

HOW THE FEDERAL POWER MARKETING ADMINISTRATIONS ARE IMPLEMENTING THE ENERGY POLICY ACT OF 2005 AND AN ASSESSMENT OF THE PROPOSED FISCAL YEAR 2007 BUDGETS FOR THESE AGENCIES

OVERSIGHT HEARING

BEFORE THE
SUBCOMMITTEE ON WATER AND POWER
OF THE
COMMITTEE ON RESOURCES
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED NINTH CONGRESS
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OVERSIGHT HEARING ON “HOW THE FEDERAL POWER MARKETING ADMINISTRATIONS ARE IMPLEMENTING THE ENERGY POLICY ACT OF 2005 AND AN ASSESSMENT OF THE PROPOSED FISCAL YEAR 2007 BUDGETS FOR THESE AGENCIES”

**Wednesday, March 1, 2006
U.S. House of Representatives
Subcommittee on Water and Power
Committee on Resources
Washington, D.C.**

The Subcommittee met, pursuant to call, at 2:06 p.m. in Room 1324, Longworth House Office Building. Hon. George Radanovich [Chairman of the Subcommittee] presiding.

Present: Representatives Radanovich, Napolitano, Cubin, DeFazio, Inslee, McMorris, Musgrave, Pearce, and Walden.

STATEMENT OF THE HONORABLE GEORGE RADANOVICH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. RADANOVICH. Good afternoon. The oversight hearing on the Subcommittee on Water and Power will come to order.

This Subcommittee is meeting today to hear testimony on the topic of how far the Federal Power Marketing Administrations are implementing the Energy Policy Act of 2005, and an assessment of the proposed Fiscal Year 2007 budgets for these agencies.

Today's hearing focuses on the value of Federal hydropower generation and transmission to our nation's communities.

Although Federal power generation seems to decrease every year due to drought, environmental regulation and other factors, it still provides an important resource for many communities. In addition, the Federal transmission infrastructure continues to grow in importance every year. In light of these historic and future values, it is no surprise that the energy bill signed into law by President Bush last year acknowledged the future rules of the Federal power program.

We are joined here today by a host of “on-the-ground” experts who see the daily impacts of Federal electricity generation and transmission. They are the eyes and ears of the Federal program who know firsthand what it takes to keep the lights on and

maintain consumer satisfaction. As I have often said, Congress needs to hear more from these “outside the Beltway” types and today’s hearing topic is a good example of why.

Because I cannot stay here for today’s hearing, I am going to hand the gavel over to the Subcommittee’s very able Vice-Chair, Cathy McMorris. Cathy, whom you know, Cathy knows firsthand about the value of Federal power in the Pacific Northwest and she is a proven leader in defending her constituents from the “inside the Beltway” theoretical ideas of the Office of Management and Budget.

Cathy, I look forward to working with you in the coming year, and just happy to have you as my Vice-Chairman, and with that I want to thank today’s witnesses for their leadership and ask our new Vice-Chairman to make a few comments. Cathy.

[The prepared statement of Mr. Radanovich follows:]

**Statement of The Honorable George P. Radanovich, Chairman,
Subcommittee on Water and Power**

Today’s hearing focuses on the value of federal hydropower generation and transmission to our Nation’s communities.

Although federal power generation seems to decrease every year due to drought, environmental regulation and other factors, it still provides an important resource for many communities. In addition, the federal transmission infrastructure continues to grow in importance every year. In light of these historic and future values, it’s no surprise that the energy bill signed into law by President Bush last year acknowledged the future roles of the federal power program.

We are joined here today by a host of “on-the-ground” experts who see the daily impacts of federal electricity generation and transmission. They are the “eyes and ears” of the federal program who know firsthand what it takes to keep the lights on and maintain consumer satisfaction. As I’ve often said, Congress needs to hear more from these “outside the Beltway” types and today’s hearing topic is a good example of why.

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**STATEMENT OF THE HONORABLE CATHY McMORRIS, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF
WASHINGTON**

Ms. McMORRIS [presiding]. Thank you very much, Mr. Chairman. I am really excited to be the Vice-Chair of the Subcommittee and have the opportunity to serve in this position, and Chair this meeting today.

Many people unfamiliar with the Federal power program think of Federal power as a relic of the past or about the days of Franklin D. Roosevelt’s rural electrification program. I can tell you firsthand that Federal power is very much alive and kicking in my district in the greater Pacific Northwest, where 40 percent of electricity sales and 75 percent of the transmission come from the Bonneville Power Administration.

Today’s Federal power program plays a major role in regional markets. From Metaline Falls, Washington, to Marietta, Georgia, and from Moorehead, Minnesota, to Waco, Texas, communities and

businesses continue to depend on the benefits of low-cost Federal power.

Last year the Administration knocked on the front door again by calling for market-based rates. It too failed. This year, a novel back door approach is being tried to further hamper Bonneville—one that would circumvent Congress and raise rates in areas already hard hit by increased rates, and I will fight to make sure this fails too.

The Administration's proposal of requiring Bonneville to use surplus revenues to reduce debt sounds good on paper, but it ignores the reality that debt is already being repaid. It also raises electricity consumer rates by 10 percent by mandating that surplus revenues can only be used for debt reduction and not rate reduction. This is yet another Washington, D.C. gimmick that will hurt Northwest consumers and cripple an agency that needs financial flexibility.

It also hurts businesses like Ponderay Newsprint in my district, which is already paying \$400,000 more for electricity than it did five years ago. To ask businesses and other end-use consumers to pay even more should not be the business of the Federal government. I will work with my colleagues to ensure that this proposal meets the fate of the other ill-conceived measures.

This proposal is even more logic free when you put into context with the 45 percent rate increase over the past five years brought on by drought, California market problems and endangered species requirements.

While no one disagrees with the need to protect endangered fish, the costs associated with Judge Redden's summer spills are staggering. In the summer of 2004, Bonneville estimated that it cost \$77 million in foregone generation so that ultimately 20 salmon could later return to spawn. If you do the math on this mandated spill, each salmon cost \$3.85 million.

Bonneville estimated that last year's court-mandated spill would have cost somewhere between \$250,000 and \$3 million per fish, to benefit anywhere from 25 to 300 salmon.

I guess that means we are getting better in terms of lowering the cost—or what I refer to as “salmon taxes”—but it is still expensive salmon either way, especially for the ratepayers who absorb these costs. It is safe to say that when the lights are in the Pacific Northwest, the salmon meter is literally running.

For this reason, I strongly believe that our ratepayers have a right to know how much Endangered Species Act compliance is costing them. I will soon introduce a bill that allows Bonneville and other PMS as to make their ESA costs more transparent to their wholesale consumers. Consumers deserve to know what they are paying for and this bill will do just that.

In conclusion, I am pleased to announce that one of my constituents, Mr. Dan Peterson, of Pend Oreille Public Utility District, will testify about these rate issues and hydropower relicensing. I welcome you, Dan, and appreciate you traveling all this way to help educate Congress on these issues.

I also want to welcome Steven Wright, the Administrator of the Bonneville Power Administration. Steve's knowledge base and hard work on behalf of Bonneville and its ratepayers is commendable.

Like Chairman Radanovich, I agree that it is important to hear from witnesses who deal with these issues every day from the real world and not from the cubicles of OMB. With that, I look forward to hearing from the witnesses today.

I would now like to recognize the Subcommittee's distinguished Ranking Minority Member, Grace Napolitano, for her opening statement.

[The prepared statement of Ms. McMorris follows:]

**Statement of The Honorable Cathy McMorris, Vice-Chair,
Subcommittee on Water and Power**

Many people unfamiliar with the federal power program think of federal power as a relic of the past or about the days of Franklin Delano Roosevelt's rural electrification program. I can tell you firsthand that federal power is very much alive and kicking in my district and in the greater Pacific Northwest, where 40 percent of electricity sales and 75 of the transmission come from the Bonneville Power Administration.

Today's federal power program plays a major role in regional markets. From Metaline Falls, Washington to Marietta, Georgia and from Moorehead, Minnesota to Waco, Texas, communities and businesses continue to depend on the benefits of low-cost federal power.

Despite this, some in Washington, DC continue their quest to undermine the PMAs. In the 1990's, a frontal assault was waged to dissolve the agencies. It failed. Last year, the Administration knocked on the front door again by calling for "market-based" rates. It too failed. This year, a novel, backdoor approach is being tried to further hamper Bonneville—one that would circumvent Congress and raise rates in areas already hit hard by increased rates. And I will fight to make sure this fails too.

This Administration proposal of requiring Bonneville to use surplus revenues to reduce debt sounds good on paper, but it ignores the reality that debt is already being repaid. It also raises electricity consumer rates by 10 percent by mandating that surplus revenues can only be used for debt reduction and not rate reduction. This is yet another Washington, DC gimmick that will only hurt Northwest consumers and cripple an agency that needs financial flexibility.

It also hurts businesses, like Ponderay Newsprint in my district, which is already paying \$400,000 more for electricity than it did five years ago. To ask businesses and other end-use customers to pay yet even more should not be the business of the federal government. I will work with my colleagues to no end to ensure that this proposal meets the fate of other ill-conceived measures.

This proposal is even more "logic free" when you put it in context with the 45 percent rate increase over the past five years brought on by drought, California market problems and endangered species requirements.

While no one disagrees with the need to protect endangered fish, the costs associated with Judge Redden's summer spills are staggering. In the summer of 2004, Bonneville estimated that it lost 77 million dollars in foregone generation so that ultimately 20 salmon could later return to spawn. If you do the math on this mandated spill, each salmon cost 3.85 million dollars. Bonneville estimated that last year's court mandated spill would cost somewhere between 250,000 dollars and 3 million dollars per fish, to benefit anywhere from 25 to 300 salmon. I guess that means we're getting better in terms of lowering costs—or what I refer to as "salmon taxes," but it's still expensive salmon either way, especially for the ratepayers who absorb these costs. It's safe to say that when the lights are on in the Pacific Northwest, the salmon meter is literally running.

For this reason, I strongly believe that our ratepayers have a right to know how much Endangered Species Act compliance is costing them. I will soon introduce a bill that allows Bonneville and the other PMAs to make their ESA costs more transparent to their wholesale customers. Consumers deserve to know what they are paying for and this bill will do just that.

In conclusion, I am pleased to announce that one of my constituents, Mr. Dan Peterson, of Pend Oreille Public Utility District, will testify about these rate issues and hydropower relicensing. I also want to welcome Mr. Steve Wright, the Administrator of the Bonneville Power Administration. Steve's knowledge base and hard work on behalf of Bonneville and its ratepayers is commendable. Like Chairman Radanovich, I agree that it's important to hear from witnesses who deal with these

issues everyday from the real world and not from the cubicles of OMB. With that, I look forward to hearing from our witnesses today.

STATEMENT OF THE HONORABLE GRACE NAPOLITANO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Ms. NAPOLITANO. Thank you, Madam Chairman, and like you, I welcome our witnesses and those individuals that are sitting in the audience listening, and hopefully being able to shed a lot more light on this.

I do not profess to know much about the power administration, et cetera, but I can certainly tell you from vantage point in Southern California we have some of the highest rates available to anybody, and it is hard, even though we do have the economy, to be able to substantiate to the ratepayer the increases wherever they may be.

I think that as we move forward, and I will make this very brief, I certainly want to thank Mr. Hosken from the Imperial Irrigation District because I have gotten to know them through the committee process for awhile now because of water, and congratulate you on your new position. You are literally being dropped in today, I do not know how many days you have been on the job, but welcome, and we thank you for agreeing to be here to shed light on the area that you represent that also impacts the rest of California.

I am hoping to listen to a lot more of the comments on the budget documents, and I agree with you, Madam Chair, that this administration has been looking for ways of making others pay for budget deficits, and I think that is wrong. If this administration is looking to do that, they need to substantiate, and furthermore, we need to have it aired and have input from all areas before this goes through, and one of my questions is going to be directed at finding out where they get their authority.

Thank you, Madam Chairman.

Ms. MCMORRIS. Are there any other Members who wish to give opening statements? Mr. Walden.

STATEMENT OF THE HONORABLE GREG WALDEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. Walden. Thank you, Madam Chairman. I want to express my strong opposition and that of the Northwest Congressional Delegation to the Fiscal Year 2007 budget proposal which I believe will increase electric rates in our region by nearly a billion dollars and cost thousands of jobs.

I also continue to be opposed to third-party financing debt reclassification in the Administration's budget. This has been repeated from last year's budget, and was sent to the Hill in legislative form in June of 2005.

More generally, I want to express my strong dissatisfaction that the Office of Management and Budget once again inserts provisions into the budget of the Bonneville Power Administration that are harmful to the Pacific Northwest without so much as a single word of consultation or discussion with this Member of Congress or others who represent this region. I do not understand why we have such a failure at communication.

As a small business owner, I fully understand the result in rate increase of 10 percent, raising power rates by \$145 million a year, cost retail consumers an additional \$27 a year, decreases personal income in the Northwest by \$109 million, and could result in the loss of 1,120 jobs. This economic blow to our region would be entirely unwarranted, and yet destructive.

So Madam Chairman, I look forward to this hearing. I look forward to finding out what we can learn about what the Administration intends and what they plan to do to address the concerns of those of us from the Northwest who year after year have to fight these battles in an effort to strengthen our economy, not weaken it; preserve affordable power for our consumers, not jack up their rates; and I have to tell you it is getting a little old, Madam Chairman, to have to fight this fight every year, and the latest proposal is probably the worst I have seen. So I have some questions.

Before I conclude, I want to extend a warm welcome, however, to the head of the Bonneville Power Administration, Steve Wright, as well as to Dwight Langer, who is from Wasco County Public Utility District. He has 34 years in the industry. He started when he was 7—21 years as—it is an election year, he is a voter.

[Laughter.]

Mr. WALDEN. Twenty-one years as a General Manager. From 1993 to present, he is the General Manager of Northern Wasco PUD. Prior to that he was with Peru Utilities in Peru, Indiana. He is a member of the board of trustees of the Northwest Public Power Association of Vancouver; past member of the Executive Committee of the Public Power Council of Portland, Oregon; member of the Oregon PUD Association; member of the American Public Powers Association; has his B.S. from Indiana State University. So Dwight, we are delighted you could join us today as well, and all of our panelists, thank you for your testimony you are going to give us. The insights and counsel are appreciated by all of us.

Thank you, Madam Chair.

Ms. MCMORRIS. Thank you.

Are there any other Members that want to make opening statements?

At this time then I would like to introduce our first panel of witnesses. First, Mr. Dan Peterson. He is Commissioner of Pend Oreille County Public Utility District in Newport, Washington; Mr. Mac McClennan, Vice President of External Affairs, Tri-State Generation and Transmission, Denver, Colorado; Mr. James Pope, General Manager, Northern California Power Agency, Roseville, California; Mr. Dwight Langer, General Manager, North Wasco County Public Utility District, The Dalles, Oregon; Mr. Charlie Hosken, General Manager, Imperial Irrigation District, Imperial, California; and Mr. Thomas Graves, Executive Director, Mid-West Electric Consumers Association, Wheat Ridge, Colorado.

I would like to recognize Dan Peterson then for five minutes, and all witnesses' written statements will be submitted for the hearing record. Please go ahead, Dan.

**STATEMENT OF DAN PETERSON, PEND OREILLE COUNTY
PUBLIC UTILITY DISTRICT, NEWPORT, WASHINGTON**

Mr. PETERSON. Madam Chair, Ranking Member Napolitano, thank you, Members of the Committee, for this opportunity to speak.

Here I am, a locally elected commissioner of a little utility in the very far back corner of Representative McMorris's district. Here I am to add my voice to the loud outcry we have already heard from throughout the Pacific Northwest Congressional Delegation against the Fiscal Year 2007 budget proposal that Bonneville Power Administration surplus sales, or secondary revenues be used to repay Treasury.

This proposal, if not withdrawn, will increase rates. Historically, Bonneville's secondary revenues have been used to stabilize rates. In a hydro system, dry years follow wet years, and financial flexibility is critical.

Quite contrary to the proposal's claim, sound business practices have allowed these revenues to remain in the region and provide that stability and flexibility, and at the same time Northwest ratepayers have been faithfully continuing to repay their Federal debt on time and with interest.

Now, I know that perhaps some of you are thinking rates are so low in the Pacific Northwest, what is the harm in raising them some?

Well, actually, rates are no longer as low as they once were in the Northwest. They have been rising rapidly as we continue to pay for the cost of the west coast energy crisis, and as we build new generation to serve a growing region, that generation is more expensive.

But even if our rates are among the lowest in the nation, why raise them arbitrarily and force businesses out of the region, and possibly overseas? Remember that the Federal hydropower system was built to attract and keep business and industry in the U.S.

The President in his recent State of the Union Address cited energy independence and weaning ourselves off foreign oil and showcasing our renewable resources. Why would that administration want to increase the cost of a large, clean, renewable domestic resource?

This proposal is not good energy policy. It is not good economic policy, and it is certainly contrary to a national goal of energy independence.

I will end by mentioning Endangered Species Act reform. Pend Oreille Public Utility District has recently received a new license from FERC for our Box Canyon Dam, a 72 megawatt run-of-the-river hydroelectric project on the Pend Oreille River.

We are beginning to implement the numerous mandatory conditions that have been imposed by Federal agencies along with our license from FERC. We have found ESA-related processes to be inconsistent and lacking in both sound science and common sense.

We understand that Chairwoman McMorris is introducing legislation to encourage Bonneville and the other PMAs to have greater transparency in regard to ESA-related costs. We certainly support that, and Madam Chair, we will do all we can to assist you in advancing that legislation.

Thank you very much for this opportunity to speak, and I too do not yet know all there is to know on anything, and so I look forward not only to the remaining witnesses, but to the Committee's comments as well as questions. Thank you very much.

[The prepared statement of Mr. Peterson follows:]

**Statement of Dan Peterson, Commissioner,
Pend Oreille County Public Utility District**

Chairman Radanovich, Ranking Member Napolitano, Vice-Chair McMorris, and members of the Subcommittee:

Thank you for the opportunity to testify. I offer the following written comments on behalf of my local utility and my county's citizens who have elected me Commissioner. As a past President of the Washington Public Utility Districts Association and current chair of the association's Legislative Committee, I also speak from a statewide PUD perspective. And, as a utility member of the region's Public Power Council, I support the broader interests of Public Power throughout the Pacific Northwest.

Pend Oreille County is located in the very northeast corner of Washington State's Fifth Congressional District, which is represented by Congresswoman McMorris and shares borders with both Idaho and British Columbia. Our county is nearly 60% federal lands, and that percentage is even higher in our larger northeast region. Five counties in Representative McMorris' District have PUDs that provide electric, water, sewer, and telecommunication services.

Our county of 1400 square miles has 12,000 residents; the Public Utility District serves electricity throughout the County to about 8000 customers. In addition to our own non-federal hydroelectric resources on the Pend Oreille River, the PUD purchases power from the Bonneville Power Administration (BPA) to supply a large newsprint plant.

In my testimony, I will address three issues:

1. The Administration's Fiscal Year 2007 budget proposal regarding BPA's surplus revenues and third-party debt
2. Longer-term federal power matters
3. The Endangered Species Act reform

First, in regard to the Administration's budget proposal that BPA's surplus revenues above \$500 million be used to repay Treasury:

BPA supplies a quarter of my utility's total energy needs and is nearly half of our total energy cost, with an annual BPA bill of approximately \$10 million.

Historically BPA surplus revenues have served to stabilize BPA's wholesale power rates. The large federal hydropower system in the Northwest is subject to variable water flow conditions. There are good water years producing surplus revenue, and there are dry years that may fall short of revenue projections. This proposal would limit BPA's flexibility of taking advantage of the good years to deal with the bad years. Contrary to the budget proposal's claim, "sound business practice" has allowed surplus revenues to remain in the region and help stabilize rates. At the same time, our ratepayers have continued to faithfully repay federal debt on time and with interest.

Moreover, BPA has voluntarily made more than \$1.46 billion in early payments on its federal debt obligation, without raising rates. That made good business sense for BPA and good economic sense for the region. But what other business would voluntarily increase rates and costs to its customers to pay off debt ahead of schedule, as the OMB proposes?

Some argue that electricity rates in the Northwest are too low to begin with, and there is no harm in raising them. But our rates are not as low as they once were. We have taken a tremendous hit from the Western energy crisis, which we are still—resentfully—paying off. Also, as a fast-growing region, the Northwest and the West have had to add new and expensive generation. Some claim that average residential rates of BPA customers have recently moved close to or even above the national average.

History reminds us that the hydropower system was built to attract businesses and keep industry in the U.S. Even if our region did have the lowest rates in the nation, why would the Administration artificially raise those rates and force businesses out of the region, possibly overseas?

The Northwest produces much of the cleanest power in the nation. The President in his recent State of the Union Address stressed energy independence. At a time when the President is urging our nation to wean itself off foreign oil and showcase renewable energy, it makes no sense to arbitrarily increase the cost of a large, clean,

domestic, hydro resource. This isn't good energy policy or economic policy, and it is contrary to the national goal of energy independence.

Although the dollar impact of the budget proposal may be relatively small in my utility's case because we purchase a specialized "Slice" product from BPA, this budget proposal, if implemented, will raise BPA rates. It sets bad precedent, hurts my neighbor PUDs, and could do unnecessary damage to the Pacific Northwest region.

I join the strong bipartisan opposition being expressed by the Northwest congressional delegation. With them, I am extremely disappointed that OMB and DOE have repeatedly ignored the substantive concerns we raise about Bonneville-related proposals.

On another budget matter, we again oppose the OMB proposal to change the accounting treatment of third-party financing arrangements Bonneville has used to finance transmission infrastructure improvements in the Northwest. OMB proposed this last year, and the Northwest expressed opposition then as well.

According to DOE, the main purposes of the surplus revenue proposal described above are to allow more financial flexibility for BPA and to help build more transmission infrastructure. While I agree with those goals, this third-party financing proposal runs completely counter to that. If third-party arrangements were to count against Bonneville's borrowing authority, it would effectively end financing arrangements, such as the successful Shultz-Wautoma electric transmission line project, which could effectively bring regional transmission investment to a halt and would lead to dramatic electric rate increases.

The proposal also makes no sense because third-party financial transactions create no taxpayer liability. The ratepayers of the Pacific Northwest—not the United States Treasury—secure Non-federal bonds backed by Bonneville, such as those issued by third parties.

Second, with regard to the long-term outlook for the federal power program, I have these thoughts:

- Long-term contracts for BPA power are in the best interest of customers and the federal government. They benefit the federal government because they assure BPA of a continuing revenue stream to repay to the Treasury the investment in the facilities. They benefit customers because they provide resource certainty. Administrative burdens associated with short-term contracts are reduced for both parties.
- Solutions to energy problems are best formed when we develop a consensus on BPA-related issues in the Northwest before coming to the delegation and to Congress. Similarly, the region benefits when the delegation develops a bipartisan position on energy issues and works together to protect our valuable Columbia River system. Over the years, the House Northwest Energy Caucus has done a terrific job of developing consensus positions on BPA matters. Northwest consumers are the beneficiaries of those actions.

Third, in regard to the Endangered Species Act:

Pend Oreille PUD recently received a new FERC license for our Box Canyon dam, a 72-megawatt run-of-the-river project on the Pend Oreille River. We are beginning to implement the numerous mandatory conditions of various Federal agencies. We have found ESA related processes to be lacking in consistency and sound science. The following items detail our experience:

- Local control is lost as decisions are made far away in regional headquarters or Washington D.C. Stakeholder comments rarely altered draft federal documents in our case. Motives remain suspect because only one small reservoir in a huge river basin unit was designated as critical habitat. Only our project area—where a FERC relicensing was ongoing and agencies could benefit from the financial opportunity—was designated critical habitat.
- Rules are applied inconsistently. Our project area does not have bull trout populations, yet we are being forced to spend millions of dollars for mitigation. Areas without bull trout are given protected status, while areas with bull trout are not.
- Decisions lack sound scientific basis. We must plan enormously expensive fish ladders for bull trout, but there are no fish to study to learn their habits and preferences, and no surrogate species exist. In an ultimate irony, while the federal government mandates our expenditure of millions of dollars for bull trout restoration, it continues to fund a tribal hatchery for bass, a species that eats bull trout! Furthermore, bass live in warm water; bull trout thrive in cold water. Studies establishing historical warm/cold and fast/slow water habitat conditions have been ignored.
- In general, land and water protection advocates seem to use ESA as a cover for keeping areas wild and pristine, rather than for actually preserving species. Listings result in a self-perpetuating, never-ending business. Given the

questionable presence of an endangered species in our project area, it is terribly disconcerting when federal agencies appear more interested in dollars than the actual existence of a species. It feels to me like extortion!

- Costs are not evaluated against human impacts. Our 8000 ratepayers—in a county where the average annual per capita personal income is barely \$22,000—could face a bill of \$50 million or more for ESA related passage, habitat, and lost generation. Will the expense ever provide a real benefit?

