing.

It is my understanding that witnesses at today's hearing have received a draft copy of a report on Bonneville restructuring that was prepared by the National Academy of Public Administrators. Unfortunately, the authors of the report were not able to attend this hearing, but their work should at least serve to acquaint us with the potential benefits of government corporation status for Bonneville.

There is probably general agreement on the potential pitfalls. Certainly my greatest concern is to maintain Bonneville's accountability to Congress, the Northwest Power Planning Council, the public and its customers. Many have complained during this Task Force's review that Bonneville is already insufficiently accountable. Any restructuring of the BPA that this Committee undertakes will seek to keep Bonneville fully accountable for all of its responsibilities under the Northwest Power Act.

With that, I'd like to ask our first two witnesses to be seated.

Mr. DEFAZIO. With that, I think we will just go on to the testimony, and questions, and the order has been reversed. We have first the Honorable William White, Deputy Secretary, U.S. Department of Energy, and Ted Bottiger, Chairman, Northwest Power Planning Council.

Gentlemen, we will be happy to hear you summarize your remarks, or do as you wish with your five minutes. This task force strictly enforces the five-minute rule. Go right ahead.

PANEL CONSISTING OF HON. WILLIAM H. WHITE, DEPUTY SECRETARY, U.S. DEPARTMENT OF ENERGY; AND TED BOTTIGER, CHAIRMAN, NORTHWEST POWER PLANNING COUNCIL

STATEMENT OF HON. WILLIAM H. WHITE

Mr. WHITE. Thank you, Mr. Chairman, and I assume my written remarks can be inserted in the record.

Mr. DEFAZIO. Without objection.

Mr. WHITE. With that, you are right that we have tried to craft a proposal which is nonpunitive, that is to say, that specifically involves no rate increase given the very substantial rate increase that has just gone into effect. We are very mindful of the macroeconomic effect on the region of having a rating increase of that magnitude.

We do believe the proposal is a classic case of government reform, and we will be able to increase the liquidity of the Federal Government, that is, increase the amount that is credited to cash by a substantial amount, some \$4 billion. The mechanics of that are going to be worked out with underwriters through a competitive process to select the actual underwriters if the authorizing legislation is passed.

We believe this would be an advantage to the ratepayer since it would remove a source of uncertainty that we hear from the customers around the biannual debate concerning the fate of BPA and other ideas about how it might refinance its debt in a way that would not be as benign to the various ratepayers.

We think this deserves the serious consideration of Congress. We have not detected any substantial disadvantages, and in fact, by restructuring the post-1974 debt, we are going to create a benefit to the Treasury of approximately \$100 million as part of this overall package.

That summarizes our views on the matter, and we would be available for any questions.

[Prepared statement of Mr. White follows.]

**Statement of William H. White, Deputy Secretary
Department of Energy
October 28, 1993**

Chairman DeFazio, I am Bill White. I am the Deputy Secretary of the Department of Energy. It is my pleasure to appear today before the Bonneville Power Administration Task Force. Thank you for the invitation.

We want this task force to know that this Administration recognizes the importance of the Bonneville Power Administration to the economy and the environment of the Pacific Northwest. Bonneville provides over half the electric power used in the Pacific Northwest and carries out extremely important environmental missions through its energy conservation and fish and wildlife programs. This Administration is committed to improving the nation's economy and environment. Consequently, we take very seriously the initiatives that impact Bonneville.

Earlier this month, Bonneville put in place a rate increase of approximately 15 percent. We are concerned about the impacts of that rate increase for the electric power consumers of the Pacific Northwest, and concerned that additional substantial rate increases could lead to negative impacts for the Pacific Northwest economy. We are also concerned about Bonneville's ability to compete in an increasingly competitive electric power market.

For these reasons the Secretary and I are committed to supporting actions which can help keep Bonneville's costs low, assure a fair return to the U.S. taxpayer on their

investment and assure Bonneville's environmental responsibilities are carried out faithfully.

Alternatives to Repayment Reform

Previous administrations have consistently supported proposals for accelerating Bonneville's repayment of the federal investments in Northwest hydropower facilities in a manner which would do significant harm to the region's economy. This Administration, through the National Performance Review, has proposed a bold new alternative to repayment acceleration. This proposal would allow the restructuring of Bonneville's federal debt. Under this proposal, Bonneville would pay the net present value (about \$4 billion) of its relatively low-interest appropriation debt (totaling approximately \$7 billion) as an up-front, lump-sum cash payment in return for eliminating any future payments forever. Bonneville would finance the \$4 billion at current market interest rates, and believes they can do this without a rate increase.

This proposal has many advantages for the taxpayer and for the Northwest ratepayer. It turns what in the private sector would be referred to as a note receivable into cash, thereby improving the liquidity of the federal government. It assures that Northwest ratepayers will make prompt and regular payments on the debt. It aids the Northwest economy by resolving a key uncertainty about future electric power rates. Finally, it gives Bonneville's customers greater certainty about Bonneville's costs, thereby making it less likely they will leave the system.

I want to stress at this point that the Secretary has made it clear that any debt restructuring proposal must not harm Pacific Northwest ratepayers.

We believe this proposal deserves serious consideration by the Congress.

Government Corporation

The Department of Energy has strongly supported Bonneville's efforts to improve its management efficiency. The Department nominated Bonneville to be a reinvention laboratory within the framework of the National Performance Review. With this status Bonneville is actively pursuing changes in government regulations which create costs to Bonneville without commensurate benefit to ratepayers.

The Department of Energy is actively pursuing the removal of barriers to improved Bonneville efficiency. Bonneville has estimated that DOE regulations alone are costing 85 to 90 FTEs and \$5 to \$6 million per year. We are working regulation-by-regulation to make changes and capture cost savings.

In addition, the Department has supported Bonneville's efforts to modify or eliminate unnecessary and/or duplicative regulations of other Federal agencies. With the support of the Vice-President, we are enjoying success in this effort.

Still, we do not expect that we can reach all the desirable efficiency improvements through administrative means alone, nor can we count on the permanence of administrative remedies. We are open to considering a change in the Boanneville

statutory structure to a federal government corporation. We are in the process of analyzing how this transformation might be accomplished.

While we are looking at BPA's authorities and identifying what might change under a different structure for Bonneville, I can provide you some assurances. This effort is designed to improve management efficiency. The Department does not intend to modify the basic mission of the Bonneville Power Administration including power supply, rate setting or environmental protection. In addition, DOE does not intend that any proposal would modify the relationship between Bonneville and the Congress, or the President, or between Bonneville and the Northwest states and the Regional Power Planning Council.

Conclusion

Mr. Chairman, I will close by saying that the Department of Energy is cognizant of the important role the Bonneville Power Administration plays in the region. We are taking actions to keep rates as low as possible in order to assure that Bonneville will be able to continue to fulfill its important mandates in the region.

This concludes my testimony, I would be pleased to respond to your questions.

Mr. DEFAZIO. Thank you.

STATEMENT OF TED BOTTIGER

Mr. BOTTIGER. Thank you very much, Mr. Chairman. My name is Ted Bottiger and I am the chairman of the Northwest Power Planning Council. We wish to thank you and the task force for the opportunity to put our views in the record and to answer any questions you might have about the region. We have some written testimony, as is the custom, and I would ask that that be considered by the committee.

Mr. DEFAZIO. No problem. It will be entered in the record without objection.

Mr. BOTTIGER. This is a timely time for Bonneville and for the region, and as it has already been mentioned, rate increases that have gone into effect. We are here to discuss the ways that Bonneville can be more competitive, more of an assistance to their customers and to the Pacific Northwest, and we are here to talk about the issues that are before your task force. I would like to preface this with the understanding that with the exception of the debt buyout language, we have seen drafts of legislation and have not had a chance to analyze them in detail.

Mr. Hardy has been very cooperative in giving us what he can at the time, and we are trying to advise our governors of the impacts of these proposals on the region. Yesterday, I saw for the first time a draft of the corporation language.

As we have for the past 10 years, we continue to oppose dramatic repayment changes that would cause unnecessary rate increases and jeopardize Bonneville's competitiveness. However, today's relatively low interest rates offer a window of opportunity to refinance or buy out some of Bonneville's existing promoted investment.

Any debt restructuring proposal needs to include the following basic principles.

One, we need ample assurances that any debt restructuring would not overburden the ratepayers or push higher debt on future generations.

Two, any restructuring would provide a permanent solution. We don't want to revisit this constantly, as has been in the past.

And three, the repayment period for the debt should not exceed the useful life of the capital investments.

Our analysis indicates that the current proposal meets all three of these principles. We support Bonneville's intent to adhere to the 10-year financial plan, and to maintain adequate financial reserves to ensure repayment of outstanding debt. If revenues do fall or do fail to sustain adequate reserves, then Bonneville's current proposal for an interim rate adjustment is a prudent response.

Although Bonneville's capital spending program does not impact rates as much as current operating expenses, it is a key to long-term competitiveness. Bonneville has announced a program to contain costs, seek efficiencies and become more competitive. We believe this program, coupled with decisions in the current rate case, will delay the need to increase Bonneville's borrowing.

While the council supports adequate federal borrowing levels, we continue to push for increased use of cost sharing and third-party debt financing, particularly tax-exempt financing by local municipi-

palties to help reduce capital program costs and delay the time when Bonneville reaches the federal debt limit ceilings.

As I mentioned earlier, we have just seen the draft of Bonneville's proposal to become a government corporation. Most of our comments are based on the same brief outline that was provided for you and the customer groups last month.

The Council supports greater administrative efficiency and flexibility at Bonneville. We think that Bonneville becomes leaner and more responsive to its customers. It will also be better able to meet its other obligations under the Northwest Power Act.

Bonneville makes a good argument that it needs greater flexibility and accountability in the areas of personnel, contracting and procurement. We are advised that the administration and that the National Performance Review will address some specific personnel and contracting issues.

We need to move aggressively to administratively remove unnecessary barriers which impede Bonneville's efficiency. And we stand ready to help in any way we can.

Not having a lot of details, I must add that the Council is not sure that changing Bonneville to a government corporation is necessary to achieve most of these efficiency goals. We hope exploring the concept of incorporation will not detract from the urgency of becoming more efficient and less bureaucratic.

As we learn more about Bonneville's plans for incorporation, we have several basic concerns. The Council wants to ensure that Bonneville's mission continues to include the goals of the Northwest Power Act, which include regional input into the decision-making process, and gives the States and the public a check and balance on energy decisions in the Northwest. We think the current level of regional accountability and congressional oversight is essential in any new Bonneville structure.

We want to be sure that congressional and regional oversight of Bonneville's Administrator are not changed by his appointment by the President for a fixed term. Bonneville officials are quick to point out that with incorporation their relationships with Congress and States and the Council will remain the same, and in their outline proposal, however, they fail to delineate the role of the States and the Council in any meaningful way.

The Council believes any legislation to create a Bonneville corporation should be carefully developed and fully debated in the region, and to this end the Council is working with the offices of the four Northwest governors to identify the implications of Bonneville as a government corporation.

The governors will be meeting on the 16th of November with this as one of the agenda items. We will of course keep Congress informed of our work.

Again, Mr. Chairman, and task force members, I want to thank you for the time and attention you have given to this issue, and the Council stands ready to assist in any way we can.

[Prepared statement of Mr. Bottiger follows:]

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**TESTIMONY FOR
BONNEVILLE TASK FORCE HEARING
COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.
OCTOBER 28, 1993**

Good Morning, Mr. Chairman. My name is Ted Bottiger and I am the chairman of the Northwest Power Planning Council. The Council again wants to thank you for inviting us to testify and for considering our point of view in your oversight of the Bonneville Power Administration. As you well know, Bonneville's shadow is immense in the Pacific Northwest. Organizational, financial and technical decisions made by or concerning Bonneville touch almost all the citizens of our region.

We understand that your task force is not being extended beyond its original six-month tenure. While we respect the time and energy drain this must be on the members and your staffs, we strongly urge you to continue, in any way you can, this public discussion of Bonneville's goals and directions. Because Bonneville is such a large and powerful public presence in the Northwest, we think focusing attention on its workings is of benefit to everyone.

If it's true that "timing is everything" in life, then the timing of your series of public hearings could not be more opportune for Bonneville and the region.

Bonneville is in the midst of several internal and external efforts to reorganize and refocus its operations.

- Bonneville is in the middle of a **function-by-function review** of all its departments in the hope of achieving further efficiencies.

- Bonneville is currently drafting a **marketing plan** which examines the possibilities of **unbundling its services** to customers and offering **tiered rates**. That marketing plan will become part of a new **business plan** for the agency by next spring.

- You have asked Bonneville to examine the possibility of transferring its **fish and wildlife implementation to another agency**.

- The administrator continues to investigate the possibilities of his **West Coast Vision** as a mutually beneficial power grid from Canada to Mexico.

In addition, Bonneville is involved in many other activities which could affect its relationships with its customers and the rest of the region:

- New power sales contracts
- Acquiring generating resources
- New coordination agreements
- New transmission policies

In the midst of all these directives and the uncertainty they engender, we are here today to discuss three financial and organizational issues which could dramatically change the way Bonneville operates. It appears that major changes in

Due to today's relatively low interest rates, however, there appears to be a window of opportunity to refinance or buy out some of Bonneville's existing appropriated investment. If designed properly, the refinancing and restructuring proposal could remove the old arguments used to advance repayment reform by refinancing the debt at current market rates. This could help overcome the charges of regional interest subsidies and provide a long-term solution to the annual battles over repayment reform. It could remove a major source of uncertainty which has been plaguing the region for the last decade.

We have not seen any pending legislation on this topic, although we understand a bill could be introduced in this session as part of a rescission package being developed by the Administration. Any restructuring of Bonneville's multi-billion dollar debt is of great importance to the entire region. Any such plan should be presented for public scrutiny and comment.

Any debt restructuring proposal needs to include the following basic principles. We need ample assurances that any debt restructuring would not overburden the ratepayers of the Northwest. We need to analyze any proposal to assure that restructuring is not a scheme to push higher debt on future generations, thereby increasing rates in the long term. Any restructuring should provide a permanent solution to the historical uncertainties associated with this issue. The repayment period for the debt should not exceed the useful life of the capital investments.

NEW BORROWING AUTHORITY

In January of this year, after two years of effort, Bonneville released its financial plan which is designed to address long-term financial issues, and to develop strategies to enhance Bonneville's competitiveness. Within each two-year

any of these three areas could require new federal legislation. Specifically, we will comment on Bonneville's debt restructuring, the potential need for new borrowing authority, and plans for changing from a government agency to a government corporation.

Through its Fish and Wildlife Committee, the Council is exploring aspects of a possible transfer of the implementation of our fish and wildlife programs.

All of the above ideas and plans are still in the conceptual stage. There are few details, written plans or proposed legislation available for us to review. As a result, our comments will of necessity be preliminary and general. We emphasize that we would like more specific information about Bonneville's plans and are eager for more opportunities for consultations.

DEBT RESTRUCTURING

Over the past 10 years, through three different administrations, executive branch budget proposals have included provisions to alter Bonneville's approach to repaying its debt for construction of our region's hydropower and transmission system. In these proposals, Bonneville's repayment would have been unilaterally revised and accelerated, and the terms of repayment would be changed. Each year the Congress provided leadership to drop these shortsighted proposals in the budget request. The Council and others in the region opposed dramatic changes in Bonneville's repayment because of its potential damaging impact on the economy of the Northwest. We continue to oppose dramatic repayment changes which would cause unnecessary rate increases and jeopardize Bonneville's competitiveness.

Bonneville has announced a program to contain costs, seek efficiencies and become more competitive. We believe that this program, coupled with decisions in the current rate case, will delay the need to increase Bonneville borrowing. Although we have not seen the most recent capital investment projections, it is clear that Bonneville will have adequate borrowing authority beyond Fiscal Year 1998. Sometime after the year 1998, Bonneville may need an increase in its total \$3.75 billion treasury borrowing cap to maintain Treasury bonds as a viable financing option.

While the Council supports adequate federal borrowing levels, we continue to push for increased use of cost sharing and third-party debt financing, particularly tax exempt financing, to help reduce capital program costs and delay imposition of federal debt ceiling limits. There is a need to closely examine Bonneville's new projections for capital investments over the next ten years in order to better gauge the need for additional borrowing authority. For example, development of cogeneration, increased conservation and new technologies in distributed generation may reduce the need for additional transmission investments.

GOVERNMENT CORPORATION

The remainder of our comments for this hearing concerns Bonneville's competitiveness project and the plan to change Bonneville into a government corporation. We have not seen much detail, nor specific legislation on these undertakings. Most of our comments will be based on the brief outline provided to the Congress, the Council and customer groups last month and on our conversations with various Bonneville officials.

rate period. Bonneville wants to maintain sufficient financial reserves to achieve a 95 percent probability of meeting U.S. Treasury payments. These reserves are the cornerstone to ensure Bonneville's ability to repay the Treasury and protect program stability. We support Bonneville's intent to adhere to the 10-year financial plan and maintain adequate financial reserves to ensure repayment of outstanding debt. If revenues fail to sustain adequate reserves and maintain program levels, Bonneville's current proposal for an interim rate adjustment is a prudent response. Bonneville and the region should continue to explore other alternatives for handling inadequate revenues.

Although Bonneville's capital spending program does not impact rates as much as current operating expenses, it is a key to long-term competitiveness. Bonneville must make cost-effective investments in capital programs today to provide for a least-cost future. It is critical to maintain adequate long-term investments in three principal areas: transmission, conservation resources, and fish and wildlife.

Bonneville currently plans to finance most of its capital program in the next few years through bonds issued to the U.S. Treasury, i.e. borrowing authority. Based on capital investment projections made earlier this year, Bonneville will invest \$5.2 billion between 1992 and 2001:

- \$3.75 billion in transmission construction,
- \$1.12 billion in conservation, and
- \$312 million in fish and wildlife improvements.

Based on these earlier assumptions, the \$2.5 billion transmission borrowing cap would be reached at the end of Fiscal Year 1997. Conservation borrowing cap of \$1.25 billion was projected to be reached during the year 2002.

As you know, Bonneville has initiated the Competitiveness Project to establish a "reinvented" BPA, the aim of which we are advised is four-fold:

- Develop a new marketing strategy that will offer a wider array of power and transmission products for Bonneville's customers.
- Streamline, realign and downsize Bonneville's staffing and internal systems to reduce costs, increase responsiveness to support the new marketing approach.
- Change the organization culture to a business-oriented management style.
- Change to a government corporation.

Bonneville is proposing a transition to the new Bonneville through a six or seven-step process. This process includes a marketing plan, function-by-function review, ten-year plans, a business plan, and it is expected to bring fundamental change to Bonneville, apart from the corporation idea.

The cornerstone of this effort is that Bonneville must improve its efficiency. The Council supports greater administrative efficiency and flexibility at Bonneville. We believe that as Bonneville becomes leaner and more responsive to its customers, it also will be better able to meet its obligations under the Northwest Power Act.

Bonneville makes a very good argument that it needs greater flexibility and accountability in the areas of personnel, contracting and procurement. Bonneville advises us that they have identified 250 administrative and procedural barriers that stand in the way of their becoming more efficient. We understand that they have submitted this list of barriers to the Department of Energy and to Vice President Gore's National Performance Review. We are advised that Secretary of Energy O'Leary already has moved to eliminate serious barriers in personnel and

procurement. The National Performance Review also will address some of these specific personnel and contracting issues which now hamper Bonneville's attempts to become more efficient. We need to move aggressively to administratively remove unnecessary barriers which impede Bonneville's efficiency. We stand ready to help in any way we can.

Not having a lot of the details, I must add that the Council is not sure that changing Bonneville to a government corporation is necessary to achieve most of its efficiency goals. We are confident that increased flexibility and efficiency could be achieved administratively without dramatically changing Bonneville's basic structure. We are concerned that proposals to incorporate Bonneville could slow down needed improvements in efficiency. We hope that exploring the concept of incorporation will not detract from the urgency of it becoming more efficient and less bureaucratic.

We look forward to receiving more details on Bonneville's incorporation proposal. As we read Bonneville's preliminary outline for incorporation legislation, we have several basic concerns. The Council wants to insure that Bonneville's mission continues to include the goals of the Northwest Power Act. We also think the current level of regional accountability and Congressional oversight is essential in any new Bonneville structure. For example, we wonder about the effect on Congressional and regional oversight of Bonneville's proposal that its Administrator be named by the President for a fixed term.

The nature of Congressional authorization and appropriations oversight also is unclear. Diminished accountability at the federal level would lessen regional oversight of this public agency.

Short-term efficiency gains and rate relief should not be sought at the sacrifice of Bonneville's long-term accountability to its shareholders: the citizens of the four Northwest states and the federal government.

We have alluded to Bonneville's profound impact on the citizens and the economy of the Pacific Northwest. Let me remind you of one of the underlying principles of the Northwest Power Act. Bonneville was given additional authority to expand the power system in order to meet the requirements of its customers. The states claimed a lack of involvement in major regional energy choices where their citizens' interests were at risk. In response, the Act created an interstate planning entity, the Northwest Power Planning Council, to govern Bonneville's acquisition of major resources and to promote conservation and renewable resources through a regional energy plan. This was the key provision from the perspective of the Northwest states: Bonneville got new authority to acquire resources in return for a Council, appointed by the governors, with the right of advise and consent over new resource acquisitions. These provisions were adopted to ensure that the states had a check and balance on discussions affecting the federal power system and that states and the public had substantial participation in key energy and fish and wildlife decisions.

Bonneville officials are quick to assert that with incorporation, all of the legal responsibilities will be the same, as will their relationships with the Congress, the states and the Council. However, as we read their outlined proposal, the role of the states and the Council is not clearly delineated.

One recent article characterized the proposed changes in Bonneville's structure under incorporation as "modest." On the other hand, another article indicated that "The change would require passage of legislation in Congress, basically replacing the 1980 Northwest Power Act." The truth may very well fall somewhere in between these two interpretations. At the extreme, this new corporation could necessitate rewriting the Northwest Power Act. This possibility opens up a number of important regional issues. Therefore, the Council believes that any legislation to create a Bonneville Corporation should be carefully developed and fully debated in the region. If we can reach agreement in the region, we will have a better chance of passing legislation which genuinely benefits the Northwest.

To this end, the Council is working with the offices of the governors of the four Northwest states to identify the implications of Bonneville as a government corporation and the possible alternatives which could still provide Bonneville with increased flexibility and efficiency, which everyone supports. The issues have changed since 1980, but we think our governors want no less influence with Bonneville. We will, of course, keep Congress informed of our work.

Again, Chairman DeFazio and committee members, I want to thank you for the opportunity to talk with you this morning. Also, on behalf of the entire region, I want to thank you for the time and attention you've given this task force as it looks at ways to improve one of the most important and powerful institutions in the Northwest.

I would be pleased to answer any of your questions.

Mr. DEFAZIO. I thank the gentleman.

I would like to recognize two of my colleagues, one member of the committee, Mr. Smith from Oregon, has come in, and we want to find out if he has any opening remarks before proceeding to questions.

STATEMENT OF HON. ROBERT F. (BOB) SMITH

Mr. SMITH. Thank you, Mr. Chairman. I am a little late, I apologize. I do have a statement for the record.

[Prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF CONGRESSMAN ROBERT F. (BOB) SMITH

Mr. Chairman, thank you for holding this hearing today on the proposal to allow BPA to buy out its appropriated debt on the private market. This is a very timely hearing considering that the administration has sent up legislative language that will allow the debt buyout to occur.

I have had the opportunity to discuss this matter with Randy Hardy, but I look forward to hearing more about the impact of this plan on Northwest ratepayers. One thing is certain, it's imperative that this plan is rate neutral. This Administration has done enough damage to the natural resource-based economy of my district. It cannot survive another hit that would result from repayment acceleration.

On this issue of government corporation status for Bonneville, I believe that any proposal that makes BPA more like a business should be given serious consideration. I am interested to hear the testimony today on how this idea could streamline the operations of Bonneville.

Mr. Chairman, thank you for scheduling this hearing and let me close by saying that I have enjoyed working with you on this task force.

Mr. DEFAZIO. We will certainly enter that into the record. And we have a colleague from Washington State who has joined us, who, although not a member of the committee, has shown a strong interest and attended previous hearings of the task force. As I understand it, he perhaps has a longstanding relationship with one of the two witnesses. I recognize him for any statement he would like to make.

STATEMENT OF HON. MIKE KREIDLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. KREIDLER. Thank you very much, Mr. Chairman. I too have an opening statement that I would like to have entered into the record, and I particularly welcome Ted Bottiger. We have known each other for about 20 years—that goes back a long way. In fact, we served in the Washington State Senate together.

[Prepared statement of Mr. Kreidler follows:]

PREPARED STATEMENT OF CONGRESSMAN MIKE KREIDLER

First I'd like to thank Mr. DeFazio for allowing me to sit in on this hearing. He has been very willing to include non-committee members who have a stake in Bonneville reform.

It is very exciting to be in Congress at a time when reform is being seriously considered. The issues of today's hearing, buyout of debt and the government corporation concept, get to the heart of questions about what Bonneville should look like in the future.

Regarding the buyout of Bonneville's debt, I agree that now is the right time for this to take place—especially given the favorable interest rates and terms that are available.

I have not made up my mind as certainly on the concept of turning Bonneville into a government corporation. I am, of course, interested in any proposal that could save money, increase customer service, and provide more flexibility. On the other

hand, I want to be sure that Bonneville's mandates to encourage conservation and support fish and wildlife are not changed or lessened in any way.

I am also interested in the governing structure of such a proposed corporation. I want to see if there is a way to enhance the role of Bonneville's customers and other regional interests in the rate making process and budget decisions. I'll have some questions about that issue, and the government corporation concept in general, at the appropriate time.

Again, my thanks to Mr. DeFazio for allowing me to be included in this important hearing. I appreciate his consideration, and look forward to hearing from the witnesses.

Mr. DEFAZIO. Thank you.

We will proceed to questions for the first two witnesses. I guess I would start first with the Deputy Secretary.

The hierarchy is sometimes beyond me, how it works. Deputies I assume are—well, who knows.

Mr. WHITE. Sometimes it is beyond me.

Mr. DEFAZIO. It is easier when we deal with the military; they have little stars.

Mr. WHITE. You can count the stars.

Mr. DEFAZIO. We have seen a draft, as Mr. Bottiger referenced, of the incorporated status of BPA, but that is nothing official. I know the RIGO proposal sent up this week primarily deals with things that garner a savings for the Federal Government.

Can we expect that we will see a government corporation proposal formally from the administration at some time in the not too distant future?