We understand that Chairwoman McMorris will be introducing a bill soon that will provide some transparency on how much BPA and other PMAs spend on ESA costs. We support this legislation and look forward to helping the chairwoman advance it.

Thank you for this opportunity to submit this written testimony. If I can be of any further assistance to the committee, I am willing and available.

Ms. McMORRIS. Thank you very much.
Mr. McClennan.

**STATEMENT OF MAC McCLENNAN, VICE PRESIDENT OF
EXTERNAL AFFAIRS, TRI-STATE GENERATION AND TRANS-
MISSION ASSOCIATION, DENVER, COLORADO**

Mr. McCLENNAN. Dan certainly puts a lot of pressure on the rest of us.

Chairman McMorris, Ranking Member Napolitano, Members of the Subcommittee on Water and Power, I appreciate the opportunity to testify today.

My name is Mc McClennan. I am the Vice President of External Affairs at Tri-State, which is a power supply cooperative for nearly all of the cooperatives in Colorado, Nebraska, Wyoming, and New Mexico. So Tri-State and its members provide about a million rural electric consumers in that four-state region with power. To do that, we are one of the largest customers of Western Area Power Administration, and so your review of their budget and look at it is certainly very important to us.

I would like to emphasize though, however, Tri-State has a very good longstanding relationship with Western. We have developed relationships where we work with them to look at their budgets, future planning expenditures, our issues as we go forward, to be able to keep the system operating.

However, even having said that we do have issues as it relates to this year's 2007 President's budget, and I am just going to touch on two of those issues.

In Tri-State's case, we operate both in the Missouri River Basin side and we also operate in the Colorado River side, and so we have distinct set of issues in both of those regions.

Two issues I will just raise on the budget front is in the President's budget there is a thing called "Pick-Sloan cost reallocation", which is probably more appropriate for tomorrow, but an issue called "security cost" which impact us.

With respect to cost reallocation, it is an issue really where the attempt by the Administration to have power pay for irrigation costs. Power already in today's world pays for 85 percent of the irrigation costs in the Pick-Sloan region. What is in the proposed budget would move another additional \$23 million annually to the power customers. I think that is an unfair movement and a payment that the power customers ought not to pick up.

On the security cost side, in 2002, the Commissioner of Reclamation, Commissioner Keys indicated that those costs associated with security really ought to be non-reimbursable.

We agree. Security for the Federal generating and delivery facilities is of national concern and should therefore be funded from non-reimbursable appropriated funds. However, we continue to see paying for security costs creep into budget proposals for power rates.

Tri-State urges this Committee and Congress, as you continue to review and look at agency budgets both today and tomorrow, to make sure that as we look at those the development of those proposals ensure a fair allocation and provide some funding certainly for those people who are picking up the tab, namely, those of us, the stakeholders.

I want to talk for just a moment as well, while I have a moment, to talk about the drought. Colorado River Basin is in its sixth year of consecutive year of drought. It reached its lowest level since 1969 in April of 2005. It is approaching minimum generation pool.

Why do we care? Well, while the hydrology is getting a little bit better, if in fact we get to minimum general pool there are significant economic consequences for the customers and the members they serve. There is also a significant consequences for the non-power programs that are funded by those power revenues.

Our concern is that as we continue to go down this path as the generation continues to decline at Glen Canyon, we are in a situation where the power users potentially could pick up non-power programs on the Colorado River. From a public policy standpoint, these programs really are intended for the benefit of the environment, the benefit of the public, and therefore one of the things as we continue to move forward and look forward to working with this committee as the drought, if it continues, is how we work on those programs to continue to maintain them as we go forward.

The final issue I want to address and it was referenced in the beginning and it is referenced in the title is this idea of Western's implementation or WAPA's implementation of the Energy Policy Act.

In our region, WAPA has initiated efforts to upgrade capacity for the transmission of electricity in our region. We support that. Western is trying to engage in processes that explore expanding and expediting the development of transmission capacity in the inner-mountain west.

Along those lines Tri-State, along with Western, has initiated a joint transmission project in the eastern plains of Colorado and the western half of Kansas called the Eastern Plains Transmission Project. It will include nearly 700 miles of new high-voltage transmission system to relieve existing transmission constraints and to meet future load growth in the region.

The participation of Western in this project we believe will serve to enhance the regional system, expedite the permitting of the project, and provide the opportunity for increased renewable generation development in the West.

We believe this is a prime example of the type of partnerships that Congress envisioned in the Energy Policy Act passed last year.

Mr. Chairman, I think it is a great opportunity for us to be able to move forward.

In closing, I just want to say thank you for holding this hearing today, recognize Congresswoman Musgrave, who is in our district, Mr. Pearce, Congressman Pearce, who is in it as well, and appreciate their efforts as we move forward. So thank you.

[The prepared statement of Mr. McLennan follows:]

**Statement of Mac McLennan, Vice President of External Affairs,
Tri-State Generation and Transmission Association, Denver, Colorado**

Chairman Radanovich, Ranking Member Napolitano and members of the House Subcommittee on Water and Power, I appreciate the opportunity to appear before you today representing Tri-State Generation and Transmission Association, Inc. and to share our views on the Power Marketing Administrations implementation of the Energy Policy Act of 2005 and the proposed Fiscal Year 2007 budget for these agencies.

My name is Mac McLennan, and I am the Vice President of External Affairs for Tri-State Generation and Transmission Association, a not-for-profit wholesale power supply cooperative that provides electricity to forty-four member distribution cooperatives in Colorado, Nebraska, Wyoming and New Mexico. As Vice President, I oversee Tri-State's government relations, communications and external association activities. Tri-State is based in Westminster, Colorado, and has facilities and employees throughout the four-state region. Tri-State provides electric service through our member distribution cooperatives to more than one million electric customers, primarily located in rural communities. Tri-State is one of the largest customers of hydroelectricity generated by the Bureau of Reclamation and the Army Corps of Engineers in the interior West and distributed by the Western Area Power Administration (Western) at facilities in the Colorado River Storage Project as well as the Pick Sloan Missouri Basin Project.

I would like to emphasize that Tri-State has had a very positive, long-standing working relationship with Western. We have worked together on joint transmission projects to improve efficiencies for the benefit of the end-use consumers. We have worked with other power customers to develop a Memorandum of Understanding with our federal power partners, Western, the Bureau of Reclamation (USBR) and the Army Corps of Engineers that provides the opportunity for our input into planned future expenditures in the federal power program. We appreciate the expertise and professionalism of our federal partners and the combined efforts to keep the federal facilities operating efficiently and cost effective.

As I mentioned earlier, Tri-State receives a power allocation from the Pick Sloan Missouri Basin Project as well as the Colorado River Storage Project. Tom Graves, Executive Director of Mid-West Electric Consumers Association, of which Tri-State is a member, is on the panel testifying today, and we endorse the testimony that he is presenting. I want to make special emphasis regarding his comments on the inequity of the proposed Pick Sloan Cost Reallocation in the President's budget. Power entities are already paying over 85% of the irrigation costs for Pick Sloan irrigation and it is unfair to shift an additional \$23 million annually to the power customers. While not contained in this years budget request for Western, Tri-State supports the concept of Net Zero to provide annual funding for Western, providing it can be done in a way that provides for appropriate congressional oversight and customer involvement.

I would like to now turn to some crucial issues for the Colorado River Storage Project (CRSP). They include the ongoing drought and purchased power impacts; the role of Glen Canyon Dam operations in adaptive management for the Grand Canyon; the operational impacts and costs from environmental processes for the Aspinall EIS now underway; and federal infrastructure security costs. Tri-State is a member of the Colorado River Energy Distributors Association (CREDA) which represents us on CRSP issues.

DROUGHT IN THE COLORADO RIVER BASIN

The Colorado River Basin is in its sixth consecutive year of drought. In the 100 years of record keeping by the Bureau, there have never been six consecutive years of drought. Lake Powell reached its lowest level since 1969 on April 5, 2005, 144 feet below full pool. It was approaching minimum power generation level. The hydrology has improved since the spring of 2005, but there is still a chance this level could be reached as soon as 2007. If minimum power generation level is reached, there will be little CRSP generation available to the CRSP contractors. This will

have significant economic consequences for the CRSP contractors and the customers they serve, as well as for a number of other non-power programs that are funded with CRSP power revenues.

THE UPPER COLORADO BASIN FUND AND DROUGHT IMPACTS

The Basin Fund is a revolving fund maintained by CRSP power revenues. The Basin Fund is the source of CRSP project repayment, including: repayment of the capital investment with interest, operation, maintenance and replacement expense, 95% of the irrigation investment, and the USBR and Western employee salaries (about \$80 million annually). In addition, the Fund has been the economic source for other "non-power" programs:

- Nearly \$18 million for the Colorado River Salinity Control Program;
- \$179,577,774 for the Glen Canyon Adaptive Management Program;
- \$40,399,329 for the Upper Colorado River Basin and San Juan Basin Endangered Fish Recovery Programs

The programs listed above cost about \$20 million per year.

In addition, due to reduced generation levels from the CRSP resource, Western has had to purchase power on the open market to meet its contractual requirements. Last year alone, they spent \$50.5 million from the Upper Colorado Basin Fund for replacement power. In order to maintain a sufficient Basin Fund level, in October 2001, Western increased the CRSP rate 17%. In October 2003, Western reduced energy deliveries to its customers by 26%. Each customer has had to "make up" the shortfall on its own. On October 1, 2005, Western increased the CRSP rate nearly 23%.

NON-POWER RELATED PROGRAMS SHOULD BE FUNDED BY APPROPRIATIONS, NOT CRSP CUSTOMERS

Tri-State is concerned that, when generation is ceased or close to being ceased at Glen Canyon Dam, an effort will be made to require CRSP power users to fund the non-power programs described above. This would, in effect, be a subsidy from the electric consumers in six Western states to all the parties that benefit from the Salinity Control, Adaptive Management and Endangered Species Recovery programs on the river.

Instead, the non-power programs should seek appropriations from Congress to fund activities when the Basin Fund is depleted. Further, the Basin Fund should be limited to "the basics," namely, those costs that are mandated by law to be repaid by the Fund. The Glen Canyon Adaptive Management Program authorizes, but does not mandate, the use of CRSP power revenues for program funding. The Endangered Fish Recovery Programs legislation requires the Bureau and WAPA to seek appropriations in times of financial need.

From a public policy standpoint, these programs are intended to benefit the environment, which is in the public interest, and therefore should be funded by appropriations. Providing appropriations for these programs would assist in maintaining the Basin Fund's solvency.

GLEN CANYON DAM/ADAPTIVE MANAGEMENT

In 1989 the Department of Interior initiated an Environmental Impact Statement (EIS) process that produced a Record of Decision (ROD) and was signed by the Secretary of Interior in 1996. It created an alternative dam operating plan that was intended to permit recovery and long-term sustainability of downstream resources while limiting hydropower capacity and flexibility only to the extent necessary to achieve recovery and long term sustainability. The Adaptive Management Work Group (AMWG) was created which is a 23-member stakeholder federal advisory committee charged with making recommendations to the Secretary of the Interior regarding dam operations and management actions necessary to achieve the intent of the EIS/ROD. Of particular note is that science is now finding that pre-ROD assumptions regarding dam operation effects on humpback chub were wrong and that fluctuating flows (providing load following) may actually benefit the chub by impacting predator populations. In 2000, Congress included language in the appropriations bill which capped the amount of CRSP power revenues that can be used to fund this program. In the summer of 2001, experimentation on water flows cost \$23 million, funded by CRSP power customers. In November 2004 a high-flow test was initiated with the intent of improving sediment conditions; the cost was nearly \$2 million. Since CRSP power revenues are the funding source for this program—and given ongoing drought impacts—it is imperative that any experimentation enhance power production. It is now time, after 12 years of monitoring and research, to enhance hydroelectric power production from this renewable resource. Unfortunately, on February 15, 2006, several environmental groups filed suit in U.S. District Court, District of Arizona against Interior Secretary Gale Norton and the Bureau of

Reclamation to challenge the current management operations and reopen an environmental review. This could significantly impact operations on the Colorado River.

ASPINALL EIS UNDERWAY / BLACK CANYON OF THE GUNNISON

The USBR has begun a scoping and cooperating agency process for an EIS on the operation of the Aspinall Unit of the CRSP. The Aspinall units are on the Gunnison River a tributary to the upper Colorado River. The effort is to review the impacts of river flows and make flow recommendations for endangered fish. Tri-State believes the Upper Basin Recovery Program should be the primary focus of recovery efforts. Complicating the process is ongoing litigation by environmental interests in an attempt to overturn a memorandum of understanding between the Interior Department and the State of Colorado (April, 2002). Oral arguments will be held in early March 2006. Tri-State is concerned that these issues clearly overlap and need to be resolved in tandem, so as to avoid a "second bite of the apple" situation with regard to Gunnison flows. The EIS will take three to four years.

FEDERAL INFRASTRUCTURE SECURITY COSTS

In April 2002, USBR Commissioner Keys issued a policy statement indicating that the increased security costs for federal dams as a result of the events of Sept. 11, 2001, should be non-reimbursable. Security of these federal generating and delivery facilities is a national concern and should therefore be funded from non-reimbursable, appropriated funds. The FY 2006 Omnibus Appropriations Bill contains language providing that \$10 million of the costs of guards and patrols will be reimbursable, slightly less than half of what USBR requested. The USBR must provide a report to Congress delineating its proposed allocation and reimbursement methodologies. Tri-State urges this Committee and Congress to continue to review and work with the agencies on the development of proposals to ensure a fair allocation and to provide some certainty to the funding stakeholders.

IMPLEMENTING THE ENERGY POLICY ACT

The final issue that I would like address is the implementation of the Energy Policy Act by Western. Western has initiated a process to look at upgrading the capacity for transfer of electricity in Wyoming and Colorado. We support Western's efforts to engage in processes that explore expanding and expediting the development of transmission capacity in the intermountain West. Along those lines, we have initiated a joint transmission project with Western. Tri-State has signed a contract to partner with Western in a much needed transmission project on the eastern plains of Colorado and western Kansas referred to as the Eastern Plains Transmission Project. Over 700 miles of new high-voltage transmission lines are envisioned that will relieve existing transmission constraints and meet future load growth. The Eastern Plains Transmission Project will meet the transmission needs of Tri-State in its development of new baseload power generation in the region as well as provide much needed opportunities for new renewable development in the area. The participation of Western in this project will serve to enhance the regional system, expedite the permitting of the project and provide the opportunity for increased generation development. Tri-State appreciates the expertise provided by Western in this joint venture and believes this is a prime example of the type of partnerships envisioned in the Energy Policy Act passed last year.

Mr. Chairman, in closing, I would like to thank you for holding this hearing today and providing Tri-State with the opportunity to express our views on significant issues affecting us, our member systems and ultimately the end-use consumers.

Ms. McMORRIS. Thank you.
Mr. Pope.

**STATEMENT OF JAMES POPE, GENERAL MANAGER,
NORTHERN CALIFORNIA POWER AGENCY, ROSEVILLE,
CALIFORNIA**

Mr. POPE. Thank you, Madam Chairman, and the Members of the Committee. I really appreciate the opportunity to testify here today on these issues.

A little bit about NCPA. It is a joint action agency in Northern California, and our members are pretty diverse. We have BART in the Bay Area, the Port of Oakland, City of Santa Clara, Palo Alto, and Alameda in the Silicon Valley, Lodi, Biggs, Gridley, Redding,

and Turlock Irrigation District in the Central Valley. We are a very strong dynamic partnership in our joint action agency, and we really want to continue that dialog with Western and with the CVP customers to forge this partnership between the customers and Western.

I have six points I would like to cover in my remarks.

First of all, security costs must be allocated properly and close overseen. NCPA is willing to create a cost-sharing partnership for reclamation's post-September 11 security costs. However, it is vitally important that the allocation of these costs per project reflect the uses of the project and are divided accordingly. The costs must be quantifiable, and the customers of these projects must provide adequate cost review and input.

However, we only feel that security costs should be collected for the national critical infrastructure facilities. Only costs for these facilities should be up for allocation.

The President's budget removed the \$10 million cap on reimbursable security measures which Congress put in place last year. This cap should be preserved.

Second, the Bureau is seeking to require customers to provide up-front funding for power share of these costs without adequate consultation or analysis to determine if this could be properly credited to our bills.

These two issues warrant the Subcommittee's careful review and consideration.

My second point, OMB's interest rate sets a bad precedent and is just flat bad policy. The Office of Management and Budget's agency rate proposal may have a nominal impact on the Central Valley Project customers, but sets a unsound policy and precedent. This proposal should be rejected and at a minimum words urge that this Subcommittee take the necessary steps to prevent OMB from making further changes in the PMA ratemaking and repayment policies without direct approval of Congress. We think Congress sets policy, not OMB.

My third point, the Folsom Dam bridge replacement is unrelated to the power generation. There is no benefit from this bridge for water and power users. As detailed in my testimony, it is important that Congress make clear that no cost for the Folsom Dam replacement bridge be assigned to water and power customers.

Next, CVPIA, the Central Valley Project Improvement Act, review design to effectively implement the Act, and the process includes stakeholder involvement. We have been involved with the CVPIA Act for 14 years. The water and power customers have jump-started this process consistent with the legislation. The Department of Interior's review of the Central Valley Project Improvement Act activities is an appropriate and necessary process required to honor the department's legal responsibilities and should continue.

This process has included stakeholder involvement to ensure that the Act is effectively implemented. This has been a two-year process within the roundtable, and a small subgroup has been working to develop the areas where we feel that the Act has been implemented.

Next, forecast-based operations needed for optimal management of Federal facilities. In other words, not spilling more water than needs to be spilled because if you spill water you spill energy. We recommend that they switch to a forecast-based operations for the CVP, would provide the same level of flood protection without spilling water that could be used for power production. That needs to be reviewed.

Ms. MCMORRIS. Mr. Pope. Yes, I need to ask you to summarize and finish your remarks, and then you can probably make more of your points in the question and answer period.

Mr. POPE. Thank you. My last remark is that OMB proposal limit third-party financing for transmission by BPA should be rejected.

I do not think I need to say anymore. Thank you.
[The prepared statement of Mr. Pope follows:]

**Statement of James H. Pope, General Manager,
Northern California Power Agency**

Introduction

Mr. Chairman, members of the subcommittee, thank you for this opportunity to testify at today's hearing. I am James H. Pope, General Manager of the Northern California Power Agency (NCPA), a joint action agency that serves as the supplemental power supplier for 15 public power systems that purchase power from the Western Area Power Administration (Western). For our members—municipal utilities, irrigation and special purpose districts, the Bay Area Rapid Transit System, and a rural electric cooperative—the power they receive from Western is an integral part of their power supply, and an essential component in providing their communities and consumers with reliable and affordable electricity. Given the importance of Western to our communities and districts, we commend the subcommittee for providing this important oversight hearing.

Overview

- Western's third-party transmission activities require close oversight.
- Bureau of Reclamation's (Reclamation's) dam security costs must be reviewed, controlled and properly allocated.
- The Office of Management and Budget's (OMB's) "agency rate" proposal appears to have a nominal rate impact on CVP customers—but sets an unsound policy precedent.
- No costs for the Folsom Dam replacement bridge should be assigned to power and water customers.
- The Administration's request for Western's "purchased power and wheeling" account should be supported.
- OMB's initiative to limit third-party financing of Bonneville Power Administration (BPA) transmission should be rejected. BPA and Western should be encouraged to further enhance transmission capability between the Pacific Northwest and the Pacific Southwest.
- The Department of the Interior's review of Central Valley Project Improvement Act (CVPIA) activities should continue.
- The Central Valley Project should switch to Forecast Based Operation.

Background on the Western Area Power Administration and the Central Valley Project Customers

The federal Central Valley Project (CVP) consists of 11 power plants at federal multipurpose projects with a combined generating capacity of almost 2,000 MW. Western also owns almost 900 miles of high-voltage transmission lines that deliver power from the federal dams to Western's customers. The costs of the CVP system are repaid—in full and with interest—by the power customers. In addition, the power customers pay for significant fish and wildlife measures, and assist in repayment of the irrigation investment. CVP power, on average, meets more than 30% of NCPA member communities' and districts' energy needs.

- But this is not a static partnership. Rather, it is one that has grown and evolved:
- CVP customers provided advanced funding for rewinding the generators and replacing the turbine runners at Shasta Dam, a collaborative effort that extended

the life of these units, resulted in an efficiency gain of 2%, and produces an additional 98 megawatts of electricity;

- CVP customers, acting through the Transmission Agency of Northern California (TANC), partnered with Western to construct the California-Oregon Transmission Project, the third major link between California and the Pacific Northwest;
- TANC—comprised of public power systems—played a prominent role in promoting completion of the Path 15 transmission project that relieved congestion and improved the reliability of the California grid;
- CVP customers provide direct customer financing for important CVP capital and operational expenditures to ensure that, in light of constrained federal appropriations, the facilities continue to operate reliably, efficiently and cost-effectively, and;
- CVP customers worked collectively to create the Sacramento Municipal Utility District/Western Area Power Administration Control Area to ensure that Western's transmission facilities operate efficiently and in compliance with the statutory purposes and obligations of the Central Valley Project.

There is an effective partnership between Western and its customers—and the Subcommittee on Water and Power has played an important role in fostering that partnership which has produced many public benefits.

Western Area Power Administration-Related Provisions of the Energy Policy Act

One of the key Western-related features of the Energy Policy Act of 2005 is the provision authorizing Western to accept third-party funds to construct transmission facilities. As noted above, NCPA supports, and has participated in, cooperative arrangements with Western to facilitate transmission construction. Partnering with Western provides a number of advantages, including the ability to integrate with Western's backbone facilities, use of federal eminent domain authority, and Western's proven track-record of project design and construction.

As we noted during congressional debate of this provision, however, it is important that use of this new authority be used judiciously and appropriately. It is important that this provision neither distract Western from its core mission of operating the federal facilities, nor result in the direct or indirect transfer of costs from third-party transmission projects to federal power customers.

The Subcommittee on Water and Power should provide careful and consistent oversight of Western's activities under this provision.

Dam Security Costs Must be Reviewed, Controlled and Properly Allocated

Reclamation has incurred significant expenses in its post-September 11 security program. Historical precedent argues that these security costs should be fully non-reimbursable (not subject to repayment by CVP customers). Further, the facilities are on the national critical infrastructure list and, therefore, a small number of citizens should not be responsible for paying for security costs that benefit the entire nation. However, Reclamation's May 1, 2005 report to Congress assigned CVP power customers the obligation to pay for roughly two-thirds of the CVP security costs—an amount that is not commensurate with the underlying multipurpose project cost allocation based on the multiple public purposes of these projects.

Congress stipulated in the FY 2006 Energy and Water Development Appropriations Act that only \$10 million of the Reclamation's security costs could be recovered from water and power customers of the CVP. Reclamation has also been told by the Congress that it needs to better allocate costs to align with the purpose of the funding, and provide improved cost accountability and transparency.

NCPA is supportive of an appropriate assignment of CVP security costs to power customers, provided that the costs are quantifiable and reflect a proper allocation, and that customers are provided appropriate cost review and input. In fact, there have been positive developments in this regard as Reclamation now appears ready to adjust cost allocations so that CVP power customers are assigned a percentage of costs that match the underlying multipurpose cost allocation.

Yet, there are two remaining areas of concern that warrant congressional review:

- The President's 2007 budget removes the \$10 million cost cap on reimbursable security measures.
- Reclamation seeks to require customers to provide up-front funding for the power share of these costs. While this mechanism could provide needed customer involvement and oversight, this funding tool is being called upon in this instance without any customer consultation, nor analysis to determine if the advanced customer funds could be properly credited on their bills. Moreover, the

customer funding contracts only allow for funding of direct power operations and maintenance costs—and not multipurpose activities.

NCPA is willing to create a true cost-sharing partnership for Reclamation's post-September 11 security costs. In order to succeed, this partnership must provide customers with assurance that costs will be legitimate, known and limited. We greatly appreciate the efforts of Chairman Pombo and Chairman Radanovich to promote a fair and transparent process, and look forward to continuing to work with this Subcommittee to advance these objectives.

OMB Interest Rate Adjustment Sets Troubling Precedent

The FY 2007 budget stipulates that the Department of Energy will alter its policy governing interest rates for investments by the federal power marketing administrations (PMAs), including Western. This change will affect only those facilities, such as the CVP, where the interest rate is not set by law. Under the proposal, new investments will incur an interest charge similar to the rate at which federal corporations borrow funds from the Treasury. The budget claims that this "agency rate" was .4% higher on average than PMA rates from 1997-2005.

OMB claims this change will have a minimal rate impact—and NCPA is still evaluating the rate consequences. However, we are troubled by the precedent of making significant changes in policy without adequate consultation with and review by Congress. As this Subcommittee knows, over the years OMB—under both Democratic and Republican Administrations—has attempted to make discriminatory and punitive changes to the rate policies of the federal power marketing agencies. Enabling major shifts in repayment policies through a simple change in an obscure Department of Energy budget directive could result in significant rate increases for consumers, jeopardize the operations and viability of these important multipurpose projects, and undermine the essential role of Congress in setting and overseeing the policies affecting the nation's water and power resources.