Mr. WHITE. Probably, but there are a number of policy decisions which have yet to be made that address some of the issues that Mr. Bottiger referred to such as: make sure there is accountability; make sure that we absolutely have not changed some of the organic legislation that BPA must operate under; and make sure we have accommodated the concerns of everybody that we are not going to create some kind of rogue that is administratively accountable to no one; maintain the oversight of BPA while getting some of the advantages you would have in personnel compensation policy, and in the ability to sue and be sued that a corporation would entail.

So I can't give you a deadline because we, neither at the Department of Energy nor the people at OMB, have made some final policy calls concerning what might be in such a bill.

Mr. DEFAZIO. Would the administration in developing such legislation seek to directly confer with some of the interested parties, that is, the customers of the Bonneville Power Administration? We have particular concerns about public power preference customers. We have a diversity of customers; we have IOUs, DSIs. We have strong advocacy for the environment, fish and wildlife, and the concerns regarding the implementation of the Act for conservation renewables.

BPA is a little more complex than your average power marketing authority. But we expect the administration would enter into some dialogue with the groups directly.

Mr. WHITE. Direct dialogue. As a matter of fact, Mr. Hardy and I discussed this morning the desirability not only of informal consultations, but of some kind of formal hearings that involve the interests in the regions. I am sure we don't have any particular format, but that is something we told them that we wanted to do.

Mr. DEFAZIO. I certainly didn't mean to exclude the Power Council in my list there.

Mr. BOTTIGER. Of course our congressional mandate that you have sent us is to involve the public, and we would stand ready to help Bonneville and the Department of Energy in that field at any time. We have the machinery that sits there waiting to be used.

Mr. DEFAZIO. If perhaps a draft proposal were produced by the administration, the Council would be willing to go out and ask for public comment?

Mr. BOTTIGER. Absolutely. I am sure I can speak for my colleagues; we would insist upon it.

Mr. DEFAZIO. One of the primary concerns, as we develop that legislation, will be accountability, as both of you have mentioned. A key is going to be, what is the relationship of the Administrator, either to the Council or to some other authority, and whether or not the Administrator would be given a fixed term or serve at the pleasure of the President. Have those issues been resolved yet in your mind, Mr. White?

Mr. WHITE. No, I believe that issues involving policy are envisioned to be the responsibility of the Department of Energy, that has been trying to serve as a vehicle for these various concerns.

And over and above that, I hope that there could be some kind of more formal procedure. Ultimately this is a regional issue and a regional question of governance that can't be dictated out of the Forrestal Building in Washington. And how do we use the Council and other resources in the region to help guide decisions in a more formal way?

Something that I have told Mr. Hardy and the OMB is that I want that question answered before the Secretary of Energy and I put their wholehearted support behind that something.

And there is a whole host of considerations—using existing mechanisms, the Federal Advisory Committee Act, a board of directors like TVA—that need to be explored to figure out what would best allow that regional accountability to exist in a way that is no different from or perhaps improved from current status.

Mr. DEFAZIO. Thank you.

Mr. Smith, do you have any questions?

Mr. SMITH. Thank you, Mr. Chairman.

Mr. White, what are the reasons for the debt buyout?

Mr. WHITE. What are the reasons?

Mr. SMITH. From your point of view.

Mr. WHITE. I would say there are several. First, for some time the Treasury and others have criticized the fact that loans made to BPA were made at below the then-market interest rates, that is pre-1974 debt, and that this was—

Mr. SMITH. Previous administrations, this administration, all have criticized?

Mr. WHITE. Exactly. You probably have some of the same people within Treasury and OMB.

Mr. SMITH. Exactly. The same people at OMB.

Mr. WHITE. We asked, What does a private company do if it has debt with uncertain repayment terms and costs? They take out the debt and create a benefit to the public. Regardless of how it is scored, your cash goes up by some \$4 billion. It creates a benefit

to BPA—that is, ratepayers—because it doesn't have a biannual battle about whether rates should be increased to eliminate the subsidy, and that uncertainty.

So it appears to us to be a win-win solution. It is not as much as some people might have wanted to increase the rates and privatize the debt, which would have resulted in relatively more revenues to the Treasury than the \$4 billion.

Mr. SMITH. Let me ask you in that respect, \$4 billion, at 7 percent, is a higher cost to BPA than \$7 billion at 3 percent. So how do we get away from an increased cost when we have increased cost developed in rescheduling the debt?

Mr. WHITE. I can't tell you precisely what the effect of interest rates would be. I am not quarreling with the 3 percent versus 7 percent.

Mr. SMITH. We know that current interest is 3 to, what, 3.5 percent? Three percent? However you do it, you end up with more cost for the lower debt.

Mr. WHITE. If you did that calculation there would be some increased cost, although as a percentage it is not a large percentage. However, the cost in any particular year would be governed by the amortization schedule. Some of the debt that is currently scheduled to mature around the early 2020 period is pushed into the late teens, 2015–2020 period, so there are some longer maturities which influence the amortization schedule. And in addition to that, you can increase some revenues payed the Treasury because some of the post-1974 debt remains outstanding somewhat longer.

So what we have done, Congressman, is assume that the total amount of debt service interest each year is constant. It is the same as it would be under the current profile, and then simply extended the term of the debt.

Mr. SMITH. That sounds like the way we budget here, Mr. White. At some time it is going to cost more money.

Mr. WHITE. Yes, at some time it is going to cost more money and sometimes it is going to cost less money when the principal is paid off. That is, I believe that some of the principal will be deferred. It will be retired in the 2015–2022 rather than the 2010–2015 range.

Mr. SMITH. One last question. How did we come up with \$100 million premium?

Mr. WHITE. Okay. This is what I began to talk about, and I will express it as best I can. There is some post-1974 debt which bears interest rates which are higher than current rates on the appropriations. The sum of that debt would be retired relatively sooner under the status quo. It will be retired relatively sooner under the status quo because Bonneville retires the higher interest debt sooner, before retiring lower interest debt.

Now, the new debt, as you point out in your question, the new debt will have a higher interest rate. Because the new debt has a higher interest rate, the post-1974 debt will be retired relatively later than it would be under the status quo, and that would result in the Treasury being able to earn the relatively higher rate on that debt for a relatively longer period of time, therefore increasing the present value of the package.

How OMB scores this—this is the critical thing—is by looking at the present value of the debt that is owed to government. So the present value of the debt is something in the neighborhood of \$4 billion, and the total effect of this calculation would be to increase the present value of the debt to something like \$4.1 billion.

Mr. SMITH. You are content that this is a mathematical process, not a payoff?

Mr. WHITE. Not a—I am sorry.

Mr. SMITH. Not a premium for doing business this way, let's say. Scratch that payoff business. A premium for the deal.

Mr. WHITE. Well, it is a premium for the deal. I mean, we would like to do a deal which accomplished several objectives.

One is to make the Treasury score as much positive gain on the income statement of the Federal Government as we can without raising rates. And if you take the "don't raise rates" as a constraint, and you say, "Now, how can you restructure debt in a way that creates the highest present value but does not result in a rate restructuring," the most premium we can get is that \$100 million. If we could get a higher premium, we would want to do it.

Mr. SMITH. I don't want to argue with you. I would just like you to send me the computations of how we arrive there.

Mr. WHITE. That is fair enough.

Mr. SMITH. Thank you.

[The information follows:]

Following is Bonneville Power Administration summary information on the calculation of the net present value of their unpaid appropriated Federal debt, and the \$100 million premium which Congressman Bob Smith of Oregon requested. The actual detailed calculations were made by computer using the Bonneville repayment model. The response indicates the Department will provide the Congressman the base case repayment numbers used to make the calculations. These numbers are already publicly available as a Federal Energy Regulatory Commission electric rate filing made by Bonneville.

INFORMATION PROVIDED BY MR. WHITE

The \$100 million represents the contribution customers may be willing to make to permanently resolve the threat of repayment reform and the continuing uncertainty it casts over the future competitiveness of Bonneville's rates. The \$100 million represents the present value benefits of Bonneville's planned debt service payments to Treasury over the 50-year repayment period. It reflects a balanced solution to the Administration's desire that the subsidy criticisms on low interest appropriations be addressed and Bonneville's need to maintain competitive rates and avoid financial and rate instability.

The \$100 million is proposed to be provided in addition to the present value of the currently anticipated repayment stream for unpaid Bonneville Federal debt. The buyout legislative proposal would authorize Bonneville to borrow money in the private debt market to buy out this present value while not causing a rate increase. The buyout analyses assumed that the buyout occurs on the first day of FY 1996 and that a seven percent discount rate and a one percent issuance cost. It was also assumed that long-term private market debt would cost one-half of one percent more than the long-term cost of Treasury bonds. Bonneville's existing computer based repayment model, which utilizes separate generation and transmission studies, was run to yield a present value of \$4,020 million for the currently anticipated unpaid Bonneville Federal debt. (as of the end of FY 1995)

The next step in Bonneville's calculations was to determine how the present value of the projected Federal debt service payments to the Treasury under the buyout proposal would compare with the present value of the projected Federal debt service payments to the Treasury under the status quo.

The legislative proposal authorizes Bonneville to conduct a single, combined repayment study rather than the separate generation and transmission studies currently required by the Federal Energy Regulatory Commission. The concept of a combined repayment is to put all the generation and transmission obligations into one power repayment study. The combined study reduces the FY 1996 level debt service requirement by \$50 million because the combined study allows the generation study's surplus revenues beyond FY 2006 to be used to help pay debt service in these later years on the projected transmission replacements. As a result of the lower overall debt service level, the combined repayment study does not enter a surplus revenue condition until FY 2044. Despite this lower debt service level, the present value of Bonneville's total Federal debt service payment to Treasury in the combined study, actually increases by about \$110 million, relative to the separate studies. This is because interest rates on the projected Federal obligations which are being repaid at a slower rate, in the combined study 7.87% and 7.25%, are higher than the assumed discount rate of 7.0%.

The attached table provides summary information regarding the comparison of the present value of Bonneville's planned Federal debt service payments to Treasury under the debt buyout proposal and the Status quo. As shown by the table, the actual change between the present values of planned Federal debt service payments to Treasury is

\$110.2 million. The repayment studies from which the summary information has been obtained have not been provided since they are very voluminous. The FY 1996 database used in the repayment studies was derived from the data base for the 1993 Bonneville rate case covering fiscal years 1994 and 1995. The Department will provide the detailed base case numbers to the committee.

Currently, Bonneville's debt service payments to Treasury include principal and interest on the historical appropriated debt which is proposed for but-out, as well as the Federal debt service on bonds issued by Bonneville to Treasury, future systems replacements, and irrigation assistance. If Bonneville were to buy-out the repayment obligation on appropriations with bonds sold by Bonneville in the open market, the resulting stream of debt service payments to Treasury would include a lump-sum, upfront payment of net proceeds from the open market sales, and principal and interest payments on the remaining Federal obligations. Bonneville would ensure that the size and structure of the open market sales were such that the lump-sum, up-front payment, plus the present value of the debt service on remaining Federal obligations, were sufficient to produce a \$100 million increase in present value.

FEDERAL PERSPECTIVE:
REFINANCING BONDS NOT TREATED AS OBLIGATIONS OF U.S. GOVERNMENT

BPA Debt Service Payments to Treasury
Legislative Proposal: Open Market Buy-Out
FY 1998 Repayment Study Results

Issuance \$4,020, with Net Proceeds to Treasury in FY 1998 of \$3,980
No Zero Coupon Bonds; 60 bp Spread on 30-Year Serial/Term Bonds

Nominal and Present Values
(\$ Millions)

Present value of BPA's payments to Treasury increases by \$110.2 over the 60-year repayment period.

Discount Rate 7.00%

		BPA Debt Service Payments to Treasury						
		NOMINAL VALUES			PRESENT VALUES			
Fiscal Year Paid	Year Repaid	Status Quo '1'	Buyout Proposal	Annual Nominal Difference	Status Quo '1'	Buyout Proposal	Annual Present Value Difference	Cumulative Present Value Difference
Net Proceeds to Treasury in FY 1998			3,980.2	3,980.2		3,980.2	3,980.2	3,980.2
1	1998	720.4	420.4	(300.0)	673.3	382.9	(290.4)	3,699.8
2	1997	720.1	416.7	(304.4)	629.0	363.1	(265.9)	3,434.0
3	1996	700.3	296.9	(403.4)	571.7	242.4	(329.3)	3,104.7
4	1995	629.1	361.7	(277.4)	479.9	268.3	(211.6)	2,883.0
5	2000	626.6	348.2	(277.4)	446.0	248.3	(197.8)	2,686.2
6	2001	630.9	273.6	(357.3)	420.4	182.2	(238.2)	2,457.1
7	2002	678.9	327.4	(351.5)	423.4	203.9	(219.5)	2,237.6
8	2003	620.8	273.3	(347.5)	381.3	159.1	(202.2)	2,035.3
9	2004	672.7	270.3	(402.4)	365.9	147.0	(218.9)	1,816.6
10	2006	707.2	283.9	(423.3)	359.5	144.3	(215.2)	1,601.3
11	2006	698.6	346.8	(342.1)	327.3	164.6	(162.5)	1,438.7
12	2007	671.6	436.1	(235.5)	298.2	193.6	(104.6)	1,334.2
13	2008	672.8	327.3	(345.6)	279.2	136.6	(142.6)	1,190.8
14	2009	680.8	382.8	(298.0)	264.0	146.6	(115.0)	1,076.2
15	2010	690.5	347.2	(343.3)	250.3	128.5	(121.8)	950.8
16	2011	667.9	372.9	(295.0)	226.2	126.3	(99.9)	850.9
17	2012	761.3	361.8	(399.5)	237.8	114.5	(123.3)	727.0
18	2013	693.5	636.6	(367.0)	264.4	168.7	(106.6)	621.9
19	2014	697.8	661.8	(335.8)	248.2	165.3	(82.9)	529.0
20	2015	698.5	693.2	(335.2)	232.2	145.8	(86.6)	442.5
21	2016	610.0	746.1	(136.1)	219.8	180.2	(39.6)	402.9
22	2017	1,058.9	695.0	(163.9)	239.0	202.0	(37.0)	365.9
23	2018	1,333.3	1,068.4	(163.9)	260.2	225.6	(34.6)	331.3
24	2018	665.0	801.1	(163.9)	190.2	167.9	(22.3)	299.0
25	2020	665.0	801.1	(163.9)	177.8	147.8	(30.2)	268.6
26	2021	665.0	801.1	(163.9)	168.2	137.9	(28.2)	240.6
27	2022	665.1	801.2	(163.9)	155.3	128.9	(26.4)	214.2
28	2023	665.1	801.2	(163.9)	145.2	120.5	(24.7)	189.6
29	2024	678.6	782.6	(109.0)	137.6	110.0	(27.6)	162.0
30	2025	677.7	906.2	(671.5)	128.4	40.2	(88.2)	73.8
31	2026	326.8	312.8	(14.2)	40.1	38.4	(1.7)	72.1
32	2027	412.6	308.1	(103.5)	47.3	36.6	(10.7)	60.2
33	2028	466.8	424.4	(142.4)	48.9	46.5	(2.4)	55.8
34	2029	368.5	677.8	(309.3)	38.7	98.0	59.3	118.1
35	2030	324.8	677.8	(353.0)	30.4	91.8	61.2	177.2
36	2031	362.3	682.6	(320.3)	31.7	51.0	19.3	196.5
37	2032	372.9	264.0	(118.9)	30.5	20.8	(9.7)	186.8
38	2033	346.2	231.2	(117.0)	26.8	17.7	(8.9)	177.8
39	2034	328.2	214.2	(115.0)	23.6	15.3	(8.2)	169.6
40	2035	365.6	252.8	(112.8)	24.4	18.9	(5.5)	162.1
41	2036	320.3	209.3	(111.0)	20.0	13.1	(6.9)	155.1
42	2037	394.7	286.6	(108.1)	23.0	16.7	(6.4)	148.8
43	2038	325.2	218.0	(107.2)	17.7	11.8	(5.9)	142.9
44	2039	369.6	264.2	(105.4)	18.8	13.6	(5.2)	137.6
45	2040	367.6	254.0	(103.0)	17.0	12.1	(4.9)	132.6
46	2041	360.7	248.7	(102.0)	16.6	11.1	(4.5)	128.1
47	2042	360.6	260.0	(100.6)	14.8	10.4	(4.2)	123.9
48	2043	358.8	260.7	(98.2)	14.0	10.1	(3.9)	120.1
49	2044	321.9	224.0	(87.9)	11.7	6.1	(3.6)	116.5
50	2045	331.9	236.2	(86.7)	11.3	6.0	(3.3)	113.2
51	2046	402.8	307.3	(85.5)	12.8	9.7	(3.0)	110.2
Total Values:		31,774.0	26,676.2	(5,197.8)	9,098.6	6,906.6	(2,192.0)	110.2

1/ FY 1998 repayment studies consistent with BPA's 1992 rate case.

Mr. DEFAZIO. Mr. Kreidler?

Mr. KREIDLER. Thank you, Mr. Chairman.

Mr. Bottiger, I would like you to summarize what role you think the Northwest Power Planning Council might play relative to the proposed reorganizations.

Mr. BOTTIGER. Currently the Northwest Power Act requires certain federal agencies, including Bonneville, to take the Council's power plan and its fish and wildlife plan into, quote, "consideration at each step of their decision-making process."

In the case of FERC or some other agencies, they interpret that to make a finding as to why they did not follow our plan. That is kind of the position Bonneville takes.

In addition, we have the ability, when these agencies' budgets are going through Congress, to come back and point out when they are following or not following the Council's plans. And as you know, we are here regularly when those budget hearings are held.

Mr. Hardy assures me that his interpretation of their proposal would not change that at all. And if that is the case, then I am satisfied. But as you know, I read the bill, and I don't listen to the speech. So I want to see the bill and I want to see it in there.

Mr. KREIDLER. And we don't yet have the specific language; is that correct?

Mr. DEFAZIO. For the corporation?

Mr. KREIDLER. Right.

Mr. DEFAZIO. No, we do not.

Mr. KREIDLER. Related to this, I would like to ask you about the structure that is being proposed, specifically to the appointment of a single administrator. It appears that the recommendations that have come forward coincide with the desire on the part of BPA, to have a single administrator as opposed to an appointed council. Do you have any thoughts on the single administrator versus board concept, or, perhaps, giving the Northwest Power Planning Council additional authority?

Mr. BOTTIGER. First of all, I have not taken this to the Council and I am not speaking for them. Personally I think the TVA model ends up with more problems than the BPA current model does.

If the Power Council appointed by the governors and representing the regional interests get a say that the administrator has to consider, that is probably as good as a board of directors of a corporation. Too many cooks, you know, the stew gets kind of thick sometimes. That may be one of our problems now—the bureaucracy that is embedded there. If they could remove that and be able to move quickly but subject to review and policy guidance from the region, then we have got the best of all worlds.

So I am not looking for a lot of administrators. That is kind of our problem now.

Mr. KREIDLER. Mr. White?

Mr. WHITE. I share Ted's comments. I think they are well put. We want to have something that can be swift on its feet, and yet still be accountable and responsive, and that is the balance we are trying to strike.

I think it particularly is going to be important in the next decades because, as you know, power generation is becoming more competitive every year. I wouldn't be surprised, looking into a crys-

tal ball at the year 2010, if Bonneville has lots of competitors. And if we are going to preserve the resources that we need for regional concerns, we need to make sure that it is a competitive organization and is structured in a way that would allow it to compete with others.

I do share your concern, as I had articulated, that we have some regional organizations, the Council being one of the leaders that give us guidance, so that we can give Mr. Hardy guidance when appropriate to accommodate the concerns.

Mr. KREIDLER. That is certainly an ongoing concern of mine. I strongly believe that there should be some way for the end users of BPA's resources, to have an opportunity to be heard and not dictated to in the rate-making process. Given the magnitude of the decisions that are going to be made under a corporation structure, this participation is doubly important.

Mr. WHITE. Yes. I have asked for guidance from people in the region, such as yourself, if we were to move to a corporate status. If it was a private corporation, would there be an executive compensation committee? And how should we best structure that?

I can respect the desire of the Administrator and other senior executives to be treated more like their counterparts in private business, even though they have a much wider range of responsibilities involving fisheries and the like. And if you want corporate status, who should be the executive compensation committee? That is an issue that we ought to give some thought to.

Mr. KREIDLER. Thank you very much, Mr. Chairman.

Mr. DEFAZIO. We have been joined by Ms. Shepherd, who is a member of the task force and a member of the full committee. I wonder if she has opening remarks or questions at this point.

Ms. SHEPHERD. No, thank you.

Mr. DEFAZIO. Just a follow-up, just a couple of more questions to Mr. Bottiger in particular. In looking at the corporate status, and again, back to the question I put about the responsiveness of the Administrator, do you have any concerns about the Act as currently constructed?

Mr. BOTTIGER. Let me put it this way. When the Council comes up with a plan, whether it is to deal with the fisheries or whether it is a least-cost plan, you submit that plan to BPA. Essentially the Act seems to say BPA should take that into account; they should follow it, unless for some reason they think they shouldn't follow it. And, you know, they might not follow it, and if they don't follow it then probably they should tell you, but maybe they don't have to, but if you want to formally object, then you can. It is a very murky process, and the relationship between the products of the Council and the implementation by the Administrator—we got into this a little bit over the Tenasca issue, and I was critical that the Council had not examined the long-term contracts for the acquisition of the gas. I didn't know how you could determine this was a great deal or a good resource or cost effective if you didn't know what the underlying contracts for the raw material generating the power were going to cost in the future. So we had a dialogue with one of your colleagues from the Council, and we had an interesting exchange.

Mr. DEFAZIO. Could you wax poetic on the relationship between BPA and the Administrator and the implementation and the plans which the Council develops and how you might improve upon that, or are you satisfied that it is fine, and how it might be altered in a corporate relationship if BPA becomes a corporation.

Mr. BOTTIGER. Maybe I should start out with a story that our executive director cringes whenever I start this.

Mr. DEFAZIO. He is not here, is he? You are free, unless staff is here to tell you you shouldn't say something.

Mr. BOTTIGER. Sometimes we describe the Council as a paper tiger with awfully sharp teeth. We just discovered a new tooth about a month ago, and we wrote a little letter to FERC which was just one page, and it didn't really say anything except it said the section of the law that requires FERC to take our plan into consideration in approving Bonneville's rate increase. Well, as you may well remember, the sky fell.

What are you doing getting into a rate case? It was a tooth that candidly I didn't even know we had. Bonneville reacted immediately. So the Council's program, 6-C, is another example. We have absent veto authority over Bonneville acquiring Tenasca.

You are right, the Tenasca project revealed a weakness in the relationship on what Bonneville promised people would be commercial, secret information submitted to Bonneville when they made a decision, and Bonneville had signed an agreement and couldn't release those gas prices to us.

And it is a problem, because other competitors would have that information available, and we are going to have to develop a way that Bonneville can relate that information so we can double-check it. In that case, we took their word for it.

We also wrote them a letter saying, Next time we are not going to make that mistake. And next time when you sign those agreements, you find a way to let the Council run a test on that gas price in the future to make sure that we have got a competitive program.

But that was the first 6-C we had done since the CONMOD program for the aluminum companies ten years before. So there are teeth there and there is an ability, if the Council wants to exercise it, and at least this current Council acts like it does.

Mr. DEFAZIO. So it has had some teething problems, some new teeth have popped through the gums here, and you are going to chew on it thoroughly.

Mr. BOTTIGER. There may be some others that we haven't discovered yet.

Mr. DEFAZIO. There are regular and accepted practices for public utility commissions to review such proprietary documents under confidentiality, and I believe that the Council could establish a like

procedure that would allow review by a limited number of persons or Council members or staff, but would still protect the proprietary nature of the agreement.

Mr. BOTTIGER. Bonneville, they are very cooperative. We both want to fix this.

Mr. DEFAZIO. I just felt a little burnt because we had the settlement with GE, was it, and I at the time was a bit concerned about that settlement and the secret nature of the settlement, and was promised by the Administrator that there would be no more secret agreements. Then along comes Tenasca. Oops, we have another secret agreement, and believe us, it is a good deal. It may be, but with these gas projects sprouting up around the Northwest, I have some concerns.

And then I read of a proposal, I haven't had an opportunity to ask the Administrator about some sort of contingent agreement with gas-fired generation at Tenasca?

Mr. BOTTIGER. The Council asked the Administrator to get options on future generation. He has, I believe, three projects that are in the option process, an old lawyer device called an option. We are using that to acquire the licensing permitting process of a new generator with a decision as to whether to buy it or build it held until later.

Seventy-five percent of the time to build the new generator is in licensing and siting. And it is not the expensive part. It is the construction that is the expensive part. So if you could get these things set up, that is if you needed them, you could build them. That is what he is doing now, and that project you mention is one of those option projects.

Mr. DEFAZIO. So the Council is closely monitoring these option activities that comply with the other portions of the Act regarding least-cost acquisition.

Mr. BOTTIGER. That is right. That is a Council program, and Mr. Kreidler is aware of an energy site evaluation council in Washington. They are in the process of doing all of the permitting and licensing of that plant. But there has been no decision to build it or for Bonneville to buy it yet.

Mr. DEFAZIO. I don't believe anyone else has further questions. I don't have any further questions of the panel. I thank you for your testimony. I appreciate your being here today.

Thank you.

We will move on to the next panel, which will be a rather large panel. We will proceed in the order which you appear on the witness list, unless you have some reason to deviate from that, like an airplane or something. Hearing none, we will begin.

Mr. Drummond.

PANEL CONSISTING OF WILLIAM K. DRUMMOND, MANAGER, PUBLIC POWER COUNCIL; RALPH CAVANAGH, ATTORNEY, NATURAL RESOURCES DEFENSE COUNCIL; JAMES R. SHERRILL, MANAGER, PARKLAND LIGHT & WATER CO., ON BEHALF OF WESTERN PUBLIC AGENCIES GROUP; LORRAINE BODI, CO-DIRECTOR, NORTHWEST REGIONAL OFFICE, AMERICAN RIVERS, INC.; STEPHEN F. JOHNSON, EXECUTIVE DIRECTOR, WASHINGTON PUBLIC UTILITY DISTRICTS ASSOCIATION; JIM P. RAMSEYER, GENERAL MANAGER, BLACHLY-LANE COOPERATIVE ELECTRIC ASSOCIATION, ON BEHALF OF PACIFIC NORTHWEST GENERATING COOPERATIVE; AND SARA PATTON, COALITION DIRECTOR, NORTHWEST CONSERVATION ACT COALITION

STATEMENT OF WILLIAM K. DRUMMOND

Mr. DRUMMOND. Good morning, Mr. Chairman, members of the task force.

My name is Bill Drummond. I am manager of the Public Power Council, an association of 114 publicly and cooperatively owned electric utilities in the Northwest.

Although PPC represents a diverse membership, there is a common goal amongst all the members of PPC that bring us together: The long-term viability of the Bonneville Power Administration. In Bonneville's strength lies our strength. We believe by attaining government corporation status for Bonneville, we will build on that mutual strength.