Given the history of numerous assaults on PMA rate setting policies, we believe such changes should only be made with the express consent of Congress. Ideally, we would hope Congress would reject this incursion in the repayment policies of the PMAs. At a minimum, the Subcommittee on Water and Power should take necessary steps to convey its dissatisfaction with this presumptive action, and to prevent OMB from making further changes in PMA ratemaking and repayment policies without the direct approval of Congress.

Folsom Dam Bridge Replacement

NCPA supports efforts to build a new bridge downstream of Folsom Dam to address traffic congestion created by the closure of the Folsom Dam road for security purposes. However, because the bridge project will not provide any benefit to power and water customers, the costs of the bridge should therefore not be assigned to these customers for repayment. Assigning costs to project purposes where there is not a direct and corresponding benefit sets an unsound policy precedent that could undermine cooperation between stakeholder groups, and jeopardize other project investments.

The Subcommittee on Water and Power should carefully monitor this process to ensure that the federal government's share of the new bridge remains a non-reimbursable expense.

Purchased Power and Wheeling

Each year, Western and the other PMAs receive a federal appropriation to cover the costs of purchasing power to "firm" power sales and arrange for transmission. In the case of the CVP, Western's purchased power and wheeling (PPW) expenses have dropped significantly as a result of the post-2004 marketing plan—but the activity remains critical for Western to meet its obligations to some of its smaller California customers, including BART and the Lassen Municipal Utility District. These PPW appropriations are repaid to the Treasury within the same fiscal year from revenues collected from PMA customers. In recognition of this fact, Congress adjusted the budget rules so that these appropriations do not "score" as part of the federal budget. Nonetheless, there are often annual debates over the level of the PPW account.

This year appears to be an exception to the rule, as the FY 2007 budget includes the appropriations needed to fully fund for Western's Purchased Power and Wheeling activities for the coming year.

NCPA is pleased that the FY 2007 budget includes an adequate appropriation for Western's PPW activities and urges Congress to support this amount.

Third-Party Financing of BPA Transmission Facilities

As the members of this Subcommittee know, California and the Pacific Northwest are joined at the hip—we are physically integrated, make considerable sales between the regions to take advantage of seasonal diversity, and support each other to advance system reliability.

Consequently, investments in the Northwest transmission grid are important for all of California as well. It is with this in mind that I raise with the Subcommittee NCPA's concern regarding with the persistent effort of OMB to limit the ability of BPA to finance and construct needed transmission.

Unlike Western, BPA has direct borrowing authority from the U.S. Treasury to finance transmission additions and upgrades. Recently, Congress increased that borrowing authority, but directed BPA to seek partnerships with non-federal parties in order to leverage the limited borrowing authority and include others in the planning and financing of its facilities. As we have noted, these partnerships have great potential to meet the infrastructure demands of the West—and it is for such purposes that Congress authorized Western to enter into these types of arrangements.

It is, therefore, highly ironic that after directing BPA to pursue third-party financing, and granting Western authority to enter into arrangements with third-parties, that OMB has proposed to undercut this important tool. In July of last year, OMB sent legislation to Congress, which it reasserts in the FY 2007 budget, that would count third-party financings against BPA's limited borrowing authority—effectively denying any value in pursuing these arrangements, and leaving BPA in a precarious position with only sufficient borrowing authority to meet its infrastructure needs through 2011.

The Subcommittee on Water and Power should take appropriate action to affirmatively reject this treatment of third-party financing of BPA transmission, and encourage BPA and Western to participate in further enhancements to transmission capability between the Pacific Northwest and California.

Review of CVPIA Activities

The Department of Interior's review of certain activities under the Central Valley Project Improvement Act (CVPIA) is receiving considerable attention. Let me take this opportunity to clarify certain facts:

- CVPIA established a Restoration Fund to be used along with federal and state appropriations to accomplish 33 specific objectives. CVP water and power customers were statutorily obligated to contribute \$30 million annually (adjusted for inflation) to the Restoration Fund.
- Neither the federal nor state financed share of the Restoration Fund has fully materialized, but to date, CVP water and power contractors have contributed over \$500 million toward the accomplishment of the objectives.
- The CVPIA calls for cutting contributions to the Restoration Fund in half once the objectives are completed, and Congress expressly anticipated that such action would occur within 10 years of enactment.
- It has now been 13 years, and no meaningful review of programmatic accomplishments has been conducted, and no metric exists to measure program accomplishments.
- NCPA joined with CVP water customers in preparing our own assessment of the CVPIA accomplishments, and determined that our obligations regarding the 33 objectives have been met.
- The Department of Interior received our analysis and, while it did not choose to exercise its statutory discretion to reduce Restoration Fund contributions, it did realize that a rigorous analysis of the program's status, accomplishments, goals and objectives was necessary.
- At the direction of the Office of Management and Budget, The Department of Interior is reviewing the CVPIA Section 3406 objectives as part of the Department's Program Assessment Rating Tool (PART) process.
- The Department of Interior's process is both public and open, with broad stakeholder participation.

The Department of Interior is conducting this review with broad stakeholder participation, and we look forward to the establishment of program objectives, milestones, and measurements to allow for effective implementation of the Act.

Forecast Based Operations

The CVP system plays an important role in providing flood control protection to the Sacramento Valley and beyond. NCPA believes, however, that the CVP can meet the same or higher level of flood protection by releasing water based on accurate weather forecasts rather than through overly stringent adherence to rigid operating rules.

Today, the Bureau of Reclamation releases water through the CVP system—at the direction of the Corps of Engineers—to stay within a storage requirement known as the “flood control curve.” Under this regime, water is released anytime storage exceeds a specific amount—without adequate consideration of what the forecast for additional precipitation might be in the following days. As a result, we have witnessed instances in which significant water releases are followed by dramatic flow reductions, when a more levelized release schedule would have been possible. These high, unnecessary water releases necessitate bypassing the dam’s power generating facilities, resulting in a loss of generation and power revenues. Similarly, when the reservoir inflows and rain forecast make it highly likely that flood releases are imminent, then increasing flow up to the power plant, rather than bypassing the generators, would capture more energy.

Let me illustrate this situation. On February 3, the Corps of Engineers directed Reclamation to release 30,000 cfs from Shasta due to the emergence of a small storm. These high releases continued until February 8, at which time the flow rate was reduced to 16,000 cfs. Then flows were reduced to below 10,000 cfs a few days later. Since only 16,000 cfs can go through the generators, bypasses were required, and the value of the energy bypassed totaled approximately \$3.5 million. Yet, the weather forecast unequivocally indicated that we would have clear weather after that small storm. Consequently, if Reclamation had maintained releases at 16,000 cfs, it would have taken a few more days to get within the flood control curve, but we would have had the same level of flood protection, and would have avoided a \$3.5 million loss of resource value.

Forecasting has improved to the point where we should be capable of making sound resource and business decisions for flood control releases through Forecast Based Operations, rather than through an overly strict interpretation of the flood control curve, and we would urge the Subcommittee on Water and Power to encourage the Bureau and Corps to take the necessary steps to implement this methodology.

Conclusion

Western remains a vibrant and important player in promoting a reliable, affordable power supply in California and throughout the West. We appreciate the role of this Subcommittee in maintaining that value, and conducting this important oversight hearing.

Thank you for this opportunity to testify, and I welcome your questions.

Ms. MCMORRIS. OK, very good.
Mr. Langer.

STATEMENT OF DWIGHT LANGER, GENERAL MANAGER, NORTH WASCO COUNTY PUBLIC UTILITY DISTRICT, THE DALLAS, OREGON

Mr. LANGER. Madam Chairman, Members of the Committee, it is my honor and privilege to have this opportunity to share with you some serious concerns.

My name is Dwight Langer, and I am General Manager of Northern Wasco County People’s Utility District in The Dallas, Oregon.

We concur strongly with the President’s statement in the State of the Union Address that energy drives our economy and national security. At Northern Wasco it is part of our philosophy that energy in all its form, but in particular, electric energy is an essential service.

We respectfully would add that adequate supplies of energy at affordable prices are the prerequisites for a vibrant and healthy economy, which adds to the foundation for maintaining our nation’s quality of life and security.

There are provisions in the Administration’s Fiscal Year 2007 budget, unfortunately, that are at cross-purposes with that philosophy. My testimony pertains to the 2007 proposed budget for the Department of Energy Public Enterprise Fund’s BPA.

This proposal would shift the use of revenues for BPA when they exceed a set amount, and change the rules on BPA debt repayment. We are alarmed about both the particulars and the public process concerning the proposed future disposition of revenues from secondary sales, energy sales by the Bonneville Power Administration. This proposal is unfair, not consistent with prudent ratemaking processes or sound business practices.

My message today has three themes: BPA rates have been high and painful the last few years; two, administrator proposals that increase short-term rates in the Northwest or that diminish the value of BPA to the region's customers are unfair and unacceptable, and require congressional review; three, some of BPA's costs, such as fish mitigation, are excessive, beyond the agency's control, and indicative of a lack of an overall plan that makes economic sense.

In an analysis by the Northwest Power and Conservation Council, an independent counsel whose members are appointed by the respective Governors of Washington, Idaho, Oregon, and Montana, this budget provision to divert secondary sales revenue away from stabilizing customer rates and involuntarily moving it to debt repayment would have, in part, the following effects:

Revenue collected for Bonneville's public utility customers would increase by \$145 million average per year; \$109 million decrease in regional personal income; a decrease of 1,120 jobs; additional effects on aluminum and other energy-intensive industries; \$18.5 million decrease in Federal personal income tax revenues to the government.

The entire region shares the council's concerns. Quite appropriately and importantly, the question becomes who should decide these issues that affect customers' pocketbooks.

In the past, BPA has run public processes to develop long-term financial plans, showing many alternatives and with good public participation. In this instance, if the Administration wants to abruptly change standing BPA financial practices, it is imperative that Congress weigh into this matter and determine what is in the public interest.

We look to Congress to establish the rules of the road, our treasury obligations of BPA. In this case, it is unwise and unfair for OMB to change these rules without action of Congress.

While we are not against early debt retirement and increasing borrowing authority, we need to have an open process that is also sensitive to the retail rates issue. The best interest of the customers should come first, not last.

Similarly, we need to stand back and objectively examine the rationale for counting BPA's third-party debt against the agency's U.S. Treasury borrowing authority ceiling even if it is expanded by 200 million in Fiscal Year 2007.

I believe to all BPA customers' credit, we have weathered the storm of higher rate, attributed to market conditions, supply availability, and excessive costs tied to fish mitigation programs. While local economies have suffered, our obligations to the U.S. Treasury have been met in full and on time. We need time to heal and to reshape our local economies to respond to challenges from abroad and from other regions. We need long-term contracts with BPA

where we don't have to worry each year about some administrative initiative in which we are not consulted. We need the ability to continue to be successful.

Therefore, we ask your support for binding language to:

One, prevent OMB from repeatedly suggesting changes in rate-making methodologies and/or the treatment of revenues from the sale of power and energy by BPA;

Two, that you include—

Ms. MCMORRIS. Mr. Langer, will you just summarize?

Mr. LANGER. Yes. That you submit language that would prevent this from happening again.

Thank you for this opportunity.

[The prepared statement of Mr. Langer follows:]

Statement of Dwight Langer, General Manager, Northern Wasco County People's Utility District, The Dalles, Oregon

Mr. Chairman and Members of the Committee, it is my honor and privilege to have this opportunity to share with you some serious concerns concerning current and proposed federal actions that affect wholesale power rates of the Bonneville Power Administration.

My name is Dwight Langer and I am General Manager for Northern Wasco County People's Utility District (a municipal electric utility corporation) in The Dalles, Oregon. The Dalles is in Oregon's 2nd Congressional District and very ably represented by your colleague, Rep. Greg Walden. My utility's offices look out on the beautiful Columbia River and are located 85 miles east of Portland, Oregon.

My comments pertain to the Administration's Fiscal Year 2007 proposed budget for the Department of Energy, Public Enterprise Funds—BPA. We are alarmed about both the particulars and the public process concerning the proposed future disposition of revenues from secondary energy sales by the Bonneville Power Administration. This proposal would shift the use of revenues for BPA when they exceed a set amount. It "changes the rules" on BPA debt repayment. The proposal is unfair and not consistent with the BPA ratemaking processes or sound business practices. My message today has three themes 1.) BPA rates have been high and painful the last few years. 2.) Administrative proposals that increase short term rates in the Northwest or that diminish the value of BPA to the region's customers, are unfair and unacceptable, and require Congressional review. 3.) Some of BPA's costs, such as fish mitigation, are excessive, beyond the Agency's control, and indicative of a lack of an overall plan that makes economic sense.

Northern Wasco PUD is a Full Requirement customer of BPA. Relying upon BPA as our exclusive wholesale supplier, we provide electrical services to our retail customers. Any changes in BPA rates for power supply or transmission services are passed on directly to our customers. The proposal for change due to "excess secondary revenue" has been estimated to cause an increase of 10% in BPA's wholesale rates to public power customers. A 10% BPA rate increase forces our utility to increase retail rates by at least half that amount, plus any increases over time reflecting our local operating costs. In summary, what happens to BPA financially finds its way directly into the pockets of our retail customers. With nearly 9,000 residential customers, the Administration's proposed budget for BPA would extract nearly \$400,000 per year from residential customers within Northern Wasco's service territory, as well as the compounding economic effects of reduced income and the impact on the business decisions of energy-intensive industries.

Northern Wasco PUD did not cause the Northwest energy crisis of 2000—2001, but we suffered the consequences. The combination of failed deregulation in the electric industry, higher than anticipated BPA loads, and a Northwest drought resulted in BPA imposing a 46% increase in its base rates on October 1, 2001. BPA reserves were inadequate to cover higher costs, and as a consequence the Agency triggered Load Based, Financial Based and Safety Net Cost Recovery Adjustment Clauses as an increase to the base rate structure. The Agency continues to make all required payments to the U.S. Treasury, an action which we fully support. However, this was not without severe economic consequences in Oregon, Washington, Montana and Idaho attributable to higher rates to assure full Treasury payment. BPA did what it could to cut costs, by \$100 million, undertook refinancings, and extension of Columbia Generating Station Debt. We commend their efforts. But they were not nearly sufficient to fully mitigate high market purchases when the Agency

was resource short, and as a result we were really hurt. We stood by the deal, though, paid the higher rates, and Bonneville made all Treasury debt repayments.

Now we are in a situation—and this may well be temporary— where BPA has secondary resources to sell and market prices are attractive. However, BPA's wholesale power rates are still 31% above 2001 base rates, and BPA's initial rate proposal for FY 07–09 includes an additional increase for next year. Given our current rate levels, it is inexcusable for OMB to make a determination that funds that would otherwise be available for rate relief should be siphoned off to pay down BPA debt. You simply don't make a double house payment of principal when there is not enough cash available to feed your family.

In an analysis by the Northwest Power and Conservation Council (NWPCC) [an independent council whose members are appointed by the respective governor's of Washington, Idaho, Oregon and Montana] this provision would have in part the following effects:

- \$145 million average increase in the annual cost of power from Bonneville to its publicly owned utility customers
- \$109 million decrease in regional personal income
- decrease in regional jobs by 1,120
- additional effects on aluminum and other energy-intensive industries
- \$18.5 million decrease in federal personal income tax revenues

The NWPCC goes on to state and I quote, "The proposal sets an alarming precedent by administratively imposing a mechanism on BPA that collects funds for national deficit reduction purposes. While the impacts we analyzed are relatively small in the first years of implementation, it appears that the Administration has the ability to further increase the dollar amounts in future budgets without the need for authorizing legislation."

We share the Council's concerns. But more importantly, the question becomes who should decide these issues that affect customers' pocketbooks? In the past BPA has run public processes to develop a long-term financial plan, showing many alternatives, and with good public participation. In this instance, if the Administration wants to abruptly change long standing BPA financial practices, then it is imperative that Congress weigh into this matter and determine what is in the public interest. We look to Congress to establish the "rules of the road" on Treasury obligations of BPA. In this case, it is unwise and unfair for OMB to change those rules, without action by Congress.

While we are not against early debt retirement and increasing borrowing authority, we need to have an open process that is also sensitive to the retail rates issue. Similarly, we need to stand back and objectively examine the rationale for counting BPA's third party debt against the Agency's U.S. Treasury borrowing authority ceiling even if it is expanded by \$200 million in FY 2009. Northern Wasco PUD is a transmission customer of BPA and we recognize the need for the Agency to make capital intensive investments in infrastructure to preserve and expand our regional transmission grid. Transmission is our "highway" and absent highways our regional commerce is significantly impeded.

In addition to discussing the Administration's budget proposals, I feel the need to use this opportunity to advise the Subcommittee of one other major variable impacting BPA costs, and consequently our rates. On the surface it seems compelling to considering BPA as a long-term power supplier, given the value of a hydro system, with no fuel costs, compared to other resources. However, BPA's fish and wildlife program costs of about \$340 million represent 20% of the Priority Firm power rate. In addition, because of the fish related constraints on power production, BPA foregoes another \$350 million in revenues that could otherwise be used to reduce rates. Fish and wildlife costs have increased 270% in the last ten years alone. These are our best estimates, but fish costs are difficult for us to track.

In addition through the Corps of Engineers Columbia River Fish Mitigation Project there are between \$1.5 - \$1.6 billion of Congressional appropriations for projects planned through 2014 which the Agency—through its customers—will have to pay.

But that isn't the end of the story. Federal action agencies have been subject to continued litigation by outside parties claiming that Federal hydro projects are not doing enough to protect Endangered Species Act stocks. These litigants have been successful attacking the value of the hydro system, while other critical recovery plan components, such as harvest, hatcheries, and habitat appear to receive only cursory examination.

We are concerned that we are rapidly depleting the value of our hydro system in pursuit of endeavors not based on the best available science, while forcing more expensive resource alternatives to be used that have their own negative environmental

consequences. We need an orderly plan, based upon the best available science that establishes reasonable limits on ESA financial obligations.

In conclusion, I believe that to all BPA customers' credit, we have weathered the storm of higher rates attributable to market conditions, supply availability, and excessive costs tied to fish mitigation programs. While local economies have suffered, our obligations to the U.S. Treasury have been met in full and on time. We need time to heal and to reshape our local economies to respond to challenges from abroad, and from other regions. We need new long-term contracts with BPA where we don't have to worry each year about some administrative initiative in which we were not consulted.

At Northern Wasco it is part of our philosophy that energy in all its forms, but in particular electric energy, is an essential service. We concur strongly with the President's statement in the State of the Union address that energy drives our economy and national security. We respectfully would add that adequate supplies of energy at affordable prices are the prerequisites for a vibrant and healthy economy which adds to the foundation for maintaining our Nation's quality of life and security. This budget proposal for BPA unfortunately appears to be at cross purposes with that philosophy.

Therefore, we ask your support for binding language to (1) prevent OMB from repeatedly suggesting changes in rate making methodologies and/or the treatment of revenues from the sale of power and energy by the Bonneville Power Administration; (2) that you include (again) language that OMB will not propose to interfere with the responsibilities of the customers of the Bonneville Power Administration without consultation with the congressional delegation of the Pacific Northwest; and (3) that third party financing for infrastructure cannot be scored against the financing limits for BPA.

Thank you for the opportunity to testify. I would be pleased to answer any questions the Members of the Committee may have.

Ms. MCMORRIS. Very good. OK, thank you for being here.
Mr. Hosken.

**STATEMENT OF CHARLES HOSKEN, GENERAL MANAGER,
IMPERIAL IRRIGATION DISTRICT, IMPERIAL, CALIFORNIA**

Mr. HOSKEN. Madam Chair, and other Members of the Committee, my name is Charlie Hosken. I am the new General Manager of Imperial Irrigation District. IID is a community-owned utility that provides water and electric power to consumers in Southern California.

My purpose here today is to oppose the President's Fiscal Year 2007 budget proposal to require the Western area, Southeastern, and Southwestern Power Marketing Administrations to raise the interest rate they charge for future capital investments.

IID has been in the electric business since 1936, and today serves more than 130,000 homes, businesses, farms, and industries in the Imperial Valley and parts of Riverside in San Diego Counties.

IID purchase 32 megawatts of Federal power from the Parker-Davis Project located on the Colorado River below the Hoover Dam. Although the Parker-Davis allocation is a relatively small part of our overall resource portfolio, it is one of our lowest cost resources and is critical to our ability to maintain affordable electric rates.

Today, Western, Southwestern, and Southeastern charge the treasury yield interest rate on capital investments in power facilities, which reflects their cost of government borrowing.

The President's Fiscal Year 2007 budget directs that these three PMAs instead use the higher government corporation rate that entities like Fannie Mae and Ginnie Mae use. Western tells us that

this rate will be about half a percentage point higher than the treasury yield rate.

What the Office of Management and Budget is doing by including this directive in the budget is to ignore the real cost of borrowing and use instead a higher proxy cost of borrowing in order to raise more money from the Federal power customers. This violates the principles of cost-based pricing and truth-in-borrowing.

OMB recently offered two explanations for its discriminatory treatment of the interest due on Federal debt for multi-purpose water projects. By the way, this rationale was not included in the budget when it was initially sent to Congress.

First, OMB claims that the new power investments at multi-purpose water projects should carry a higher risk premium because they depend on a revenue stream for repayment. That is actually nonsense.

Decisions to build multi-purpose projects are integrated decisions. The component parts of these projects are not financed individually. The entire project is conceptualized and financed as one.

Second, OMB argues that because the PMAs can repay the Federal investment on power facilities early, the initial investment is like a call bond that can be retired early and thus should bear a higher rate of interest. Again, this is also nonsense.

Any canceled Federal power contract would be replaced immediately by another identical or longer term power sale contract so the stream of repayment dollars to the treasury would be the same.

We suspect that OMB's rationale is simply to raise money from the Federal power customers. OMB is directing these PMAs to make the interest rate change because it has the power to do so administratively. IID thinks that this is a bad precedent and bad policy. We hope Congress will reject the proposal.

Thank you.

[The prepared statement of Mr. Hosken follows:]

**Statement of Charles Hosken, General Manager,
Imperial (CA) Irrigation District**

Madame Chairman and Members of the Subcommittee, my name is Charles Hosken and I am the General Manager of the Imperial Irrigation District (IID). IID is a community-owned utility that provides water and electric power to consumers in southeastern California.

A. Background on IID

IID was established in 1911 under the California Irrigation District Act. Today, IID is the largest irrigation district in the nation. It provides irrigation water to the Imperial Valley, which ranks among the top ten agricultural areas in the country. Ninety-eight percent of the water that IID transports is used for agriculture in the Imperial Valley. The remaining two percent is delivered to seven Imperial Valley cities and to unincorporated residential areas, which treat the water to safe drinking water standards and sell it to their residents.

IID entered into the power business in 1936, when access to electric energy in the Imperial Valley was very limited and very expensive. Today, IID Energy serves more than 130,000 homes, businesses and industries in the Imperial Valley and parts of Riverside and San Diego counties. These areas are experiencing very rapid growth in electrical demand, with growth rates of nine percent in Riverside County and six percent in Imperial County. These are among the highest demand increases in the country.

IID was one of the original contractors for federal power generated from the Parker-Davis Project and has been a Parker-Davis customer continuously since 1948. The Parker-Davis Project consists of the Parker and Davis Dams located on the Colorado River below Hoover Dam. The dams are owned and operated by the

U.S. Bureau of Reclamation; power generated from the projects is marketed by the Western Area Power Administration (Western).

IID's allocation of Parker-Davis power is 32 MW, representing approximately five percent of our resource portfolio. Although the Parker-Davis allocation is a relatively small part of IID's total resources, it is one of our lowest cost resources and, as such, is critical to our ability to maintain affordable electric rates.

IID's allocation of Parker-Davis power plays an important role in our local and regional economy. Unemployment in southeastern California is significantly higher than the national average and the per capita income of our customers is low. In addition, the extreme temperatures in this part of California result in higher per capita energy use than in other parts of the county. For these reasons, IID pays a great deal of attention to proposals to change federal power allocation or repayment policies.

I might add here, on a personal note, that until recently I was the General Manager of the Chelan County (WA) Public Utility District, which is a customer of the Bonneville Power Administration. During my tenure at Chelan, I was engaged in a number of battles with the Office of Management and Budget (OMB) over repayment policies for the power marketing administrations.

B. OMB Announcement of Administration's Intent to Raise Interest Rate on Future PMA Investments

The President's Fiscal Year 2007 budget announces the Administration's intention to require the Western, Southeastern and Southwestern Power Marketing Administrations (PMAs) to change the interest rate they charge for future capital investments in power-related facilities from the "Treasury yield" rate that these PMAs currently use to the "government corporation" rate that entities like Fannie Mae and Ginnie Mae use. This new policy will be applied to new power related investments at projects whose interest rates are not specified in law.

According to Western, the impact of the interest rate increase will be about .4 of one percent. This will translate to an increase in costs to the Parker-Davis Project of about \$1.8 million over five years. While the amount of money at stake might seem small, there are very important principles at stake. Those principles are 1) the application of cost-based pricing for federal power; and 2) "truth in borrowing" or "truth in repayment."

C. Fallacies with Administration Plan

The foundation of the federal power program is that power is sold at cost-based rates. The real interest cost to the government for a water or power project is the cost the government incurs when it builds a project.

If a government corporation, like Ginnie Mae or Fannie Mae, builds a project, the real interest cost is the government corporation's interest rate at the time of construction.

On the other hand, if the federal government itself builds a project, such as a water and power project, the real interest cost is the government's borrowing cost at the time of construction.

In the case of new capital investments in the Parker-Davis Project and the other federal power projects that will be affected by this interest rate change, the federal government itself will be the borrower. So, the actual government borrowing rate should apply—not some "proxy" rate as proposed by the Administration.

This change is proposed, apparently, in a scramble for additional revenue. Using the same rationale ("the more cash the better") and applying the same justification for the current proposal, the Administration could just as easily have chosen Wall Street's prime rate or the rate credit card companies charge the government on government-issue credit cards.

To justify the interest rate increase, the Administration notes that the Bonneville Power Administration pays the "government corporation" rate on its new investments. While true, the explanation in no way amounts to a justification for the Administration's proposal. What the Administration failed to say is that the BPA interest rate was part of a package of legislative changes that the Northwest delegation proposed and enacted almost ten years ago, to restructure BPA's overall debt to address concerns about cost recovery. No debt restructuring is involved here, so the BPA example is not relevant. It certainly supplies no rationale for the Administration's proposal to depart from the principles of cost-based pricing for PMAs and the federal government's departure from the principle of "truth in borrowing."

D. Recent OMB Explanations of Change in Administration Policy.

We understand that OMB has recently offered two explanations for its discriminatory treatment of the interest due on federal debt for multi-purpose water projects which were not included in the budget package sent to Congress. First, it argues

that the investments should carry a higher risk premium because they depend on a revenue stream for repayment. Second, OMB argues that since PMAs can repay power feature investments early, investments which depend on them for repayment are akin to investments financed through "call" bonds (implying the possibility of early debt retirement). The Treasury currently does not use "call" bonds, but if did, OMB argues that Treasury would have to pay a higher interest premium on them. Thus, OMB argues, power customers should also pay a higher interest rate on investments costs allocated to the power function of multipurpose projects.

Neither argument has anything to do with federal decisions to develop natural resources or the federal government's borrowing cost at the time multipurpose water projects were constructed. They advance never-before-heard theories which are odd, at best, and which read more like after-the-fact attempts to justify the Administration's announced intention of revenue enhancement rather than justifications for determining the interest rate attributable to reimbursable features of multi-purpose water projects.

Multi-purpose water projects are fundamental investments in the nation's infrastructure and natural resources to yield navigation, flood control, irrigation, recreation and power benefits. The decisions to build them are integrated and, once the benefit-cost ratios of their features are established, there is no separate conceptualizing or financing of their component parts. The benefits they produce, including electricity, occur no matter what, and the cost-based rates charged for the power produced removes all market risk of non-sale. Finally, the justification for a higher risk being attributed to power features because a power contractor's contract might be "called" early is nonsensical. Any cancelled power contract would be replaced immediately by another identical or longer-term power sale contract so the stream of repayment dollars would be identical to the federal government.

E. Recapitulation

What is the rationale for this discriminatory treatment? Essentially, OMB chose to increase interest rates for the Parker Davis and Central Valley Projects because it could.¹ The interest rates for the other projects are set by statute, and OMB could not reach them through an administrative decision.

Recognizing the value of cost-based federal power to consumers, Congress has repeatedly rejected OMB initiatives to change PMA rate-setting policy. This year, OMB is trying a different tack: proposing administrative changes that will not require Congressional approval. We think this sets a very bad precedent for federal power rates, and we encourage this body to reject the proposal.

Ms. MCMORRIS. Thank you.

Mr. Graves.

STATEMENT OF THOMAS GRAVES, EXECUTIVE DIRECTOR, MID-WEST ELECTRIC CONSUMERS ASSOCIATION, WHEAT RIDGE, COLORADO

Mr. GRAVES. Thank you, Madam Chairman and Members of the Committee. I am Thomas Graves, Executive Director of the Mid-West Electric Consumers Association in Wheat Ridge, Colorado. I also serve as the Chairman of the National Preference Customer Committee of the National Rural Electric Cooperative Association. We certainly appreciate the opportunity to testify before the Subcommittee today on the Federal power program.

Mid-West was founded in 1958 as the regional coalition of consumer-owned electric utilities in the Missouri River Basin that purchased hydropower generated at Federal multi-purpose projects in the basin and marketed by the Western Area Power Administration under the Pick-Sloan Missouri Basin Program.

¹I would also point out that, in Western's service area, the OMB proposal would only apply to the Parker-Davis Project and the Central Valley Project. It would not apply to the Pick-Sloan Project, to Hoover Dam, to the Colorado River Storage Project or to the Fryingspan-Arkansas Project.

The Administration's budget request for Fiscal Year 2007 includes three troubling issues to the Federal power program, troubling in substance and troubling in process. They are proposing to administratively change the interest rate on new Federal power investments. They are proposing to reallocate certain irrigation costs in the Pick-Sloan Missouri Basin Program, and they are also proposing to administratively change the management of secondary revenues for the Bonneville Power Administration.

Historically, the interest rates charged on Federal power investment has been the Treasury's long-term rate yield. The Treasury provides this data to PMAs every year for the interest rate to be charged for investment booked in that year. Those investment cost plus interest are repaid to the Treasury through power rates charged to Federal power customers.

Now the Administration proposed to charge an agency rate which they say is the rate charged to governmental corporations. That is great, except the Federal Power Marketing Administrations are not government corporations. They do not have the same authorities or the same responsibilities. They do not have borrowing authority.

The Power Marketing Administrations are Federal agencies within the Department of Energy and are funded annually by congressional appropriations.

The current practice of using Treasury's long-term yield rate has worked well, and it is wrong to assign an interest rate formula for government corporation to Federal agencies that are in fact not government corporations.

The proposed reallocation of the Pick-Sloan Missouri Basin irrigation investment is apparently a rehash of a similar proposal in last year's budget request. It is quite hard to tell exactly what is proposed since, again, there is no legislative language or even a detailed explanation of this proposal.

The short explanations in the budget are inconsistent. One section calls for repayment of construction costs. Another section calls for repayment of construction and operation costs. It is simply impossible for us to parse this issue until we know exactly what is being proposed.

The budget request erroneously states that Pick-Sloan power customers have not heretofore been responsible for repaying these costs. Pick-Sloan customers are responsible for repaying all the costs of the power investment, joint costs allocated to the power function and a huge portion of the investment costs related to irrigation. Currently in our rate there is some \$727 million related to irrigation development that is the responsibility of the Federal power customers under aid to irrigation.

These repayment obligations have been organized under the concept of ultimate development which sets the schedule and timing for the repayment of these investments.

The budget process remains an inappropriate forum to undertake a reform of this sort of magnitude. The allocation and repayment of the Federal investment in Pick-Sloan Missouri Basin program is extremely complex, and is the result of years of negotiations in the basin. It cannot be easily undone.

The consequences of tinkering with ultimate development go far beyond any financial spreadsheet that OMB may be looking at.

In the first session of this Congress, a bipartisan delegation of Members of Congress from the region and from the full committee here expressed their opposition to this proposal. Those reasons remain valid today.

The Administration also currently plans to implement administratively a change in Bonneville's repayment practices. This is incorrect. Administrative approaches to changing the Federal power program we find strongly objectionable. We oppose any attempts to remove Congress from its historical role in providing oversight and policy direction for the Federal power program.

The National Rural Electric Cooperative Association recently adopted a resolution to that effect. A copy is attached to my testimony.

We are well aware of the budget difficulties facing Congress on the issue of deficits that you confront every day. Deficits force unenviable choices in curtailing government spending. For the PMAs, limited budgets and earmarks can mean changes in programs. We think there is a better way to do this.

The annual costs of the Power Marketing Administrations are turned to the Treasury every year in which they are incurred. The budget process does not recognize this. We would suggest for the annual costs of the PMAs a net-zero appropriation that recognizes this is a not a permanent outlay would assist the Congress in dealing with its responsibilities while maintaining the integrity and reliability of the Federal power program.

Thank you.

[The prepared statement of Mr. Graves follows:]

**Statement of Thomas P. Graves, Executive Director,
Mid-West Electric Consumers Association, Wheat Ridge, Colorado**

Good afternoon, Mr. Chairman. I am Thomas Graves, Executive Director of the Mid-West Electric Consumers Association, headquartered in Wheat Ridge, Colorado. I also serve as chairman of the National Preference Customer Committee of the National Rural Electric Cooperative Association. We appreciate the opportunity to testify today before the House Resources Subcommittee on Water and Power on the federal power program.

Mid-West was founded in 1958 as the regional coalition of consumer-owned electric utilities—rural electric cooperatives, municipal electric utilities, and public power districts—that purchase hydropower generated at federal multi-purpose projects operated by the U.S. Army Corps of Engineers and the U.S. Bureau of Reclamation. Mid-West members utilize federal hydropower marketed by the Western Area Power Administration under the Pick-Sloan Missouri Basin Program in nine states—Montana, Wyoming, Colorado, North Dakota, South Dakota, Nebraska, Kansas, Minnesota, and Iowa.

The National Preference Customer Committee of the National Rural Electric Cooperative Association is comprised of federal power customers across the country and their regional associations.

The Administration's Budget Request for Fiscal Year 2007 includes three troubling proposals relating to the federal power program:

- Changing the interest rate on new federal power investments;
- Reallocating certain irrigation costs in the Pick-Sloan Missouri Basin Program; and
- Changing the management of secondary revenues of the Bonneville Power Administration.

Historically, the interest charged on federal power investment has been the U.S. Treasury's long-term yield rate. Each year, the Treasury provides to the Power Marketing Administrations the interest rate to be charged for investments made in that year. Those investment costs plus interest are repaid to the Treasury through power rates charged to federal power customers.

Now, the Administration has stated that it intends to change that practice and charge the "agency rate," which is the rate charged to governmental corporations. The difference between this rate and Treasury's long-term yield rate is described as "small," averaging about .4 per cent, which would garner about \$2-3 million per year from federal projects where the interest rate is not set by law.

The federal Power Marketing Administrations—Western, Southeastern, and Southwestern are not government corporations. They do not have borrowing authority or other authorities available to government corporations. The Power Marketing Administrations are federal agencies within the Department of Energy and are funded annually by congressional appropriations.

The current practice of using Treasury's long-term yield rate has worked well for decades. It is wrong to assign an interest rate formula for a government corporation to federal agencies that are not government corporations.

The proposed reallocation and acceleration of Pick-Sloan Missouri Basin investment is apparently a rehash of a similar proposal in last year's Budget Request. It is hard to tell exactly what is proposed since there is no legislative language or even a detailed explanation of the proposal.

The short "explanations" that have been offered are inconsistent. One section of the Budget calls for repayment of vaguely defined construction costs—"Power customers will be responsible for repayment of all construction from which they benefit." (p. 188 Department of Interior: Mandatory Proposal Recover Pick-Sloan Project Costs). However, Bureau of Reclamation Highlights (BH- 36) calls for "repayment of construction and operations costs..."

The Budget Request erroneously states that Pick-Sloan power customers have not heretofore been responsible for repaying these costs. Pick-Sloan power customers are responsible for repaying all the costs of the power investment, joint costs allocated to the power function, and a huge portion of investment related to irrigation. These repayment obligations have been organized under the "ultimate development" concept.

Most simply put, the Administration's Budget Request would destroy the ultimate development concept that allocates costs among the various project purposes and determines repayment practices.

The budget process remains an inappropriate forum to undertake a reform of that magnitude. The allocation and repayment of federal investment in the Pick-Sloan Missouri Basin Program is an extremely complex issue that is the result of years of negotiations in the basin. It cannot be easily undone. The consequences of tinkering with ultimate development go far beyond any financial spreadsheet.

In the first session of this Congress, a bi-partisan delegation of Members of Congress from the region and from the full committee expressed their opposition to this proposal. Those reasons are still valid.

The Administration currently plans to implement the change in Bonneville's repayment practices and imposition of higher interest rates for PMA power-related investment through administrative actions rather than seeking Congressional endorsement and action.

We strongly object to any attempts to remove Congress from its historical role in providing oversight and policy direction for the federal power program. The National Rural Electric Cooperative Association passed a resolution at its annual meeting last month opposing these changes. A copy is attached.

We are well aware of the budget difficulties Congress faces. Deficits force unenviable choices in curtailing government spending. For the Power Marketing Administrations, limited budgets have been further curtailed by earmarks in construction programs for new work not included in its proposed budgets. Last year, Western had some \$6 million earmarked for projects not in the current work plan. Without additional appropriations, that sort of earmarking can wreak havoc with planning PMA construction projects.

Federal power customers have worked diligently to help maintain the reliability of the federal power systems. The Western Area Power Administration, for example, has over 17,000 miles of high voltage transmission facilities in fifteen states that serve all utilities in the region.

In Pick-Sloan, we have established the Western States Power Corporation to provide stop-gap funding for critical projects whose funding is precluded by the deficit issues confronting Congress. Other regions have established similar financial mechanisms to deal with funding shortfalls. That being said, none is in a position to shoulder all the funding needs of the PMA's and federal generating agencies.

Federal power customers are also partnering with the Power Marketing Administrations in ensuring adequate transmission. The recently completed Path 15 in California is but one example of this sort of collaborative relationship. In Pick-Sloan,

Tri-State G & T and WAPA are working together to develop much needed transmission through the East Plains Transmission Project.

Mid-West thinks there are approaches to funding the federal power program that would ensure adequate funding for the Power Marketing Administrations, while preserving Congress' role in determining budget levels and oversight. Federal power customers believe strongly in the role of Congress and the federal power program.

The budgets of the PMA's can be divided into two major categories—capital investment and annual expenses. Both of these categories are funded through congressional appropriations. Both of these categories repay those costs to the U.S. Treasury.

The annual expenses of the PMA's—program direction and operations and maintenance—are funded by congressional appropriations each year, but are "scored" as if they are permanent outlays of money. Those dollars are returned to the U.S. Treasury by the end of that fiscal year.

So, in reality, the annual costs of the PMAs have no impact on federal deficits. Sadly, the congressional budget process does not recognize this. As a consequence, PMA's find their annual budgets curtailed by appropriations committees' spending allocations or reduced by deficit reduction measures.

The current funding practice does not contribute to Congress' management of federal deficits and threatens the reliability of the federal power program.

Mid-West suggests that a "net-zero" appropriation for the PMA's annual expenses recognizes the fact that these costs are not a permanent federal outlay of monies and helps to ensure that the PMAs will have adequate resources to fulfill their mission. In fact, last year, the Administration included this concept in their Budget Request to Congress. The Federal Energy Regulatory Commission is currently funded by such a mechanism.

A net-zero appropriation would maintain congressional budget authority. The PMAs would still submit a budget to Congress. Congress would still set the spending levels for these annual costs, as well as PMAs' capital programs. Congress would maintain all of its oversight authorities as well.

Federal power customers wouldn't have it any other way.

Thank you.

[Attachments submitted for the record by Mr. Graves follow:]

Congress of the United States
Washington, DC 20515

May 27, 2005

The Honorable Richard Pombo, Chairman
The Honorable Nick Rahall, Ranking Member
House Committee on Resources
1324 Longworth HOB
Washington, DC 20515

Dear Chairman Pombo and Ranking Member Rahall:

As the Resources Committee moves to meet reconciliation mandates set forth in the FY 2006 House Budget Resolution, we urge the committee to reject any proposal to raise power rates for consumers receiving electricity from federal generating facilities within the Pick-Sloan Missouri River Basin project (Pick-Sloan).

In its FY 2006 budget request, the Administration proposed redistributing the repayment costs of dams and power plants within Pick-Sloan to the power customers in the multi-state area in which they serve. The proposal states *"approximately \$500 million of unpaid construction and operation costs could be recovered from power customers who benefit from the finished facilities."* According to a 1997 Department of the Interior (DOI) report, redistributing these costs could lead to an almost 20 percent power rate increase in the Pick-Sloan region. This severe rate increase would be felt most in many rural communities in seven states already suffering through severe drought conditions, depressing any hopes of an economic recovery in areas of Montana, North Dakota, South Dakota, Wyoming, Kansas, Nebraska, Colorado, Minnesota and Iowa. These same communities would feel a double hit if the Administration's market-rate proposal for the Power Marketing Administrations is enacted.

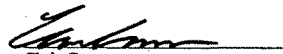
The Administration's proposal fails to recognize that the construction of the Pick-Sloan facilities benefits not only the recipients of power in the Upper Pick-Sloan region but provides flood control, navigation, recreation, and water for irrigation, municipal and industrial use. By placing additional costs only on the federal power customers, the Administration is cherry-picking only one piece of a very complicated multi-state, multi-purpose development plan.

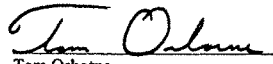
The budget reconciliation process is not the appropriate forum to consider such significant changes to cost allocations in Pick-Sloan. If a legislative proposal of this magnitude were undertaken, it would require a significant amount of stakeholder input. In its 1997 report the Department of the Interior recommended that *"if Congress determines that costs should be reallocated, Reclamation, the Corps; and Western [Western Area Power Administration] would propose to undertake a comprehensive public participation process."* Clearly, the accelerated timeline of the budget reconciliation process does not lend itself to this type of deliberative stakeholder input. For these reasons we believe the Resources Committee should reject the Administration's punitive proposal to raise rates on consumers in the Pick-Sloan Region.

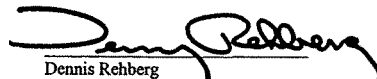
We appreciate your attention to this matter. If we can answer questions or provide assistance with any of the issues brought to your attention in this letter, please do not hesitate to contact us.

Sincerely,



Barbara Cubin
Member of Congress

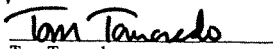

Chris Cannon
Member of Congress

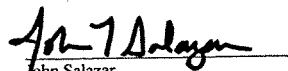

Tom Osborne
Member of Congress

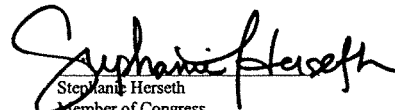

Dennis Rehberg
Member of Congress

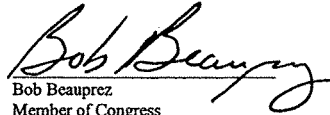

Steve King
Member of Congress

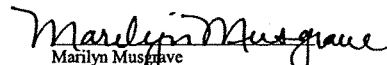

Lou Perry
Member of Congress


Tom Tancredo
Member of Congress

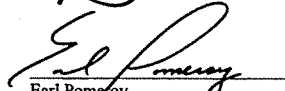

John Salazar
Member of Congress



Stephanie Herseth
Member of Congress

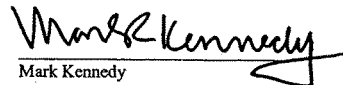

Bob Beauprez
Member of Congress

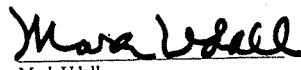

Marilyn Musgrave
Member of Congress


Joel Weller
Member of Congress


Earl Pomeroy
Member of Congress


Collin Peterson
Member of Congress


Mark Kennedy
Member of Congress


Mark Udall
Member of Congress

Power Marketing Administration Power Rates

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Federal power rates based on costs have historically resulted in an efficient use of water resources. The historic rate policy of cost-based federal power pricing is a commitment of the Federal Government to the American people. This enables the federal power program to continue its vital role as a yardstick for competition in the electric utility industry.

Straight-line amortization, surcharges, increased interest rates and other changes for accelerated repayment by power marketing agencies have been proposed by the Office of Management and Budget under various Administrations as well as by Members of Congress. Similarly, the President's FY 2007 Budget Request announces acceleration of Bonneville Power Administration debt payments for federal deficit reduction and an arbitrary increase in the interest rate for power investment of other power marketing administrations. This is nothing more than another discriminatory tax that would fall inequitably upon millions of rural Americans. The Administration has offered no justification for these changes. The Administration intends to implement these major changes administratively, thus thwarting the will of Congress and its historical responsibility for oversight of the federal power program. We urge the Administration to reverse these decisions. And, we urge Congress to block these decisions and others that abandon the fair, reasonable and equitable principles that have guided the pricing of federal power for nearly a century.

We support the retention of the historical principles of cost-based federal power pricing and support federal power rates that recover only those costs that are authorized by statute. (06-H-1)

Ms. McMORRIS. Thank you very much. Really appreciate each one of you being here today. I wanted to start with a follow-up question to Mr. Peterson from Pend Oreille PUD, because in the midst of this proposal from the Administration you are still dealing with a lot of uncertainty as to the way the Endangered Species Act is implemented and the impact that it is having on the Pend Oreille PUD and specifically the Box Canyon Dam project that you operate.

It is my understanding that in 2001, FERC issued 228 hydro licensing projects and asserted that the average cost of protection, mitigation, and enhancement (PMEs) dollars nationwide was 212 per kilowatt. The Box Canyon Project PMEs right now are 3,100 per kilowatt.

So I just wanted to ask if you would explain why Box Canyon has 14 times the national average, and then also just expand a

little bit on the impact that it is having on a very small county in northeastern Washington, a county of 10,000 people, and the largest employer, Ponderay Newsprint. Thanks.

Mr. PETERSON. Well, the short answer is they are so much higher for us because we are being picked on.

[Laughter.]

Mr. PETERSON. And this is an illustration of the inconsistency with the application of ESA, and a large river basin in the northeast part of our state known as Unit 22 only one small area was designated as critical habitat for bull trout. It happens to be our small reservoir where a FERC licensing proceeding was going on.

It looks like Federal agencies saw money rather than an opportunity to preserve a species. We do not have bull trout populations in our area. We are designated critical. There are other areas that have bull trout populations and are not so designated as critical.

Ponderay Newsprint is indeed an important employer, not just in our county, but in the entire northeast region of the state. It is interesting that the two subjects I testified to come together in their case. Our own resources, which we serve them with, is being impacted by ESA-related issues in our FERC license.

The Bonneville product that we purchase for them is subject to influence as Bonneville's costs go up PMC's costs go up. In an industry in papermaking where 30 percent of their budget is energy cost, it is critical that we keep rates low on every front.

Ms. MCMORRIS. Very good. Thank you.

I want to just have each of you briefly—the timer was not working, so we will just try to do it quickly, but I wanted just to have you talk a little bit about security costs. It seems that most water and power customers are willing to pay their fair share of 9/11 security costs but they believe that transparency and certainty are needed.

Has there been any progress on getting more transparency and certainty on these costs, and how would you guarantee transparency and certainty without undermining national security?

Mr. MCCLENNAN. I am not certain there is a formula. I think your opening statement, Madam Chairman, was appropriate in that I think there are costs that the consumers are willing to, or the customers are willing to bear if you can assure us that they are actually security costs and that they are for maintaining those provisions as they relate to in our case the power functions.

I think from our perspective it is inappropriate for us to just pick up the tab for security cost for the entire projects based on either historical allocations. I think you have to look at what is the value of those.

I guess the answer to your question is, one, there could certainly be additional congressional oversight as it relates to the costs associated with this; and then second, I think Congress needs to look at with the agencies whether or not there is a cap, if you will, or some funding mechanism that caps the exposure from the consumer side or the customer side because if you simply allow them to continue to recover costs on security as you continue to go you, you will just see what happens as we see in other programs. They just move dollars around.

So I think a couple of things that clearly you could look at as you go forward or the agency look at as you go forward is, one, can you cap the exposure which the customers are facing; and second, can you have an allocation of those costs that actually reflect what happens as it relates to those costs or who should bear the cost of those because having those—I mean, generally what happens at all of these programs, ESA is a perfect example as well, is because we have, if you will, that can raise dollars from the program, paying for the power, we are always looked at as the cash register for each of these programs, whether it is ESA-related, adaptive management-related, security cost-related or otherwise.

So I think it is important to be able to find some way to cap that, and then find some way to allocate appropriate fairly to those who are bearing the burden.

Ms. MCMORRIS. Would anyone else, Mr. Hosken?

Mr. HOSKEN. Madam Chair, the issue of security costs at a Federal dam, they are pretty significant issue. I have experience with the non-Federal major dam on the Columbia River where we installed state-of-the-art security.

The best thing we did was vet this in the public forum. We had workshops on it. We made sure the public knew what we were doing to the extent and scope, and we had a lot of good input, but basically what we got from a lot of our constituents do not gold-plate it. It is to protect the facilities, but really you need to protect the people working there, but you can do that in a manner where you do not have to break the bank, and I guess that is the kind of thing that you can talk about this quite a bit in a public setting, and get good public input.