Repayment acceleration has been with us for many years. Since the early 1980s we have, with the help of the Northwest delegation, successfully fought off these initiatives. If carried out, these proposals would lead to rate increases of 25 percent or more and would have seriously harmed the Northwest economy. Each time we have relied on the strength of the Northwest delegation to turn back those who are out simply to extract more money from our region based upon ideology.

The repayment acceleration proposal itself—let me turn to that for just a minute. PPC has been the lead organization for Bonneville's customers studying this issue now for over three years.

The members of PPC see significant value in removing the uncertainty of repayment acceleration, providing that certain conditions are met. Those conditions include rate neutrality, a long-term solution, not one that is simply short term. We believe that any legislation must be limited to this issue, and it must be consistent with Bonneville's existing organic statutes.

We believe that public and regional preference must be maintained. And we also believe the level of customer influence should be maintained, that is, the current level of customer influence.

Finally, the concerns of the other Power Marketing Administration customers from around the rest of the country need to be considered as well.

I commend the members of the Northwest delegation for securing a proposal that is consistent with our principles. As I understand the proposal, it would basically provide for refinancing of Bonneville's existing appropriated debt by giving Bonneville access to Wall Street. The benefits include a lump-sum payment to Treasury,

contribution to deficit reduction, and certainly increased certainty for Bonneville customers.

The effort is not over with this proposal. First, the legislative path can be a very rocky one. And if the final legislative product deviates from our principles, we would oppose it.

Second, after enactment of any legislation, there are still a considerable number of questions. For example, what level of reserves or service coverage would be required? What might the other bond covenants look like? What of the timing of the issuances? There are a wide variety of questions.

In summary, the proposed legislation appears consistent with our principles, and we support it. The significance of removing the uncertainty of repayment acceleration cannot be overstated. We still face risks from escalating fish and wildlife costs, nuclear decommissioning costs, and resource acquisition uncertainty.

Eliminating the repayment risk is a significant accomplishment. Again, we appreciate the work of the delegation in securing this proposal.

Let me turn for a moment to Bonneville corporation status. Bonneville is a business that cannot act as such. Its personnel, budgeting and procurement systems and also the legal requirements may work for a bureaucracy but not for a business. In order for BPA to become more businesslike, it must shed these bureaucratic trappings.

PPC supports incorporation status for Bonneville because it is the most direct path for achieving this goal. The path is not unexplored. There are some good models. Common among these models are an ability to reduce staff without cumbersome reduction-in-force procedures and the ability to act in the face of change.

PPC will not support corporation status if achieving it crosses some very bright lines. These include no lessening of customer involvement in BPA decision making; no threat to preference, public or regional; no changes to Bonneville's mission as laid out in the Northwest Power Act and the Transmission Act; and again, we would look for legislation aimed specifically at this particular proposal.

We also don't want to see the non-achievement of corporation status to lead to a retrenchment in Bonneville. Administrator Hardy has made it clear that that is his intention as well: to make sure that Bonneville works for cost-effectiveness, and becomes more efficient in any event.

My point is that corporation status is the most straightforward way of achieving these goals. Bonneville's existence in the role of power supplier of choice to the members of PPC is currently imperiled by overstaffing, slow decision making, increasing costs and rate uncertainty. If we did not expect and desire a change, we would not support corporation status. We would not examine refinancing if we felt this couldn't lead to a more stable power supply and power certainty.

As stated above, we expect that these changes along with the other actions that Bonneville is undertaking right now will lead to a more responsive and cost-effective power supplier if this comes to pass, and if Bonneville continues to increase its responsiveness to its customers, we expect the relationship between BPA and its cus-

tomers to improve markedly. However, we are not willing to support this change at any cost. The principles we have described must be adhered to.

Thank you for the opportunity to testify and I would be happy to answer any questions.

[Prepared statement of Mr. Drummond follows:]

**Public Power Council Testimony
before the
Committee on Natural Resources
Bonneville Power Administration Task Force**

Washington, D.C.

October 28, 1993

- 1. What alternatives can you suggest to Bonneville's current repayment formula for its appropriated Treasury debt that would provide a long-term solution to the perennial attempts to accelerate BPA's debt repayment schedule, have a neutral or beneficial effect on Bonneville's rates, and provide the maximum deficit reduction? Please discuss the principles that should govern any restructuring of Bonneville's debt.**

Repayment acceleration initiatives have led to considerable power pricing uncertainty in the Northwest. Some of these initiatives could have raised BPA's rates by 25 percent or more. PPC has spent much time and effort over the past years fighting repayment acceleration and looking for ways to remove the uncertainty of repayment acceleration. We have sought a solution that will provide a long term resolution of this issue and will not lead to rate increases in the near or long term. We also need to make sure that the current rights of BPA's preference customers are not harmed in any way and that the viability of preference customers is preserved. The current level of customer involvement in BPA decision-making must not be diminished. If legislation is needed to accomplish this, it must be limited to this single issue. The proposal developed by the Administration and the Northwest Delegation appears to meet these requirements, and therefore has our support.

The alternative that we have spent the most time exploring is the present-value refinancing approach. Under this alternative, the debt service stream of BPA's appropriated debt would be restated in present-value terms. BPA would then borrow sufficient funds from the U.S. Treasury, or the private capital market, to refinance this debt. BPA would repay the refinancing bond, or bonds, over time. This refinancing could be done in such a way that it would not increase BPA's power rates and, if the legislation is written properly, would provide for federal deficit reduction. Deficit reduction could occur since the federal government is receiving an influx of cash over a short period of time (one year or less) instead of receiving these funds through repayment over many years. The choice between a Treasury or private capital market refinancing would be based upon that refinancing vehicle that best meets our needs and has the best prospects for "scoring" against the federal deficit. This is very similar to the proposal developed by the Administration and the Northwest Delegation.

Having stated our willingness to support this refinancing to achieve a long term resolution of this issue, we are also willing to continue to fight repayment acceleration, or any repayment initiative that would increase our rates, in concert with the American Public Power Association and National Rural Electric Cooperative Association and publicly and co-operatively owned utilities throughout the nation if we are unable to achieve a debt refinancing that is consistent with the principles that we have described.

- 2. If Bonneville is given legislative authority to refinance its Treasury debt, should that authority be limited to Bonneville's appropriated debt? Should Bonneville be given new borrowing authority, either from the Treasury or the private financial markets?**

The repayment acceleration proposals referred to in our response to Question 1 have always focussed on BPA's existing **appropriated debt** since the appropriated debt represents that debt which BPA has held the longest and has the lowest interest rates. BPA's **bonded debt** from the U.S. Treasury bears interest rates that are consistent with market interest rates that prevailed at the time of issuance of the bonds, and therefore have not been a focus of repayment acceleration initiatives. As a result, we believe that BPA should only be given the authority to refinance its existing appropriated debt.

BPA is facing the possibility of running out of Treasury borrowing authority for new transmission and fish and wildlife projects by 1997. PPC has considered the question of whether BPA should be given private capital market access in order to meet its capital needs. At this point we believe that BPA should rely on its current borrowing authority and U.S. Army Corps of Engineers and Bureau of Reclamation appropriations. Financing from its customers or third parties is another important source of capital. This type of financing reduces BPA reliance on Treasury debt. BPA's Treasury debt cap should be increased only if these sources of capital are insufficient. We do not believe that BPA should be given private capital market access at this time, but we are willing to re-examine this position for discrete projects. We are concerned that if BPA is given private capital market access the level of customer involvement in BPA decision-making would decrease and BPA would face new rate increase pressures from issuance costs, coverage ratios and debt growth.

- 3. In general, please discuss your views on the possibility of changing Bonneville's status from that of a federal agency within the Department of Energy to a government corporation.**

PPC supports government corporation status for BPA, provided that our principles are met. These are very similar to those that we stated in response to Question 1. They include: no rate increase as a result of a move to government corporation status, no decrease in the level of customer influence at BPA, long term efficiency gains must come as a result of this move, and there should be no decrease in access to capital for BPA. Also government corporation status, if it is to be attained legislatively, must be achieved with legislation focused on this single issue.

4. What advantages or disadvantages would there be to Bonneville and the Pacific Northwest's electric ratepayers in restructuring Bonneville into a government corporation?

We expect that significant advantages will come as a result of moving BPA to government corporation status. By attaining government corporation status, BPA would be able to act more like a business and be given the freedom to move more quickly in a business environment. BPA has launched a major effort to become customer-driven and results oriented. While we expect BPA to achieve this goal regardless of whether government corporation status is attained, this status will help in this effort.

The greatest benefits of corporation status are the near- and long-term reductions of positions at BPA that are now devoted to fulfilling inter-governmental reporting requirements that add no value to BPA's operations. Most of these staffing reductions would come in the areas of personnel, contracts and property management, and materials and procurement. Also, BPA managers would be given the ability to downsize without complying with arcane and outdated Civil Service requirements. As a government corporation, BPA would have the ability to sue and be sued, and to represent itself in court. Corporation status should also bring greater responsiveness to its customers, due to reductions in paperwork and red tape.

There are, however, a few unresolved issues. We are concerned that judgements against BPA would come directly out of the BPA fund, and not the federal judgement fund as is now the case. There is also a potential for legislative add-ons. These could lead to the loss of our support for this proposal.

5. Would a government corporation structure either enhance or diminish Bonneville's ability to comply with its statutory mandates to meet social and environmental goals, including the protection of fish and wildlife?

We believe that government corporation status would enhance BPA's ability to comply with statutory mandates to meet environmental requirements. Since BPA's reporting and paperwork requirements will be reduced, BPA will be able to fulfill these requirements on a more timely basis. An example of this is the time it takes for DOE to review BPA's environmental impact statements. If BPA were able to move through the EIS process more readily it could fulfill these requirements more quickly and get programs and contracts on the ground. Also, giving BPA the ability to act more like a business will allow it to succeed as a business. The achievement of the goals of any of BPA's programs is linked to this success. This includes BPA's statutory mandates to meet social and environmental goals.

6. Would changes in Bonneville's governing statutes be necessary or desirable if Bonneville is made into a government corporation?

Government corporation status for BPA will not change preference or any of the organic statutes that govern BPA. These statutory requirements are laid out in the Bonneville Project Act, the Transmission System Act, the Northwest Power Act, and other statutes. Our support for the change in BPA status is based on this critical assumption. PPC will oppose any legislation that changes BPA's statutory requirements.

Government corporation status would move BPA out from under the Department of Energy and require that the Administrator be appointed by the President for a fixed term. The Administrator would be solely responsible for BPA's compliance with its legal authority. The Administrator would continue to be supervised by the Secretary of Energy on major policy issues. All of the authorities of BPA would be vested in the corporation.

7. Are there alternatives to government corporation status that would achieve all or many of the same administrative efficiencies sought by Bonneville?

The single most significant action that could be taken to achieve efficiencies at BPA would be to free BPA from the current federal personnel system. By getting rid of the reduction in force (RIF) procedures, bumping rights, and an antiquated performance appraisal system, BPA would be able to bring its staffing procedures into the 20th century. In addition, BPA should be removed from OMB budgetary oversight. OMB oversight leads to an atmosphere of political meddling in budgetary decisions that is subject to change based upon the prevailing Presidential administration in Washington, D.C.. BPA must be allowed to operate more like a business and less like a government bureaucracy. BPA's procurement procedures are another example of a relic of the past that should be jettisoned. Also, BPA should be given the authority to take actions without the approval of DOE. DOE's participation in BPA decision-making seldom leads to anything more than delayed decision-making.

Since legislation is needed for any of these actions we believe that we should solve the problem all at once rather than piece-meal.

8. Would Bonneville's relationships with Congress, the N.W. Power Planning Council, other federal agencies, its customers or the public change with a change in its structure?

BPA's continued existence in the role of power supplier of choice to the members of PPC is currently imperiled by overstaffing, slow decision making and increasing costs. If we did not expect, and desire, a change in the relationship between BPA and its customers we would not be supporting government corporation status for BPA. As stated above, we expect that this status, along with the other actions that BPA is taking right now, will lead to a more responsive and cost-effective power supplier. If this comes to pass, and if BPA continues to increase its responsiveness to its customers, then we expect the relationship between BPA and its customers to improve markedly. We do not see any change in the relative influence over BPA of the other entities listed above if BPA is to change to a government corporation. However, we are not willing to support this change at any cost -- the principles that we have described above must be adhered to.

defazio :ms

Mr. DEFazio. I thank the gentleman.

I would like to recognize that Elizabeth Furse from Oregon, who is not a member of the committee but has closely followed BPA issues, and is obviously, as are all of us in the Northwest, vitally concerned with proposals, both regarding the debt refinancing and the corporate status, and has been playing a very active role. I would like to recognize Elizabeth.

She has a statement she wishes to enter into the record. I do that without objection. Unless she has oral remarks, I will go on to the next witness.

**STATEMENT OF HON. ELIZABETH FURSE, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF OREGON**

Ms. FURSE. Mr. Chairman, my real interest is to make sure that the responsibility for salmon restoration is addressed, and those are in my remarks.

Thank you.

[Prepared statement of Ms. Furse follows:]

STATEMENT OF CONGRESSWOMAN ELIZABETH FURSE

Thank you for the opportunity to make a statement before the task force. I support your efforts to explore ways to make the Bonneville Power Administration more efficient and financially secure. The BPA is an integral part of the region's economy and I appreciate the task force's attention to these issues. They have merit and warrant thorough investigation.

I feel strongly, however, that any discussion of BPA restructuring and debt buyout needs also to address concerns over BPA's accountability regarding its fish and wildlife program. Of particular concern to me is the BPA's responsibility for helping to restore the fast-diminishing salmon stocks of the Columbia River basin.

It is my understanding from conversations with delegation members and BPA personnel that BPA's current legal obligations under the National Environmental Policy Act, Endangered Species Act and other environmental laws will not in any way be altered by the granting of government corporation status. Similarly, it is my understanding that if the BPA's fish and wildlife restoration efforts are transferred to another agency for implementation, BPA will still bear the full obligation for the success and completion of these activities. Please let me know if I am in error in my understanding.

Thank you, Congressman DeFazio, for the opportunity to speak. I look forward to working with you and the rest of the task force on these issues in the future.

Mr. DEFazio. We will then go on to Ralph Cavanagh.

STATEMENT OF RALPH CAVANAGH

Mr. CAVANAGH. Thank you, Mr. Chairman.

That is certainly one of my interests as well. I have since 1979 headed the Northwest Energy Program of the Natural Resources Defense Council representing our 8,000 regional members. I am also a member of the Secretary of Energy's advisory board.

I will address the two questions you have posed to us, Mr. Chairman, and then just add a concluding thought that really looks back over the whole work of this task force.

The first question is really, I think, about long-term solutions to the perennial federal efforts to raise BPA's rates which Bill Drummond spoke about a moment ago. We all know one of the reasons Congress is doing that is to get more money out of the Northwest. But I think it is important to remember that there is a policy justification for doing it. It lies in the claim that BPA's rates send an

artificial and flawed signal about the artificial cost of power supply, and raising BPA's rates will reduce wasteful use.

The most powerful response that people like me and those of you behind that table can make, is that there are other means that the region is using to minimize wasteful use and to go out and try to capture cost-effective opportunities to save energy.

In order to make that case, it is, I think, terribly important that we avoid situations like the one that is evidenced in the attachment to my testimony, which I think is part of this discussion. What I have attached to my testimony is a letter from the Clearwater Power Company, which is a cooperative based in Lewiston, Idaho, to its members sent at the end of August announcing that the cooperative was extending and retaining a declining block rate structure for all of its customers. And for those of you who don't spend every week in the middle of rate cases, that is a structure based on the premise that the more you use, the less you pay.

In effect what the co-op is announcing to its members is that they get a 33-percent discount on power purchases if they can raise their consumption above a certain minimum level. And the letter, with disarming candor, goes on to say that the reason for this is to promote electric heat and increase the co-op's revenues.

Mr. Chairman, there are times when diplomacy must give way to candor. This is absolutely appalling. At a time when the region is in deficit, at a time when power costs for all of the region are rising sharply, at a time when environmental pressures are ever more clearly upon us, and even if you didn't care about any of that, I submit this kind of a policy continuing within the region is the strongest possible invitation to the most unwelcome kind of congressional intervention that Bill Drummond has devoted a career to try to stop.

This reminds us of why BPA must be more than just customer-focused. I don't know how many Clearwaters are out there, Mr. Chairman. I hope this Administrator and this task force will find out, and I hope they will let utilities know that they are putting the entire region at risk with this kind of policy.

In invitations for more wasted electricity in the name of more revenues, they are depriving us of the ability to respond to those who say the only way to encourage more efficient consumption in the region is to simply raise Bonneville's rates.

The larger point that this letter illustrates is the absolute necessity of retaining Bonneville's conservation leadership and Bonneville's conservation achievements as, again, the most potent response to those who say the greatest social good lies in simply adding more costs to the rates.

As regards the government corporation proposal, Mr. Chairman, I know that you have relied and the committee members have relied in substantial part on a report by the National Academy of Public Administration called "Reinventing BPA." I think it is important for me in particular to acknowledge that I found it surprisingly compelling, and I say surprisingly because when you get to the end of the report, you find out that the only people the authors consulted were Bonneville staff and representatives of large industrial customers and utility customers.

And, Mr. Chairman, that leaves out a few people, starting with one of the gentlemen who testified before you a moment ago from the Power Council and a number of other constituencies. BPA's customers matter a lot but they are not the only group that matters.

I think the authors of this report are captives of the mind-set that thinks that the only BPA constituency that is critical in these matters is the customer groups. I value them; they are a critical part. They are not the only part.

The academy report says on page 25 that wholly-owned government corporations have no shareholders. And, Mr. Chairman, that may be true as a technical matter but for BPA it is profoundly false in substance, as Randy Hardy would be the first to insist.

As a representative, though, of one of the excluded constituencies in the report, I want to acknowledge the strengths of the report itself in terms of the substance because I can attest that, as a result of its current administrative status, BPA suffers under a host of costly bureaucratic burdens that serve no discernable purpose.

I have lived through some of this with the agency over the past 15 years, ranging from the inconsistent financial reporting requirements to the bizarre GSA restrictions on data processing and telephones to the utterly irrational personnel policies and restrictions, and plenty more, and, Mr. Chairman, those costs are real and we all have a stake in reducing them. A paralyzed BPA can't be an effective environmental steward or resource manager.

The challenge for any reform initiative is to eliminate those burdens without in the process deluding BPA's obligations or reducing the agency's accountability to the public.

So on that matter I just want to join Mr. Bottiger in calling for a regional consensus, which I hope we can move toward. To get that consensus, BPA has got to reassure the public that reinventing BPA, including the corporation status, involves no retreat from BPA's resource management, energy efficiency, and fish and wildlife responsibilities.

I can tell you, Mr. Chairman, from the anguished calls I have gotten from utilities' conservation staff, from my environmental constituents, from my many friends around the region who work in the public interest sector, that BPA hasn't made that case yet. And it is going to be critical to building the kind of regional consensus we have to have in order to get it built.

Let me close with a couple of observations, looking back very quickly at the task force's work that don't bear on those two questions. One is, in our testimony, which we would be glad to take up, if you would like, a suggestion in response to some of the claims made in the competitiveness hearing that there were customers getting ready to leave Bonneville because of the high cost of its social obligations.

Our suggestion is if there are BPA customers who opt to leave in whole or in part, the power they don't use ought to be released for auction to the highest bidder inside or outside the region. As to that power, regional interests acts to take power and dollars out of the region, not keep them in, and we all have a stake in seeing whether there is an opportunity for mutually beneficial resale if

there really are people who want to go. And I think if that option is made clear, they are much likelier to stay.

Second, I would like to acknowledge that Randy Hardy did something on October 15 which is unusual in public affairs. He sent you a letter withdrawing some earlier testimony to this task force on BPA's environmental responsibility and substituting a much clearer and stronger statement. I think that demonstrated a personal and constitutional integrity that reflected well on the administrator, and I know many here were hoping it would happen.

Finally, a sentence, Mr. Chairman, led to you and the staffer: This task force already has provided the most thorough and constructive oversight I have seen in a career of working in the Northwest, and of course there is much more still to come.

Thank you.

[Prepared statement of Mr. Cavanagh and attachment follow:]



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TESTIMONY OF RALPH CAVANAGH
ON BEHALF OF THE NATURAL RESOURCES DEFENSE COUNCIL
AT THE FINAL HEARING
OF THE BONNEVILLE POWER ADMINISTRATION TASK FORCE

Washington, D.C.: October 28, 1993

Through this statement, the Natural Resources Defense Council (NRDC) responds to Chairman DeFazio's invitation of October 14 to testify before this Task Force regarding the future of the Bonneville Power Administration.¹ I have directed our Northwest Energy Project since 1979; I serve also as a member of BPA's Function-by-Function Review Task Force and the Secretary of Energy's Advisory Board. Before responding to the Task Force's detailed questions, I want to offer some general conclusions and recommendations based on the earlier phases of this crucial inquiry.

1. The entire region owes a debt of gratitude to the Task Force, its Chairman and its staff, led by Dan Adamson and Jeff Stier: the Task Force already has provided the most thorough and constructive oversight that BPA has received during the course of my career, and of course there is much still to come. Thank you.
2. In recent months BPA has spent so much time collecting and reacting to complaints from a relative handful of customers that it has been in danger of forgetting its millions of consumer/constituents. NRDC supports, and has assisted with, BPA's efforts to streamline its decisionmaking and improve the efficiency of its operations, which both utility customers and citizen consumers want and need. However, I hope this Task Force will remind the agency forcefully that when customer and consumer

¹NRDC representatives also testified at earlier Task Force hearings on July 12, 1993 and September 24, 1993.

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interests diverge, it is regional interests that must overcome special interests -- whether the issue is long-term energy efficiency and renewable energy investments or the restoration of environmental resources. I was heartened when Administrator Hardy reaffirmed his regional stewardship commitments in a recent letter to this Task Force, and rejected those who think local interests should supersede BPA's regional responsibilities.²

For a profit-maximizing private business, customer interests and customer satisfaction are always paramount; for a BPA, these values must always be balanced against a broader public interest.

3. The core of the Regional Act remains sound; its integrated resource planning system has served as an international model and its authors quite literally wrote the book for the rest of North America on energy efficiency as a resource opportunity for utilities. BPA has a long way to go in orchestrating the sustainable energy future contemplated in the Act; the response should be not to give up but to redouble our efforts to revitalize the Act's numerous mechanisms.

4. Despite some claims to the contrary by some highly self-interested utility and industrial customers, BPA today is a highly competitive wholesale power supplier (and the Function-by-Function review will result in further improvements). BPA can remain the West's preeminent wholesale power supplier without sacrificing its environmental stewardship responsibilities or its role in promoting a sustainable regional energy future. We vigorously oppose efforts to turn BPA into the equivalent of a gigantic profit-maximizing commodity broker that focuses solely or largely on selling kilowatt-hours as cheaply as possible. Those who embrace that vision cannot explain why the Northwest would need or want to employ a public agency for the purpose.

5. It is time to issue a put up or shut up challenge to BPA customers who claim that they are preparing to go elsewhere for

²Letter from Administrator Randall W. Hardy to Honorable Peter DeFazio, October 15, 1993.

power because of the allegedly high cost of the agency's social responsibilities. Utility and industrial customers should face the following choice squarely: if you reduce your purchases by building your own generation or buying from another supplier, the freed-up BPA power should be eligible for immediate and potentially long-term resale under contract, free of regional preference restrictions. If you want to go elsewhere for power purchases, don't expect the rest of us to pay part of the bill for your decision -- and don't deprive the rest of us of an opportunity for a mutually beneficial resale. If legislation is needed to ensure that result, it should be enacted promptly.

As the Task Force weighs BPA customer complaints about the alleged costs of the agency's "social agenda", it should recall that the complainers are themselves both creatures and beneficiaries of social agendas. A robust, no-holds-barred free market system would not accommodate preference power, tax-exempt financing, irrigation subsidies, low-density discounts, below-market industrial rates, and regional preferences.

6. On fish and wildlife issues, we join colleagues in the Northwest environmental community who are calling for renewed efforts by the key regional stakeholders to negotiate and propose a reasonable settlement of disputes now in litigation over how best to meet BPA's fish and wildlife obligations.

II. RESPONSES TO THE TASK FORCE'S QUESTIONS

The Task Force has posed eight specific questions regarding the restructuring of BPA's debt and proposals to make BPA into a government corporation. Our responses follow.

1. Discuss the principles that should govern any restructuring of Bonneville's debt; propose a solution to the perennial efforts to accelerate BPA's debt repayment schedule.

RESPONSE: The principal policy justification for raising BPA's rates is that deceptive price signals yield wasteful use. The most powerful response is to demonstrate that the region is aggressively pursuing all cost-effective conservation; we are

falling far short. Indeed, examples continue to surface in which BPA customers actually promote wasteful energy use through promotional devices like declining block rates; a disgraceful case in point is attached, involving a policy statement by Idaho's Clearwater Power Company.³ NRDC takes no position on restructuring BPA's debt; our focus has been on ways to build a sustainable energy future without having to rely on divisive and politically dubious measures. If BPA's debt can be restructured to the Treasury's satisfaction at little or no cost to the region, of course, few are likely to object.

2. If Bonneville is given legislative authority to refinance its Treasury debt, should that authority be limited to Bonneville's appropriated debt? Should Bonneville be given new borrowing authority, either from the Treasury or the private financial markets?

RESPONSE: BPA's capacity to meet its statutory conservation and fish/wildlife authority should not be constrained by arbitrary limitations on borrowing; we would support raising those ceilings well in advance of potential adverse impacts. In addition, third party financing remains an extremely attractive option for funding energy efficiency programs; we would like to see much more emphasis on such financing at BPA. We take no position on the refinancing of Treasury debt except to note skepticism about claims that magical means can be found to send more money to D.C. without any effect on BPA's rates.

3. In general, discuss your views on the possibility of changing Bonneville's status from that of a federal agency within the Department of Energy to a government corporation.

RESPONSE: In some ways BPA already is functionally a government corporation; it is a self-sufficient, self-financed agency. Yet

³Note that this letter to Clearwater's members, dated August 27, touts a "33% savings" for kilowatt-hours purchased in excess of threshold amounts by residential, farm and commercial customers. The letter cites these declining block rates as a way to increase revenues and reward those who heat electrically.

it is subject to many time-consuming and superfluous accounting, budget and staffing directives from DOE and OMB that serve to raise costs and impede performance.⁴ These costs are real and we all have a stake in reducing them; a paralyzed BPA can't be an effective environmental steward or resource manager. The challenge in any reform initiative is to eliminate these burdens without in the process diluting BPA's Regional Act obligations or reducing the agency's accountability to Congress and the public.