The very specific details, well, that is for a different story, but not overdoing it, and making sure you know what you are trying to accomplish when you are done because it can be a moving target, and security is like safety in many respects, very important, but how far do you go with it?

You have to be reasonable and you have to be prudent, and I do believe in my experience having a good public vetting of these issues is really where you get the best value. Thank you.

Ms. MCMORRIS. Does anyone else wish to comment? Mr. Pope?

Mr. POPE. Thank you. I second the remarks, but the national critical infrastructure as set forth in the Nation possibly could be interjected into the process of transparency and a cap as was stated earlier. It gives you a guideline of what should be covered under security costs and I do support a transparency and a cap.

Ms. MCMORRIS. OK, Mr. Graves.

Mr. GRAVES. Thank you, Madam Chairman. I think one of the problem is the Bureau of Reclamation, as I understand it, is allocating their security costs based on the cost/benefit ratios that were made when they designed these projects as to who is going to pay for what.

In fact, that is not appropriate because the benefit is different than the danger of the risk. If we lost a power plant at one of the Bureau's dams, that would certainly not be a happy event. It would not compare to if we lost the dam because then you would be threatening water supply, irrigation, downstream flooding. All of

those are a much more dangerous event than the loss of a single powerhouse.

So we think the very formula they are using to allocate these costs is flawed.

Ms. MCMORRIS. OK, thank you.

Ms. Napolitano.

Ms. NAPOLITANO. Thank you, Madam Chairwoman.

Mr. Pope, on page 8 of your statement you state that Congress expressly anticipated the contributions to the Central Valley Project Restoration Fund would be cut in half within 10 years of the date of enactment of the CVPIA.

Where does the source of that statement come from?

Mr. POPE. The source of that statement came from the CVP Improvement Act that was enacted in 1992, and the basis of that was that the improvements needed to be made, and everyone recognized that the environment needed to be protected. The idea was the first 10 years we are going to focus on the capital improvements, and it would move toward more maintenance and operation.

The idea is the 33 projects would be completed, and once complete they would be just operation and maintenance of those projects, and any capital investment would be completed in 10 years.

We have now been through the process of 14 years, and that it is time to review the accomplishments in the CVPIA.

Ms. NAPOLITANO. Thank you. And given that, could you provide this Committee the information of where in the Act this is addressed?

Mr. POPE. Yes.

Ms. NAPOLITANO. You do not have it with you.

Mr. POPE. I do not have it with me.

Ms. NAPOLITANO. But you can submit it to the Committee?

Mr. POPE. I can.

Ms. NAPOLITANO. OK, a follow-up question is your organization a few months ago asked the Department of Interior to review its implementation of CVPI Act. In the letter, you signed to Assistant Secretary Mark Limbaugh, "The contractors conclude that their responsibilities under Section 3406 are sufficiently complete to satisfy the language of Section 3407[b][2][A]."

Is it your position then that most of the goals have been accomplished?

Mr. POPE. It is our position that the goals have been accomplished. We have sat down with the Department of Interior and the Bureau of Reclamation and have agreed to a process to come to an agreement on what goals are complete and develop a criteria through a stakeholder process going forward.

In our belief, we feel that the 33 projects are complete, and there has been reasonable effort toward that completion over the last 14 years.

Ms. NAPOLITANO. Thank you. Then I would ask, I have a couple of minutes here, to Mr. Hosken. Do you believe that the interest rate that the Western Area Power Administration now applies to new investments in Federal power utilities, the so-called Treasury yield rate, is the right measure of the Federal government's borrowing costs for new construction?

Do you know why the Administration is proposing to change the interest rate on construction going forward?

Mr. HOSKEN. I do understand the interest rate they are being charged, and I do believe that the move by OMB is to increase revenues to the Federal government. I believe there is a view that the power users are able to share that burden when it is spread over such a large number of constituents that nobody will have that significant of an impact.

That is a major concern for us. It is a major concern that when is it going to end. Is OMB going to find ways to chip away at us where they have the ability to do so?

The rates the Federal government pays for capital investment is the rate we should pay as users of that power.

Ms. NAPOLITANO. And you have testified the amount of money at stake here is not that large, or large. Why would Imperial then oppose the interest rate change?

Mr. HOSKEN. Imperial Valley is one of the lowest income per capita county areas in the State of California. The last thing we want to do is add additional cost to already an area that is burdened with cost structures that they struggle with daily.

We have a large population of folks coming into the country. They work hard. It is an irrigation district-based area where we have farming. These folks are living pay check to pay check. The last thing we ever want to do is add an additional surcharge to their bill to cover these costs that we do not think are fair or are appropriate.

Ms. NAPOLITANO. Right, but most of those costs are for agriculture, not necessarily for cities. Most, what is it, 80 percent, 90 percent is ag, and the other—I cannot remember the percentage, but it is quite small.

Mr. HOSKEN. Yes. Ninety-eight percent of our irrigation water is used for farms.

Ms. NAPOLITANO. Ninety-eight.

Mr. HOSKEN. But the thing is of the 130,000 electric customers we have, that is where the impact is really the most. That impact is on 70 some thousand customers within Imperial County who are living barely above the poverty level. They cannot afford any additional cost increases, and when you look at the cost of gas to fuel some of our power plants right now, we are charging a lot more than we would care to.

We would love to be able to charge less. We are looking aggressively at that, but this is a cost adder that we cannot do anything about.

Ms. NAPOLITANO. Thank you, Madam Chairwoman.

Ms. MCMORRIS. Ms. Musgrave.

Ms. MUSGRAVE. Thank you very much.

Mr. McClennan, proud to have a couple of Coloradans here today, and I have a couple of questions for you.

You talked about Tri-State being involved with the joint transmission project with Western Area Power Administration on the eastern plains of Colorado and into Kansas, and I think you stated earlier that was about 700 miles of transmission line.

Could you explain Tri-State's interest in this very extensive transmission project?

Mr. McCLENNAN. Thank you, Congresswoman.

About a year ago our board made a decision that we need to develop significant infrastructure in our region, which includes Colorado, Wyoming, Nebraska, New Mexico obviously, to meet the load growth needs. And so as we looked out to do that our board made a decision to invest in a significant generation assets. But to be able to do that we needed to get it delivered to places along the front range and other places in Colorado.

So as a part of that, in what I will call the front range or the eastern half of Colorado, there are significant transmission constraints to deliver both existing resources as well as future resources. And so we began to move forward with a project.

During the course of that sat down with Western, who has some significant constraints delivering to its loads as well, and have worked out now, we hope, a joint transmission project which will be one of the largest projects developed on the transmission side certainly in a long time.

So our interest in that project is to deliver what we need in terms of significant generation to meet our membership needs. I think certainly Mr. HacsKaylo can testify about Western's needs on it, but I think what it also does is provides a tremendous opportunity to increase the backbone and efficiencies at least in the state and in the region in fact, to increase transmission assets.

So it is one of those areas where I think, if you will, the Federal government's role in working with its consumers and customers is appropriate to have the agency work with us on the development of the project, have the permitting moved forward, and then be able to get significant generation assets in place for both the state and the region.

Ms. MUSGRAVE. Thank you. I wondered also if you could comment on projects that, or wind generation in this area. You know, it is just an optimum area for that. So what opportunities would this project provide for the development of new wind generation resources?

Mr. McCLENNAN. Thank you, Congresswoman.

I think what it does is it creates in an area where there are transmission constraints, certainly the eastern plains of Colorado have a significant transmission constraints today, it provides an opportunity to take advantage of that what you described was the wind opportunities on the eastern plains. It will create a backbone system.

Now, I want to be careful here. We are not creating an interstate highway. This will be a toll road. There will be significant expenses for people to hop on and hop off of this process. This is certainly not by any means inexpensive in the transmission world. But what it does is it creates a backbone that does not currently exist for additional, whether it be biomass, wind. Actually in fact it would be other fossil-based resources out on the eastern plains that are not currently—were not currently available to do based on the current transmission system.

So I think it is a phenomenal opportunity, to answer your specific question about wind, to have a backbone system that they can utilize from the eastern plains of Colorado.

Ms. MUSGRAVE. Thank you for your fast-talking answers. I appreciate it. Thank you.

Ms. MCMORRIS. Very good. Yes, Mr. Walden.

Mr. WALDEN. Thank you, Madam Chair.

Dwight, thanks for being here, and thanks to all our panelists. Sorry I had to step out for a moment when you testified, but I have your testimony.

What do you think the financial impact of the current OMB budget proposal on the customers of the Northern Wasco PUD, of which I might add I am one? What do you think that is going to be? How do you look at this impact?

Mr. LANGER. The impact on our customers, Representative Walden, on an annual basis, so my testimony, as you read, for all of BPA customers is about \$145 million a year. To our 8,500 customers, it would be \$400,000 additional revenue taken from our residential customers.

The danger of this proposal, in addition to that, not that—

Mr. WALDEN. Right.

Mr. LANGER.—additional rate increases is not bad enough, but the precedent that this sort of action makes. If they are going to take the revenues, which they claim are excess, which is not excess—

Mr. WALDEN. Right.

Mr. LANGER.—beyond a certain amount. If the bar is set at \$500,000, what is it going to be next year? If it can be administratively changed so it is not only—

Mr. WALDEN. How did they pick 500 million?

Mr. LANGER. Have no idea.

Mr. WALDEN. See, I look at this as like I am paying down a home mortgage, and for 50 years I have been paying on time with interest. They came in and they said, you know, we are going to refinance you here, which they did what in 1994 or some time.

Mr. LANGER. Yes.

Mr. WALDEN. And we resolved—

Mr. PETERSON. 1996.

Mr. WALDEN. 1996, before I got to the Congress. Resolved all these past questions about whether ratepayers in the Northwest are paying their fair share and paying down debt and paying it on time, resolved all of those

Now I am on this new mortgage plan, and I am making my payments every month. Then at work I get a raise. And now my mortgage company says, hey, that raise you just got, kick it into the principal here. And I say, wait a minute, I have an agreement with you on what I owe every month.

I do not care. Kick in the principal. Kick it in.

Am I looking at this right? Is not that—

Mr. LANGER. Yes.

Mr. WALDEN. And I have seen wild swings in the energy market, so have all of you, and I saw what happened to ratepayers in the Northwest in an environment that was going to be sort of free of regulation. We saw what that got us.

Mr. LANGER. Yes.

Mr. WALDEN. And we have never recovered from those rate increases.

Mr. LANGER. That is exactly right. We are still recovering, the region, and Bonneville Power Administration and its customers have done a wonderful job trying to—in managing a tremendous challenge.

Mr. WALDEN. Yes, they have.

Mr. LANGER. California also has experienced the same—is aware of the same problem.

Mr. WALDEN. But if we get a bad water year and we do not have the power to flow when we need—the water to flow to make the power to build, we could eat up those reserves pretty rapidly, could we not?

Mr. LANGER. Exactly.

Mr. WALDEN. And then what happens?

Mr. LANGER. This proposal looks only at the costs or the revenues. It does not look at what those costs are. In your analogy about the mortgage company taking the money and putting it toward principal, that was money that you had budgeted to feed your family.

We have costs in the Northwest that we do not know what the costs are going to be if there is purchases that need to be made on the market.

Mr. WALDEN. What if Judge Redden says spill more water, instead of 150 million, it is 300 million out of the system, then what happens?

Mr. LANGER. None of that is taken into account in this proposal. Bonneville would have to increase its rates further.

Mr. WALDEN. I do not get it. None of this makes sense to me. I did not come here to raise peoples' power rates. I do not know anybody in this body that did.

Mr. LANGER. No.

Mr. WALDEN. But somewhere between here and downtown somebody has a brilliant idea that says let us keep messing around so we can make those poor folks in the Northwest pay more, because that is going to be the outcome here.

Mr. LANGER. That is going to be the outcome, and the welfare—

Mr. WALDEN. I tell you.

Mr. LANGER.—of the public have to be taken into account first, not last, and we just do not feel that that is what is happening in this proposal. It is arbitrary. This does not make sense to take hard-earned money to pay off low-interest costs, so we have to go out and borrow money at a higher interest cost.

Mr. WALDEN. Isn't our interest rate, which is locked in by that 1996 Act, actually above the market interest rate?

Mr. LANGER. From what I understand, the average rate back in 1996, when the refinancing of the Treasury debt, the average rate went from 3.4 percent up to 7.2 percent, plus there was \$100 million premium paid to Treasury for the privilege of—

Mr. WALDEN. You are being charitable.

Mr. LANGER.—to be able to get away from the criticism that we were not paying—

Mr. WALDEN. Yes, we gave them a bonus payment to get off our back.

Mr. LANGER. Yes.

Mr. WALDEN. In effect. But then everybody agreed this is the set rate. This is the set balance. Pay it on time or you are going to be fined.

I am just concerned we are headed down a real slippery slope here.

Mr. LANGER. This is a terrible slippery slope.

Mr. WALDEN. And from which we could end up missing a payment. Can you imagine the outcry here if we missed a payment?

Mr. LANGER. That is a fear that the Pacific Northwest has worked very hard to avoid. We have taken great pride at great expense to our customers to keep rates at a level that it would ensure Treasury payment.

There were three adjustments made to Bonneville's rates—Load-based crack, finance-based crack, and a safety-net crack—to ensure the Treasury is paid on time—

Mr. WALDEN. That we made.

Mr. LANGER.—and in full.

Mr. WALDEN. Yes. I have exceeded my time. Thank you, Madam Chair, Dwight, and Panel Members, thank you for your testimony.

Ms. MCMORRIS. Mr. Pearce.

Mr. PEARCE. Thank you, Madam Chair.

Mr. Graves, on page 3 you state that the budget request erroneously states that Pick-Sloan power customers have not heretofore been responsible for repaying these costs.

Can you document a little bit about how you have not been paying those costs all along.

Mr. GRAVES. They are all part of the power repayment study that the Western Area Power Administration conducts every year. They are scheduled for payment. They are made. Pick-Sloan is ahead of time in repaying the capital investment in the program.

Mr. PEARCE. Do you get any answers when you point those things out to the agency?

Mr. GRAVES. To Western or to?

Mr. PEARCE. To the OMB.

Mr. GRAVES. OMB? OMB does not talk to us.

Mr. PEARCE. I thought they just did not talk to us.

[Laughter.]

Mr. PEARCE. I am glad where it is equal opportunity sitting here.

Mr. Hosken, you declared strong words at one point, nonsense, and you said it, but then you also put it into print. Do you stand by those strong words?

Mr. HOSKEN. Yes, I do, sir.

Mr. PEARCE. All right. I suspect we agree on more things that that, but I think we probably agree on that too.

Mr. Peterson, you had mentioned that the EPA costs appear to be lacking in sound science and common sense. Have you, as they try to lump the cost and send them at you, have you gone in and tried to de-construct any of the lump cost of EPA enforcement? That is a fairly technical thing.

Mr. PETERSON. As a policymaker, I hoped for a question where I could say, like you, I depend heavily on staff. We are just beginning to implement the new license, and whether our accounting processes are going to enable us to segregate that, I do not know.

Mr. PEARCE. But you have not gone back upstream? In other words, the EPA costs are passed down to you from the power association, right?

Mr. PETERSON. From agencies imposing conditions on our license.

Mr. PEARCE. It is not that they are doing things up there and passing the cost down. It is that they are imposing things—

Mr. PETERSON. It is that we are having to spend money.

Mr. PEARCE.—for your license.

Mr. PETERSON. Exactly.

Mr. PEARCE. What sorts of things? Do you have a couple of examples of some of the things they are imposing on you?

Mr. PETERSON. Well, one of the ironies that I mention in my written testimony is that we are being asked to spend millions and millions and millions and more millions of dollars in providing passage and improving habitat for bull trout, an endangered species.

Mr. PEARCE. Sure, and you are the only ones.

Mr. PETERSON. And at the same time those Federal agencies that are seeking to do that are also funding a tribal bass hatchery on our reservoir. Bass eat bull trout.

[Laughter.]

Mr. PETERSON. Bass swim in warm water. Bull trout need cold water. That is where sound science and common sense seem to come together and both seem to be violated.

Mr. PEARCE. Points well made.

Mr. McClennan, you had mentioned that it appears that they are trying to get you to pay—get the power companies to pay for the cost for irrigation. Can you explain that just a little bit?

Mr. MCCLENNAN. Congressman, it is a similar issue to the one Mr. Graves referred to, is that it is an attempt ultimately to accelerate the repayment of irrigation costs, which are really the obligation of irrigation customers, by the power customers in the proposal.

And so what you end up doing is there is obviously an agreement that power helps pick up those costs, certain costs for irrigation. This is really an acceleration of costs that ought to be paid for, at least initially, by irrigation as those are developed.

Mr. PEARCE. Mr. Langer, we fought back a proposal last year for—I mean, it was a different technique but the same deal. They were going to pass increases along to all the small electric co-ops or whoever buys power, and everybody is going to get an increment, and it is all going to go into the kitty, and everybody is going to be happy the further upstream you get.

We beat that back last year. Is this just another attempt from a different direction? In other words, they did not want to come at it the same way, so they thought we would all be asleep this year. Is that kind of the—

Mr. LANGER. Yes, sir.

Mr. PEARCE. That would be enough.

[Laughter.]

Mr. LANGER. Trying to do this administratively this time, so it is the same.

Mr. PEARCE. Yes, it has some of the feel for it that, you know, those country boys, you know, figures it out last time. Let us get a little smarter, and the interest, they never look at interest. I do

not know. We will go to work on it again this year. I think that you see the mood of the Committee is to not take it lightly once again. So we will weigh in on it.

But thank you all for your presentation, and Madam Chair, thank you, and I hope we have not missed our vote.

Ms. MCMORRIS. We are going to be racing across the street.

We are going to take a quick recess. If you all will just hang tough. I wanted to ask this panel a couple more questions. So if you would just be so kind, we will be back with you shortly. Thanks.

[Recess.]

Ms. MCMORRIS. Call the meeting back to order.

I wanted to go back to Endangered Species Act just to get some more input. I think we all recognize that drought has been playing quite a role in the Northwest.

I also wanted to hear what kind of an impact the Endangered Special Act compliance has played in increasing rates, and if there is uncertainly, what kind of uncertainty you face in future ESA cost, and if you feel these costs are being implemented consistently or not.

So if anyone would like to take a stab at that question. Mr. Pope?

Mr. POPE. I cannot give you a quantification, but anyone—we have one of our members of the Placer County Water District, who is facing a hydro relicensing on 2012 or 2013, and they are as worried about having an endless process, and I think if just clarity can be made on what the endangered species are, how to deal with them, and some approach so that if you are going to do a relicensing you are not caught in what appears to be a continuous loop of issues that do not really match each other.

Bass in warm water, and trout in cold water, I mean, it does not make any sense.

So I think what we are looking for is clarity around today's Endangered Species Act. I think everybody does not want to do away with the Act completely, but just bring it up to date so that everybody understands the rules and the standards.

Ms. MCMORRIS. Mr. Langer, you had testified that fish costs are difficult for us to track. I was wondering if you would just comment on how much you believe customers understand the impact of Endangered Species Act and its impact on rates, and if they do not, do you think it would be helpful for the PMAs to transmit this information to you as an estimated percentage of your bill?

Mr. LANGER. Based on a recent survey that was completed as to what the estimated costs in their bills were, 5 percent of the, or the majority of the public in the survey felt that their costs included in their retail rates was like 5 percent. In actuality, BPA's fish and wildlife costs are \$340 million a year, 20 percent of the priority rate.

In addition, BPA forgoes another \$350 million in revenues that could have otherwise been used to reduce rates. Fish and wildlife costs have increased 270 percent in the last 10 years.

In addition, through the Corps of Engineer Columbia River Fish Mitigation Project, there are between 1.5 and 1.6 billion dollars of congressional appropriations that will be paid back by the agency through its customers through 2014.

With the ongoing litigation, the salmon recovery program in Judge Redden's court, it is very unpredictable as to what the future costs will be.

Now, just as my colleague, Mr. Peterson, testified earlier, common sense seems to have gone out the window, and the best science. Our customers in the Pacific Northwest have paid over \$6 billion in fish and wildlife costs, \$4 billion since 1997. All of that information that has been gained seems to be just ignored and not put applied to the programs.

The impact on the customers, the impact to our economy, it just, again, seems to be ignored, and the customers are not aware, and I think that, though I believe that Bonneville and its customers do a good job of communicating to the public, we need to do a better job because clearly they do not understand the impact.

Ms. MCMORRIS. Good. Anyone else? Mr. McClennan?

Mr. MCCLENNAN. Thank you, Madam Chair.

Just a couple of quick comments. In the Colorado River portion of it, about 16 percent of the direct costs are related to ESA. It does not include what I will call operational costs, which is lost generation as a result of fish flows and so on.

In terms of putting the program together, we have spent about \$200 million to get an adaptive management program put together, and this really goes at your issue of what I will say is future uncertainty. You spend all of the dollars, you create a 23-member advisory panel which includes the environmental community, to try to set up a management program for the last 12 years about how do you manage the program. You get 12 years into the program, seems to be because adaptive management needs to have some changes as you move forward, and now we find ourselves in a situation where two environmental groups have sued the Secretary of Interior and the Bureau of Reclamation that in fact adaptive management program put in place by those 23 individuals, including the environmental community, is not working.

So in fact we have to spend another \$200 million just to do an environmental review, and you change the flows again you will face additional ESA costs when in fact what you thought you would do—one of the challenges here is the program I am referring to is held up as the model for how you put an adaptive management program together. And in fact if the model does not work on the ESA as you go forward, I am not really certain what does.

Ms. MCMORRIS. Anyone else? Mr. Graves?

Mr. GRAVES. Madam Chairman. On the Missouri River, we are just wading into the issue of adaptive management relating to the pallid sturgeon. We also have two endangered bird species on the river, the least tern and the piping plover.

The problem we have is we have dueling endangered species. The piping plover and the least tern were first listed prior to the pallid sturgeon. These days they nest on sandbars below the last dam in the system, Gavin's Point. Historically, they would never have nested there because the historical hydrograph of the Missouri River is that in June, around the time of the summer solstice, there is this huge flood that used to come down from the melting of the mountain snow pack. So there were no birds nesting on

those sandbars because there were no sandbars at that time of year. The dams have created that habitat.

Now, the pallid sturgeon needs a big spring pulse. The pallid sturgeon also needs hours of daylight, and water temperature. All of these from the historical information that the USGS and Fish and Wildlife have presented show this all occurs right around the summer solstice.

But the adaptive management plan, when it is developed, will not be able to meet that need of the pallid because they would be destroying the habitat for the birds that are already there. So our fear is, beyond the operational constraints which already exist because of the birds, we are going to be in an adaptive management process that simply is ignoring some of the basic realities about the pallid sturgeon and its spawning habits.

Ms. MCMORRIS. OK. Go ahead.

Mr. LANGER. I would like to take this opportunity, Madam Chairman, to recognize the work of Representative Walden, Representative Baird, and Representative Dicks on the ESA salmon recovery issue. The focus primarily has been with regards to hydro and a little bit on habitat, and with their regional field forums that they are having focus is being put on harvest and hatchery that we have not had before, and the region is very appreciative of this leadership in this area, and feel that there is a great deal of benefit, good science to be gained from this leadership, and initiative. Thank you.

Ms. MCMORRIS. Very good. Mr. DeFazio, do you have any questions?

Mr. DEFAZIO. No, I do not.

Ms. MCMORRIS. OK, Ms. Musgrave.

Mr. MUSGRAVE. Thank you, Madam Chair.

If this has been asked, please just let me know while we were running back and forth, but this question is for Mr. Graves. It is my understanding that OMB has justified the agency rate increases as a way of mitigating taxpayer risk, and I would like comment on that.

Then I would like to know if there has ever been a default on any of the loans in question.

Mr. GRAVES. Thank you. Pick-Sloan customers have never defaulted on their repayment obligations paid through their power rates. Mr. Hacskaylo can speak directly to defaults in the Western Area Power Administration. I am not aware of any of them.

I am not sure what the risk factor is. The Federal hydropower in the Missouri River Basin, which includes eastern Colorado, is a very important resource for cooperatives in the region. It can be on average 30 percent of their power supply, for some municipalities it is 100 percent of their power supply.

We take our repayment responsibilities very seriously, which is why we have always maintained a record on repayment of capital investment that actually has us ahead of schedule in terms of our repayment obligations.

Ms. MUSGRAVE. Thank you very much. Thank you, Madam Chair.

Ms. MCMORRIS. Ms. Cubin.

Ms. CUBIN. Thank you, Madam Chair.

I would like to start with Mr. McClennan. You mentioned in your testimony the memorandum of understanding that was developed to help facilitate the working relationship with power customers like Tri-State, or power customers like Tri-State have with WAPA, the Bureau of Reclamation and the Corps of Engineers.

Could you explain to me how that memorandum was developed and how it is being implemented?

Mr. McCLENNAN. Certainly. Thank you, Congresswoman.

It was developed because we keep facing these issues annually about budget cuts, about agencies not being able to have enough funds to do annual operations at times, about the customers not having a sense of where the dollars are actually spent in these programs.

So several years ago a number of the customers sat down with the agencies and said we need to be able to find a way, and part of it was being driven by the fact that the agencies were coming to the customers saying could you help advance funds because we do not have enough appropriations to carry out our annual activities, in some cases to carry out emergency operations, and otherwise.

So from the customers' side, you know, we are obviously the largest beneficiaries of these things continuing to be financially solid and move forward and be operationally sound, and so we said we would be happy to do that, but we are not doing this in terms of writing you a blank check. You have to be willing to sit down with us.

So what happens now is that the process is on a regular basis we sit down with the agencies and look at their work plans as they go forward so we have some sense of where they are going to be spending dollars, what those dollars look like, where does it fit into the needs and appropriate issues as it relates to the customers.

So to this point it is a relatively, I will say new, last couple of years option where we have got the agencies, I think, to all sit down with the customers and figure out where we are going collectively, to be able to meet what really are some budget shortfalls. They are issues associated with emergencies. They are how do we keep this system up, but it also provides, if you will, an additional beyond what Congress does, a check and balance; that if we are going to put up our dollars to help the Federal agencies move forward, we have some understanding of where they are going.

Ms. CUBIN. So that is working out relatively well?

Mr. McCLENNAN. It has worked out. I will say that it is not without struggles. Some of the agencies are better than others in terms of being able to provide information that is helpful to figure out where you are going. We have a little bit more of a struggle, if you will, with the generating agencies than we certainly do with WAPA in this case in terms of the memorandum. Part of it, I assume, is just the size of their budget, where they are spending dollars and so on.

So I will say I am cautiously optimistic that we are going to be able to work through these issues as we go forward, but certainly it is not without some pain in certain cases.

Ms. CUBIN. Thank you. You also expressed in your testimony your opposition to the Pick-Sloan cost reallocation that is included in the Administration's budget?

Mr. McCLENNAN. Right.

Ms. CUBIN. I was a vocal opponent of this proposal last year, and I will be again this budget cycle. I would like you to reiterate, if you would for the record and for me, if the Administration's Pick-Sloan proposal were to be implemented roughly what cost increase would my constituents and others in rural communities expect? What would they expect? Thank you.

Mr. McCLENNAN. Thank you, Congresswoman.

I have not done the calculation to say if we took it all the way down to consumers through Tri-State and the member distribution systems. My understanding is at this point you are somewhere north of a 10 percent increase to Tri-State that we would then pass on to our individual members and move forward in terms of the customers.

So I have not done a calculation that says by member what is the impact, but the impact coming to us potentially that we would have to pass on, we have no choice to pass on to the consumers is near or above 10 percent.

Ms. CUBIN. Well, that is close enough, and that is still unacceptable, so I will continue to do everything I can to see that that does not happen.

Mr. Graves, good to see you again, and welcome.

In your testimony you discussed Midwest support for a net-zero approach to PMA appropriations, and you even stated that the current system threatens the reliability of the Federal power program.

However, I have also heard concerns that a net-zero approach would decrease congressional oversight of PMA operations as well as hinder customer input.

Could you please explain how you think the net-zero approach benefits rural customers?

Mr. GRAVES. I would be happy to. Thank you very much.

There are currently, under the current budget process the Western Area Power Administration's budget can be cut through rescissions that Congress has to invoke dealing with deficits. It can also be reduced by the fact that each committee, each appropriating committee has an allocation, and they have to do all of their spending within that allocation.

The annual costs of the PMAs are not permanent outlays of Federal money. They come back by the end of the year, so there is a net-zero cost to the Treasury.

It absolutely would not reduce congressional oversight. We do not want that. The Federal power customers are vitally interested in maintaining Congress's role. The PMA would still be required to submit budgets to Congress. The PMA would still be required to justify that. The Congress would be setting the number that the PMA would be spending for its annual expenses combined with the MOU which Mac had mentioned where we sit down with the agencies three or four times a year to go over their costs.

I mean, we really care how much money is being spend because we are going to pay for it one way or the other. We are going to pay for it, and we want Congress to have that confidence as well,

which is why the budget process in terms of submittals to Congress and Congress's role in setting the spending limit does not change. What changes is the way the revenues are treated because right now the budget process does not recognize that the annual costs that are appropriated come back to the Treasury in the same year that they are appropriated.

Ms. CUBIN. Yes, that is true, but I am going to have to think about this a little more. I appreciate your answer.

Mr. GRAVES. Sure.

Ms. CUBIN. But I am going to have to think about this a little more because I can see how it would take more, in my opinion, more than due diligence for the Congress to have the oversight that it has now, but I will think that over, but thank you.

Mr. GRAVES. Yes. Well, we appreciate that, and as I said, we are really exercising due diligence and we certainly encourage Congress to maintain its role in oversight and due diligence in that as well.

Ms. CUBIN. Thank you.

Mr. GRAVES. Thank you.

Ms. MCMORRIS. OK, thank you everyone again. Really appreciate you being here, sharing your perspectives, some of your challenges and your opinion of the Administration's proposals specifically. So it has been very helpful. We are going to move to the next panel at this time.

Mr. Steven Wright—I guess I will wait a minute here.

[Pause.]

Ms. MCMORRIS. OK, just to keep this moving along, I will go ahead and introduce the next panel. Mr. Steven Wright, Administrator of Bonneville Power Administration; Mr. Michael Hacskaylo, Administrator, Western Area Power Administration; Mr. Michael Deihl, Administrator, Southwestern Power Administration; Mr. Charles Borchardt, Administrator, Southeastern Power Administration.

I am pleased you are all here. Go ahead and start with your testimony. Mr. Wright, please.

**STATEMENT OF STEPHEN J. WRIGHT, ADMINISTRATOR,
BONNEVILLE POWER ADMINISTRATION, PORTLAND, OREGON**

Mr. WRIGHT. Thank you very much, Madam Chairman, and thank you to the Subcommittee for your ongoing attention to these issues which we think are of national importance.

The critical event in this decade for electric utilities was the west coast energy crisis, and there are two big things that came out of that, both for western utilities and for Bonneville specifically.

First, it did tremendous financial damage from which we are still recovering; and second, it unmasked the fundamental supply and demand problem in the West that resulted in the tremendous price volatility and reliability problems that consumers encountered.

I am here today to report on BPA's substantial progress toward recovery and implementation of lessons learned from the crisis. On the financial side, we finished for the third straight year in the black in 2005. We lost approximately \$700 million, you may recall, in 2001 and 2002. We believe we have righted the financial ship

by finishing in the black in 2003 and 2004, and finishing at \$126 million in the black last year.

We made our full scheduled annual treasury payment last year for the twenty-second straight year, and we are well positioned to do the same in 2006.

In terms of addressing the supply and demand issues, we have made substantial investments in infrastructure over the last few years. Since last year's hearing, we energized the Shultz-Wantoma line, the third major 500 kv line to be built in the region since 2003. FERC records indicate that ours is the largest transmission construction program in the country right now. We have completed further refurbishments of the hydro system, increasing the energy output of that system, and we have accomplished about 40 megawatts of energy efficiency last year as well.

None of this could have been accomplished without the congressional approval in 2003 of an increase in our borrowing authority. We greatly appreciate this Committee's support for that initiative, and wanted to report to you that it is going well.

Now, to move beyond history into some of our challenges for this coming year. I want to put those into six categories.

First, long-term power sales contracts. Our current contracts expire in 2011. These contracts define the rights to 40 percent of the Northwest electricity supply. The neutron tracks that we are working on with customers are being designed to create certainty for utilities and accountability as to responsibility for serving load growth. Both are necessary to deploy the large amounts of capital needed to assure adequate electric infrastructure that will allow our economy to grow.

Second, salmon restoration. BPA is the primary funder for the largest environmental restoration program in the world. Our 2004 salmon plan was remanded by the Federal District Court and we have embarked with states and tribes on an extremely ambitious effort to, first, define recovery goals; second, define necessary actions across the salmon's life cycle to achieve recovery; and third, secure commitments from all the affected parties to move forward toward recovery.

Our third major challenge, we need to set power rates for 2007 and 2009. Rates need to be adequate to assure BPA can carry out its mission, and have a high probability that we will cover all costs, including the treasury repayment. We are also seeking to keep our rates as low as possible. We believe we have created an exemplary process for creating transparency and stakeholder involvement in cost decisions that impact our rates and continue to work closely with them as we move forward in this rate case.

Fourth major issue is transmission congestion management. Despite our aggressive construction program, we continue to have congestion that threatens both reliability and disrupts commercial traffic on our system. We are committed to an effort to cost-effectively relieve congestion while minimizing impacts on our transmission customers.

Fifth, we continue to make investments in transmission and the generation system as well as investments in energy efficiency for the loads we serve. We are committed to continuing our infrastructure investment program.

Sixth, we continue our efforts to define a mechanism to our realization of a one utility vision for transmission operations and planning in our region.

Finally, my written testimony explores the many ways that the Energy Policy Act of 2005 impacts the Bonneville Power Administration. I am going to highlight only one.

We believe the evolution of our industry it was necessary to provide for authority to establish mandatory reliability standards and an enforcement mechanism. While there has been great trepidation about the implementation of that provision of the Act, we believe the FERC is doing a thoughtful and good job of balancing national standards with accommodations for regional differences that have been particularly important to the West.

Madam Chair, if I could take one more moment and just address the President's budget proposal, and the comments that many of the members here have made.

Last year's budget included moving the Bonneville Power Administration and the other Power Marketing Administrations from a cost-based rate approach ratemaking to market-based rates. The Administration has sought to learn from last year's proposal and has dropped that proposal and has proposed a new alternative.

The new alternative addresses what should happen with extraordinary surplus sales revenues above BPA's historical record high. The \$500 billion represents the historical record high for surplus sales revenues.

The Administration believes the proposal in the budget retains the benefits of these surplus revenues for Northwest ratepayers by repaying Bonneville's debt. The proposal extends BPA's borrowing authority that is limited by law to make infrastructure investments as needed.

However, the Administration does recognize there has been a strong reaction from Bonneville's customers and from the Northwest Congressional Delegation to this proposal. And while the Administration does intend to move forward with this proposal on a BPA rate case beginning in July, we are also prepared to work with the Northwest's interests, members of the delegation, BPA customers and others to address the issues that have arisen.

That concludes my testimony, Madam Chairman. I will be available for your questions.

[The prepared statement of Mr. Wright follows:]

**Statement of Stephen J. Wright, Administrator,
Bonneville Power Administration, U.S. Department of Energy**

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to be here today to discuss both the Bonneville Power Administration's (Bonneville) implementation of the Energy Policy Act of 2005 and the President's FY 2007 budget as it relates to Bonneville. The Subcommittee's attention and support have been and will continue to be essential as we move ahead.

In my testimony today, I will first share with the Committee how Bonneville is working to incorporate the provisions of the Energy Policy Act. I will then discuss Bonneville's significant successes over the past year and the challenges we are facing for the upcoming year, followed by an overview of the FY 2007 budget and its proposals.

ENERGY POLICY ACT IMPLEMENTATION

The Energy Policy Act is far-reaching and has the potential to impact energy issues in the Pacific Northwest for a long time. Bonneville has a long history of

providing reliable transmission service in the Pacific Northwest and has, since 1996, filed reciprocity tariffs with the Federal Energy Regulatory Commission (FERC) that apply transmission terms and conditions to all transmission users on a comparable, nondiscriminatory basis. Bonneville has also been at the forefront of regional and national efforts to strengthen system reliability. While the Energy Policy Act of 2005 does not single Bonneville out for action in any particular instance, it will cause changes to Bonneville's operating environment, and so we are proactively contributing to its implementation.

Two of the most important provisions potentially affecting Bonneville are Sections 1211 dealing with reliability and 1232 authorizing Bonneville to join a regional transmission entity.

Section 1211 provides for FERC to designate a single Electric Reliability Organization (ERO) for the United States. This entity will be authorized to propose, for FERC's review and approval, mandatory reliability standards that will govern the practices of all users, owners, and operators of the bulk power system, and to enforce them through a system of sanctions and monetary penalties to be administered by regional reliability organizations. Bonneville has been actively contributing to the implementation of this system by working with the North American Electric Reliability Council (NERC), which will apply to FERC for certification as the Electric Reliability Organization (ERO), and with the Western Electricity Coordinating Council (WECC), which will seek the enforcement role in the Western Interconnection. The success of complex relationships between FERC and NERC and WECC, and the generation and transmission operators in the West is absolutely crucial to the smooth functioning of our part of the Nation's bulk power system. It is a part that is physically quite different from the East, so the challenge is to achieve a uniformly high quality of reliability through sometimes different regional means. This is an extremely complex undertaking and managing this transition is our highest priority in the coming year. FERC sent encouraging signals in their final rule-making on Section 1211 by acknowledging and providing for accommodation of regional differences and by allowing NERC and the regional reliability organizations to create a first approach to specific application of many of the governance and process prescriptions of Section 1211.

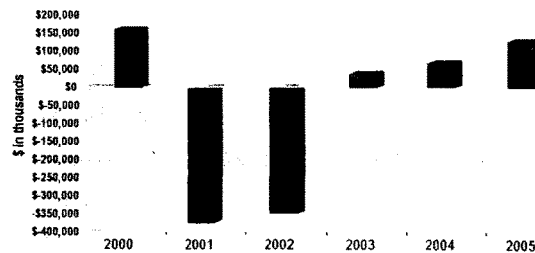
Section 1232 authorizes The Secretary of Energy or, upon designation by the Secretary, the Bonneville Power Administration, to make arrangements for Bonneville to participate in a regional transmission organization under certain conditions. Bonneville is involved with efforts to address transmission functions that could be carried out by a regional transmission entity under a "one-utility" vision for Northwest transmission where the region's transmission system would be managed as though owned by a single utility. Although this is a vision for the Northwest power system that has guided regional policy making for decades, there is a wide divergence of opinion within the Northwest regarding the type of transmission organization that is appropriate for the Region.

An attachment is included with my testimony today that highlights Bonneville's approach to several other provisions of the Energy Policy Act. Our actions are designed to support the Administration's commitment to expand our Nation's energy supply by developing a diverse, dependable energy portfolio for the future, and the critical infrastructure that is necessary to sustain it.

BONNEVILLE'S RECENT SUCCESSES

FY 2005 was marked by another major stride in improving Bonneville's financial health while making significant investments in our region's electric infrastructure. We exceeded our net revenue targets, earning just over \$126 million in modified net revenues, the highest since the big losses were suffered during the West Coast energy crisis. The table, which follows, shows a historical comparison of modified net revenue results. BPA has determined that modified net revenues are a better representation of the outcomes of normal operations and are more similar to calculations developed as part of the initial rates for the current rate period.

Modified Net Revenues



For the twenty-second year in a row, Bonneville made its planned repayment to the Treasury on time and in full.

It was also a year of major milestones in our business. On the transmission side, we continued our program to shore up the region's reliability, meeting our target for completing construction projects on schedule and within budget. The Grand Coulee-Bell 500-kilovolt line in eastern Washington, our largest transmission project in two decades and one of the largest in the Nation, was energized last December. The line relieves congestion from east to west and enhances system reliability while increasing capacity to move new generation to consumers.

On the power side, Bonneville conducted a public process called the Power Function Review (PFR) to help determine program funding levels for the next power rate period, 2007-2009. We completed a short-term Regional Dialogue to address power sales contract issues relevant through 2011. We also opened up a long-term Regional Dialogue on Bonneville's power supply role beyond 2011.

We met our 2005 targets for conservation savings and efficiency improvements to the generating system, achieving 43 megawatts of new conservation and 20 megawatts of additional hydro generation capability.

These and many of our other successes in 2005 were guided by the development of our long-term Strategic Plan that was completed in early 2004. This Plan laid out Agency direction through FY 2011 and grew out of the need to set long-term objectives along with strategies to reach those objectives. Bonneville has now moved into the implementation phase of this Plan with a focus on Bonneville's future power supply role along with infrastructure development, risk management, technological innovation, conservation and renewables, facilitation, and efficiency initiatives—all of which help set the stage for the region's long-term energy future.

UPCOMING CHALLENGES

Bonneville markets wholesale power and provides other benefits to virtually every utility in the Pacific Northwest. With current power rates set to expire in 2006, Bonneville is in the midst of its first full-fledged wholesale power rate case in five years. In addition to the completed Power Function Review, Bonneville is currently initiating a second public review of costs to seek further reductions in order to hold FY 2007-2009 rates down. Bonneville is scheduled to adopt a final proposed rate structure this July that will take effect October 1, 2006.

With existing power contracts due to expire in 2011, Bonneville must establish clearly its future power supply role and has initiated a long-term Regional Dialogue that is designed to create more certainty for the region and that should lead to more investment in electric system infrastructure. We believe increased clarity about how much power Bonneville will provide beyond 2011, and at what price, is essential to assuring adequate infrastructure investment by other parties.

Bonneville funds a diverse and comprehensive fish and wildlife program to mitigate impacts of Federal hydropower development on Columbia Basin fish and wildlife. All together, our direct fish and wildlife costs, plus foregone revenues, are expected to average nearly \$700 million annually in the FY 2007-2009 period. Litigation, dating back to 1995, continues over the operation of the Federal Columbia River Power System (FCRPS). Bonneville, the Army Corps of Engineers, the Bureau of Reclamation, the National Oceanic and Atmospheric Administration, and the Northwest States and Tribes are all currently collaborating to gain agreement on

performance objectives, the scientific framework, and the Government's Proposed Action. Without such agreement, the stability and predictability of the hydro system is at great risk.

Bonneville is also focusing internally. We are in the midst of a multi-year, agency-wide efficiency program designed to further lower our costs. Implementation of efficiency recommendations is occurring incrementally and has already led to consolidation and centralization of some agency functions, and simplification of operational processes.

BONNEVILLE'S BUDGET INITIATIVES

Beginning in the President's Fiscal Year 2007 budget released to Congress and consistent with sound business practices required under the Federal Columbia River Transmission System Act of 1974, the budget provides that Bonneville Power Administration will use any surplus power sales (net secondary) revenues it earns in excess of \$500 million per year to make early payments on its federal bond debt to the U.S. Treasury.

This administrative action will both reduce the federal deficit and provide BPA with needed financial flexibility to invest back into energy infrastructure and to pay down debt. BPA will make no additional payments to the Treasury as a result of this action if surplus revenues do not exceed \$500 million in a year.

BPA markets its surplus electricity production to customers both inside and outside the Pacific Northwest. In the last decade, BPA has an average of \$457 million per year in net secondary revenues. BPA will potentially realize record high levels of surplus revenues due to high wholesale electric prices in the West. The budget reflects a total of \$924 million from FY 2006-2016 from net secondary revenues greater than \$500 million per year.

The President's budget action would extend the use of Bonneville's borrowing cap with the U.S. Treasury by about three years. Absent the President's Budget, BPA could have run out of borrowing authority in the year 2011.

It is the Administration's position that it is sound business practice to use higher-than-historical net secondary revenues to pay down debt, consistent with statutory priority of payment requirements. The Administration believes this action will help to provide Bonneville with needed financial flexibility to meet its future energy investment needs, including new transmission capacity, and that long-term power and transmission customers of Bonneville will benefit from these advance amortization payments through lower long-term rates than would otherwise be the case.

BPA's surplus sales revenue lowers power rates today in the Pacific Northwest. The Budget does not reduce the historic level of regional benefit from such sales—it retains the benefit of all surplus sales revenues for BPA ratepayers, but changing the time frame that such benefits will be realized. This proposal is not expected to have a rate impact in 2007, but it could prevent rates from being about 5 percent lower for retail customers than they otherwise would have been in 2008 and 2009, without this early repayment program. This rate impact will be offset by benefits in future years.

In addition, the Budget provides that Energy Northwest will refinance a portion of its debt in the calendar year 2006 and 2007. The additional \$382 million freed up from these future refinancings will be used to pay down BPA federal debt.

The combined effect on the U.S. budget deficit of these two proposals is estimated to be \$1.3 billion. This is an amount that could be borrowed again by Bonneville in the future under its Congressional borrowing ceiling. This initiative takes advantage of a potential unique opportunity to make a long-term investment in the Pacific Northwest's electricity future. We are proceeding with implementation. The expedited rate case is scheduled to begin in July 2006.

FY 2007 BUDGET OVERVIEW

Mr. Chairman, Bonneville is in sound financial condition. Our reserves are at a level that will assure we can make our full annual payment to the U.S. Treasury at the end of this fiscal year, despite having been through six straight below-average water years before this year. Bonneville's FY 2007 budget projects \$2,464 million for operating expenses, \$95 million for Projects Funded in Advance, and \$477 million for capital investments. Since its budget is funded by sales of power and transmission services, and proceeds of bond sales to the Treasury, Bonneville has not requested or received annual appropriations since 1974.

Bonneville's commitment to fish and wildlife mitigation and enhancement is exemplified in its direct program budget of \$178 million, capital and expense, for this purpose in FY 2007.

Bonneville's full time equivalent (FTE) staff projection included in this budget is 3,000 for FY 2007. Bonneville's cost management initiatives have brought this

number down from the higher level we needed during the ramp-up of our infrastructure expansion program.

Bonneville utilizes numerous performance measures linked to its strategic vision and financial results. The President's budget performance measures for Bonneville encompass overall electric hydro availability, transmission reliability, repayment to the U.S. Treasury and safety. The safety measure includes a Department determined stretch target for FY 2007 of no more than 2.7 for Recordable Accident Frequency Rate.

Bonneville's budget assumes that the Spectrum Relocation Fund (SRF), established in the Treasury to facilitate the relocation of Federal radio communication systems, will provide Bonneville, through a non-expenditure transfer from the SRF, with full budget authority and cash to cover the cost of relocating Bonneville's 1710-1755 megahertz radio communication systems. The estimated Bonneville cost of this relocation is \$48.7 million.

The following table provides budget data (dollars in 1,000's) based on current services for FY 2005 through FY 2007:

	FY 2005	FY 2006	FY 2007
Capital Investments			
Power Business Line	116,007	210,000	201,000
Transmission Business Line	141,721	200,689	251,541
Capital Equipment & Bond Premium.	12,579	26,461	24,252
Total, Capital Investments	270,307	437,150	476,793
Accrued expenditures will require budget obligations of	270,307	437,150	476,793
Operating Expenses	2,572,513	2,633,300	2,464,963
Projects Funded in Advance	80,256	71,887	94,989
Capital Transfers (cash)	657,983	436,783	877,573
Bonneville Net Outlays	(155,000)	(80,000)	(480,000)
Bonneville Staffing (FTE)	3,046	3,025	3,000

The accompanying notes are an integral part of this table.

Budget estimates included in this budget are subject to change due to rapidly changing economic and institutional conditions in the evolving competitive electric utility industry.

Bonneville Bond Amortization/Capital Transfers in this FY 2007 budget reflect, beginning in FY 2007, advance amortization payments to the United States Treasury on Bonneville's bond obligations. The advance payments are dependent on an equivalent amount of assumed net secondary revenues over \$500 million and anticipated debt optimization refinancing of ENW obligations, consistent with both the President's budget and the sound business practices required under the Federal Columbia River Transmission System Act of 1974. The policy of the President's budget regarding use of extraordinary net secondary sales revenues will be implemented through a Bonneville rate proceeding.

Amounts of such estimated payments to Treasury vary from associated net secondary revenues and debt optimization amounts due to timing of Treasury payments and other factors. Actual associated net secondary revenues and debt optimization effects could vary due to volatility of secondary power markets, stream flow variability, volatility of financial markets affecting ENW debt optimization, and other uncertainties.

BONNEVILLE TREASURY PAYMENTS

Bonneville made its planned payments to the U.S. Treasury on time and in full in FY 2005, for the twenty-second consecutive year. Included in these payments totaling \$1,088 million was \$313 million in early amortization of our Treasury debt. Since its creation in 1937, through FY 2005, Bonneville has returned \$21.6 billion to the U.S. Treasury. During FY 2007, we anticipate paying \$1,329 million to the Treasury, of which \$878 million will be repayment of principal, \$430 million will be interest, and the balance of \$21 million will be applied to the unfunded liability of the Civil Service Retirement System.

In recent years, Bonneville has made amortization payments in excess of those scheduled in its FERC-approved rate filings resulting in a balance of advance repayment. The cumulative amount of advance amortization payments as of the end of FY 2005 is about \$1,460 million.

CONCLUSION

In conclusion, I am pleased to say we have made significant progress in regaining Bonneville's financial health since the West Coast energy crisis of 2001-2002, and we are well on our way to meeting the upcoming challenges facing us today. Bonneville will continue its efforts toward long-term financial stability and its commitment to meeting its overall responsibilities to keep the lights on in the Pacific Northwest. Bonneville is well positioned as it looks forward.