4. What advantages or disadvantages would there be to restructuring BPA into a government corporation?

RESPONSE: The potential advantages involve a more nimble agency that can deliver better services more quickly at lower costs. The principal risks lie in possible efforts by special interests to invest such a bill with their own agendas, to the detriment of broader public interests in a sustainable regional energy future.

5. Would a government corporation structure either enhance or diminish Bonneville's ability to comply with its statutory mandates to meet social and environmental goals, including the protection of fish and wildlife?

RESPONSE: I am aware of nothing inherent in a government corporation structure that would adversely affect BPA's ability to meet these mandates. In framing any bill, however, it would be crucial both to reaffirm BPA's undiminished obligation to comply with its mandates and to prevent any express or implied erosion of BPA's responsibilities to the region's tribes. Also,

⁴For example, "[i]n developing financial systems, BPA must provide multiple accounting and financial reports to meet the conflicting requirements of the Federal Energy Regulatory Commission, OMB regulation and the Chief Financial Officers Act . . . GSA imposes numerous constraints on BPA's acquisition and maintenance of buildings and property and has exercised control over BPA's acquisition of automatic data processing equipment . . . Unlike the TVA, BPA is subject to the civil service laws and Classification Act and cannot develop a personnel system consistent with merit requirements but tailored to the competitive, deregulated utility market in which BPA operates." National Academy of Public Administration, Reinventing the Bonneville Power Administration (October 1993), p. 10.

all current congressional oversight should be preserved intact. And there should be no reduction in BPA's financial capacities or incentives to meet Regional Act objectives.

6. Would changes in Bonneville's governing statutes be necessary or desirable if Bonneville is made into a government corporation?

RESPONSE: There are many changes in BPA's governing statutes that we regard as desirable; we would advance them aggressively if others attempted to add special-interest agendas to a stand-alone corporation bill. To cite just a few examples, we would like to see clarification and strengthening of BPA's energy efficiency and renewable energy obligations and increased authority for both BPA and the Council to exact appropriate penalties from customers who act inconsistently with regional interests. If, however, a regional consensus can be achieved and maintained on a stand-alone corporation bill, we will support an agreement by all interested parties to pursue other legislative agendas in other forums.

7. Are there alternatives to government corporation status that would achieve all or many of the same administrative efficiencies sought by Bonneville?

RESPONSE: We would hope that at least some of these efficiencies can be secured immediately by Executive Order and other administrative actions, perhaps as part of the Vice President's initiative to streamline the federal government.

8. Would Bonneville's relationships with Congress, the N.W. Power Planning Council, other federal agencies, its customers or public change with a change in its structure?

RESPONSE: Everything hinges, obviously, on the bill effecting the change (we have not yet seen any legislative language). All of these relationships could change in positive or negative ways. Any bill that NRDC could support would have to retain undiminished the roles of the public, Congress and the Regional Council. As noted above, we would welcome elimination of current duplication and unproductive costs that are part of BPA's relationships with DOE and OMB.

Attachment to Ralph Cavanagh's Oct. 28, 1993 Testimony



CLEARWATER POWER COMPANY

4230 HATWAI ROAD

P. O. BOX 997

LEWISTON, IDAHO 83501

(208) 743-1501

August 27, 1993

Dear Member:

Bonneville Power Administration recently announced a 15.7% increase in wholesale power rates to Clearwater Power Company. The increase will cover the costs for fish and wildlife enhancements, new resource acquisitions, and recover lost revenues due to the Northwest drought impact and low aluminum prices. Bonneville's last increase in 1991 for 2.3% was not passed on to you.

Your cooperative has not raised rates since June of 1987. Considering the cost of living has gone up over 24 percent during the same time period, a rate increase of less than 2 percent per year is very reasonable.

A recent study of our present rates has shown that an average increase of 10.7% will be required to cover the 15.7% Bonneville increase and other costs. All rate classes will not receive the same percentage increase since the rates were not adjusted on a straight-line basis. The Farm and Home Rate, which applies to most members, will be a net rate (includes exchange credit) of \$0.0648 per kilowatt hour for the first 1,600 kilowatt hours, and \$0.0431 per kilowatt hour thereafter. The monthly Facility Charge will increase from \$12.00 to \$13.50 per month for all consumers.

There is still a 33% (2 cents/kwh) savings on all kilowatt hours over 1,600 per month. Our declining block rate is especially designed for electric heat savings.

The Small Commercial consumers will also receive a declining rate of \$0.0671 per kilowatt hour for the first 1,600 kilowatt hours, and \$0.0451 per kilowatt hour thereafter.

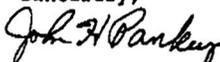
If you have a security (yard) light, the basic cost will increase 25 cents per month.

The rate increase will take effect with the September 1993 billing which you will receive about October 1. A copy of the new rate schedule will be enclosed with the September billing.

In 1989 your Board of Directors initiated a new declining block rate. It was well accepted by the membership, and it increased revenues. Also, the employees have been working new cost-saving hours (4-10 hour days per week) six months of the year for the past two years which has reduced expenses considerably.

Please be assured that your Board of Directors and Management will make every effort to provide you with the lowest rates, and the best service possible, consistent with sound business practices.

Sincerely,



John H. Pankey
General Manager

JHP/sh

Mr. DEFAZIO. I thank the gentleman for his modest assessment of the achievements of the task force, and the staff.

Mr. Sherrill.

STATEMENT OF JAMES R. SHERRILL

Mr. SHERRILL. Good morning. My name is Jim Sherrill. I am the general manager of Parkland Light and Water, which is a small utility in the suburb of Tacoma. I am here this morning representing the Western Public Agency Group, which is a group of 14 publicly owned utilities located in Washington State.

We are a little more unique than the PPC in that we are mostly full-requirements customers of Bonneville with very little generation. Therefore, we have a great deal of reliance upon Bonneville Power Administration.

The Western Public Agency Group purchases 25 percent of the power sold by Bonneville to the publicly owned utilities. Concerning refinancing of Bonneville debt, the Western Public Agency Group would support legislation giving Bonneville a one-time opportunity to borrow money from the private financial markets to refinance appropriated debt. Summarizing that, the Western Public Agency Group supports one-time authorization if such financing can be achieved without a rate increase to Bonneville's customers.

It should not include new borrowing authority. It should also not affect a revision of Bonneville's current debt cap. We believe that we could support the administration's buyout proposal from a preliminary review of it, but have not had an opportunity yet to look at the full document to know what the details may encompass.

Going on to changing Bonneville's status, while a shift in the status to a government corporation has a potentially substantial benefit, it also poses serious risks to its customers. By virtue of its size and statutory authority, Bonneville exercises virtual monopoly power in a variety of areas, including both power supply, high voltage transmission, and product pricing.

If the current institutional constraints are removed from Bonneville, they must be replaced with viable market forces. This can be accomplished by ensuring Bonneville's customers are given meaningful freedom of choice.

To expand on that, if you are trying to have an efficient Bonneville, the customers have to have an efficient way in order to respond to the market forces also. It has to work both ways.

The Western Public Agency Group is more interested in results than the particular form used to achieve them. As Bonneville customers, we need a Bonneville that has specific, limited powers and duties, that is focused on its primary task of serving its customers, that can act promptly in response to customers and market forces.

Changing Bonneville's status from a federal agency to a government corporation may be a way of achieving these goals. There may be other approaches that may work just as well.

In conclusion, the public agency group suggests giving Bonneville a one-time opportunity to refinance public debt if it can be done without a rate increase. Bonneville's future borrowing should continue to be financed at current rates from the Treasury and within Bonneville's current borrowing authority.

Changing Bonneville's status from a federal agency to a government corporation may result in a less constrained and more responsive Bonneville. There should be a thorough examination of changes to the legal status, including ways of dealing with Bonneville's monopoly power as a government corporation.

Thank you for the opportunity. This is my first opportunity to see the Federal Government personally at work in Washington, D.C., and I appreciate that opportunity.

[Prepared statement of Mr. Sherrill follows:]

**WESTERN PUBLIC AGENCIES GROUP TESTIMONY BEFORE
BONNEVILLE POWER ADMINISTRATION TASK FORCE
COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES**

October 28, 1993

INTRODUCTION

Good morning. My name is Jim Sherrill and I am the Manager of Parkland Light and Water Company. I am testifying this morning on behalf of the Western Public Agencies Group.

The Western Public Agencies Group is an association of 14 publicly owned utilities located in Washington State. These utilities rely on Bonneville for the bulk of their power supply to serve half a million customers. The Western Public Agencies Group purchases 25 percent of the power sold by Bonneville to publicly owned utilities.

My testimony will provide the perspectives of these utilities on the possible refinancing of Bonneville's debt and changing Bonneville's legal status.

REFINANCING BONNEVILLE DEBT

Because Bonneville has borrowed money over a long time period, some of its debt carries low interest rates. These low interest rates, coupled with budgetary and deficit reduction pressures, have resulted in repeated efforts to accelerate Bonneville's repayment obligations. Although each of these initiatives has been defeated, a great deal of time and effort is expended in the process, to no one's benefit.

Current market conditions offer an opportunity to resolve this issue to everyone's benefit. The Western Public Agencies Group would support legislation giving Bonneville a one-time

opportunity to borrow money from the private financial markets to refinance appropriated debt. Such refinancing should eliminate a contentious and recurring political issue.

If such a refinancing is to take place, it must be done in a manner that is not detrimental to the customers. This means, first and foremost, that a refinancing of appropriated debt must not increase Bonneville's rates. Given the fragile state of the Northwest economy, there would be no customer support for a refinancing of appropriated debt that would increase Bonneville's rates.

Second, Bonneville's access to private financial markets must be limited to a refinancing of appropriated debt, and should not include new borrowing authority from private financial markets. Refinancing Bonneville's appropriated debt will remove the existing political issue of low interest rates. Since future Treasury borrowings will be at essentially market interest rates, this political problem should not recur. Giving Bonneville access to private financial markets for future borrowings is neither necessary nor desirable to solve this political problem.

Third, resolution of the appropriated debt issue does not require a revision of Bonneville's current debt cap. Including unnecessary and extraneous matters will only complicate the effort and should be avoided. Bonneville's debt cap does not need revision at this time, and prematurely doing so will remove a strong incentive for Bonneville to exercise fiscal discipline.

In summary, the Western Public Agencies Group supports a one-time authorization permitting Bonneville access to the private financial markets to refinance appropriated debt, if such refinancing can be achieved without a rate increase to Bonneville's customers.

CHANGING BONNEVILLE'S STATUS

Changing Bonneville's status from a federal agency to a government corporation would alter the way Bonneville conducts business in a number of ways. It would reduce Bonneville's administrative burden by eliminating numerous reporting requirements. It would remove certain

limitations on personnel actions and contracting practices. And it would reduce oversight of Bonneville's activities by both the executive and legislative branches.

The purpose of such a change in Bonneville's status would be to grant it the freedom to become more streamlined and efficient, to act more promptly, and to respond more effectively to its customers' needs. If this freedom were used by Bonneville for such purposes, it would be of substantial benefit to customers, such as the Western Public Agencies Group, which rely on Bonneville for their power supply. Given the pace at which change is occurring in the electric utility industry, a more flexible and responsive Bonneville is a necessity.

While a shift in status to a government corporation has the potential of substantial benefits, it also poses serious risks to customers. By virtue of its size and statutory authority, Bonneville exercises virtual monopoly power in a variety of areas, including bulk power supply, high-voltage transmission, generation services and product pricing.

Currently, the exercise of this monopoly power is constrained by executive, legislative and regulatory oversight. Removing or reducing this oversight, by changing Bonneville into a government corporation, could have the effect of converting Bonneville into an essentially unregulated and unsupervised monopoly. This would be a very detrimental development for Bonneville's customers.

If the current institutional constraints are removed from Bonneville, they must be replaced with viable market forces. This can be accomplished by ensuring that Bonneville's customers are given meaningful freedom of choice. Otherwise, it would be unlikely that Bonneville's customers would ever realize the potential benefits of any change in Bonneville's status.

The Western Public Agencies Group is more interested in results than the particular form used to achieve them. As Bonneville customers, we need a Bonneville that has specific, limited powers and duties, that is focused on its primary task of serving its customers, that can act promptly in response to its customers and market forces, that can execute contracts in a businesslike manner, and that can hire and fire on the basis of merit.

Changing Bonneville's status from a federal agency to a government corporation may be a way of achieving these goals, but there may be other approaches available that will work just as well. The Western Public Agencies Group would support an effort to investigate thoroughly the option of changing Bonneville's status to a government corporation to determine if it is the best means to achieve a responsive and efficient Bonneville.

CONCLUSION

In summary, the Western Public Agencies Group suggests that:

- Giving Bonneville a one-time opportunity to refinance appropriated debt, if it can be done without rate increases to Bonneville customers, should be pursued.
- Bonneville's future borrowings should continue to be financed at current rates from the Treasury, and within Bonneville's current borrowing authority.
- Changing Bonneville's status from a federal agency to a government corporation may result in a less constrained and more responsive Bonneville.
- There should be a thorough examination of the impacts of changes to Bonneville's legal status, including ways of dealing with Bonneville's monopoly market power as a government corporation.

The Western Public Agencies Group appreciates this opportunity to offer our thoughts on these issues, and we look forward to working with you to improve Bonneville and the power system in the Pacific Northwest.

Mr. DEFAZIO. Well, thank you, Mr. Sherrill. Welcome to Washington. You are seeing the more rational part of the operation here. Don't look around too much.

Ms. Bodi.

STATEMENT OF LORRAINE BODI

Ms. BODI. Thank you very much.

Good morning, Mr. Chairman and members of the task force. My name is Lorraine Bodi and I am co-director of the Northwest Office of American Rivers. American Rivers is a national nonprofit conservation organization. We work on protection and restoration of America's rivers. In the Pacific Northwest, we focus on the problems of endangered salmon runs. I have personally been working on salmon issues in the Pacific Northwest and the Columbia River basin for 15 years.

American Rivers appreciates this opportunity to comment and will be focusing on the issue of restructuring Bonneville as a government corporation. Like many of the other folks here today, we have not read the documents. We have seen the little four-page summary and nothing more. And so we are interested in what the details are going to be. But in general, I think we can say this is an issue that has important consequences not only for the future of Bonneville, but also for the future of the salmon of the Columbia basin.

Bonneville is not just an electric utility. Its customers are not just aluminum companies and utility corporations. It is not just a business. It is a steward of a huge natural resource, the Columbia River basin, and that needs to be taken into account as we move down the government corporation path.

The Columbia basin has been home to salmon for thousands of years, and the decline of Columbia River salmon coincides with the construction of the federal dams that Bonneville markets the power from. Even today, with fish mitigation programs in place, these dams are responsible for about 80 percent of the human-caused mortality to these fish.

Last year, for example, with fish mitigation programs provided under the Endangered Species Act, almost all of the juvenile fish that were migrating to the ocean through the dams were killed going through the system, and a third or more of the adult fish were killed migrating upstream to their spawning grounds. These are National Marine Fishery Service estimates from its biological opinion.

Literally for decades there has been a regional debate over how to incorporate fish protection into the operation of the Columbia River dams. And before that time, the dam operators have resisted change. They have resisted the change from viewing Bonneville primarily as an electric utility operation to being more of an agency in charge of multiple uses of the river.

Thirteen years ago the Northwest Power Act was supposed to solve this problem for us by giving us new legal authority, by saying to Bonneville not just that it had to take the Council's program into account, which is part of the Northwest Power Act. Actually, the language is that Bonneville must act consistent with the fish and wildlife program, but also imposing a substantive legal re-

quirement that was basically a change to Bonneville's legislation. It said Bonneville was supposed to give equitable treatment to fish and wildlife on a par with power.

We used to joke after the Northwest Power Act was passed that we now had the new Bonneville Power *and Fish* Administration. We turned out to be too optimistic. And we underestimated the amount of institutional resistance there was to change, even with the new legal mandate.

Bonneville basically has a fundamental bias favoring power operations, power marketing and its customers, and it is hard to break through that institutional bias. Key policy decisions are still made in consultation primarily with its customers, and fish and wildlife interests are more or less relegated to the Bonneville public involvement process, which I can tell you involves mounds of paper and calendars of meetings, but is not necessarily a way to influence the ultimate decisions that get made.

Like my colleague, Ralph Cavanagh, I have looked at the NAPA report and I am concerned that it suffers from some of these same kinds of problems. Like Mr. Cavanagh, I noticed that the team who prepared the report did not look at the wide range of what I would call the customers of Bonneville, including the fish and wildlife interests.

And it also seems to address environmental issues in this way; that a financially stable Bonneville is good for the environment. Well, I would personally try to flip that over. My view would be that by resolving the environmental conflicts that it deals with today, we would have a more financially stable Bonneville, and that would be good for Bonneville and for the Pacific Northwest.

So it is against this backdrop that we see where we are today. The Columbia basin is a study in confusion and controversy right now. Fishery agencies, States, Indian tribes, fishing groups and environmental groups are all in Federal Court as we speak trying to change the operation of the hydro system.

The most recent addition to this team of litigators is now the Alaska interests who are concerned about the equity of closing fisheries in Alaska when the dams are allowed to continue an unproductive harvest of these fish.

This isn't the best way to proceed, to have everyone in court, but it is the only way to proceed right now. There is no negotiating table and there is no alternative forum being provided. The courts are the only place where this conflict is today being played out, and that is not the best way to proceed at this point in time.

So when we look at this situation from a fisheries point of view, American Rivers cannot support the proposal to restructure Bonneville as a government corporation at this time. We think there are many questions that still remain unanswered, and we would like to see Bonneville's equitable treatment responsibilities to fish resolved or at least gotten to a more stable place before we move ahead with restructuring.

This isn't an academic concern. It can't be solved by simply saying Bonneville is going to comply with its existing legal mandates. We have something more than that going on here.

The question we have to ask ourselves is, Will Bonneville as a government corporation be more or less likely to follow through on

its fishery responsibilities? The current conflicts over fish and power are a cause for concern, and we are not at all sure that a more independent Bonneville Power Administration will be good for the fish.

So with this in mind I would like to emphasize, we don't outright oppose the establishment of a government corporation. But before such a restructuring should occur, we think there are four things that should be done.

First, Bonneville should accept its fish and wildlife responsibilities as a cost of doing business. This is a fundamental, philosophical change from where Bonneville is today, where fish and wildlife are kind of viewed as the add-on environmental responsibilities.

I think fisheries should be viewed as a legal obligation, just like a contract that Bonneville has signed is viewed, just like payment on the WPPSS debt is viewed. Fish and wildlife is as serious a legal obligation as those business commitments.

Second, Bonneville should negotiate and achieve a formal settlement of Columbia River fish flow and passage issues. This grows out of my earlier point that there is no place where a resolution is occurring, and I think it is high time for Bonneville to exercise some leadership in this, and move forward with a resolution.

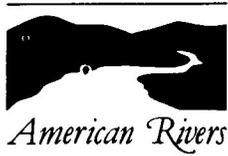
Third, Bonneville should pursue and adopt a least-cost plan for power and for fish, incorporating fish concerns into its fundamental power decisions such as the nature of unbundled services, power operations, rates, marketing.

Fourth, it should limit its bureaucracy and pay far greater heed to the agencies and tribes acting through the Columbia basin authority.

These steps are not impossible. They can be implemented. They are not pie in the sky. The Northwest doesn't have to be in a situation where it has to choose between fish and power, between Bonneville as a business and Bonneville as a resource steward. With leadership and new direction, we can solve the fish problems we find ourselves with, and move forward and leave a legacy of salmon for our children and our grandchildren.

Thank you very much, and I would be pleased to answer any questions you might have.

[Prepared statement of Ms. Bodi follows:]



TESTIMONY OF LORRAINE BODI
CO-DIRECTOR, NORTHWEST REGIONAL OFFICE
AMERICAN RIVERS, INC.

BEFORE THE
BONNEVILLE POWER ADMINISTRATION TASK FORCE
OF THE
HOUSE COMMITTEE ON NATURAL RESOURCES

OCTOBER 28, 1993

801 PENNSYLVANIA AVE., S.E.
SUITE 400
WASHINGTON, DC 20003
(202) 547-6900
(202) 543-6142 (FAX)



a member of Earth Sharesm

Good morning, Mr. Chairman and members of the Committee. My name is Lorraine Bodi, and I am Co-Director of the Northwest Regional Office of American Rivers. American Rivers is a national, nonprofit organization dedicated to the protection and restoration of America's rivers. In the Pacific Northwest, American Rivers focuses on the restoration of endangered salmon runs.

American Rivers appreciates this opportunity to comment on restructuring the Bonneville Power Administration (BPA). This is a issue with important consequences not only for the future of BPA, but also for the future of the Columbia Basin's once great salmon runs.

The Columbia Basin has been home to salmon for thousands of years. Before the advent of federal dams, the Columbia and Snake Rivers together supported the largest chinook salmon runs in the world, fish that migrate far north into the waters of British Columbia and Alaska. Federal dams converted these wild rivers to slack water reservoirs and harnessed their force for power generation, heedless of the impact on the natural cycle and ecosystem of the salmon.

Today, only a few hundred thousand wild fish remain where as many as 16 million once swam. Even with partial fish mitigation programs in place, federal dams remain responsible for at least 80 percent of human-caused mortality to endangered Snake River salmon.

For decades, whether and how to reduce the lethal effects of hydropower dams on fish have been hotly debated in the Northwest. Notwithstanding this debate, until the recent listing of Snake River salmon under the Endangered Species Act, the hydro system was consistently operated to maximize power production, even at the expense of the fish. BPA, the overseer of the hydro system, consistently rejected requests from fishery agencies and tribes to provide adequate flows for fish and other measures that would alter power operations in any significant way.

Thirteen years ago, the Northwest Power Act attempted to balance the scales, to halt the domination of power issues in BPA decisions and elevate fisheries to new priority. To strike this balance, BPA was given a new substantive mandate, to provide equitable treatment to fish and wildlife, including their spawning grounds and habitat. After the passage of the Act, fishery agencies jokingly referred to BPA as the Bonneville Power and Fish Administration.

This turned out to be an overly optimistic assessment. Despite the requirement for equitable treatment, BPA did not change its institutional approach to fish and wildlife issues. BPA continues to accord its power responsibilities much higher priority than its fishery responsibilities. BPA has responded to its fish

mandate bureaucratically by creating a sizable fish and wildlife staff.

Even though BPA has a clear legal mandate to provide for both fish and power, it has proven difficult to hold it accountable for its fisheries obligations. BPA has a fundamental institutional bias favoring power operations, power marketing, and its customers' interests. Key policy decisions are made in consultation with its customers, while fishery interests are largely left to BPA's public involvement process.

Today, the future of the Columbia Basin remains a study in confusion and conflict. Fishery agencies, Indian tribes, fishing groups, and environmental groups are in court challenging the operation of the hydrosystem. This is not the best way to proceed, but it is the only way that is now available. There is no negotiating table or forum where fishery interests can resolve their concerns for adequate fish flows and other measures outside of the courts.

Against this backdrop, we are faced with the possibility of a major change in BPA's legal status, as the BPA Competitiveness Project has recommended that BPA be restructured as a government corporation. Given the unresolved nature of BPA's fishery responsibilities, American Rivers cannot support a proposal to convert BPA into a government corporation at this time. Many questions related to this restructuring are still unanswered. We are not yet convinced either that BPA requires formal corporate status to become more efficient, or that equitable treatment of fisheries will be assured if BPA is accorded greater independence from government oversight.

Our concern for equitable treatment of fisheries is not an academic one; it cannot be addressed merely by stating that BPA will comply with applicable environmental laws. Our concern is an institutional one, based on past experience. Will BPA, as a corporation, be more or less likely to follow through on its fish and power responsibilities? The current conflict over fish and power is cause for concern. Equitable treatment, first mandated thirteen years ago, is still a goal rather than a reality.

American Rivers recommends that BPA take the following steps to provide equitable treatment of fisheries *before* proceeding further with consideration of restructuring:

- * Accept its fish and wildlife responsibilities as a fundamental cost of doing business for the power system.
- * Negotiate and achieve a formal settlement of pending Columbia Basin fish flow and passage disputes.

Pursue and adopt a least cost plan for power and for fish by incorporating fishery concerns into decisions as diverse as the nature of unbundled services, power operations, rates, marketing, and planning under the Pacific Northwest Coordination Agreement.

- * Limit its fish and wildlife bureaucracy, and operate pursuant to the recommendations of the region's fishery agencies and tribes within the Columbia Basin Fish and Wildlife Authority.

These steps, taken together before restructuring, can help make equitable treatment a reality. American Rivers' additional comments on restructuring BPA are provided in the following answers to the questions posed by the Task Force.

Q. In general, please discuss your views on the possibility of changing Bonneville's status from that of a federal agency within the Department of Energy to a government corporation.

As noted above, American Rivers is not convinced that such a change is desirable at this time. Before such changes are made, we should first ensure a resolution of the current conflict over fish and power and full integration of fisheries' needs into power operations and marketing.

Recent examples of BPA's reluctance to integrate fish into its operations are not hard to come by: BPA's decision in the rate case to reduce fish and wildlife expenditures; its longstanding resistance to include meeting fish needs at minimum cost as an objective of the Pacific Northwest Coordination Agreement; its failure to guarantee non-power use of non-treaty storage; and its resistance to consider significant changes in its power sales contracts to benefit fish.

The BPA Competitiveness Project is itself a case in point. Several months ago, BPA began the Project -- a search for a restructured BPA that was more efficient and businesslike. This basic premise was disturbing to American Rivers and other fishery interests. Although no one could disagree that BPA could and should become more efficient, BPA has always operated more like a business than a government agency. An even more business-oriented BPA does not bode well for the fish, or for resolution of current fishery conflicts.

To add insult to injury, the Competitiveness Project discussed BPA's fishery and other environmental responsibilities only as they relate to economic policy, good business, and the benefits to the environment from a financially stable BPA. Nowhere did BPA accord

these responsibilities equitable treatment, on a par with power considerations.

Our comments to BPA on these shortcomings have apparently fallen on deaf ears. The proposal to restructure BPA as a government corporation emerged from the Competitiveness Project, and shares the same emphasis on a more business-like BPA.

From a fisheries perspective, BPA should operate less like a business and more like a government agency. BPA should actively encourage multiple uses of the Columbia waterway, not only to meet its customers' interests, but also the broader public interest.

Q. What advantages or disadvantages would there be to Bonneville and the Pacific Northwest's electric ratepayers in restructuring Bonneville into a government corporation?

There is no question that BPA could be more efficient, or that increased efficiency could benefit the ratepayers of the Northwest. However, many efficiency measures do not actually require BPA to be restructured as a government corporation. From our experience with the BPA bureaucracy, we believe that many improvements can and should be made under the agency's existing management structure.