ATTACHMENT A

Additional Energy Policy Act Provisions Likely to Have a Significant Impact on Northwest Electric Power Issues in Which Bonneville is Actively Involved

Section 368 provides for the Federal Government to designate "energy corridors" on Federal lands that would be used for electric power transmission lines, and pipelines to transport oil, natural gas, hydrogen, and potentially other fuels. Bonneville is supporting this effort in the Pacific Northwest. DOE is coordinating the Federal agencies involved in this issue. Bonneville believes it is important to assure that safety, security, and electric reliability issues are not created when pipelines are considered for location in proximity to electric power transmission lines.

Section 1221 provides for the Federal Government to designate "public interest corridors" for siting of new transmission needed for reliability. Bonneville is actively involved in supporting DOE's efforts to identify potential transmission corridors in the Northwest. Bonneville expects to stay engaged in this effort through its completion.

Section 1231 provides FERC authority to require by rule or order that transmitting utilities that are public bodies, like Bonneville, provide their unregulated transmission service at rates comparable to those the utility charges its own generation, and on terms and conditions that are similarly comparable and not unduly discriminating or preferential. Bonneville believes it already meets these standards and has been operating this way since 1996. FERC has opened an inquiry regarding revisions to its pro-forma tariff, and Bonneville is actively contributing to that process.

Section 1233(b) assures that load-serving utilities, like Bonneville, will continue to be entitled to use transmission rights to meet their service obligations. FERC has recently issued a Notice of Proposed Rulemaking on this issue. Bonneville expects to comment to FERC on its proposed new rule and participate in this important policy development.

Section 1234 provides that the Secretary of Energy must conduct annual studies of the procedures used by electric utilities to perform economic dispatch, of possible revisions to those procedures, and of potential benefits to consumers from improving such procedures. The Secretary is also directed to recommend appropriate legislative and regulatory actions with respect to economic dispatch. Bonneville has provided comment regarding the important differences between thermal and hydro systems and the need to take these into account when considering economic dispatch.

Section 1286 grants the Federal Energy Regulatory Commission (FERC) refund authority when a non-jurisdictional utility's sale of 31 days or less, made through an organized market in which the rates for the sale are established by a Commission-approved tariff (rather than by contract), violates the tariff or FERC rule. Bonneville actively monitors FERC's requirements and its own operations to assure it is not violating the tariff or FERC rule.

Section 1834 instructs the Departments of Energy, Defense and Interior to jointly conduct a study of the potential for increasing electric power production capability at federally owned or operated water regulation, storage, and conveyance facilities.

Bonneville and other Power Marketing Administrations in the Department of Energy have been working with the U.S. Army Corps of Engineers and the Bureau of Reclamation on such a study. Results from the study are expected to become available in early 2007.

Additionally, Bonneville has for several years been funding projects within the hydroelectric investment program that support generation efficiency improvements within the Federal Columbia River Power System. This has included replacement of existing turbine runners with higher efficiency ones and development of operational process improvements that have resulted in increased efficiency. The program to date is estimated to have achieved an increase of 87 annual average megawatts, assuming average water conditions.

Subtitle G of Title XII contains several provisions that deal with electricity market transparency, enforcement and consumer protection. Bonneville is actively following FERC developments in this area. Bonneville is subject to these new rules and has taken steps to assure that it is in compliance with their requirements. Bonneville believes these new rules are an important tool to address market manipulation that plagued the West Coast market in 2000 and 2001.

Subtitle A of Title I relating to Energy Efficiency contains a number of provisions that affect Bonneville's procurement practices. For example, Section 104 provides for agencies to procure products that meet certain energy standards. In many instances, Bonneville had implemented procurement policies that meet or exceed the requirements of the Act before its enactment. In other instances, Bonneville may need to update its practices. For example, Bonneville has had a standard policy to purchase recycled concrete products, where feasible, for many years, as now required by Section 108. Bonneville is looking into whether these and similar procurement policies may need to be updated in light of the new Act.

Title VI contains provisions relating to nuclear energy. Through Energy Northwest, Bonneville receives power from Columbia Generating Station, a large nuclear power plant located in Richland, Washington. Several provisions change various requirements for operators of nuclear facilities. For example, Subtitle D adopts a number of security-related practices for nuclear operators. Bonneville and Energy Northwest either have made appropriate modifications in policy to comply with the Act, or are in the process of doing so.

The Act contains many provisions encouraging energy efficiency, new technological developments, and renewable resources within the electric power sector of our economy. Bonneville has been active in these areas for many years. Bonneville has a very active and successful energy efficiency program which yielded 43 aMW of new electricity savings in 2005, adding to a total of 900 aMW achieved over the last 25 years. Bonneville has supported more stringent energy standards for appliances, buildings, and other electric-power-consuming applications for many years.

Bonneville is also an active participant in the Department's GridWise program where it is working with the Pacific Northwest National Laboratory and other Northwest utilities to test devices installed in Northwest home appliances, such as water heaters and clothes dryers, that detect system problems and automatically respond by shutting the appliance off or on, as appropriate, to respond to system conditions. This is a promising technology that Bonneville believes could pave the way for cost-effective demand response and a "smart grid" that detects and responds automatically to system disturbances and related operational problems.

Section 503(a) amends the Energy Policy Act of 1992 to provide that each Power Marketing Administration (PMA) Administrator shall encourage Indian tribal energy development by taking such actions as the Administrators determine to be appropriate, and that an Administrator may provide technical assistance to Indian tribes seeking to use the high-voltage transmission system for delivery of electric power. Bonneville is developing long-term contracts and policies that we believe will encourage resource development by tribes and other resource developers in the Pacific Northwest, and we routinely provide transmission technical assistance to tribes. Bonneville provides the tribes open, non-discriminatory access pursuant to its FERC-approved transmission tariff. Bonneville has also assisted tribes in forming electric distribution utilities to provide retail service to tribal facilities and communities. This section also provides that, within two years of passage of the Act, the Secretary of Energy is to submit to Congress a report that, among other things, describes tribal use of PMA power and barriers that impede tribal access to and use of Federal power, including an assessment of opportunities to remove those barriers and improve the ability of power marketing administrations to deliver Federal power. We will actively support and contribute to that report.

Energy Policy Act Provisions that may have a Significant Impact on Northwest Electric Power Issues that Bonneville is Following, but Not Directly Involved

Section 1303 extends the renewable energy production tax incentive through 2007. Bonneville is purchasing substantial quantities of wind generation now, but is not seeking new renewable power purchases at this time. A number of utilities in the Northwest are pursuing wind acquisition strategies. Bonneville is taking a number of actions to facilitate these efforts by regional utilities. Bonneville has received and is processing a number of requests for integration studies, and has also received requests to reserve transmission for many of these projects.

Subtitle F to Title XII contains provisions that repeal the Public Utility Holding Company Act. Bonneville is following developments in this area because of the potential for utilities in the Pacific Northwest and nearby areas to become involved in mergers and acquisitions. Currently three Northwest utilities are involved in potential change of ownership: Portland General Electric (which is being sold by Enron Corporation), PacifiCorp (which is being acquired by Mid-America), and Northwestern (which is being solicited by several potential buyers). A change of ownership of these utilities could change the approach they have had historically toward investing in new transmission and generation, supporting a regional transmission organization, and working with Bonneville on common issues of interest.

Ms. MCMORRIS. Thank you.
Mr. Hacskaylo.

**STATEMENT OF MICHAEL S. HACSKAYLO, ADMINISTRATOR,
WESTERN AREA POWER ADMINISTRATION, LAKEWOOD,
COLORADO**

Mr. HACSKAYLO. Thank you, Madam Chair.

I am Mike Hacskaylo, Administrator of the Western Area Power Administration.

For our Fiscal Year 2007 program, we are proposing a total program of \$688 million. That is comprised of \$212 million in appropriations, authority to use receipts for purchase power and wheeling of \$274 million, and customer advanced funding, net billing and bill crediting of approximately \$200 million.

The Energy Policy Act of 2005 provides additional authorities for Western Area Power Administration to construct transmission in partnership with others to eliminate bottlenecks as well as to improve transmission capacity where it is requested.

For example, we are working with the Wyoming Infrastructure Authority and Trans-Elect, a private company, to eliminate a bottleneck in transmission between southeastern Wyoming and the front range of Colorado.

We are also a partner with Tri-State Generation and Transmission Association on the eastern plain transmission project which would construct substantial new transmission, enhance reliability in the area, improve Western's transmission system, improve the ability of Tri-State to meet its growing loads. We are doing so in partnership, and we believe it is going to be a good product for not only the State of Colorado but also for the region.

Finally, with regard to the agency interest rate provision in the President's budget, the proposal is to assign agency interest rate to new obligations beginning in Fiscal Year 2007. The agency interest rate is the grade at which Federal corporations and Bonneville borrow money from the Treasury.

It would be applicable prospectively to administrative set interest rates for eight of the 15 projects in which Western markets power

as well as the Southeastern and Southwestern Power Administration projects.

We estimate the rate impacts would be less than 1 percent, and we have calculated that this agency interest rate is approximately four-tenths of a percent higher on average than the rates, the yield rates applied to the Power Marketing Administrations from 1997 to 2005.

That concludes my statement. I will be pleased to respond to any questions.

[The prepared statement of Mr. Hacsckaylo follows:]

**Statement of Michael S. Hacsckaylo, Administrator,
Western Area Power Administration, U.S. Department of Energy**

Good afternoon and thank you. Mr. Chairman and members of the Subcommittee, I am pleased to report on the Western Area Power Administration's (Western) implementation of selected sections of the Energy Policy Act of 2005, and to discuss our FY 2007 budget request.

Western, as one of four power marketing administrations (PMAs) within the Department of Energy, markets and delivers electricity primarily generated from hydropower projects located at Federally-owned dams. The transmission systems owned and operated by the PMAs, as an integral part of the nation's interconnected electrical grid, make a significant contribution to ensuring the reliable delivery of the country's energy supply.

Transmission is central to our mission. Western provides reliable, cost-based transmission using an integrated 17,000 circuit-mile, high-voltage system, spanning most of the western half of the United States. While utility regulatory changes and restructuring efforts capture most of the headlines, Western is pursuing a number of initiatives to increase transmission capacity and reliability. Our efforts will support continuing utility industry change, evolving regional needs such as increased interest in renewable resources, and requests from many developers for interconnections to Western's system.

Transmission system modernization is a necessity to support cost effective wholesale electricity markets. Western has been progressive in making incremental improvements to its facilities to enhance grid reliability. We are well served by our continuing commitment to improving our business practices, and successful in our longstanding commitment to jointly plan, develop and finance system enhancements. Robust regional planning processes identifying both economic and reliability needs of the grid are in place in the West, encouraging partnerships for transmission development. Joint ownership of transmission projects has resulted in a highly integrated system that has fostered extensive cooperation and economic coordination among transmission partners.

Western has existing authority to participate in joint transmission projects, and has done so many times. In 2004, Western constructed the Path 15 Upgrade Project in central California to relieve a major transmission bottleneck. We are currently involved in expanding the regional transmission network in eastern Colorado and western Kansas in a partnership with Tri-State Generation and Transmission Association. Funding for these joint efforts is provided primarily by non-Federal partners. The Energy Policy Act of 2005 expands Western authority to use non-Federal funding to construct or participate in the construction of new transmission that will relieve bottlenecks in "national interest electric transmission corridors," or is necessary to accommodate an actual or projected increase in demand for transmission capacity.

Through state-of-the-art technology and equipment enhancements, we continue to improve transmission system capability as well as performance and reliable operation of the Federal system. These enhancements mitigate some constraints without adding new lines to the grid. We continue to field test high-capacity composite conductors designed to significantly increase the transfer capacity of existing transmission lines in relieving system congestion.

Wind generation and other renewable energy options look promising to Western's customers as solutions to increasing energy needs. Wind energy is the world's fastest-growing energy technology. With the recent passage of the Energy Policy Act of 2005, we expect to see average annual wind capacity expanding at rates exceeding 20 percent. The two-year extension of the Production Tax Credit for renewable resources assures that requests for transmission service and interconnection to Western's transmission system, mainly from wind generation developers, will continue.

However, reinforcement and system upgrades will be necessary to meet these requests and maintain grid reliability. Western's recently-completed Dakotas Wind Transmission Study (December 2005), authorized and funded by the Energy and Water Development Appropriations Act of FY 2004, provides the engineering analysis which supports this conclusion.

Transmission system modernization is necessary to provide increased open access to Western transmission facilities. We have a longstanding practice of allowing third parties to use available capacity in the Federal transmission system, confirmed through our initial Open Access Transmission Tariff filing in 1997, and revised as filed last year to incorporate the Federal Energy Regulatory Commission's (FERC) Large Generator Interconnection standards. Western also joined the Midwest Independent System Operator (MISO) as a non-transmission owner in 2005, allowing us to better represent our load-serving interests in various MISO committees as a voting member.

The Energy Policy Act of 2005 strengthens the industry commitment to transmission system reliability by giving FERC expanded authority to approve and enforce reliability standards. We continue to participate in developing binding reliability standards that are effective in protecting the interconnected electric system. Western is proud of its reliability record, as we consistently exceed national system standards set by the North American Electric Reliability Council.

BUDGET HIGHLIGHTS

In the FY 2007 President's budget, Western continues to disclose all of the funding sources required to accomplish its program. Western's FY 2007 Construction, Rehabilitation, Operation and Maintenance (CROM) budget request totals \$688.5 million, including \$212.2 million from appropriated dollars. The total funding requirement increases \$115.6 million from the FY 2006 enacted program of \$572.9 million, primarily due to increases in purchase power and wheeling (PPW) caused by higher prices and increasing "custom product" purchases for the Central Valley Project customers. The appropriated request decreases \$19.5 million from the FY 2006 level of \$231.7 million, as greater use of customer advances is assumed.

In addition to the \$212.2 million net appropriated funds requested for the CROM Account, the request assumes \$274.9 million in offsetting collections for normal and drought-related purchase power and wheeling (PPW) requirements, and \$3.7 million in receipts from the Colorado River Dam Fund for Boulder Canyon Project activities. Also included is \$197.7 million from alternative customer financing. Of this, \$10.7 million is estimated for requirements in Program Direction and Operation and Maintenance, \$33.9 million for Construction and Rehabilitation activities and \$153.1 million for the PPW program.

The appropriated CROM request includes a non-reimbursable contribution of \$6.9 million to the Utah Mitigation and Conservation Account.

The use of mandatory offsetting collections from the Spectrum Relocation Fund (SRF) is not included in Western's budget amounts. The SRF, established by the 2004 Commercial Spectrum Enhancement Act, will provide non-reimbursable funding for relocating Federal systems from certain spectrum bands to accommodate commercial use. Western estimates the multi-year costs of relocating its communications systems at \$106.7 million.

The following table shows all funding sources for the FY 2007 total Western program.

The following table shows all funding sources for the **FY 2007 total Western program**.

BUDGET REQUEST SUMMARY (Dollars in Thousands)				
Fund/Activity	FY 2006 Funding	FY 2007 Request	Dollar Change	Percent Change
CONSTRUCTION, REHABILITATION, OPERATION AND MAINTENANCE (CROM)				
Program Direction ¹	\$143,667	\$147,748	+\$4,081	+2.8%
Operation and Maintenance ¹	47,295	45,734	-1,561	-3.3%
Construction and Rehabilitation	53,957	60,205	+6,248	+11.6%
Purchase Power and Wheeling (PPW)	321,397	427,931	+106,534	+33.1%
Utah Mitigation and Conservation	6,633	6,893	+260	+3.9%
Subtotal, CROM Program	\$572,949	\$688,511	+\$115,562	+20.2%
Use of Alternative Financing ²	-58,135	-197,741	-139,606	+240.1%
Offsetting Collections – PPW (P. L. 109-103)	-279,000	-274,852	+4,148	-1.5%
Offsetting Collections from Colorado River Dam Fund P.L. 98-381)	-4,162	-3,705	+457	-11.0%
TOTAL, CROM Budget Authority (BA) Request	\$231,652	\$212,213	-\$19,439	-8.4%
FALCON AND AMISTAD OPERATING AND MAINTENANCE FUND				
	\$2,665	\$2,500	-\$165	-6.2%
COLORADO RIVER BASINS POWER MARKETING FUND (CRBPMF)				
	\$171,268	\$221,081	+\$49,813	+29.1%
Offsetting Collections Realized	-194,268	-244,081	-49,813	+25.6%
TOTAL, CRBPMF BA request	-\$23,000	-\$23,000	\$0	0.0%
TOTAL, Western Area Power Administration BA	\$211,317	\$191,713	-\$19,604	-9.3%

¹ Funding amounts include activities of the Boulder Canyon Project which are funded through Colorado River Dam Fund receipts via a reimbursable agreement with the Department of the Interior as authorized in P. L. 98-381.

² FY 2006 and FY 2007 CROM funding amounts include \$42,397,000 and \$153,079,000 respectively, for planned alternative financing of the PPW subprogram. In addition, FY 2006 and FY 2007 CROM funding amounts include \$15,738,000 and \$44,662,000, respectively, for planned alternative financing of Western's Operation & Maintenance, Construction and Rehabilitation, and Program Direction subprograms.

The following table shows **the FY 2007 appropriations request**.

Fund Activity	FY 2006 Appropriation	FY 2007 Request (Dollars in Thousands)
Program Direction	\$125,930	\$135,146
Operation & Maintenance	\$45,672	\$43,897
Construction & Rehabilitation	\$53,417	\$26,277
Purchase Power & Wheeling	---	---
Utah Mitigation & Conservation	\$6,633	\$6,893
Total Program	\$231,652	\$212,213

Western's FY 2007 Program Direction (PD) request of \$147.7 million (comprised of \$135.1 million in appropriated funds, customer advances of \$9.6 million and \$3.0 million in power receipts) provides compensation and related expenses for our workforce to market power as well as plan, design, construct, operate and maintain the high-voltage interconnected transmission system and associated facilities.

The total PD program increased \$4.1 million, or 2.8 percent above the FY 2006 level (\$143.7 million), predominantly due to an increase of \$6.2 million in salaries and benefits, a shift of 10 full-time equivalent staff (FTE) from the Colorado River Basins Power Marketing Fund to support regular operation and maintenance

activities and an increase of 5 FTE for various support functions throughout Western. These increases are offset by decreases in support services and other related expenses of \$3.1 million to contain costs in Western's indirect activities.

Western has established formal workforce planning activities as the foundation for its Human Capital Management Program to ensure we have "the right people in the right place at the right time" to sustain its exemplary customer service ethic and power system reliability record.

Western's FY 2007 Operation and Maintenance request is \$45.7 million, comprised of \$43.9 million in appropriated funds, \$1.1 million in customer advances and \$0.7 million in power receipts. This is a 3.3 percent decrease from the FY 2006 program, including activities funded directly from the Colorado River Dam Fund and customer advances. The decrease is primarily attributable to extraordinary needs in the FY 2006 budget, and/or facility replacement requiring larger efforts, resulting in projects falling under the Construction and Rehabilitation program.

Western is requesting \$60.2 million (comprised of \$26.3 million in appropriated funds and \$33.9 million in customer advances) for its FY 2007 Construction and Rehabilitation program for high-priority replacements and upgrades of system equipment and facilities to sustain reliable power deliveries. Although Western's FY 2007 request is \$6.2 million above the FY 2006 level (\$54 million), the FY 2007 budget authority of \$26.3 million decreased by 51 percent from FY 2006 (\$53.4 million). The remaining \$33.9 million (56 percent of the total program) will require customer-advanced funding for necessary planned upgrades.

During this past year, we weathered what Mother Nature tossed at us, and were reminded of the value of controlling costs and implementing improvements in how we do business. While we were fortunate in the West not to have experienced the devastating impacts of recent hurricanes, the prolonged drought continues to test our ability to meet our contractual power commitments in a cost effective manner.

The FY 2007 Purchase Power and Wheeling program (\$427.9 million) has grown 33.1 percent from FY 2006 (\$321.4 million) to further implement the Central Valley Project's Post 2004 Marketing Plan, and mitigate drought impacts to hydropower generation affecting the Pick-Sloan Missouri Basin Program. Program increases are funded through alternative financing methods. The request for authority to use off-setting PPW collections (receipts) has dropped slightly from \$279 million in FY 2006 to \$274.9 million in FY 2007, with the program increase in FY 2007 funded through net billing and reimbursable funding of \$148.1 million and \$5 million in customer advances.

Because appropriations are only about 20 percent of Western's total funding picture, the ability to fund annual PPW expenses with power sales receipts has assisted us in long-term planning for mission critical operations.

Starting in FY 2007, the interest rate for new obligations incurred by Western for power-related investments will be set at the rate equivalent to what Governmental corporations pay when borrowing in the market, identified as the agency rate. This will align interest rates on certain investments with those paid by Bonneville Power Administration. This new interest rate will apply only to investments whose interest rates are not set by law. All Western investments currently in service will continue to retain existing interest rates. This will result in a rate increase of less than 1 percent, beginning in Fiscal Year 2007.

Western is "getting things done" ... regional planning is occurring and transmission lines are being rebuilt as we continue to solve transmission and reliability issues to facilitate the use and future expansion of the transmission grid in the West.

Thank you, Mr. Chairman. I would be pleased to answer any questions that you or the Subcommittee members may have.

Ms. MCMORRIS. Thank you.
Mr. Deihl.

**STATEMENT OF MICHAEL A. DEIHL, ADMINISTRATOR,
SOUTHWESTERN POWER ADMINISTRATION, TULSA,
OKLAHOMA**

Mr. DEIHL. Thank you, Madam Chairman.
Members of the Committee, I am Mike Deihl, Administrator of the Southwestern Power Administration, and I appreciate this

opportunity to present our 2007 budget request and discuss the implementation of the 2005 Energy Policy Act.

In 2005, Southwestern marketed 6.3 billion kilowatt hours of Federal hydropower which generated \$123 million of revenue, and therefore we remain on target to repay all the Federal investment. To date, Southwestern has repaid \$587 million or 48 percent of the \$1.2 billion investment.

Southwestern's 2007 budget request of \$31.5 million in appropriations and \$3 million in use of receipts for purchase power and wheeling is a total increase of \$1.7 million, or 5.6 percent above last year's budget.

Southwestern's purchase power and wheeling portion of the budget request is developed assuming average water conditions with the continuing fund as the backstop funding source in below normal water conditions. In late 2005, Southwestern activated the continuing fund due to extreme drought conditions. For the first four months of this Fiscal Year, 2006, the reservoir system in-flow averaged only 15 percent of normal, and last month this in-flow has dropped further to 10 percent of normal.

The amount of water currently stored in the lakes for generation is only 7 percent above the 75-year all-time low. With low lake levels, high energy prices, and heavily loaded transmission lines, one might say we have the perfect storm without the rainfall. And as long as these weather conditions persist, we will continue to utilize the continuing fund for purchasing power.

The Administration also proposes in this budget that interest rates paid by Southwestern's customers on new power-related investments would increase to a rate equivalent to what is called the agency rate. This agency rate is what governmental corporations pay when borrowing in the market, and is like the interest charged when Bonneville Power Administration borrow from the Treasury. This proposal would apply starting in 2007, but not apply to interest rates set by law.

I also want to report Southwestern continues to provide open access transmission as emphasized in the Administration's national energy policy, and we have taken aggressive steps to implement the new Energy Policy Act. For example, Southwestern has successfully signed an operating contract with the FERC-approved Southwest Power Pool Regional Transmission Organization. This contract provides regional use of our Federal transmission system, provides Power Pool Administration of our open access tariff, and provides regional reliability services.

Consistent with the Act, Southwestern and Southwest Power Pool are analyzing future regional transmission expansion needs and identifying potential national interest to electric transmission corridors. Southwestern will also be utilizing advanced technology, composite core, high-temperature conductors, and a planned transmission line upgrade project beginning in 2008.

In keeping with the Act, Southwestern and the other PMAs have been working with the Bureau of Reclamation, Corps of Engineers in analyzing and identifying those existing Federal hydropower plants which could be beneficially upgraded to provide increased electrical power. Southwestern will continue to be an active partici-

pant in our region as additional Energy Policy Act initiatives progress.

Last year, Madam Chair, I reported to this Committee that Southwestern shared the Regional Coordinated Black Start Task Force that developed procedures to restore power during area-wide outages. These efforts paid off on October 1. Following Hurricane Rita's devastation in southeast Texas, Southwestern played an instrumental role of coordinating efforts between various customers and the Corps of Engineers to use Federal hydroelectric power generated at Sam Rayburn Dam. This emergency power restored vital public services while repairs were made to the regional grid system. The men and women of the Corps of Engineers at the Sam Rayburn Project deserve a special recognition for a job well done.

In closing, Madam, I thank you very much, and I will be happy to answer any questions you or any member of the Committee may have.

[The prepared statement of Mr. Deihl follows:]

**Statement of Michael A. Deihl, Administrator,
Southwestern Power Administration, U.S. Department of Energy**

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to highlight Southwestern's efforts to market Federal hydroelectric power in its region and implement the Energy Policy Act of 2005 (EPACT) and to present an overview of Southwestern Power Administration's (Southwestern) Fiscal Year 2007 budget request.