By the same token, BPA could be restructured into a government corporation and continue to operate in a bureaucratic and inefficient manner. Becoming a government corporation is not a wave of the magic wand that will automatically make BPA efficient.

The resolution of fish conflicts with hydroelectric operations through a settlement agreement and a least cost plan for fish and power, as we have recommended, would further benefit electric ratepayers. These steps could provide a level of stability and certainty for hydroelectric operations that does not now exist, creating a better business climate for the Northwest overall.

Q. Would a government corporation structure either enhance or diminish Bonneville's ability to comply with its statutory mandates to meet social and environmental goals, including the protection of fish and wildlife?

BPA's restructuring as a government corporation could diminish its motivation to comply with its fishery mandates, for the reasons we have already discussed. On the other hand, the process of restructuring could be used in a positive way, to promote fundamental changes in BPA before restructuring occurs, including a settlement of Columbia fish flow and passage disputes, as we have recommended.

To take this question a bit further, it is interesting to consider what a BPA government corporation would look like. What would a government corporation that did not simply reflect BPA's "business" side, but equally reflected its fisheries responsibilities, look like?

This new BPA would move away from viewing itself as a business in the traditional sense, toward the concept of resource stewardship. It would consider its shareholders to be the residents of the Northwest, the true owners of the public water resources of the Columbia Basin. It would consider its customers to be not only its business customers, such as the utilities and the aluminum companies, but also the fish and wildlife agencies and Indian tribes.

The new BPA would include on its Board of Directors representatives of the region's fish and wildlife agencies, Indian tribes, fishing communities, and environmental groups. It would be accountable to the Board of Directors not simply for least cost power production and operation as a business, but also for true multiple use of the public water resource, including equitable treatment of fish and wildlife. The Board of Directors would oversee BPA operations and serve as a check on its decisionmaking.

Unfortunately, this does not appear to be the new, more business-like BPA that the agency itself envisions or is proposing.

Q. Would changes in Bonneville's governing statutes be necessary or desirable if Bonneville is made into a government corporation?

If BPA is made into a government corporation, we recommend that the four items outlined above -- including a completed settlement of Columbia Basin fish flow and passage issues and a least cost plan for fish and power -- be incorporated into its new charter. BPA's other environmental obligations should be preserved without modifications. Absent this environmental package, BPA should not be allowed to make other changes in its governing statutes.

A related matter that should be clarified before restructuring is BPA's relationship to Columbia Basin Indian tribes. Federal agencies are obligated to protect fishery resources pursuant to the tribes' treaty rights to fish and based on the federal government's general trust responsibility to the tribes. These responsibilities should be fully preserved and incorporated into the new charter as well.

American Rivers would not object to some changes in BPA's governing statutes related to personnel, procurement, and property decisions. Of course, there must be assurance that this new

flexibility will be used to keep BPA's costs low, with safeguards against abuse of this flexibility.

We would, however, object to any lessening of executive branch or Congressional oversight of BPA, for the reasons described in our general statement.

We also object to the proposal to allow BPA to represent itself in judicial proceedings. Where compliance with federal statutes is involved, there is good reason for representation to be provided by the Department of Justice, to ensure uniform application and interpretation of federal law.

Q. Are there alternatives to government corporation status that would achieve all or many of the same administrative efficiencies sought by Bonneville?

BPA already possesses many of the attributes of a government corporation. It is self-financing, has considerable management flexibility, and is subject to the Government Corporation Control Act.

But with all of these advantages, BPA is not an efficient enterprise. It is a classic bureaucracy with a large staff, internal competition rather than teamwork, and an overemphasis on process over substance. It sets policy direction only at the very top, so that staff often labor without clear guidance. Its public involvement process involves mounds of paper and calendars full of meetings, but little access to decisionmakers.

There is, in short, great potential for BPA to become more efficient by making management and administrative changes under its existing structure. Conversely, if BPA does not make these changes, and simply transforms itself into a government corporation, it will not automatically become an efficient enterprise.

We recommend that the efficiencies possible under BPA's existing structure be fully realized **before** it is restructured as a government corporation.

Q. Would Bonneville's relationships with Congress, the N.W. Power Planning Council, other federal agencies, its customers or the public change with a change in its structure?

As noted previously, we are concerned that a change in BPA's structure to a government corporation could make it less accountable to Congress, the Power Council, other federal agencies, and the public. We should not rush to judgment on the need for a

government corporation to make BPA more efficient. Similarly, we should not rush to make BPA a government corporation without resolving current conflicts over fish and power.

Conclusion

American Rivers believes it would not be in the best interests of the salmon, the ratepayers, or the region to transform BPA into a government corporation at this time. BPA should be made to get its house in order before making such a fundamental change. Before proceeding further, BPA should be required to accept its fish and wildlife responsibilities as a cost of doing business; negotiate a formal settlement of Columbia Basin fish flow and passage disputes; adopt a least cost plan for power and for fish; and eliminate its fish and wildlife bureaucracy.

These four tasks can be accomplished through leadership and direction. The Northwest does not have to choose between power and fish production as it moves forward. With leadership and direction, we can produce both of these renewable resources in the Columbia Basin.

American Rivers looks forward to working with the Task Force as it prepares its recommendations for BPA's future. Please feel free to call upon American Rivers with any additional questions you may have.

Mr. DEFAZIO. Thank you.
Mr. Johnson?

STATEMENT OF STEPHEN F. JOHNSON

Mr. JOHNSON. Mr. Chairman, members of the task force, I am Stephen F. Johnson, executive director of the Washington Public Utility District Association. I appreciate the opportunity to testify today, and I appreciate the participation with this committee of Representative Kreidler from Washington State.

Washington State purchases two-thirds of the output of the Bonneville Power Administration and the PUDs are the biggest single customer collectively of Bonneville. And so his involvement with this commitment we very much appreciate.

The Washington PUDs are keenly interested in the proposal to alter Bonneville's current repayment formula, and we are aware that the Clinton administration is sending to Congress legislation on refinancing BPA's debt.

The PUD associations support a scheme for refinancing the existing appropriated debt at debt present value that is consistent with the following principles: It is rate neutral, that is, it would not impose any financial burdens on BPA and its customers beyond those required by existing financing. It results in a reduction of the federal deficit. It does not contain other provisions that would adversely affect BPA and its customers. And it does not allow additional change in BPA debt repayment terms to be made in the future. This is the guarantee that will be placed in the customer power sales contracts.

We commend you, Mr. Chairman, Speaker Foley, and other members of the delegation, and the Clinton administration for developing the proposal released this week to resolve this difficult issue in a satisfactory manner. We think this proposal addresses our principal concerns. We are, however, unclear as to the justification for the \$100 million in extra money to increase the sum of the net proceeds, as the legislation says.

Regarding the question of whether Bonneville's refinancing authority should be limited to its appropriated debt, we believe that it should. We understand that the administration's proposal is so restricted.

We also believe that the question of refinancing BPA's existing promoted debt should not be clouded with the issue of increasing Bonneville's borrowing authority. Unless there is some overriding urgency, this matter should be dealt with separately, and it is an issue that at this time the PUD association has not taken a position on.

On the government corporation proposal, we believe Bonneville should have the flexibility to operate in a businesslike manner, free of some of the restraints and overlapping responsibilities imposed upon it as a part of a government department. For these reasons, we generally support the concept of converting BPA to a government corporation.

We believe any government corporation proposal should adhere to the following principles. It should not alter the organic statutes under which Bonneville presently operates, such as the Bonneville Project Act, the Transmission System Act, and the Northwest

Power Planning and Conservation Act. It should not encompass issues extraneous to that of BPA's organizational structure, and it should not diminish in any way the present level of input of customers or the public at large in Bonneville's operations.

Implemented according to these principles, we think the corporation status would enhance BPA's accountability by increasing its responsiveness and effectiveness in carrying out its mandates. The principal advantage of the government corporation would be a greater flexibility in procurement, contracting, and more latitude in managing personnel and eliminating overlapping responsibilities.

I would like to give you an example from the PUD's experience of frustrations resulting from BPA's current agency status. BPA has a number of old distribution system substations it would like to sell to the PUDs. The PUDs would like to buy them, and a number of such transfers have been agreed to only to be blocked by the General Services Administration. GSA has overvalued these facilities and put little or no value on BPA's being able to transfer its environment and operations and maintenance costs and liabilities to its customers.

In other words, bureaucratic inertia frustrates businesslike win-win arrangements for BPA and its customers and the public. We believe government corporation status for Bonneville would end this kind of inefficiency or at least address it more effectively.

We do not believe corporation status would diminish BPA's ability to comply with mandates to meet social and environmental goals. To the extent corporation status would give BPA added flexibility and responsibility, responsiveness, the corporation would enhance BPA's ability to meet these goals. For example, BPA would not have to submit environmental impact statements to the Department of Energy for approval, and thus would be able to complete such statements in a much more timely fashion.

We also do not believe that changes in BPA's governing statutes would be necessary or desirable if Bonneville were to be made a government corporation. In fact, we feel strongly that these statutes should not be tampered with. Legislation dealing with the conversion of Bonneville into a government corporation should deal solely with the narrowly defined issue of management efficiencies.

Theoretically, special laws might be fashioned for some aspects of Bonneville's administrative procedures, such as its procurement and personnel practices, without creating a government corporation. However, it would be extremely difficult and inefficient to achieve these objectives on a piecemeal basis. The changes being sought in BPA's administration should be viewed in totality. The government corporation is the best way to do this.

Finally, we do not believe that Bonneville's relationship with the Congress or the Northwest Power Planning Council would or should change as a result of a change in BPA's structure, as has been proposed.

However, BPA would have less responsibility to the Department of Energy, and the Office of Management and Budget, and the relationship with these agencies would change, and that is, of course, the point. Bonneville's relations with its customers should change in a positive way, and BPA would respond more readily to its customer's needs.

In conclusion, Mr. Chairman, we support the buyout proposal but question whether the \$100 million increase in the sum of the net proceeds is justified. We are very interested in the government corporation concept. We believe this is a promising and comprehensive approach to the challenge of making BPA more competitive, responsive, and potentially more accountable. The goal of this legislation should be to improve the effectiveness with which BPA performs its mission, and not to change that mission.

It should address internal management, not governance. Our major concern is that extraneous amendments might be offered that we and others would have to oppose, destroying the promise of a revitalized and competitive Bonneville.

Thank you for the opportunity to present our views, and I would be willing to answer any questions you have.

[Prepared statement of Mr. Johnson follows:]

STATEMENT OF
STEPHEN F. JOHNSON, EXECUTIVE DIRECTOR
WASHINGTON PUBLIC UTILITY DISTRICTS ASSOCIATION
SEATTLE, WASHINGTON

before the

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON NATURAL RESOURCES
BONNEVILLE POWER ADMINISTRATION TASK FORCE

Washington, D.C.
October 28, 1993

Mr. Chairman, members of the subcommittee, I am Stephen F. Johnson, executive director of the Washington Public Utility Districts Association. The Association appreciates this opportunity to present the perspective of Washington PUDs on the subjects being discussed today.

Our perspective is unique: The Washington PUDs are the largest customer group of the Bonneville Power Administration (BPA), accounting for nearly 30% of BPA's sales. Just as the PUDs are important to Bonneville, so is Bonneville important to PUDs: Of the 22 Washington PUDs that provide electric service, seven rely on BPA for a majority of their power, and 12 purchase all of their power from Bonneville.

Department of Energy policies toward BPA have a significant impact on public utility districts, and in turn on the 1.5 million people served by PUDs in service areas covering 60% of the state of Washington. Consequently, we are keenly interested in proposals that could affect BPA's rates and its way of doing business.

The following are our responses to the questions you posed in your letter inviting us to testify at this hearing:

1. What alternatives can you suggest to Bonneville's current repayment formula for its appropriated Treasury debt that would provide a long-term solution to the perennial attempts to accelerate BPA's debt repayment schedule, have a neutral or beneficial effect on Bonneville's rates, and provide the maximum deficit reduction? Please

discuss the principles that should govern any restructuring of Bonneville's debt.

The Washington Public Utility Districts Association has opposed previous proposals to refinance Bonneville Power Administration's appropriated debt because such proposals, among other things, would have resulted in substantial arbitrary increases in power rates, and would have been detrimental to electric customers and to the economy of the Pacific Northwest. For similar reasons, Congress has repeatedly rejected previous proposals to change the repayment policies of the federal power marketing administrations (PMAs), including BPA.

However, representatives of our Association have been working with the Public Power Council on an alternative under which the present outstanding appropriated debt would be refinanced on the basis of its net present value. The refinancing could be done either through the Treasury Department or in the private capital market. We are not prepared to state at this time our preference among these alternatives. Private financing would provide more certainty for the long term, but might be more costly.

Depending upon the specifics of the plan, the Washington Public Utility Districts Association would support a scheme for refinancing the existing appropriated debt at net present value, provided that it:

a. Is rate neutral; that is, it would not impose financial burdens on BPA and its customers beyond those required by existing financing;

b. Results in a deficit reduction;

c. Does not contain other provisions that would adversely affect BPA and its customers;

d. Represents a permanent solution to the question of refinancing BPA's appropriated debt;

e. Would not in any way impair the preference rights of public agencies and rural electric cooperatives, and

f. Does not diminish present customer involvement in BPA rate procedures.

Additionally, we believe that any refinancing plan developed for the Bonneville Power Administration should be made available to other federal power marketing administrations, subject, of course, to the review of the customers of these PMAs.

On October 25, Speaker Tom Foley announced that the Clinton Administration intends to send Congress a legislative proposal which would allow BPA to refinance the federal investment in the Northwest hydroelectric system at net present value of the debt, plus \$100 million "to settle all claims that the Federal government has against our region's hydroelectric system." The proposal would not impact Bonneville's rates for at least 15 years, and thereafter any increase "would be expected to be small," according to Speaker Foley's announcement.

The Administration's proposal is generally consistent with the principles enunciated above. We extend our gratitude to Speaker Foley, other members of the Northwest Congressional delegation, and the Clinton Administration for their efforts to resolve this contentious issue in a manner satisfactory to the Northwest. Over a period of about 10 years, the Northwest Congressional delegation has consistently opposed previous proposals which would have been detrimental to the interests of Bonneville, its customers and the people of the Northwest. We commend the delegation for protecting the Northwest and for working with the present Administration to develop a concept which will not increase BPA rates for at least 15 years.

We are, however, unclear as to the nature of the \$100 million payment for settlement of all "claims" of the Federal government against the hydroelectric power system. We are not aware of the nature of such claims, and would not support their payment if there is no cost-based justification.

2. If Bonneville is given legislative authority to refinance its Treasury debt, should that authority be limited to Bonneville's appropriated debt? Should Bonneville be given new borrowing authority, either from Treasury or the private financial markets?

The new legislative authority should be limited to Bonneville's appropriated debt. Interest on BPA's

bonded debt is based on rates prevailing at the time the bonds were issued, and has not been the subject of controversy.

Our Association has not taken a position on whether there should be an increase in BPA's borrowing authority at this time. We understand that BPA projects that it will reach the ceiling on its present borrowing authority by 1997. In order to plan for the future, Bonneville should know soon whether or not its borrowing authority will be increased. However, the question of refinancing BPA's existing appropriated debt should not be clouded with the issue of increasing Bonneville's borrowing authority. Unless there is some overriding urgency, this matter can be dealt with separately, and should be considered in the light of available alternatives.

3. In general, please discuss your views on the possibility of changing Bonneville's status from that of a federal agency within the Department of Energy to a government corporation.

Unlike most line government agencies, Bonneville is a business-type operation that has borrowing authority and its own source of revenues from the sale of electricity. Also, characteristic of electric utilities, BPA requires a relatively long lead time for planning purposes. Bonneville therefore should have the flexibility to operate in a business-like manner, freed of some of the restraints and overlapping responsibilities imposed upon it as part of a government department. For these reasons, we generally support the concept of converting BPA to a government corporation. However, this proposal is not yet in legislative form, and many of the details on the operation of such a corporation have not been specified. We therefore reserve more definitive comment until we have had an opportunity to study the details of this concept. We believe that any proposal should adhere to the following principles:

- a. It should not alter the organic statutes under which Bonneville presently operates, such as the Bonneville Project Act, the Transmission System Act, or the Northwest Power Planning and Conservation Act.

- b. It should not encompass issues extraneous to that of BPA's organizational structure.

c. It should not diminish in any way the present level of input of customers or the public at large in Bonneville's operations.

d. It should not diminish Bonneville's accountability.

e. It should not diminish in any way the preference rights to federal power of local public agencies and rural electric cooperatives.

The concept for a government corporation described in a paper issued by Bonneville is relatively modest. It does not give BPA additional borrowing authority; it does not alter BPA's responsibilities under current law; it does not change BPA's relationships with the Northwest Power Planning Council, and it does not make a radical change in the agency's governance.

4. **What advantages or disadvantages would there be to Bonneville and the Pacific Northwest's electric ratepayers in restructuring Bonneville into a government corporation?**

The principal advantages of the government corporation would be greater flexibility for BPA in procurement, contracting and budgeting, more latitude in managing personnel, and elimination of overlapping responsibilities between government agencies. These benefits should result in reductions in operating costs, the ability to plan and budget with greater certainty and timeliness, and the capability to respond more quickly to the needs of its customers and to changing conditions in the electric utility industry. Under current conditions, BPA estimates that at least 200 federal and contract employees are required to comply with a wide array of Department of Energy, Office of Personnel Management and Office of Management and Budget requirements.

The principal disadvantage in proceeding with this proposal would be its potential use as a vehicle for attempting to make undesirable alterations in the organic statutes under which BPA operates. There is also a danger that BPA would become less accountable, especially to the general public and to its customers.

5. **Would a government corporation structure either enhance or diminish Bonneville's ability to comply with its statutory mandates to meet social**

and environmental goals, including the protection of fish and wildlife?

To the extent that the government corporation would give BPA added flexibility and the ability to respond in a more timely fashion to pressing issues, the corporation should enhance BPA's ability to comply with its statutory mandates to meet social and environment goals. For example, BPA would not have to submit Environmental Impact Statements to the Department of Energy for approval, and thus would be able to complete such statements in a more timely fashion.

6. **Would changes in Bonneville's governing statutes be necessary or desirable if Bonneville is made into a government corporation?**

As indicated in response to question No. 3, we do not believe that changes in Bonneville's governing statutes would be necessary or desirable if Bonneville were to be converted to a government corporation. In fact, we feel strongly that these statutes should not be tampered with. Legislation dealing with the conversion of Bonneville into a government corporation should deal solely with this narrowly defined issue.

7. **Are there alternatives to government corporation status that would achieve all or many of the same administrative efficiencies sought by Bonneville?**

Theoretically, special laws might be fashioned for some aspects of Bonneville's administrative procedures, such as its procurement and personnel practices. However, it would be extremely difficult and inefficient to achieve these objectives on a piecemeal basis. The changes that are being sought in BPA's administration should be viewed in totality.

8. **Would Bonneville's relationships with Congress, the N.W. Power Planning Council, other federal agencies, its customers or the public change with a change in its structure?**

Bonneville's relationships with Congress or the Northwest Power Planning Council and other federal agencies would not and should not be altered as a result of a change in BPA's structure. However, BPA would have less responsibility to the Department of Energy and the Office of Management and Budget, and the relationships with these agencies would change.

Bonneville's relationships with its customers likewise would change, in a positive way, in that BPA could respond more readily to its customers' needs.

Mr. DEFAZIO. Thank you.
Mr. Ramseyer.

STATEMENT OF JIM RAMSEYER

Mr. RAMSEYER. Yes, Mr. Chairman and committee members. Thank you for the opportunity to testify today.

My name is Jim Ramseyer. I am the general manager of Blachly-Lane Electric Co-op, serving Western County, near Eugene. I am here representing the Pacific Northwest Generating Cooperative, serving Blachly-Lane and 27 other utilities in eight Western States in the Northwest.

Mr. Chairman, I would ask you please to include my comments today and the written comments in the hearing record.

The proposal today, refinancing a government corporation, are important to the Northwest energy future. However, neither of these proposals answer critical questions about where we are headed in the future in the region. How are we going to deal with endangered salmon runs; how would unbundled services and tiered-rate systems economically impact customers' access to competitive power.

Solving these issues allows you to put Bonneville's financial house in order so that we can move on to those important issues.

Regarding the debt buyout, we want to applaud the hard work of the Chair, the committee, and the Speaker in developing this package. We want to commend them for stretching out the additional costs into the future.

The utility I manage, Blachly-Lane, is currently proposing a 10 percent rate increase for its customers just to recover the latest BPA rate increase. Whether you support them or not, there are additional administrative policy decisions that have impacted the West. Grazing fees, public timber harvest reductions, mining law revisions, all are having an impact economically on the vitality of the rural area's economy.

We don't need an electric rate increase piled on top of an already staggering list of threats to our rural economic viability. BPA and the federal-based system constitutes the economic engine that drives the Northwest economy. They support critical national industries, aluminum, pulp and paper, and others, as well as farms and small businesses that make up the rural, small-town way of life. Both are key to the fabric of the Northwest.

Relating congressional oversight, PNGC believes that the congressional oversight role serves BPA and the region well, and accordingly opposes any move to allow Bonneville independent access to private market for new debt.

Regarding government corporation status, first of all, I would like to commend BPA Administrator Randy Hardy for his hard work and his efforts to make BPA a more competitive power resource provider in the Northwest. PNGC and most customer groups are supportive of these changes but have reserved the right to condition that support on the details of any final proposal. It is clear that release from the constraints of civil service and government procurement rules, BPA would have far more flexibility to provide better service at a lower cost.

It is also clear that such status is not a panacea for all that ails BPA. It is vital that any move to make BPA a government corporation not alter in any way the delicate balance of the control mechanism that was set out in the 1980 Regional Power Act.

Some have suggested that Northwest Power Planning Council could become BPA's board of directors or that new independent borrowing authority could make BPA synonymous with Congress. We do not believe that would constitute helpful changes. We are pleased that Mr. Bottiger agrees with that view in his testimony today.

We do not need a national debate on the structure and control issues at a time when we are working hard together within the current framework to resolve these key issues regionally. Consequently, how you proceed with legislation to institute government corporation status for BPA is at least as important as the proposal itself. For this reason, PNGC remains only cautiously supportive of the government corporation concept.

In conclusion, whether we see debt buyout and government corporation proposals this session or down the road, please know that PNGC and its member utility systems are always willing to sit down and be helpful in discussing common-sense ways of better meeting the needs of Northwest ratepayers.

On behalf of the approximate half million consumers of PNGC member systems, I would like to thank you for inviting me here to testify today. Knowing that this is the last in the proceedings this task force will hold, I would like to take this opportunity to thank the committee, to thank Congresswoman Furse for attending and her interest in the issue, to thank Congressman Smith and his interest in the issue, and especially to thank you, Congressman DeFazio, whose district, of course, is my hometown, for helping to shed light on the many challenges facing the Northwest power community.

As you have found, there is no shortage of issues facing us. However, there also is an opportunity to bring additional diversity and reliability to the Northwest energy picture. We appreciate your help in allowing us to recognize and take advantage of these opportunities.

Thank you, Chairman DeFazio.

[Prepared statement of Mr. Ramseyer follows:]



Partners in Power Management

Testimony of
Jim Ramseyer before the
BPA Task Force
of the
House Natural Resources Committee
October 28, 1993

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Partners in Power Management

Jim Ramseyer
Testimony before the BPA Task Force
on PMA Debt Buyout and
BPA Government Corporation Proposals
October 28, 1993

Mr. Chairman:

Thank you for the opportunity to testify today. My name is Jim Ramseyer and I am the General Manager of the Blachly-Lane Cooperative Electric Association, a rural electric co-op located in Eugene, Oregon. I am here representing the Pacific Northwest Generating Cooperative, a generation and transmission company serving Blachly-Lane and twenty-seven other utility systems spread out over eight Western states.

The proposals at issue today, refinancing Bonneville Power Administration's (BPA) debt and making BPA a government corporation, are important to the Northwest's energy future. However, neither of these proposals answer critical questions about where we are heading in the region -- how we are going to deal with endangered salmon runs and how unbundled service and tiered rate systems would economically impact customer's access to competitive power. What they do allow us to do is put Bonneville's financial house in order so that we can get on with the business of answering those questions.

Debt Buyout

Arguments over the appropriated debt held by Power Marketing Administrations (PMA) have dominated the regional policy arena for a decade. Seven straight Presidential budget requests during the Bush years followed by President Clinton's FY93 proposed budget have featured radical repayment acceleration proposals for PMA debt. Congress has repeatedly torpedoed these proposals for good reason. The interest rates for the Corps of Engineer and Bureau of Reclamation projects that form the Northwest's Federal Base System (FBS) were prevailing market rates at the time the projects were conceived and represent a covenant agreed on jointly by the Federal government and the citizens of the Northwest.

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To unilaterally alter the rates associated with these projects would represent a gigantic act of bad faith and would be analogous to a bank unilaterally raising a homeowner's fixed mortgage rate. Unfortunately, persistent officials at the Office of Management and Budget continue to pound away at what they perceive as a subsidy. I believe, on the merits, that those officials are wrong. However, having to fight the fight every year has been taxing on the customers of the PMAs and has diverted attention from other pressing matters that should dominate policy discussions in the future.

If refinancing BPA's appropriated debt is what it takes to get out of this policy maze and on to more constructive debates, then PNGC supports the concept. However, there are some caveats. Our chief concern is that a debt buyout be structured so that it is truly rate neutral -- both in the short term and in the long term. BPA just recently concluded a rate case covering the FY94-FY95 period. That rate case resulted in a 15 percent increase in wholesale power costs and is reverberating around the region in the form of individual utility rate increases in the 5 to 10 percent range. The utility that I manage, Blachly-Lane, is currently proposing a 10 percent rate increase to cover the additional price of Bonneville power.

The consequent higher electric bills will have very real impacts on the customers that I have the privilege of serving. Around the region, farms, aluminum smelters, timber mills, and other business ventures that are operating close to the margin during these uncertain economic times will lay off employees or close up shop altogether. It is paramount that we do not multiply that effect by increasing pressure for additional rate increases by adding to the current cost of satisfying BPA's debt burden.

Interest rate surcharges, excessive refinancing costs, or premiums to the government for the use of assets paid for by customer revenues should not be added into the repayment mix to boost the cost of the proposal to the ratepayers. The definition of rate neutral has to be the same for all of us -- no increased repayment obligations above the net present value of the current income stream due to the government under current obligations. While I know that this would not result in any additional "scoreable" revenue for OMB analysts living with arcane scoring rules, it should represent a tangible benefit to the taxpayer consisting of an immediate multibillion dollar reduction in Treasury debt.

Bonneville's customers are looking for a truly rate neutral proposal because it allows them both stability and predictability. Anything less would fan the flames of an already uncertain economic future in the West. Whether you support them or not, there is no question that the policies of this Administration which have a disproportionate impact on the West -- grazing fee increases, public timber harvest reductions, mining law revisions -- will have an economic impact on struggling rural areas. Those policy decisions seek to identify economic activities that the Administration apparently believes are destructive to the environment. Increased electric bills are not nearly so discriminatory -- they affect every industry throughout the Northwest.

Our communities do not need an additional electric rate increase piled on top of an already staggering list of threats to their economic viability. BPA and the Federal Base System constitute the economic engine that drives the Northwest economy. They support critical national industries -- aluminum, pulp and paper,

etc. -- as well as farms and small businesses that make up a rural, small-town way of life. Both are key to the fabric of the Northwest.

Also on the list of principles that PNGC believes are central to the success of any debt buyout proposal is that the transaction should cover only Bonneville's existing appropriated debt, should refinance that debt through private markets, and should not include new borrowing authority from private sources. The Northwest Power Act of 1980 sets out a very fragile balance of authority driving regional energy decision making processes. One key element is the ability of Congress to provide oversight on all new borrowing decisions. PNGC believes that the Congressional oversight role serves BPA and the region well and, accordingly, opposes any large scale move to allow Bonneville independent access to private markets for new debt.

However, private markets hold distinct advantages over Treasury borrowing when it comes to refinancing existing appropriated debt. A public debt for public debt exchange would likely be viewed as a "smoke and mirrors" paper transaction that in no way reduces demands on the Treasury or guarantees that future Administrations would not seek to alter new PMA debt terms. Alternatively, private refinancing of BPA debt would offer a clear reduction of public debt while also settling, once and for all, any debate over existing debt terms.

The willingness of private market sources to buy revenue bonds underscores BPA's credit worthiness and points out what should be obvious -- that BPA's customers have been and will continue to pay for these project in full, both principle and interest. Which brings up an interesting point -- who owns the projects after they are paid for. While the customers will have paid for them in full, as well as bearing ongoing operations and maintenance costs, the principle of preference has dictated that they be held for the benefit of the public -- defined as public preference customers.

I am not here to make a pitch that public utilities should be given full ownership of those projects. However, some have suggested that, in maintaining title to the projects, the Federal government may want to continue charging for their use through some type of "rent" or "falling water" charge. These types of schemes are patently unjust and ignore the contributions of regional rate payers in paying for these projects.

Government Corporation Status

In an effort to enhance BPA's ability to meet the needs of an increasingly competitive energy market, Bonneville Administrator Randy Hardy has initiated a series of broad reforms that include a function by function review, the creation of a BPA marketing plan, and advocating true government corporation status. Mr. Hardy and BPA should be commended for attempting to reshape Bonneville into a leaner, more efficient agency that is more cost effective and responsive to the needs of its customers. PNGC and most customer groups are supportive of these changes, but have reserved the right to condition that support on the details of final proposals.

Government corporation status is a good example. It is clear that, released from the constraints of civil service and government procurement rules, Bonneville would have far more flexibility to provide better service at a lower cost. I have no reason to doubt Bonneville's claim that DOE regulations alone cost them over \$6

million and 85 to 95 FTE per year -- costs that they would not be liable for under true government corporation status. However, such status is not a panacea for all that ails BPA. There are plenty of government corporations whose examples of efficiency and customer service we would not want to follow -- for instance the U.S. Postal Service or Amtrak.

The largest concern that PNGC has with efforts to institute BPA government corporation status relates less to the current proposal than to what provisions may be added along the way. It is vital that any move to make BPA a government corporation not alter in any way the delicate balance of control mechanisms set out in the 1980 regional power act. Some have suggested that the Northwest Power Planning Council could become BPA's board of directors or that new independent borrowing authority could make BPA autonomous from Congress. We do not believe that these would constitute helpful changes and, if proposed, we would strenuously object to them.

Consistent with their oversight responsibilities, Congress has essentially served as the defacto board of directors for Bonneville up to now -- a relationship that PNGC believes makes good sense. By working with the Council, Bonneville, and Congress, Bonneville's customers and other regional participants have strived to make the Regional Act work. There is great concern that an open legislative process aimed at giving Bonneville government corporation status could evolve into a free for all debate on measures that would upset this delicate balance of control over regional energy policy. We do not need a national debate on structure and control issues at a time when we are working hard together within the current framework to resolve key issues regionally.

Consequently, how you proceed with legislation to institute government corporation status for Bonneville is at least as important as the proposal itself. For this reason, PNGC remains only cautiously supportive of the government corporation concept. In this regard, we look to you, Mr. Chairman and Task Force members, to act as a buffer between a sensible move to government corporation status and those who would seek to reopen the epic battles over control issues.

Conclusion

Whether we see debt buyout and government corporation proposals this session or down the road, please know that PNGC and its member utility systems are always willing to sit down and be helpful in discussing common sense ways of better meeting the needs of Northwest ratepayers. On behalf of the approximately 500,000 people served by PNGC member systems, I would like to thank you for inviting me here to testify today.

Knowing that this is the last proceeding this Task Force will hold, I would like take this opportunity to thank the members, and especially the Chairman whose district includes my home town, for helping to shed light on the many challenges facing the Northwest power community. As you have found, there is no shortage of issues facing us; however, there also is an opportunity to bring additional diversity and reliability to the Northwest energy picture. We appreciate your help in allowing us to recognize and take advantage of those opportunities.

Mr. DEFAZIO. Thank you.
 Ms. Patton.

STATEMENT OF SARA PATTON

Ms. PATTON. Thank you, Mr. Chairman and members of the task force. My name is Sara Patton, and on November 8, I will be the director of the Northwest Conservation Act Coalition.

Mr. DEFAZIO. Congratulations.

Ms. PATTON. Thank you. I would like to note that Cassie Golden, who has been working with you on these issues for a long time, I may say very happily will continue to do so as policy director of the Coalition.

The Coalition is an alliance of over 60 public interest agencies and utilities and businesses from all over the four Northwest States and from British Columbia. The constituency is large and diverse. It includes the League of Women Voters, organizations such as the Spokane Neighborhood Action Programs that advocate for low-income citizens, research organizations, consumer advocates, and public utilities, including the Salem Electric Co-op, the Emerald People's Utility Districts and the city of Ashland.

The Coalition is united in seeking the purposes of the Northwest Power Conservation Act of 1980, to encourage conservation and efficiency in the use of electric power; to encourage the development of renewable resources within the Pacific Northwest; to ensure adequate, efficient and economical energy services; and to make the public and its State and local tribal governments full partners in building a regional energy future that emphasizes conservation, renewable resources and environmental protection; to distribute the cost and benefits of the regional power system fairly, and to protect and mitigate and enhance the fish and wildlife resources of the Columbia basin.

Today I am going to speak only on the issue of the corporation. I am very grateful that you are willing to accept our written comments later and will address those questions later.

First we would like to reaffirm and thank this task force, its mandate and its work on examining BPA's operations and evaluating how its meeting the mandates of the Northwest Conservation Act has been very helpful.

It seems as though taking the time that you have taken to investigate these issues and to decide what actions might be taken may be an interesting issue given this corporation proposal, since you haven't come to your conclusions yet, and we may have a cart-before-the-horse problem. I will say that the Coalition is, as many others, certainly interested in the corporation proposal, and it very well may be a good step. But it is a solution to a problem that your task force is not quite finished investigating.

Further, it is hard to tell whether a federal corporation is a good idea because we don't have a detailed proposal in front of us yet.

With all that said, the Northwest Conservation Act Coalition strongly supports Bonneville's sincere efforts to increase efficiency. Conservation and efficiency are more or less synonymous, and we believe the efficiency must mean achieving goals with fewer resources, not cutting costs and in the process failing to achieve goals.

We very much worry that BPA is in the process of increasing that efficiency, maybe jettisoning those goals, and perhaps cutting costs by abandoning its long-term efforts in favor of short-term rate savings.

Our worries come from many sources, and they are worries that relate to conservation, fish and wildlife protection, and public participation as well as the encouragement of renewable energy. One of the worries comes from seeing papers like the alternative conservation focus, in which Bonneville looks at the idea and appears to be quite interested in the proposition that you can pay 40 mills a kilowatt hour. That kind of argument is very much of concern to the Coalition.

We do strongly support the restructuring of the federal corporation and the other proposals which increase Bonneville's efficiency and its effectiveness in delivering on the promises of the Act and Bonneville's responsibilities thereunder. But I would like to finish by saying that true competitiveness for Bonneville and for the Pacific Northwest will come from a clean and healthy economy and a clean and healthy environment and strong public support over the long term.

Thank you. I would be happy to answer questions.

[Prepared statement of Ms. Patton follows:]

**Testimony of Sara Patton, Coalition Director
on behalf of
the Northwest Conservation Act Coalition
before the
House Committee on Natural Resources
Bonneville Power Administration Task Force**

**October 28, 1993
2226 Rayburn House Office Building
Washington, D.C.**

Thank you Mr. Chairman, members of the Task Force. My name is Sara Patton and on November 8 I will be the new Coalition Director of the Northwest Conservation Act Coalition. K.C. Golden who has appeared before you on behalf of the Coalition will be the new Coalition Policy Director. The Coalition is an alliance of over sixty public interest organizations, utilities, agencies and businesses from all four Northwest States and British Columbia. The constituency we represent is large and diverse. It includes the League of Women Voters; organizations such as the Spokane Neighborhood Action Programs that advocate for low-income citizens; local, state, and national environmental groups; research organizations; consumer advocates; and public utilities including the Salem Electric Cooperative, the Eugene Water and Electric Board, Emerald People's Utility District and the City of Ashland.

As K.C. Golden has testified in earlier hearings of this task force, this diverse constituency is united by its dedication to the faithful and expeditious implementation of the Northwest Conservation Act of 1980. Our goals are laid out in the Act's purposes (paraphrased here):

- To encourage conservation and efficiency in the use of electric power;
- To encourage the development of renewable resources within the Pacific Northwest;
- To assure adequate, efficient, economical, and reliable energy services;
- To make the public and its state and local and tribal governments full partners in building a regional energy future that emphasizes conservation, renewable resources, and environmental protection;
- To distribute the costs and benefits of the regional power system fairly; and
- To protect, mitigate, and enhance the fish and wildlife resources of the Columbia River Basin.

The immediate question is whether the proposal to change Bonneville's status from federal agency to government corporation will serve these goals or not. The Coalition Board adopted the following resolution on this subject at its October 24, 1993 meeting:

Resolved, that NCAC supports the efficiency of BPA operations. Unless and until NCAC receives further assurances that corporatization will enhance achievement of the conservation and fish and wildlife provisions of the Act, and will not relieve BPA of any of its responsibilities under the Act, NEPA or other federal environmental laws and open government laws, NCAC opposes corporatization.

The Coalition strongly endorses this Task Force's mission:

To examine Bonneville's operations,

To evaluate how Bonneville is meeting the mandates of the Northwest Conservation Act; and

To determine what steps to take, if any.

We welcome this Task Force's investigation and look forward to its recommendations. We are concerned that this Task Force's recommendations should be the horse and the proposal to make Bonneville a government corporation is one of many possible carts. This hearing is the last one for this Task Force. It seems very reasonable to wait for its report and recommendations before embarking on a large organizational change in the agency this Task Force is investigating. Making Bonneville into a federal corporation may be a good idea, but it is a solution to a problem which your Task Force has not finished investigating.

We also note that it is difficult to tell whether the federal corporation is a good idea or not with no concrete proposal before us. To continue the barnyard imagery: so far, the proposal is a pig in a poke.

With all that said, let me emphasize that the Northwest Conservation Act Coalition strongly supports Bonneville's sincere efforts to increase its efficiency! Conservation is part of our name and conservation means increased efficiency. We define increased efficiency as achieving goals with fewer resources. We are concerned that Bonneville is not using that definition when it talks about increased efficiency. It appears that Bonneville is considering jettisoning goals in order to cut costs. We absolutely reject any attempt to cut costs by abandoning long term efforts to achieve least cost resource acquisition and a healthy environment in favor of short term rate minimization. We are worried that Bonneville's mandates for conservation, fish and wildlife, public participation and renewable energy may be considered goals which can be abandoned to cut costs in the very short term.

Our worries stem from discussions and draft papers in which Bonneville has floated a number of ideas for its own reinvention. These ideas have included throw off lines like, "Maybe we won't do conservation in areas where natural gas is available," as well as exhortations to open up thinking to a future in which Bonneville has no fish and wildlife responsibilities. A draft paper on "Alternative Conservation Focus" dated September 14, 1993 from Bonneville staffer, James M. Kehoe sets out a rationale for paying less than half as much per kilowatt hour for conservation as for generation resources,

That brings us back to the question of how much we can afford to pay for conservation to keep it competitive with generation. If we consider that the cost of new generation is being offered in the 38-40 mill range and the PF rate for power ranges from 23-27 mills we find that we have somewhere in the vicinity of 15 mills in that margin to work with and still break even. (Kehoe, 9/14/93, p.7)

The Coalition finds this sort of discussion (even if it is merely a "think piece") chilling in its implications. We believe that the lost revenue argument embodied in this thought is cynical, incorrect and illegal in the context of the Northwest Conservation Act. It appears to trade away conservation's long term benefits to all northwest bill payers, the local economies of the region and the natural environment for small, short term rate impacts. No discussion of restructuring BPA will prove fruitful until BPA makes its commitment to the Act's purposes unmistakably clear

If and only if the government corporation proposal can be structured so as to increase the efficiency and effectiveness with which Bonneville delivers the vision of the Northwest Conservation Act, we will strongly support that proposal. Any restructuring, reinvention, or otherwise new Bonneville which delivers conservation, renewable resources, fish and wildlife protection, and public participation and partnership more quickly and cheaply than Bonneville does currently is highly welcome. That sort of increased efficiency will achieve true competitiveness for Bonneville and the region based on a clean, healthy economy; a clean, healthy environment, and strong public support.

Regrettably, recent indications from BPA seem to suggest a sharp turn toward short-term rate minimization as the Agency's fundamental purpose. We cannot support any restructuring proposal that frees BPA to pursue goals that contravene the regional Act more efficiently. We look forward to working with BPA to fashion a restructuring proposal that fully embraces the Regional Act's purposes. This Task Force's recommendations should help make that possible.

Thank you .

Mr. DEFAZIO. Thank you.

We will proceed now to a round of questions. Let's start first with Mr. Drummond, and anyone else who wants to comment on the question could.

As I understand the financial wizards at BPA, they have looked at the net present value and the \$100 million, and they have prognosticated that they can structure the debt in such a way that we would achieve rate neutrality for 25 years, and at the end of the 25-year period, they only anticipate a rate increase, but more likely a continuing obligation for debt repayment that wouldn't have otherwise existed but does not exceed the current obligation. So therefore instead of seeing a decrease in fixed costs, what you see is a carrying forward of some percentage of fixed costs, which would obviously decrease flexibility or the possibility of a rate decrease, or whatever other obligations BPA might have at the time.

Given that understanding, do you support the proposal?

Mr. DRUMMOND. While it has come out just in the last few days, I have not had an opportunity to check directly with my membership. I really would have to say at this point I don't think it does. I think that that would fit within the definition of rate neutrality, a continuing obligation, not an increasing one, at some point 25 or perhaps 30 years out into the future—and again, I don't know how long that obligation would last. I don't think it is all that long. I would have to say—

Mr. DEFAZIO. Five years is what they say.

Mr. DRUMMOND. In my opinion, no, it would not violate our provision of rate neutrality.

Mr. DEFAZIO. So, if I direct a question to Mr. Johnson, in his testimony, he said, We are, however, unclear as to the nature of the \$100 million payment for the settlement of, "all claims against the Federal Government against the hydroelectric power system."

You heard Mr. White, the Deputy Secretary, tell us what the justification was, which is, they want to be able to score some savings and we have a very bizarre way of keeping the books around here, and we can't count the prepayment of the principal or interest, the \$4 billion just disappears into something somewhere.

How would you like to comment, given your, now, in-depth understanding of the nature of the \$100 million? The question is, Is there a value to the Northwest to avoid current and/or future punitive rate repayment reform proposals?

As you are well aware, starting with David Stockman, who now enjoys a comfortable existence on Wall Street, we had punitive proposals, things that would have caused dramatic increase in fixed repayment burden to BPA, straight lining the debt, increasing the interest rates, whatever. There have been a whole bunch of them. And this administration hasn't seen fit to really rein itself in either.

The Speaker, I will tell you, has had to intervene personally with this administration to stave off some of these things.

The question is, Is there a value in the stability that would come, and could that value be priced at, you know, some prepayment of points, or however else you want to look at it, at this price?

Mr. JOHNSON. We think this is an opportunity, and we understand a lot of hard work has gone into trying to work this out, and

that this idea ought to go forward. There is tremendous value in resolving this issue for the Northwest, so we don't live under that continuous threat of repayment acceleration. And you and other members of the delegation have consistently beaten back these efforts in the past, and the argument was that the Northwest was getting a subsidy. And our answer was, these were deals, business-like deals at current interest rates that built a power system in this region, and in fact there is a study by Alex Radon that shows that the Northwest is paying back more of its investment in Federal water projects than other regions, because there is no cash register attached to a lot of these projects.

So given that, we took a principled stance over the years, and now there is sort of an increment that has been added to this as part of making this package one that is acceptable, but that it was important at least that we maintain that argument. There isn't a subsidy in the Northwest, and there should not be a payment beyond the businesslike deal that has been made, that would be common in the private sector, in changing the way in which debts are repaid. This is a supplement to that, we understand that. We would like to point that out.

The claims language came from a press release that I think is not accurate in terms of how the legislation is drafted. We picked that up, and would like to change that.

Mr. DEFAZIO. No, I mean, I have very vociferously rejected the idea of subsidy, but at some point I see there is a value in getting some predictability, stability. If you want to look at this as like your typical home refinancing, if you owe \$100,000 on your house and the bank says, We really need some money and we will settle your loan for \$67,000 today, you probably don't have that in cash so you have got to go out and finance it, and we will charge you two points or a point or whatever. You would probably say, That is a good deal, I will take that. If you want to simplify the whole thing, I think that is perhaps the way to look at it. I think it is a business transaction.

Obviously we want to get the best deal possible. I think we have done fairly well here.

Mr. JOHNSON. We think it is a good deal.

Mr. DEFAZIO. I am going to abuse the privilege of the Chair here with the red light on, but just for a moment, one more question.

Mr. Cavanagh, can't the Council recommend a levy surcharge on customers who deviate from the plan?

Mr. CAVANAGH. There are various possible remedies, Mr. Chairman. My hope is that in this case sunlight will be the best disinfectant. I really believe there is in the region a community of opinion and a sense of general regional interest and stewardship that can be activated in situations like this.

I guess I hope it won't come to that but I think we ought to set ourselves the collective goal, and I hope the Council will take this up, of making sure that practices like this are eliminated in part because, Mr. Chairman, you have made a terrific deal here. But, you know, a revenue-neutral refinancing of Bonneville's debt won't end claims that rates in the Northwest are subsidized. It won't end the kind of policy arguments I was referring to. People who behave

this way continue to put all of us at risk whether or not you succeed in executing this deal.

So I hope we can work this out in the region without invoking a regulatory remedy, but I will agree with you there may be some, and I hope it doesn't come to that.

Mr. DEFazio. This is a fairly small utility, and I would agree that perhaps some moral persuasion will be helpful.

The Administrator has reiterated his commitment at least twice before this committee to move forward with a tiered-rate structure. That would send a strong signal to other utilities. If they want to get a tiered rate from BPA and try to reverse that tier and somehow make money, they will be engaging in a wonderful "catch 22" exchange here, buying things for a dollar and selling them for 60 cents, making money. So perhaps there is a market-based way of dealing with it.

And then the third thing I would put to you—and it is a question that Mr. Drummond and I seemed to have a little disagreement over at the last hearing—I have a feeling that there should be some individual responsibility or people should be more bound under the plan.

And I would like to see some way that people get a stronger message, whether it is through a tiered rate or a preferential rate for those who follow the least-cost path.

Any ideas you have on that, I would be happy to entertain, and you could provide them in the future.

Mr. CAVANAGH. We will do it, Mr. Chairman.

The power sales contracts are clearly such an opportunity. The tiered-rate structure design itself is such an opportunity. It may well be that clarifying Mr. Bottiger's relationship with Bonneville in the new corporation bill will be such an opportunity.

[EDITOR'S NOTE.—The information was not received at the time of printing.]

Mr. DEFazio. Czars are real popular. Maybe we will get ourselves a power czar.

Mike, do you have some questions?

Mr. KREIDLER. Thank you, Mr. Chairman.

First off, I would like to also reciprocate by saying I appreciate having Mr. Johnson and Mr. Sherrill here to testify. I think it is very appropriate we have their representation here before this task force.

I would like to go to a follow-up with Mr. Sherrill, a comment he made relative to replacing some institutional constraints on purchasing power from Bonneville to allow customers the opportunity to purchase from outside of BPA. I would like to have him elaborate on that point he made in his testimony.

Mr. SHERRILL. Our concern is that Bonneville, being monopolistic as far as we are concerned, being a relatively small utility, the risk level for us to go out and acquire resources can be significant. Our concern is, if Bonneville is intending to become market driven and efficient, that the customers' utilities have to be able to go to other suppliers of power in a reasonable manner in order to force Bonneville to have that efficiency.

If Bonneville creates artificial barriers by unbundling their services in a way that one service subsidizes another, and therefore cre-

ates, as an example, higher rates on those things that would create a barrier for us to acquire additional resources, use a transmission which we do not own to bring to it to our system, therefore we may be efficient but we as a utility do not have an efficient way to go out and acquire resources and bring them to our system.

Along with them becoming efficient, the utilities, if they have the methodology of keeping Bonneville competitive by having alternatives potentially available, then that creates the market force. And our concern is that through the power sales contract and through rate structure, an unbundled rate system, they could artificially manipulate those things to prohibit us or create additional barriers.

So what we are saying is, yes, we are very interested in Bonneville being efficient, but we have to be able to have reasonable ways to create the market forces on Bonneville to force that to actually occur.

Mr. KREIDLER. What percentage does your agency's group represent right now of BPA's power?

Mr. SHERRILL. The 14 utilities that make up our coalition purchased 25 percent of Bonneville's power sold to the public utilities. Most of that goes to a couple of large utilities, but generally speaking, we have, like I indicated earlier, very little generation as far as the total is concerned. So right now we have a number of small utilities that are 100 percent Bonneville requirement to the customer.

Mr. JOHNSON. I would like to add to that, I think the idea of unbundling is probably a good idea, if what it means is you appropriately price the variety of services and an increasing variety of services that Bonneville is going to be providing in the future, transmission and load mixing and all of those kind of things.

And I think the bundled services has, including for the requirements customers, my members, 12 of them are 100-percent-requirements customers of Bonneville, have often been disadvantaged by the bundled service where they were small and could not take advantage of the transmission system, for instance, but I think the key here is that a competitive Bonneville and an efficient Bonneville has got to appropriately price those services. Then unbundling I think could be a good thing.

I am probably not as concerned as Jim is that somehow there will be unjustified subsidies in one or the other of those unbundled services. I think you could put more focus on them and more accurately price what Bonneville does provide to its customers.

Mr. DRUMMOND. I don't have anything to add after this point. I might after Ralph speaks.

Mr. CAVANAGH. That is fair, because he will. But it ought to work both sides. These guys are going to have many more competitive opportunities, as the transmission system opens up.

My argument is, if Bonneville chooses to go to PG&E for its service, they ought to be able to resell the power it is using free of any nonmarket restrictions. And regional preference which for years acted to protect region is now acting like just that kind of restriction.

So what I say to my friends from the Public Power Council as they are invoking the virtues of the new market is, will you take

it all? Will you let Bonneville resell to the highest bidder once you have left? Because that gives us the opportunity for potential resales that let Bonneville emerge from this as a stronger entity also.

If we are going to go down that road, we have to be able to take it all the way for the end and not stop for the advantage of particular participants.

Mr. KREIDLER. It cuts both ways.

Mr. DRUMMOND. We would never, ever give up the right to regional or public preference to the power. If in fact as Ralph suggests someone wants to leave the system that power flows back into the system for the benefit of the Northwest ratepayers.

Mr. KREIDLER. I kind of anticipated that response.

Mr. CAVANAGH. Just stay on the system, Bill, and keep benefiting.

Mr. DRUMMOND. As long as there are benefits.

Mr. KREIDLER. Thank you, Mr. Chairman.

Mr. DEFAZIO. Okay.

Mr. JOHNSON. Mr. Chairman, could I ask one comment?

The importance of this Competitiveness Project to Bonneville and the corporation idea is to make sure that preference has value. If the price of preference power goes over the price of market power, then preference becomes not very important. We think it is vitally important, but to remain a very valuable thing, Bonneville has got to remain competitive. That is the whole point.

Mr. DEFAZIO. We did a hearing where we devoted a substantial portion of time to the issue of unbundling so I don't want to spend a lot of time on it. Just some of Mr. Sherrill's points, this is an interesting problem to approach, and the question is, how many things can you unbundle to achieve competitiveness.

I mean, some people want to unbundle fish and wildlife. Well, okay, who is going to carry that? If you want to apportion certain costs into all categories, and you just go to true costs of each and every service, then you create a problem, and I would say particularly for the preference customers on what happens to the base load customers, because, you know, you say, we just want a little transmission here, we don't want fish and wildlife stuff in the transmission. There are certain costs that are going to have to be apportioned across the entire system, even as you move to unbundling. You seem to be nodding your heads in agreement.

Mr. RAMSEYER. Two things I would like to comment on. One, since cooperatives were mentioned for having declining block rates, I would like to address that issue.

Mr. DEFAZIO. We mentioned one.

Mr. RAMSEYER. But the issue is not the concept of declining block rates, it is the rate that they have. And all the co-ops that I know that have declining block rates, they are going from 5.7-5 cents or from 5.2-4.5 cents, which is much higher than the normal rate for other utilities that are putting demands on the resource requirements of the Northwest. So he needs to understand exactly what the price is before he can say that they are putting more demands on Northwest resource requirements than other utilities that have flat block rates.

The other issue relating to resource development, we all are involved in taking the advantages that we can to identify what is

going to be advantageous, unbundled or bundled services. Those utilities that have the opportunity, we may not unbundle fish, but they may unbundle fish.

They may go to other resources and leave the full-requirements customer in the Northwest, which is basically the rural customer, to fund the costs of fish and wildlife mitigation, because they are divorcing themselves from BPA resource requirements.

Mr. DEFAZIO. You have raised another point in your testimony that I would like you to expand upon. You said it was as important to determine how to proceed with the discussion or the formulation of a government corporation proposal as the substance. How would you perceive that we would optimally proceed?

Mr. RAMSEYER. I guess I am not prepared at this point to answer that question in its entirety, but we could sure get you the information from the perspective of PNGC.

[EDITOR'S NOTE.—The information was not received at the time of printing.]

Mr. DEFAZIO. I would be interested. I tried to engage Mr. White in that discussion, and I think they have to understand the extraordinary diversity of interests in the Northwest and need to hear somewhat from that cacophony. Otherwise, they drop something in our laps. Since this committee, not the task force but the committee itself, will be charged with legislating this as it comes forward in the President's proposal.

So I am interested in any and all ideas people have about how we can develop the best possible proposal before the committee has to engage in the legislative process, which always involves public hearings and public markup, but how can we help the Administration develop something that is pretty much a good proposal from the beginning. I am interested in ideas.

Ms. Bodi, you had a little more of a reservation, shall I say, about the government corporation. You didn't want the government corporation, as I understood your testimony, until such time as the fish obligations are satisfied. What does that mean? Does that mean until we have recovered stocks on the Upper Snake, so that you are talking about geologic time?

Ms. BODI. We hope not geologic time. We hope before some of us in the room die, maybe. We don't think Bonneville should be allowed to restructure itself until the fish runs are recovered. I think we should use this opportunity to push to resolution on two key points, and I will emphasize the two I think that I recommended that are the most important.

One is, let's resolve the fish flow, fish passage issue. That can be resolved through a negotiated settlement, I firmly believe. There are no such negotiations going on at this time. For whatever reason, we are in the far more inefficient process of being in court on those issues. I think that issue can be resolved.

It may not be resolved for all time but at least we can put a basic agreement in place that moves us forward. And so that is what I am asking for. I don't think that has to take 10 years. I think it might take many months to get that kind of a settlement completed.

But I don't think the details of it would be a big surprise to anyone, and I think that you could have a real negotiation that commences relatively soon to get moving on that.

The second thing I want to emphasize is the least-cost plan idea. One of the things you see when you talk to Bonneville is that it is now talking about becoming more efficient as a utility and as a supplier of services, but Bonneville needs to integrate fish into those decisions. When it is deciding what is a good or more efficient way to do things for power, it should add an overlay of what does that do for fish, and are there incentives that could be provided here that will minimize the cost of our meeting our fishery obligations.

And this relates to rate structures, issues like seasonality of rates, it relates to how services are provided and what services are provided and when they are provided, and it relates to such things as what Bonneville obligates itself to do in planning under the Pacific Northwest Coordination Agreement.

So there are efficiencies for fish to be captured as well as these debates go forward. And that conceptually seems to be a very difficult idea for Bonneville staff to grapple with.

I have and others have had no end of meetings where the conservation community discussed this, and it basically seems to be a very difficult concept for Bonneville to come to grips with. I also think that if Bonneville sat down and put its mind to it, that would not take a very long time to do.

Mr. DEFAZIO. You are more confident than I that we have reached some point on fish flow, fish passage, where we could have a structured negotiation.

Ms. BODI. I think it is a matter of Bonneville stepping out and exercising some leadership here. I think that the recovery team was faced with the same controversy that we see in the courts right now. And it more or less threw up its hands.

Mr. DEFAZIO. You mean you are saying they engaged in something political and it wasn't pure science?

Ms. BODI. I—

Mr. DEFAZIO. A recovery team would do something like that, scientists who engage in politics?

Ms. BODI. Wonders never cease, Mr. Chairman.

Mr. DEFAZIO. I thought science was immutable.

Ms. BODI. I did too when I first got into the fish business, but I have learned otherwise.

Mr. DEFAZIO. One other quick question. You talked about the Pacific Northwest Coordination Agreement. Are all the tools in place to have basin-wide planning?

I have raised some discussion of the Northwest River Basins Commission, which Ronald Reagan saw fit to eliminate as unnecessary and superfluous. Do you see some need for some overall forum for discussion and coordination, or do you think the tools we have now are adequate?

Ms. BODI. No, I think we need to look at changes in how the coordination agreement operates. And the changes I see that are necessary involve not only who gets to participate, but also how the agreement is structured.

Right now one of the key objectives, for example, is to minimize the cost of power generation and to make power generation more efficient. I would like to, for example, see a parallel goal to that related to fisheries.

Under the coordination agreement, different kinds of shifting operations occur to the benefit of the customers. I would like to see fishery considerations incorporated into whether to do those shifts.

So there are changes within the structure of the agreement that I think need to be looked at as well as the idea of who participates, so that we actually use the coordination to get agreement to get at its objective, which is multiple use of the system.

Mr. DEFAZIO. You said the courts are the only place to go. I am a bit leery of resolving extraordinarily complex management issues in the courts. They are even more limited than the scientists, in my opinion. Do you discount the Council's plan and the Council's efforts?

Ms. BODI. No, I don't. What I meant to say is that is where people are today. It is not that anyone, I think, who is involved thinks that is a good way to go. It is that there is no negotiation forum.

I don't think that the Council's plan is bad, but it is not a full recovery plan. The Council itself has admitted that its plan is a starting point, and not an ending point, and that is what I would agree with also.

As we deal with Endangered Species Act issues and whether allowing almost all the juvenile fish to be killed in passing through the dams and a large number of the adult fish and deciding whether that is jeopardy or no jeopardy, people find themselves in court. There are specific milestones that we hit along the way, the Council's plan doesn't have all the details of implementation, and it is those annual milestones that we are in court on. The issue of whether fish barging is consistent with the Endangered Species Act; the issue of whether large mortalities are consistent with a no-jeopardy decision. Those are the kinds of decisions that the Council's plan doesn't address, those kinds of questions.

So it is the real difficult day-to-day details that are in the courts right now.

Mr. DEFAZIO. Anyone have anything else they want to add?

Mr. KREIDLER. Mr. Chairman, if I might, if I could follow up with Mr. Sherrill on one other issue that I raised earlier. I tend to agree that day-to-day operations can best be handled by a single entity.

However, I do raise some questions on issues relating to rate-making and budgeting, as to whether a board would be better able to handle those types of decisions. Given the comments that you offered, I was wondering what your response to that concept would be.

Mr. SHERRILL. My first reaction is that we believe that the existing structure has too much regulation and too much oversight now. The opposite extreme would be the administrator being the single decision-maker, and that also would be very scary to us.

The best answer from our opinion is to have an oversight board made up of the rate-paying customers. We don't necessarily believe that that would be acceptable to all constituents. So the answer that I would provide you with would be to continue with the ad-

ministrator, with some form of legislative oversight, not increased power from the Power Planning Council, however.

Mr. KREIDLER. Mr. Johnson?

Mr. JOHNSON. I think that the process we have now has a review for both budgetary and rate-making matters. The budgetary, the congressional appropriations process which would continue for Bonneville, is a way for the Congress to have some direct oversight of that process. I know it is not perfect and so forth. But to put some organization in between there, I think it begins to get us back to some of the problems we are trying to solve rather than address.

Rates are reviewed by the Federal Energy Regulatory Commission, so there is a body that does review them. So creating a board or some such mechanism in between there is something that at the moment I don't favor.

Mr. KREIDLER. I have always been under the impression that FERC's responsibilities were to make sure that adequate money was coming in to fund operations as opposed to whether the rates are appropriate or whether the rates would spread the burden appropriately. I am always nervous about the concept that you could rely on Congress to be sitting in a position to make those judgment calls when it has a national perspective as opposed to a regional view.

Mr. DEFAZIO. You mean you don't want to set rates?

Mr. JOHNSON. The good news in that is that when it is an important matter, Congress does decide to get involved, and that is sort of the guarantee. And that if it is not an important matter—

Mr. KREIDLER. But we are talking about an annual process, we are not necessarily talking about once-a-decade type interventions here.

Mr. CAVANAGH. You are talking about the Bonneville budget, and I would submit, the last time I looked at the rate-paying customers, it was the 9-plus million citizens of the region, and I would submit that although it is not perfect, there is one body that has been set up that broadly represents all of us behind this table, and it is the Power Planning Council. If you are going to set up a Bonneville corporation with significantly greater fiscal independence, possibly a FERC, possibly some of the other controls, I think we all view that as rather burdensome and unproductive. The one thing you ought to look at is whether that board of directors that you have already got, that represents all of us, might have more of a role. I think that is a legitimate question and I hope that gets raised in the discussions.

Mr. KREIDLER. That is certainly one of the concepts that has been floated.

Mr. DRUMMOND. I guess in response, a couple of things. One, I would urge you to take a look at the draft National Academy report. Although in fact I will admit I did meet with the people, I would urge you to meet with the National Academy people, and I would urge Ralph and Laurie—

Mr. CAVANAGH. They didn't ask, Bill.

Mr. DRUMMOND. I understand, but frankly they did more in a two-hour meeting with them where mainly we just asked them questions. We didn't actually provide as much information. We asked what it was like to set up a government corporation, what

the attributes were, what worked, what didn't, and one of the most important questions we had was, how does the board of directors work?

And in fact the people from the Academy indicated—and they indicate in their draft report—that for entities such as Bonneville, a board of directors doesn't work very well. They pointed, for example, to the Tennessee Valley Authority, where there have been significant problems with having a board of directors and lack of a professional manager early on, et cetera. I am not going to go into great detail because I am in over my head.

But, you know, I think that it does have a significant benefit relying on a single professional manager, an administrator who is held accountable, because one of the great problems with boards is that they tend not to be accountable.

Second, I would echo Mr. Bottiger's comments. I thought he provided some very good arguments as to why a single administrator was the best form of governance for Bonneville, given the oversight that currently exists.

Mr. KREIDLER. I certainly wasn't proposing you do anything differently. I think on a day-to-day basis that is the only thing that makes sense.

The question I am raising is relative to perhaps the big picture of rate setting and budgeting, and that approval process, which is far different. It really works much more like a city manager form of local government, where the city manager is in a strong position. In this case, I am certainly not even suggesting that the appointment process of an administrator be different than what has been recommended.

Thank you, Mr. Chairman.

Mr. DEFAZIO. Good discussion. As I said in my dialogue with Mr. Ramseyer, I would certainly be happy to discuss with anybody how we might move forward and try and help the administration. It is a lot harder once they have given us a proposal that has some inherent problems, and they have invested some of their prestige in it, shall we say, to make the changes as opposed to maybe get all of those interests considered up front. I think Mr. White showed a great willingness. When I listed all of the diverse interests I could think of, I asked, What of those groups would you consult with, and he said, All of them. I think that is a good start, and I am hoping we can help them along that path.

Let me find out what—is this the rule?

Mr. KREIDLER. Yes.

Mr. DEFAZIO. We have a vote. Mr. Hardy is scheduled to be here at 12:15. So this is very opportune that we have a vote right now. So we will recess until 12:20.

[Recess.]

Mr. DEFAZIO. If Mr. Hardy will come forward, and whoever he wishes to have accompany him. You are the clean-up witness here.

STATEMENT OF RANDALL W. HARDY, ADMINISTRATOR, BONNEVILLE POWER ADMINISTRATION, U.S. DEPARTMENT OF ENERGY

Mr. HARDY. Thank you, Mr. Chairman.

I would like to take the opportunity today to talk about two proposals that are the subject of this hearing, one of which has been introduced as part of the President's deficit reduction package that has to do with buying out the appropriated debt of Bonneville, in a manner which settles, we hope, the prolonged debates on repayment reform that continue in the region. The other proposal hasn't found its way over to OMB for review but is under review in the Department of Energy right now. It has received a fair amount of discussion in the region, and that is a proposal to make Bonneville a government corporation.

Both of these proposals are taking place against a background of increasing challenges to Bonneville's competitiveness, as we described in the hearing you held in Eugene last month. The utility industry is being deregulated. We are looking at a change in circumstances in this industry in the next 5-10 years very similar to what the airlines, the phone companies, and others have gone through in the last 10 years, and that presents some unique challenges to us.

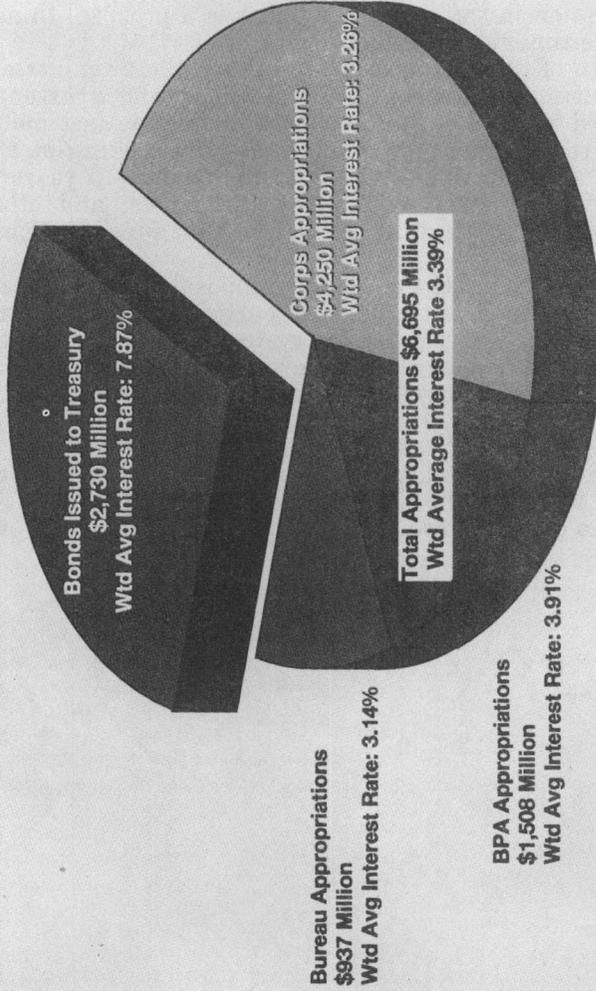
In that context, the buyout proposal that has been made by the administration with the full participation of Bonneville in those discussions is designed to try to settle the ongoing disputes that started in the early 1980s surrounding the perceived subsidy associated with Bonneville's repayment obligations to the U.S. Treasury.

The nature of the proposal essentially is this. Bonneville has roughly \$7 billion worth of outstanding appropriated debt. The chart to your right shows how that is broken down.

[The chart follows:]

Outstanding FCRPS Federal Repayment Obligations Ending FY 1995 *

Repayment Obligations Total \$9.4 Billion



* As projected in BPA's 1993 Rate Case

Mr. HARDY. Roughly \$7 billion, or more precisely \$6.7 billion, is the appropriated debt, both before 1974 and projected to 1995. The remainder of that debt on the chart is the bonds that we have issued since 1974 for the transmission system. We became self-financed in 1974.

If we refinance that \$7 billion of appropriated debt, which is at an average interest rate of 3.5 percent, on the private capital markets at today's interest rates, we estimate that will yield some \$4 billion worth of up-front payments to settle our overall payment obligations by giving the Federal Government a \$4 billion near-term cash infusion. It is our proposal to do that, plus provide the Treasury with an additional \$100 million worth of net present value in the way of scoring rules per Gramm-Rudman-Hollingsworth. It is that additional \$100 million over and above what we would have paid that constitutes a contribution, if you will, towards deficit reduction.

We think there are issuance costs and other costs in addition to the \$100 million associated with this proposal. We believe and I think the administration believes that this is an appropriate way to resolve what has been an extremely contentious issue in the Northwest and in Washington, DC. It will essentially refinance all of the low-interest debt on Wall Street. It will be, by definition, refinanced at market interest rates, and it will be by definition repaid on a fixed repayment schedule to the private investors. This would address the two main sources of contention relative to the so-called subsidy. That is, you had artificially low interest rates this debt was being held at, and that Bonneville had a flexible repayment methodology that allowed it to hold on to this low-interest appropriated debt and pay off the high-interest debt first. Those two issues would be removed as a result of this refinancing, in addition to making a significant contribution towards deficit reduction.

We think that is appropriate for both for Northwest ratepayers and for U.S. taxpayers, and we hope that the proposal will proceed in more or less its current form as the part of the deficit reduction package.

In addition to this proposal, Bonneville, as part of the agency Competitiveness Project and our status as a reinvention laboratory under the National Performance Review, under Vice President Gore's leadership, is also exploring the concept of a government corporation. We have distributed a three-page outline of the kind of structure that we would see associated with that kind of a corporation.

As I said before, the legislation we have drafted is under review. The Department of Energy hasn't even reached full executive branch review, and I anticipate it will still be some time before a proposal is introduced to Congress.

The objectives of such a corporate status would be to improve our efficiency to execute our existing missions. This has naturally raised some concerns in the region associated with, how does this change Bonneville's status relative to the Northwest Power Planning Council, our customers, public interest groups, the Northwest delegation, and congressional appropriations committees.

The way that at least we have conceived it, it would not change any of those. Our objective is to try to get free of the administrative encumbrances that we suffer from right now, and we believe do not provide any value added to the Bonneville business operation, so that we can execute all of our missions—whether that is the fish and wildlife program or a basic maintenance program—more effectively and more efficiently.

That is how we have tried to design the legislation. Since the legislation may well be changed substantially, and probably will as it winds its way through the executive branch, I would like to use the Tennessee Valley Authority as an example of the kinds of benefits that we would see associated with corporate status.

First of all, exemption from the federal civil service system. TVA is exempt from the federal civil service system. You have much greater hire and fire flexibility. You have the ability to set your own personnel ceilings in accordance with whatever is most cost-effective.

Right now OMB controls our staffing levels of Bonneville employees but not our contract employees. Sometimes you end up having to use more expensive contractors rather than using federal employees to do that job.

There are a whole panoply of other kind of personnel restrictions. For example, today given the processing times that are inherent in the federal personnel system, it takes us an average of 90 days to hire a temporary employee. So if I were to hire a temporary line worker or a secretary, I have an average 90-day waiting period before we can do that. With the corporation legislation, like TVA, we could go to the union hall tomorrow and hire that temporary line worker or hire the temporary secretary. And those are just a couple of the myriad of examples that would be associated with that kind of savings.

Some of this can be done administratively, but the bulk of it, particularly all the personnel changes and exemption from the civil service system, can only come by virtue of legislation.

The balance that we are trying to strike with the corporation status is to gain this administrative flexibility and these administrative efficiencies while leaving our policy relationships unchanged in terms of how we relate to major institutional actors and constituents and customers in the region, as well as how we relate to you and other members of the Northwest delegation, Mr. Chairman, and to the appropriations committees in particular, and still have policy guidance by virtue of Secretary of Energy oversight within the executive branch.

Whether that is the form that the ultimate legislation will take or not, I don't know. But the goal, again, is to try and focus on giving us the tools to execute our existing missions more effectively and more efficiently.

With that, I would be happy to answer any questions.

[Prepared statement of Mr. Hardy follows.]

**Statement of Randall W. Hardy, Administrator
Bonneville Power Administration
October 28, 1993**

Chairman DeFazio, it is again my pleasure to appear before the Bonneville Power Administration Task Force.

Today, my testimony will focus on proposals for debt restructuring and government corporation status. Specifically, I come prepared to discuss the "buy-out" option proposed by the Administration for Bonneville's appropriations debt--this proposal involves refinancing through the open market. I will then discuss government corporation concepts.

As was discussed at the Task Force hearing in Eugene, Bonneville is seeking to maintain and improve the agency's competitiveness in a utility environment which is rapidly evolving. End-use consumers have more economic energy choices. In addition, new technologies are rapidly entering the marketplace, creating greater awareness of energy alternatives such as cogeneration and self-generation, increasing choices available to Bonneville's utility and industrial customers, and increasing their ability to control their energy usage.

Most importantly, regulations regarding transmission are being changed dramatically. This is giving utilities greater access to alternative power suppliers, as well as allowing utilities to compete against Bonneville by buying and selling in the same markets. Bonneville must make changes in response to events that are sweeping the industry, or risk becoming increasingly irrelevant to our customers' needs, and therefore jeopardizing our long-term financial health and ability to play the key historical role of Northwest power provider of choice.

A cornerstone of this effort is that Bonneville must improve its efficiency. Our efforts are focused on reducing costs, improving customer service, and becoming more flexible in order to respond rapidly to changing market conditions and customer needs.

Achieving this will require new agency initiatives--and, it will require removal of the barriers to becoming more businesslike. Bonneville was nominated by the Department of Energy to be a government reinvention laboratory. Vice President Gore's National Performance Review Task Force pledged to help cut red tape and remove bureaucratic barriers. This opportunity is timely, compatible with our competitiveness efforts, and will help move our reinvention process forward.

Debt Restructuring

Since the early 1980's, arguments over proposals to increase interest rates on outstanding appropriations which financed the Federal Columbia River Power System have been part of the annual budget process. Proposals have been made to restructure repayment of the appropriated debt, including increasing the interest rate on this debt, and repaying the debt on a fixed amortization schedule over the remaining repayment period, rather than the flexible schedule now in use. Current Department of Energy policy allows principal to be repaid at any time before the end of the allowable repayment period. This period is the average service life of the appropriated investment but in no case is longer than 50 years. Interest on the outstanding principal balances is paid annually. As any business would do with a debt portfolio such as ours, we retire higher-interest-bearing debt before lower, provided that we always repay within the allowable period. The result is a level year-to-year repayment stream that optimizes debt service costs for Bonneville's ratepayers.

Previous repayment reform proposals have involved changes that would make repayment more rigid and more costly to Bonneville's customers.

In 1991, Senator Hatfield requested a study of the agency's financing alternatives. Regional utility representatives, through the Public Power Council and with the help of Bonneville, developed a response that analyzed a number of alternatives. Among these was one which proposed early satisfaction of Bonneville's entire appropriations obligation through an up front cash payment to the U.S. Treasury. Bonneville would finance the cash payment through the sale of its own revenue bonds in the public bond markets. This "buy-out" of the appropriated debt received extensive discussion among our customers.

Appropriated Debt Buy-Out

In September 1993, the National Performance Review Task Force stated that the Energy Department may attempt to restructure the financing of Bonneville's debt by allowing the agency to issue bonds at market rates and repay its low interest appropriations. This approach would replace low-interest debt with current-market-interest debt, removing from Treasury's books low interest appropriations associated with the low rates on the older projects. This transaction would be analogous to selling a low-interest mortgage in a higher-interest secondary market. The buyer offers the current value ("present value") of the stream of payments associated with the low-interest instrument. The seller accepts this discounted cash value of the instrument in today's market. The Secretary has indicated that a buy-out proposal should not harm Bonneville's customers. The discounted present value of Bonneville's \$7 billion of low-interest appropriated debt is about \$4 billion. So the federal taxpayers -- the original lenders of the funds that built the federal hydropower dams in the Northwest -- would be fairly cashed out by accepting an up front payment of \$4 billion in lieu of the principal and interest payments Bonneville would otherwise make over the next 50 years.

The transaction would be financed through the public bond markets. Bond market financing would provide Bonneville, national taxpayers and regional ratepayers benefits. Bond re-financing would fix the repayment issue by ending the annual uncertainty over the terms and conditions of the appropriated debt. The taxpayers would receive a fair payment of the outstanding investments under stable and certain conditions. The ratepayers will benefit from the removal of the annually recurring cloud of uncertainty over repayment acceleration proposals, and will benefit from the stable and certain terms of the new loan.

The bond market buyout would provide about a \$4 billion net cash inflow to the Treasury. This direct cash inflow would reduce the Treasury's need to finance current activities by about \$4 billion.

In summary, a buyout, financed through the bond markets, would result in significant benefits to both the taxpayer and the region. It would significantly enhance Bonneville's future competitiveness by removing the risk of future repayment reform threats that have overshadowed customer and constituent uncertainty about the future stability of Bonneville's revenue requirements and its continued ability to remain competitive. Customers' need for a stable revenue requirement and a more cost-conscious and competitive Bonneville would be met without raising Bonneville rates. It would result in the taxpayer receiving a fair payment of their outstanding appropriated investment in Bonneville, reflective of current market interest rates, and would result in a removal of low-interest appropriations from the Treasury's books.

Government Corporation Status

As part of its competitive reinvention effort, Bonneville is exploring the potential of becoming a government corporation. Government corporation status, as we envision it, would not change the agency's existing power, transmission, conservation, and fish and wildlife duties under its organic

laws, including the 1980 Northwest Power Act, the 1974 Federal Columbia River Transmission System Act, the 1964 Regional Preference Act, the 1944 Flood Control Act, and the 1937 Bonneville Project Act. Bonneville expects that legislation creating such a government corporation would expressly state that the current authority of the Bonneville Administrator under these organic statutes would be transferred to and vested in the Bonneville corporation, and that the corporation would be the successor in interest to the old Bonneville Power Administration and for all existing agreements and proceedings.

Government corporation status would allow Bonneville to act more like a business in an increasingly competitive market environment. This status would primarily affect Bonneville's organizational, budgetary, personnel, contracting, procurement, property management, litigation, and claims settlement systems. Bonneville's existing organic statutes would be amended to make them consistent with the exercise of these corporate powers.

Government corporation status would make a significant contribution in the changes we are initiating aimed at efficiency and competitiveness. We expect that in four to five years, Bonneville's work force, including contractors and federal employees will be reduced by some 600 to 800 FTEs. We believe reductions, plus additional operating cost savings, will cut our annual expenses by \$75 million to \$100 million by 1997.

As a separate and distinct federal entity operating under the Government Corporation Control Act, Bonneville would be free of the tangle of red tape that binds it up in bureaucratic contradictions -- a ratepayer funded regional utility treated as if it were a taxpayer funded instrument working off annual appropriations.

Let me underscore that Federal environmental laws, such as the National Environmental Policy Act (NEPA) and the Endangered Species Act (ESA) would continue to apply to Bonneville as a government corporation, an instrumentality of the United States.

I believe that the essential accountabilities of the Administrator should not change: (1) to the customers through ratemaking, (2) to the constituencies through public involvement, (3) to the President, and (4) to the Congress. Although corporate legislation is still under consideration with the Department, I will work to achieve a balance of flexibility and accountability.

But, the internal housekeeping issues of running this agency would be left to us, and this is no small matter.

Mr. Chairman, you and Senator Hatfield have requested that the National Academy of Public Administration conduct a study and recommend an organizational structure for Bonneville to allow the agency the latitude to operate more like a government corporation. We believe the changes the Academy is identifying are key to meeting the competitive challenges of our future.

Barrier Removal

Being one of the National Performance Review's reinvention laboratories, we are working with the Department of Energy to identify barriers that prevent Bonneville from carrying out its statutory mission and serving its customers in a more business-like and cost-effective manner. Bonneville identified a potential reduction of 85 FTEs and a savings for our rate payers of \$6 million by removing Department of Energy administrative and regulatory requirements that add no value to Bonneville operations. These could be removed at the stroke of a pen, but other barriers require changes in other Departments or changes in law.

We are currently reviewing what hampers Bonneville's efficiency and effectiveness. Our corporate status review, which is currently under way, will determine what barriers might be permanently removed through any incorporation proposal.

Bonneville identified specific barriers in three primary areas that impede our becoming a leaner, faster, lower-cost and more customer responsive organization. I believe a significant obstacle pertains to Bonneville's ability to manage our human resources more efficiently. An example of the barriers in this area is FTE control that is imposed on Bonneville as if we were funded by annual appropriations of taxpayer dollars. We are not allowed to manage our organization to an efficient mix of federal and contractor staffing needed to get the job done in the most cost-effective manner. Bonneville also does not have the flexibility to hire directly out of union halls for maintenance and construction craftsmen, to pay competitive salaries in many job categories, to fire nonproductive employees, and to establish incentives specifically designed to support Bonneville's mission.

Another area of barriers that Bonneville has identified relates to Bonneville's financial systems including budgeting and accounting functions. Bonneville is "self-financed" under the Federal Columbia River Transmission System Act. This act provides for the direct use by Bonneville of operating revenues and the ability to sell revenue bonds to the Treasury to finance its capital investments. However, Bonneville is currently subject to the rules and regulations of federal agencies that receive annual appropriations. I believe eliminating these barriers could save Bonneville's rate payers significant FTEs and dollars each year. Also, Bonneville is subject to the reporting requirements designed for federal agencies receiving annual appropriations, while simultaneously maintaining its records in a conventional utility fashion using generally accepted accounting principles. I believe removing this duality--literally the keeping of two sets of books--could save much time and money, and eliminate much confusion.

A third area of barriers that Bonneville identified applies to procurement and the management of property, including real property. Bonneville's ability to ensure the reliability of its transmission system is essential to the successful accomplishment of its statutory mission. However, attempts to impose a Federal Telecommunication Policy on Bonneville have resulted in the duplication of computing and telephone equipment. If Bonneville could rely on its own single microwave communication system to gain efficiencies, reduce redundancies, and maintain a reliable power control and communication system, we believe we could save our ratepayers FTEs and dollars each year.

In each area that Bonneville identified barriers, the barriers were generally requirements that duplicated Bonneville's own procedures or required behavior from Bonneville that we believe are not compatible with Bonneville's competitive business environment. Bonneville is dependent on its ratepayers to fund its programs. Bonneville is accountable to both its ratepayers and to Congress. Removal of the barriers we have identified would serve to strengthen these relationships and enhance Bonneville's accountability. Bonneville would design its own rules and regulations to achieve its ends in the most cost-efficient manner possible.

Government Corporation Characteristics

Although there is no one model for a government corporation, characteristics of a government corporation generally include: revenues and expenses that fluctuate with market conditions; services or products that produce revenues; users, not taxpayers who pay the costs of the services or products; and large numbers of business-type transactions that involve the public. We believe our ongoing function as a wholesale electric utility meets these characteristics.

Government corporation status, with the characteristics outlined below, can provide a structure which would allow Bonneville to remove unnecessary layers of time-consuming approval

mechanisms; eliminate or revise regulatory, budget or accounting directives which add costs that are not commensurate with the value provided to customers; create greater incentives for its work force to accomplish strategic business objectives; utilize staff in the most cost-effective manner; procure and dispose of resources in a manner that produces optimal results for customers; and assume legal responsibility commensurate with a utility operation. A government corporation structure would enable Bonneville to save ratepayer money, increase customer service, and enhance the ability to respond to changes in the market.

Conclusion

In our invitation to testify, the Committee requested that we respond in more detail to some specific points. Attached to my testimony are responses to those pre-hearing questions.

This concludes my testimony, I would be pleased to respond to your questions.

**Questions for the Bonneville Power Administration Task Force Hearing
October 28, 1993**

QUESTIONS FROM CONGRESSMAN DEFAZIO

Question 1: What alternatives can you suggest to Bonneville's current repayment formula for its appropriated Treasury debt that would provide a long-term solution to the perennial attempts to accelerate BPA's debt repayment schedule, have a neutral or beneficial effect on Bonneville's rates, and provide the maximum deficit reduction? Please discuss the principles that should govern any restructuring of Bonneville's debt.

Answer 1: Consistent with the Report of the National Performance Review recommendation on an alternative repayment structure for the agency's low interest debt, Bonneville suggests a buy-out of the outstanding appropriated debt on Bonneville, U.S. Army Corps of Engineers, and Bureau of Reclamation projects. The buy-out amount of about \$4 billion would be based on today's value of the stream of future payments associated with outstanding appropriations. The buy-out would be financed through the issuance of new debt through public bond markets. The funds received from the new debt would then be returned to the U.S. Treasury to satisfy the repayment obligation on the appropriated debt. This would forever remove the low interest appropriations from Bonneville's and Treasury's books and end the uncertainty over the terms and conditions of repayment.

Bonneville's governing principles in any buy-out are to arrive at a solution that provides a fair recovery of the U.S. taxpayer's investment in the Northwest hydrosystem and to avoid adverse impact on the region's ratepayers. In order to make a buy-out beneficial to the region, it would have to be structured to minimize the impacts on ratepayers. Bonneville recently raised rates 15.7 percent following its 1993 Rate Case. Any additional rate increase would adversely affect the Northwest economy and Bonneville's competitiveness, and would be resisted fiercely by

Bonneville's customers. We estimate that a buy-out of the outstanding appropriated debt with debt issued on the open market would provide the U.S. Treasury with a one-time inflow of approximately \$4 billion, and therefore would contribute to a reduction in borrowing by the U.S. Treasury.

Question 2: If Bonneville is given legislative authority to refinance its Treasury debt, should that authority be limited to Bonneville's appropriated debt? Should Bonneville be given new borrowing authority, either from the Treasury or the private financial markets?

Answer 2: Bonneville believes the direct buyout authority should be directed to the agency's "old" debt, since how "new" debt should be financed in the future is a very difficult issue. Right now, capital investments in the Federal Columbia River Power System are financed through a combination of annual appropriations to the Corps of Engineers and Bureau of Reclamation, Bonneville revenue bonds sold to the U.S. Treasury ("Treasury borrowing"), and third-party financing backed in some fashion by Bonneville.

Bonneville's ability to finance directly its own capital program activities--in conservation, fish and wildlife, transmission system additions and replacements--is currently capped at \$3.75 billion. As of 9/30/93, we have used \$2.6 billion of that authority, and at current projected expenditure rates, we would expect to reach the cap in FY 1997. Congress will need to decide prior to that point how best to enable Bonneville to finance in the future. The options range from total reliance on the other two capital sources (appropriations and third parties), to a simple raising of the \$3.75 billion ceiling, to direct Bonneville access to the capital markets. We expect a future discussion in the Congress on what combination with

what limits make the most sense. The 1997 date may be delayed by 2 or more years due to Bonneville's streamlining and cost reduction efforts under our Competitiveness Project.

Question 3: In general, please discuss your views on the possibility of changing Bonneville's status from that of Federal agency within the Department of Energy to a government corporation.

Answer 3: Incorporation legislation for Bonneville is currently under review in the Department of Energy. Bonneville believes that government corporation status is desirable because it would eliminate barriers to efficiency and promote businesslike behavior in a competitive environment. The form and authorities of such a corporation are under discussion.

Question 4: What advantages or disadvantages would there be to Bonneville and the Pacific Northwest's electric ratepayers in restructuring Bonneville into a government corporation?

Answer 4: Government corporation status can be structured to allow Bonneville to act more like a business without changing its organic mission and responsibilities. It is Bonneville's intention that this change in status would affect the Bonneville organizational structure, budget system, personnel system, contracting, procurement, property management, legal representation, and claims settlement. We understand the soon to be published National Academy of Public Administration report will recommend that Bonneville become a government

corporation. The rationale for and advantages of government corporation status will be described in detail in that report.

Question 5: Would a government corporation structure either enhance or diminish Bonneville's ability to comply with its statutory mandates to meet social and environmental goals, including the protection of fish and wildlife?

Answer 5: While government corporation status would not change Bonneville's existing power, transmission, conservation, and fish and wildlife responsibilities under its organic laws, nor would it affect the application of federal environmental laws to Bonneville, it would allow Bonneville to meet these responsibilities more efficiently and more effectively. It should therefore enhance the agency's ability to meet its social and environmental goals in an environment of increasing competition and fiscal constraints.

Question 6: Would changes in Bonneville's governing statutes be necessary or desirable if Bonneville is made into a government corporation?

Answer 6: Government corporation status should not change Bonneville's existing power, transmission, conservation, fish and wildlife duties under its organic laws, including the 1980 Northwest Power Act, 1974 Federal Columbia River Transmission System Act, 1964 Regional Preference Act, 1937 Bonneville Project Act, and 1944 Flood Control Act. We believe that, if there is a change to the Bonneville structure, the authority of Bonneville and the Administrator under the organic statutes would need to be transferred to and vested in the Bonneville corporation.

Government corporation status should allow Bonneville to act more like a business in an increasingly competitive market. This new authority would primarily affect Bonneville's organizational, budgetary and financial structure, personnel system, contracting, procurement, property, litigation, and claims settlement.

Question 7: Are there alternatives to government corporation status that would achieve all or many of the same administrative efficiencies sought by Bonneville?

Answer 7: Bonneville is seeking to become more efficient internally, and, with the Department of Energy's support, is asking various Federal agencies to remove barriers to more efficient operation as part of the National Performance Review. These efforts will continue whether or not Bonneville becomes a government corporation. Some of the barriers can be removed administratively. Bonneville and its customers, however, cannot plan their activities on a long-term basis if such barriers are only changed administratively. What is removed today may be reinstated tomorrow. Most of the barriers are complex systems, involving organization, budget and financial systems, personnel, contracting, procurement, property, litigation, and claims settlement. Some of the most serious barriers to more efficient operation can only be removed by statute because they are imposed by statute.

Question 8: Would Bonneville's relationships with Congress, the NW. Power Planning Council, other Federal agencies, its customers or the public change with a change in its structure?

Answer 8: As Bonneville envisions government corporation status, Bonneville relationships would not change vis-a-vis the Congress, the Regional Council, customers and the

public. There would likely be changes in the relations between Bonneville and other federal agencies where opportunities exist to improve efficiency. Bonneville believes corporation status would allow improved service to its customers.

Bonneville Power Administration
October 28, 1993

Mr. DEFAZIO. I thank the gentleman.

We will start first with the repayment issue or the refinancing issue. We have had a number of discussions regarding this, and—this is problematic. I will ask a couple of questions, and I will take a brief recess. I doubt I will be able to finish before I have to go vote.

Regarding the concerns I had about issuance, we understand the net present value discount, the \$100 million transaction cost or whatever one would have it called. In terms of the issuance costs, there are a couple of concerns I have. One I have raised before, but I would like to get it on the record.

I have raised concerns regarding ESA and other things, and wondered how Wall Street would look at future obligations or potential obligations of BPA, and whether or not there could be some unanticipated premium that would be placed upon us, what sort of rating we could get in terms of the bonds, those sort of things. Would you care to address that?

Mr. HARDY. I don't believe that our ESA obligations, although they are somewhat open-ended, would have any significant and material affect on our bond rating. We have some basis for saying that. The Washington Power Supply System presently has a double-A bond rating for the bonds on WPPSS I, II, and III, which are all backed by us. That is far more a reflection of Bonneville's credit than it is of the Supply System's credit. And if we can maintain a double-A rating with an agency that has gone through the largest municipal bond default in history, I guess I would say that the market has pretty good confidence in Bonneville's financial capability and credibility.

The market is well aware of our Endangered Species Act obligations. We still retained that indirect double-A bond rating, and I don't anticipate the debt refinancing in the face of those obligations would change that kind of credit rating, Mr. Chairman.

Mr. DEFAZIO. The legislation, as I understand it, or the proposal made by the administration, would give discretion to the administrator in terms of whether or not to go forward with a particular issuance or continue to refinance, I guess, having to do with unanticipated contingencies. How do you look at that discretion and under what conditions might you use it?

Mr. HARDY. Is that relative to the timing of the issue for the outstanding debt, or—

Mr. DEFAZIO. I read it a little more broadly, which is basically kind of open-ended. It seems to me there is enough discretion there that you could determine, say there is some extraordinary occurrence regarding the market or, you know, some problems that arose that were unanticipated, and large premiums were placed upon our debt or our issuance that you could say, well, you know, I am suspending refinancing at this point.

Mr. HARDY. That is true. The bill as written is permissive. It does not say the Administrator will; it says the Administrator may go forward with this. And I think the flexibility that we have beyond that basic "go/no go" sort of decision is that we, in consultation with Treasury, will determine the time phasing of the various issuances. If there are extraordinary market conditions or whatnot,

we would obviously take those into account as to whether we went forward.

We think that is probably more a matter of the timing and the sizing of the issues as opposed to whether you actually go forward or not, period. Although, as I said initially, the basic legislation is permissive, and if there were some extraordinarily unanticipated circumstance, we have the flexibility to stop or not to go forward based on what that is.

Mr. DEFAZIO. The way I understand the construct, the way it has been presented to me by your staff, is that we could anticipate that total obligation we are incurring, the net present value of the \$100 million in transaction costs, would be financed in such a way that there would be no rate impact over a 25-year period, and at the end of that period, because our obligations would be adjusted or other fixed obligations would have been satisfied or declining, that we could anticipate that rather than a bump-up in rates at that point in time, what we are looking at essentially is, we would have a time period where we are continuing some underlying obligations, but they are not going to increase your total burden.

Mr. HARDY. I think that is correct. Essentially what we have tried to do in modeling the \$100 million figure is to move that debt out into the post-2025 period, and that puts it in a period where all the Supply System debt has been retired. That all occurs by about 2020.

So you have an ability to shape other debt and just keep your rate level constant, not have rates, perhaps, that go down as quickly as they otherwise would have, and take care of both the \$100 million and any issuance costs associated with it, so you effectively have no increase in rates for a 25-year period. We are very confident that we can do that.

Mr. DEFAZIO. So in having this discretion, if we were confronted with a situation where we could no longer provide that guarantee to the ratepayers of the Northwest, 25 years of no increased obligation or rate increases because of this reissuance. Is that a point at which you would use your discretion to either suspend or—

Mr. HARDY. That is clearly a point where we could do that, and we would seriously look at that option depending on the nature of the circumstance, its size, the timing, and the effect of any near-term rate increase that might result from those unexpected circumstances.

Mr. DEFAZIO. I have always approached this with the idea of rate neutrality. The way it is currently explained to me is that we have achieved that objective, and if we were to no longer be able to provide that assurance, I would really have some second thoughts about going forward with refinancing. I would then go back and do a calculation of what are the risks, you know, what are the costs here, and maybe even revisit the whole idea of a reissuance by Treasury which could lower transaction costs.

Mr. HARDY. I understand that and I think that is the spirit with which the discussions were held between ourselves and OMB when we sized this, that rate neutrality was a certainty, near-term rate neutrality. If we had that type of a circumstance, I would agree essentially with your assessment of what is on the table.

Mr. DEFAZIO. With that, if you have time, it will take me about 10 minutes, because we are in Rayburn, to get over and back.

Mr. HARDY. Yes, sir, I do.

Mr. DEFAZIO. Then we will suspend for probably 10 minutes. I will go over and vote, come back, and then we will continue probably another 10 minutes' worth of questions.

[Recess.]

Mr. DEFAZIO. I think we have covered the debt issue fairly well. Just a couple of questions on the corporation. We had a previous panel, and there was a fair amount of discussion about the process that might be followed in developing the corporation proposal, and I was wondering if you had any ideas.

We have the report. Actually I think Mr. Cavanagh and Ms. Bodi raised concerns that they had not been involved in the discussions. Apparently some utilities had been involved, at least peripherally, but principally that the discussions, as they characterized it, had taken place between BPA and the—

Mr. HARDY. True.

Mr. DEFAZIO. So we were discussing how to widen the net to allay some people's concerns. One thing I would suggest as part of the process, and see what you think, is essentially we adopt up front—it seemed to me there is pretty good agreement on the principles that this is not an attempt to end run the Northwest Power Act, the conservation and renewable mandates, fish and wildlife responsibilities. It seems to me if we adopted some principles up front that might allay a lot of the concerns I am hearing from people, and then any thoughts you might have on the process.

Mr. HARDY. Yes, Mr. Chairman, I do have two or three. I think several sorts of things might be helpful. Today we have received a list, essentially an outline, that describes the legislation as we have conceived it, that has statements of that type although they are not cast exactly in the form of principles. But it clearly says, "No change in organic statutes like the Northwest Power Act, Transmission Act, no change in environmental responsibilities like NEPA, and no change contemplated in the institutional relationships that Bonneville has to the Power Planning Council, to its customers, to other constituents in the region, or to the Northwest delegation, appropriations committees."

And we have discussed those. I personally have discussed some of those issues, not only with customers, but also with the Power Planning Council and public interest groups. That is far, however, from being enough in terms of working with what inevitably will be an evolving structure here.

I think we probably should have the National Academy of Public Administration who authored the report talk to a wider range of people—the Power Planning Council and the public interest group leaders in particular. We will probably want to have a discussion with the NAPA authors. I think both would benefit from the exchange of information there.

The Power Planning Council has already, under Angus Duncan's leadership, said that it intends to have a public process to look at this. I view that as a partnership with us, and I think it is perfectly appropriate. I have also talked with the Deputy Secretary

about perhaps some regional involvement on the part of the Department.

So I think all those things can go forward. The NAPA report can go forward immediately. The Power Planning Council will move forward pretty expeditiously.

In fairness, I have to get to a point within the executive branch of having the Department, at the Secretarial level, be able to look and make some calls as to what kind of a structure they would at least suggest in tentative form and have OMB involved in that discussion to some extent. Our biggest constraint right now is the normal executive branch clearing process. Quite appropriately OMB and the Department don't want us out talking in the region about a potential piece of legislation that they haven't even seen.

Hopefully, we could have some policy discussion at the Secretarial level in the Department. We could agree on an outline that would be specific enough that it would inform people as to what it was or wasn't. The three-page outline discussing what is in the legislation, which was provided to you and virtually everybody else in the region, is currently under review by DOE General Counsel. Everybody has looked at that and said, "Well, yes, that sounds okay, but the devil is in the details here."

Where is the legislation? We are in fact constrained from releasing it given normal executive branch clearance procedures. If we could find some compromise there, I think we could have a much more productive dialogue about what should or shouldn't be part of the construct of this, not just the principles, but in fact how do you achieve the kind of balance that we are seeking between not changing or loosening any of the accountability that Bonneville and the Administrator has in a policy sense, particularly to the regional institutions and to the Congress, but at the same time be able to free Bonneville from some of the administrative entanglements which currently interfere with our business operations.

Mr. DEFAZIO. In fact, the Council volunteered that they felt they were capable of generating some wide public participation too.

Mr. HARDY. I think they are.

Mr. DEFAZIO. You will want to incorporate them in your planning.

One thing you mentioned, it was a sort of a discordant note, was in talking about TVA as a model, TVA has a pretty abysmal history of dealing with the employees who have the integrity to come forward and blow the whistle. There have been a number of documented whistleblower firings and other labor violations with TVA.

So I don't know exactly what protections we want to build in, but I think there are certainly parts of the TVA model that we don't want to emulate. I would urge we have some model protections for employees in those sorts of situations.

You are freeing yourself or potentially freeing yourself of some of the constraints of the federal civil service procedures, and I can certainly understand how that will enhance your flexibility. On the other hand, you are not a profit-making corporation, and you still have a wider charge than your average utility in terms of your responsibilities, and I think that needs to be recognized in how you construct your personnel policies and procedures.

Mr. HARDY. Yes, sir, we are cognizant of that and we are trying hard to balance those responsibilities. Some explicit recognition of the whistleblower statute may well be appropriate. That is an issue I hadn't focused on one way or the other.

What I had focused on, to discuss the personnel issues relative to the TVA example, which you could also easily extrapolate to the postal service, is the ability to downsize. Let's set the whistleblower issue aside for a second. TVA has the ability to offer situation bonuses or other financial incentives to pare down the size of its work force on a continuing basis. I do not now nor does any federal agency have that authority.

We currently have a bill introduced for government-wide early outs, but that will be a one-shot deal. Having that on a continuing basis is enormously helpful in terms of helping restructure your work force in a positive way where people can have voluntary inducements to leave and do other things, so you can downsize or, reshape your work force. And I gave you the temporary employee example. Whether it is the classification system, or compensation, or other kinds of things, there are literally hundreds of examples of the kinds of flexibilities that it would give you which do not involve really public policy tradeoffs of the whistleblower type. Rather, they are just good business practice, and we are trying to focus on those, not neglect our overall policy responsibilities.

When we earlier described to you the Competitiveness Project as being on a scale of 1-10, where 1 is a purely government agency like the Social Security Administration, and 10 is a Boeing or a Weyerhaeuser, we assessed ourselves to be a 2 or a 3 presently. This is hardly your typical government agency, but still more over on the administrative agency side. Our goal in the Competitiveness Project is to get to a 6 or 7. It is no accident we said our goal was 6 or 7, and not 10.

We have a whole host of public responsibilities that are far wider than our commercial business responsibilities: Environmental responsibilities, resource acquisition responsibilities, whistleblower. A variety of things are there that we need not just to be mindful of but we need to be full and faithful executors of, or we simply will not be successful in carrying out and retaining the regional public trust that has been vested in us.

Mr. DEFAZIO. There was one thing I did want to cover under the financial aspects, you know, we had a lot of discussion earlier this year in the region about your probability, your reserves, and what percentage probability you should have regarding federal payments. It was generally, as I understand, established that there would be 95 percent probability of full payment of the federal obligations in the way you drew up your budget.

How might that change under the regime of private financing, since that was a driver in the reserves which were a partial driver in the rates?

Mr. HARDY. I don't think it will change at all. Our long-term goal is 95 percent. The present rate case is at 85 percent, given the compromises we had to make to get there. But the percentage of repayment is really the probability of repayment in each particular year. Which is not particularly affected by the type of outstanding debt and the vehicle refinancing. It is much more a function of near-

term fluctuations, principally drought and aluminum price driven. Those are probably the two major variables that cause that probability to vary.

Those won't change. Buyout or no buyout, those remain what they have always been, to the same degree of certainty. What does change with the buyout is that currently we have an annual payment of \$700 million to the Treasury. If you got in absolutely dire straits you could defer a portion of this payment, and we did that in the late 1970s and early 1980s. These deferrals are really a large part of why payment reform got started. So we are motivated not to do that, but in extreme circumstances we have the ability to do that.

The amount deferred would be more like \$300 million to \$400 million after the debt buyout, because the appropriations would essentially be paid off in one lump sum and be refinanced on the private capital markets. So you would have less of an amount to defer. But we still think the \$300 million to \$400 million beyond the reserves provides ample flexibility if we got into that kind of a situation.

Mr. DEFAZIO. Okay. I don't have any further questions.

At this time, I ask unanimous consent to place into the record the statement of Senator Max Baucus from Montana.

[Prepared statement of Senator Baucus follows:]

STATEMENT OF SENATOR MAX BAUCUS

Thank you Chairman DeFazio for offering me a chance to include my statement into the official hearing record.

As a Senator from Montana, I have been very involved in issues facing western states, including salmon recovery, utility rates, and the drought. Over the past few years, I have worked very closely with the Bonneville Power Administration to insure that its practices and policies did not harm the people of my state. Let me say at the outset that my working relationship with BPA has at times been difficult. But I believe the current Administrator, Randall Hardy, has provided the leadership necessary to make BPA a more efficient and responsive public agency.

For instance, last June, at my request, Administrator Hardy held two public listening sessions in western Montana while considering BPA rate increases. Based on these meetings and the comments he heard from the public, rate increases were kept below the level that would have closed down our Columbia Falls Aluminum Plant (CFAC), causing widespread layoffs and economic devastation. Randy Hardy proved willing to listen to the concerns of western rate payers before making policy decisions.

Although the plant remains open, the effect of this double-digit increase in rates, coupled with low aluminum prices, has caused CFAC to lay off about one-third of the plant's employees. As a primary employer in the Flathead Valley, these layoffs have had a far-reaching effect in the area.

Each year, western rate payers are faced with uncertainty in terms of future rate increases. This uncertainty can lead to a slowing of business development when businesses fear that substantial rate increases could cause their operating expenses to skyrocket. Montana needs these companies to insure economic growth.

Under the current system, the Bonneville Power Administration has to undergo time-consuming, frustrating repayment battles each year with the government. This hurts BPA, the rate payers, and the government. Instead of engaging in these battles, we would all be better served by a restructuring of the entire debt. A restructuring that provides stability, certainty, and fairness to all rate payers.

I support BPA in their efforts to operate in a more businesslike fashion. I believe a reasonable debt restructuring will prove a significant step in this direction.

But there are certain aspects of a debt restructuring that I will not tolerate. Most importantly, any revised structure must be *rate neutral*, not creating an increased burden on the rate payers in the west. Drought conditions and salmon recovery programs are already affecting utility rates. Restructuring the debt should help alleviate, not exasperate, these increases.

One proposal that has been recommended by BPA and supported by the Office of Management and Budget and Treasury Department, seeks to infuse some stability into the debt payback process. According to this proposal, BPA will sell bonds on Wall Street to raise money to pay the principal and interest on its Treasury loans. BPA has promised that this buyout option *will not affect rate payers for at least the next 15 years*. I am joined in my support of this proposal by other western Senators and Representatives who believe this is a fair solution to the debt problem.

Overall, BPA—one of Vice President Gore's Reinvention Laboratories—is making great strides in streamlining its organizational structure. I want to offer my support for these efforts and hope other federal agencies will follow BPA's example.

Let me close by expressing my appreciation for the close attention that you, Congressman Swift, and Speaker Foley have devoted to this important matter. The northwest is better off because of your efforts.

Thank you for including my comments in the hearing record. I look forward to a continued cooperation between our offices on this important matter.

Mr. DEFAZIO. I might just reflect for a moment before we drop the gavel here. I think we have raised a number of issues in the course of the task force that are not yet fully resolved. There will be obviously a report and recommendations of the task force in terms of potential legislation. Probably we won't resolve the repayment issue before we get to that report, because I understand that that is not a very fast track. But these other issues we will deal with and I expect in the future we will probably deal with them in the Oversight and Investigations Subcommittee, which is a little larger forum and not quite so focused, but I believe the Chairman will certainly be interested in continuing the oversight scrutiny.

These are interesting and challenging times. I feel that the Administrator has participated generously, and in fact attended a number of the hearings personally. I appreciate that. I think it was a learning experience for all of us.

I look forward to a stable and prosperous future for the Northwest, with new stability for BPA, and also a future in which we will have a grand resurgence of our salmon stocks and other wildlife with some of the new directions we might take there. So this has been an interesting challenge for me.

I appreciate everyone's participation, and I look forward to continuing a dialogue.

With that, we are done. Thank you.

[Whereupon, at 1:10 p.m., the task force was adjourned.]

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