PROFILE OF SOUTHWESTERN POWER ADMINISTRATION

Southwestern markets and delivers all available Federal hydroelectric power from 24 U.S. Army Corps of Engineers' (Corps) multi-purpose projects and participates with other water resource users in an effort to balance diverse interests with power needs. Southwestern operates and maintains 1,380 miles of high-voltage transmission line, 24 substations, and 47 microwave and very high frequency radio sites. Southwestern's Headquarters is in Tulsa, Oklahoma; the Dispatch Center is in Springfield, Missouri; and power system maintenance crews are based in Jonesboro, Arkansas; Gore, Oklahoma; and Springfield, Missouri. In Southwestern's region, Federal hydropower is distributed to nearly seven million end users in a six-state area: Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas.

Southwestern's program goal is to provide the benefits of Federal power to customers by selling and reliably delivering power from Federal multipurpose hydroelectric dams at the lowest cost-based rates possible that produce revenues sufficient to repay the American taxpayers' investments allocated to power (principal and interest), as well as operation and maintenance costs of the Southwestern Federal Power System.

MEETING REQUIREMENTS OF THE ENERGY POLICY ACT OF 2005

In support of the EPACT, the Administration's National Energy Policy goals, and transmission open access, Southwestern is participating in the Southwest Power Pool's Regional Transmission Organization (SPP RTO), through a contract containing provisions consistent with those set out in the EPACT.

Consistent with the EPACT, the SPP RTO has indicated that it may consider working with the Department of Energy to seek designating portions of Southwestern's Federal transmission system as part of a National interest electric transmission corridor to serve significant load growth in northwest Arkansas.

Also consistent with EPACT, Southwestern has participated in meetings with the other PMAs, the Corps, and the Department of Interior Agencies to jointly report the potential to increase electric power production at federally owned or operated water regulation, storage, and conveyance facilities.

Southwestern, in coordination with the SPP RTO, is supporting regional electric reliability through the establishment of a training center at its Dispatch Center in Springfield, Missouri, to provide its system operators training courses certified by the North American Electric Reliability Council (NERC) in response to the blackout of August 2003. Training is also being provided to operating personnel from other

utilities on a "space available" basis. Since April 2005, Southwestern has provided training to over 340 students and awarded over 3,000 Continuing Education units.

REGIONAL COOPERATION AND IMPROVING RELIABILITY

Southwestern has worked with the SPP RTO to identify needed improvements to the entire regional grid that will improve electric reliability and Southwestern plans to participate in these improvements and upgrades. Southwestern's budget forecast includes approximately \$9,000,000 in upgrades to its Federal transmission system through FY 2010 to address these issues. Demonstrating its support to the region, Southwestern is represented in many planning and operational committees of the SPP RTO. Southwestern chaired the Regional Transmission Organization's Coordinated Blackstart Taskforce and, based on the North American Reliability Council's requirements, developed the Blackstart Capability Plan and a Regional Restoration Plan.

In addition to working with the SPP RTO, Southwestern and a neighboring utility are in the process of completing a new interconnection to relieve overloads on the transmission system in northwest Arkansas. Southwestern is also discussing establishing an additional interconnection in southwest Missouri to provide further support to the region.

To promote improved reliability, communication, and system control, Southwestern is replacing its Supervisory Control and Data Acquisition system to provide monitoring and control of system operations. This upgrade will also provide the ability to improve communications between the Regional Reliability Coordinator and Southwestern's staff during emergency conditions.

SYSTEM COORDINATION

Following Hurricane Rita's devastating landfall in September 2005, Southwestern utilized the information learned during the development of the Regional Restoration Plan to help restore power to the people of southeast Texas. Hurricane Rita had downed hundreds of thousands of trees and numerous power lines in the region and left thousands of people and businesses in Jasper County and surrounding areas without electricity and telecommunications. More urgently, a hospital, water treatment plant, police departments, and other critical services were without the power they needed to respond to the disaster. Southwestern was instrumental in the coordination efforts between various customers and the Corps to use Federal hydroelectric power generated from Sam Rayburn Dam to provide power to these vital public services while repairs were made to bring power back to this hurricane-ravaged area.

SYSTEM RATES

To ensure repayment of the Federal investment, the Integrated System rates were adjusted to increase revenues by 7.3 percent (\$9,000,000) effective February 1, 2006. This increase included an adjustment to Southwestern's purchased power adder rate component to recover increased costs of energy purchases. In addition, a revenue increase of 12 percent (\$302,000) was implemented for the Sam Rayburn Dam project and a revenue increase of 43.1 percent (\$195,000) was implemented for the Robert D. Willis project, both effective January 1, 2006.

FY 2005 ACCOMPLISHMENTS

- Southwestern marketed approximately 6.3 billion kilowatt-hours of energy and transmission services that generated revenues of \$123 million.
- Southwestern has cumulatively repaid all annual operating costs and approximately 48 percent of the \$1.2 billion in capital investments attributable to Southwestern's activities. All required capital investment payments have been made on time.
- Southwestern exceeded the NERC control compliance ratings for power system operations reliability.
- Southwestern saved 10.7 million barrels of oil, 3.1 million tons of coal, or 65.6 billion cubic feet of gas through hydropower generation, and prevented greenhouse emissions of approximately 5.4 million tons of carbon dioxide, 16,200 tons of sulfur dioxide, and 12,900 tons of nitrogen oxides.
- Southwestern provided \$488 million in economic benefits to the region from the sale of hydroelectric power.

FISCAL YEAR 2007 BUDGET REQUEST SUMMARY

(dollars in thousands)

	FY 2005 Appropriation	FY 2006 Original Appropriation	FY 2006 Adjustments	FY 2006 Current Appropriation	FY2007 Request
Operation and Maintenance					
Program Direction	19,169	19,958	-200	19,758	20,782
Operations and Maintenance	4,639	7,042	-70	6,972	7,145
Construction	5,309	3,166	-32	3,134	3,612
Purchased Power and Wheeling (PPW)*	11,200	12,400	0	12,400	13,600
Subtotal, Operation and Maintenance	40,317	42,566	-302	42,264	45,139
Offsetting Collections, PPW	-2,900	-3,000	0	-3,000	-3,000
Alternative Financing PPW	-8,300	-9,400	0	-9,400	-10,600
Total, Operation and Maintenance	29,117	30,166	-302	29,864	31,539

*Estimated program costs based on average year purchases at pre-Katrina prices and with energy banks available.

BUDGET HIGHLIGHTS

Southwestern's FY 2007 budget request provides for maintenance, additions, replacements, and interconnections to assure a dependable and reliable Federal power system, which is an integral part of the Nation's electrical grid. Southwestern's budget request shows a modest increase, allowing Southwestern to maintain its aging transmission system while meeting the demands of increased regional power loads and alleviating power flow constraints. Participation in future transmission system projects to improve reliability will depend on greater use of non-Federal reimbursable authority for facility improvements, interconnections, and maintenance required by the security coordinator of the Regional Transmission Organization.

Program Direction

Program Direction provides compensation and all related expenses for 179 Federal personnel who market, deliver, operate, maintain, and administer the high-voltage interconnected power system and associated facilities. Southwestern performs critical functions in meeting the challenges of operating and maintaining the Federal power system to assure reliability, while responding to the growing regional demand for power and avoiding deterioration of the infrastructure, including planning, designing, and supervising the construction of replacements, upgrades and additions to the transmission facilities, and marketing power and energy produced to repay annual expenses and capital investments with interest.

Operations and Maintenance

Operations and Maintenance funds routine repair, maintenance, and improvement of Southwestern's substations and high-voltage transmission lines, and assures power is reliably and safely delivered to customers. Southwestern's facilities, most of which were built some 60 years ago, are routinely evaluated through a maintenance management information system. The funding level is derived from variables such as age, risk of failure, life cycle of equipment, and field crew evaluation. Internal and external factors include obsolescence of technology and lack of replacement parts. This budget request reflects Southwestern's assessment of the funding required to assure continued reliability of the Federal power system by replacing aging equipment and removing constraints that impede power flows, thus, meeting the expectations of the National Energy Policy, EPACT, transmission open access, and the Department of Energy's Strategic Plan. Southwestern will continue to use appropriations and alternative financing arrangements, including net billing, bill crediting, and/or reimbursable authority (customer advances) to fund maintenance and replacements to assure a dependable and reliable Federal power system.

Construction

Construction provides funding for the addition, replacement, and modification of communication equipment and systems that provide monitoring and control of power system generation and transmission assets. The funding for FY 2007 will complete an important communication pathway which will improve reliability in the region.

In December 2004, the Congress passed and the President signed the Commercial Spectrum Enhancement Act, creating the Spectrum Relocation Fund (SRF) to streamline the relocation of Federal systems from certain spectrum bands to accommodate commercial use. Funds will be made available to Southwestern following the crediting of auction receipts to the SRF, anticipated in Fiscal Year 2007. Southwestern estimates \$6.3 million in relocation costs, as approved by the Office of Management and Budget, and as reported to the Congress by the Department of Commerce in December 2005.

Purchased Power and Wheeling

Purchased Power and Wheeling is based on average hydropower generation under normal operating conditions at pre-Katrina prices with energy banking assumed available. However, in FY 2006, a significant shift to a post-Katrina pricing regime and the loss of availability of energy banking arrangements will cause future years' purchase requirements to increase. Purchase Power and Wheeling will be funded through use of Federal power receipts and alternative financing arrangements, including net billing, bill crediting, and reimbursable authority or customer advances, and other operational arrangements with customers.

Southwestern will continue to utilize its Continuing Fund for emergency expenses associated with purchase power to ensure continuity of electric service and continuous operation of the facilities on an on-going basis to pay for purchase power and wheeling expenses when necessary to meet contractual obligations for the sale and delivery of power during periods of below-average hydropower generation. The fund was activated during Fiscal Year 2005 and again this fiscal year for purchased power and wheeling expenses during the extended drought we are experiencing in our region. As of mid-February, inflows are at 10% of median and the available system storage for generation of hydroelectric power is approximately 11% below the previous 18-year minimum, which is only 8 percent above the 75-year all-time minimum. Pool levels at the reservoirs which supply Southwestern's hydroelectric generation resources are approximately half full.

Agency Rate Proposal

Starting in FY 2007, the interest rate for new obligations incurred by Southwestern for power-related investments will be set at the rate equivalent to what Governmental corporations pay when borrowing in the market, identified as the agency rate. This will align interest rates on certain investments with those paid by Bonneville Power Administration. This new interest rate will apply only to investments whose interest rates are not set by law. All Southwestern investments currently in service will continue to retain existing interest rates. This will result in a rate increase of less than 1 percent, beginning in Fiscal Year 2007.

CONCLUSION

In conclusion, Southwestern's Fiscal Year 2007 budget request will allow Southwestern to continue operating in a business-like manner and meet the requirements of the Energy Policy Act of 2005 while supporting the Nation's energy goals and the development of the transmission and generation infrastructure. As the demand for power increases on the Nation's transmission systems, the need to maintain, replace, and provide for additions and interconnections on the Federal power system is critical in assuring reliable delivery. Southwestern will continue to examine its overall business strategy while making the improvements necessary to ensure reliability of the Federal power system.

Mr. Chairman, this concludes my testimony. I would be pleased to address any questions the Subcommittee may have.

Ms. MCMORRIS. OK, thank you.
Mr. Borchardt.

**STATEMENT OF CHARLES A. BORCHARDT, ADMINISTRATOR,
SOUTHEASTERN POWER ADMINISTRATION, ELBERTON,
GEORGIA**

Mr. BORCHARDT. Thank you, Madam Chairman and other Members of the Committee.

My name is Charles Borchardt, and I am Administrator of the Southeastern Power Administration in Elberton, Georgia. I appreciate the opportunity to appear before the Committee today

to discuss the Energy Policy Act of 2005 as well as the Fiscal Year 2007 budget request from Southeastern.

Southeastern markets power from 22 multiple-purpose projects operated by the U.S. Army Corps of Engineers and its power is marketed under the authority of Section 5 of the Flood Control Act of 1944. It is marketed to public bodies and cooperatives located in an 11-state area in the Southeast.

Southeastern does not operate or maintain any transmission facilities. The marketing function is achieved through wheeling contracts with utilities in the area. Last fiscal year Southeastern sold 8,730 gigawatt hours of energy, realized total revenues of \$220 million. Also in that year Southeastern integrated the John H. Kerr project into the PJM RTO, and this has proven to be a very satisfactory arrangement for Southeastern and its customers.

Southeastern, along with the other PMAs, the Corps of Engineers, and the Bureau of Reclamation, is currently working on a study to identify science for potential increased hydropower production at existing Federal facilities, and this study is a requirement of Section 1834 of the Energy Policy Act of 2005.

As a result of Southeastern's encouragement, many of its customers are using a web-based e-government process called Pay.gov to make their power payments online. Working with the Treasury, Southeastern has also implemented a paper check conversion process for those customers who still want to pay by check.

This process, once a customer's check is received, an immediate electronic deposit or credit is made to Southeastern's treasury account. These systems significantly improve the cash-flow to the Treasury.

Under its fiscal year budget request, Southeastern respectfully requests \$5.7 million in appropriations for program direction, and to finance the purchase power and wheeling program requirements Southeastern requests the use of \$34.4 million in offsetting collections and \$13.6 million in alternative financing and net billing arrangements.

Starting in Fiscal Year 2007, as the other administrators have mentioned, the interest rates for the new obligations related to power investments will be set at the treasury agency rate, and this will place in the interest rates on investments related to power production in Southeastern's area in alignment with the interest costs paid by, among others, the Bonneville Power Administration and the governmental corporation.

Madam Chairman, this concludes my remarks, and I will be glad to answer any questions you and the other members of the Committee may have.

[The prepared statement of Mr. Borchardt follows:]

**Statement of Charles A. Borchardt, Administrator,
Southeastern Power Administration, U.S. Department of Energy**

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to present a written statement on the President's proposed Fiscal Year 2007 budget request for the Southeastern Power Administration (Southeastern).

PROFILE OF SOUTHEASTERN POWER ADMINISTRATION

The mission of Southeastern is to market and deliver Federal hydroelectric power at the lowest possible cost to public bodies and cooperatives in the southeastern United States in a professional, innovative, customer-oriented manner, while

continuing to meet the challenges of an ever-changing electric utility environment through continuous improvements.

With a staff of 42, Southeastern markets power produced at 22 multiple-purpose projects operated and maintained by the U.S. Army Corps of Engineers (Corps). This power is marketed in an 11-state marketing area. Preference in the sale of power is given to public bodies and cooperatives in accordance with Section 5 of the Flood Control Act of 1944 (16 U.S.C. 825s).

Southeastern coordinates the operations of the projects using customers' load schedules and meets the North American Electric Reliability Council's control area criteria while complying with Corps' operational and environmental requirements. All of Southeastern's system operators meet North American Electric Reliability Council certification standards.

Southeastern does not own or operate any transmission facilities and carries out its marketing program by using the existing transmission systems of the power utilities in the area. This is accomplished through "wheeling" contracts with area transmission providers that agree to deliver power to preference customers. In turn, Southeastern agrees to compensate the transmission provider for the wheeling services.

Rates are formulated to repay all costs of Southeastern, as well as the costs of the Corps allocated to power. The rates are designed to recover operation and maintenance expenses, interest expense, and purchased power and wheeling expenses annually. The costs of capital investments are also recovered over a reasonable number of years.

Starting in FY 2007, the interest rate for new obligations incurred by Southeastern for power-related investments will be set at the rate equivalent to what Governmental corporations pay when borrowing in the market, identified as the agency rate. This will align interest rates on certain investments with those paid by Bonneville Power Administration. This new interest rate will apply only to investments whose interest rates are not set by law. All Southeastern investments currently in service will continue to retain existing interest rates. This will result in a rate increase of less than 1 percent, beginning in Fiscal Year 2007

ENERGY POLICY ACT OF 2005

Southeastern is participating in a study to identify the potential for increased hydropower generation from existing Federal facilities. The requirement for this study is set forth in Section 1834 of the Energy Policy Act of 2005. Southeastern is working with the other power marketing administrations to develop benefit evaluation criteria related to the study. Representatives from the Corps and the Bureau of Reclamation are also involved in the study.

PROGRAM ACCOMPLISHMENTS

In Fiscal Year 2005, Southeastern sold 8,730 gigawatt-hours of energy, with revenues totaling \$220 million.

On May 1, 2005, Southeastern integrated the Kerr Project into the PJM Interconnection L.L.C. regional transmission organization (RTO). Southeastern will participate as a stakeholder as additional transmission owners join RTOs.

Southeastern has used the President's Management Agenda to become more efficient and effective. We have integrated the principles of the initiatives in the President's Management Agenda into our organization and have continued working with the Office of Management and Budget and offices within the Department of Energy (DOE) to ensure that the performance measures are more focused and useful in making management decisions. Southeastern has consistently achieved high ratings on DOE's quarterly President's Management Agenda Scorecard process and met the criteria for annual targets and the Program Assessment and Rating Tool.

Southeastern has many customers utilizing Pay.gov, a web-based e-Government initiative that allows customers to make payments on-line. Southeastern, in conjunction with the U.S. Treasury, has implemented a paper check conversion process, which, upon receipt of a customer's payment, enables an immediate electronic deposit or credit to Southeastern's Treasury Account. Both of these systems, Pay.gov and the paper check conversion, significantly improve cash flow to the U.S. Treasury.

Southeastern has also implemented, through the U.S. Treasury, an on-line secure payment system for making payments. Southeastern maintains sound physical and cyber security practices. DOE Orders and National Institute of Standards and Technology documents provide the basis for protection of the critical infrastructure. Southeastern's physical security is enhanced with remote video surveillance equipment and cyber security is improved by updating internet firewalls to block

intruders and secure data transmission. Southeastern meets the standards for physical and cyber security required by DOE regulations and orders.

BUDGET REQUEST SUMMARY

	(dollars in thousands)		
	FY 2005 Appropriation	FY 2006 Appropriation	FY 2007 Request
Program			
Direction.....	5,158	5,544	5,723
Purchase Power and Wheeling (PPW)			
Purchase Power.....	12,000	12,000	12,895
Wheeling.....	36,200	35,198	35,108
Subtotal, Southeastern Power Administration.....	53,358	52,742	53,726
Offsetting Collections,			
PPW.....	-34,000	-32,713	-34,392
Alternative Financing/Net			
Billing.....	-14,200	-14,485	-13,611
Total, Budget Authority, Southeastern Power			
Administration.....	5,158	5,544	5,723

The Fiscal Year 2007 budget request provides for \$5.7 million in appropriations for program direction. The request also provides \$34.4 million in offsetting collections and \$13.6 million in alternative financing/net billing arrangements to finance the purchase power and wheeling program requirements. Use of offsetting collections enables Southeastern to operate more like a business by allowing Southeastern's revenues to pay for purchase power and wheeling costs rather than using appropriations. There are no new program starts included in Southeastern's Fiscal Year 2007 budget request.

Mr. Chairman, this concludes my presentation of Southeastern's Fiscal Year 2007 budget request and program status. If you or any of the Subcommittee members have questions, I will be pleased to answer them.

Ms. MCMORRIS. Thank you very much. I understand you have recently announced your retirement, and your wife Lola is with you today, so we want to wish you well on your retirement and thank you for your service.

Mr. BORCHARDT. Well, thank you very much.

Ms. MCMORRIS. Yes.

Mr. BORCHARDT. I appreciate that.

[Applause.]

Ms. MCMORRIS. OK.

Mr. DEFAZIO. Madam Chair.

Ms. MCMORRIS. Yes, Mr. DeFazio.

Mr. DEFAZIO. If the Chair would entertain a request. I have questions which go in a detailed manner to the Bonneville Power Administration's proposal in ways that I believe the Administrator cannot answer, which have to do with assumptions made at OMB, and I understand that a Ms. Sharon Segner of OMB is here monitoring the proceedings, and I would ask that she be seated and allowed to answer questions regarding the assumptions and some

of the underlying bases that she used in coming up with these proposals.

Mr. WALDEN. If the gentleman would yield—

Mr. DEFAZIO. Yes, sir.

Mr. WALDEN.—I would second that request.

Ms. MCMORRIS. OK.

Ms. SEGNER. I appreciate the offer but I am sorry I am not authorized to answer questions.

Mr. DEFAZIO. Well, Madam Chair, since she is a public employee, and for some reason she is here, she is the author, and yet she will not—I am going to ask very factually based questions. They do not go to policy assumptions. She will not be called on to make political judgments. She will just be asked to provide some factual underpinnings for these rather extraordinary proposals that emerged under her authorship.

So I would assume that she could at least as a public employee who is here being paid by Federal taxpayers, that she could answer a few very factual questions. And if she feels I am transgressing into a political realm or a policy realm, I would certainly defer to her in that. But these would be very factually based.

Ms. SEGNER. I do appreciate the offer, but I am sorry, I am not authorized to answer questions today.

Mr. DEFAZIO. Well, I guess I wonder why you are here then if you cannot answer questions.

Ms. SEGNER. As an observer to the proceedings.

Mr. DEFAZIO. Right, you are like—it is like the old Soviet Union. We have the government person, and you are the party person who monitors what they say. And if they transgress, then you try and put them in the gulag.

So with that, Madam Chair, again, I find this extraordinary, and I would say it is probably a waste of taxpayer's money that she is just sitting here to monitor someone else's testimony. She could read the transcripts later.

Ms. MCMORRIS. OK. Well, let the record reflect that the request was made, and that Ms. Segner declined.

Mr. DEFAZIO. She took the fifth.

Ms. MCMORRIS. OK. Let us see here, do you want to—OK, anyone else have any questions?

Mr. WALDEN. I have questions.

Ms. MCMORRIS. OK.

[Laughter.]

Ms. MCMORRIS. OK, OK, OK, I guess I will start, get back on track here.

I will start with Mr. Wright, and I guess I am under the impression that what has largely driven this approach by the Administration this year is the fact that we have more rainfall, more expected revenue from generation of electricity, and wanted to ask if the proposal includes any recognition of what is going to happen when we have bad water years, and if the Administration would be willing to allow for transfer of treasury revenues back to BPA during those bad water years.

Mr. WRIGHT. The President's budget proposal does not address specifically what would happen in bad water years, but I would say, in conversations with the Secretary, we understand that that

is a significant concern on the part of Northwest constituents and the Northwest Congressional Delegation, and we are prepared to address that in discussions, in conversations with all of you to see if there is something that could be done there.

Ms. MCMORRIS. In the last 10 years has BPA received revenues from secondary sales in excess of \$500 million, and if yes, how have those revenues been used?

Mr. WRIGHT. The President's budget proposal addresses net secondary revenues in excess of \$500 million, and we believe that if it has happened, it has happened in only a very small amount.

To the extent that it would have happened, those revenues would have been used as other net secondary revenues are, and that is it would have been used to go into Bonneville's reserves and ultimately would have been reflected in rates, in ratemaking as we go forward.

Ms. MCMORRIS. To your knowledge, has CBO ever assumed revenues in an incomplete rate case before?

Mr. WRIGHT. I would have to say to my knowledge it has not, but then again, I am not sure how in depth my knowledge goes there.

Ms. MCMORRIS. I guess I would like to ask all the witnesses to talk about impacts of Endangered Species Act on driving up cost, and I wanted to ask if at this present time you take any action to inform your customers as to Endangered Species Act cost, and if there is any kind of a line item in their bills.

Mr. HACSKAYLO. The Western Area Power Administration over the last five fiscal years has averaged about \$96 million a year to comply with Endangered Species Act costs. That is primarily in the Colorado River Storage Project where we have had to purchase energy to replace energy generate foregone at Glen Canyon Dam.

We have also paid for portions of the adaptive management program run by the Geological Survey, Fish and Wildlife, and others, in the Department of the Interior. We have been involved in the recovery implementation program where power revenues have paid for some of those costs as well.

We also have costs on the Missouri River that Mr. Graves alluded to with regard to the pallid sturgeon. Those costs are just starting to come in because of the recovery program there.

In addition, with regard to the Central Valley project in California, we have costs involved with Endangered Species Act compliance.

Western does not presently put a line item on its bills to its wholesale power customers of what these costs are.

Ms. MCMORRIS. OK.

Mr. DEIHL. For Southwestern, currently we have one issue with ESA and that is the interior least tern, mainly in Oklahoma and on the Texas/Oklahoma border. It has not resulted in any lost generation but the operational changes affect the release of the water from a non-peak, or from peak times to non-peak hours, so there is an impact on the customers as far as the benefits of about a million dollars a year because of the change in the value because the time of day that the water is released.

As far as direct costs for Southwestern that the customers have to repay would be approximately, I would say about \$100,000 a year in staff and overhead cost to administer the work related to

the Endangered Species Act, plus average energy purchases somewhere between three and four hundred thousand dollars a year, so roughly about a half a million dollars a year goes into our rate base as a result of ESA.

We do report quarterly to our customers update status on activities related to ESA, particularly least tern, but we do not have anything on their monthly billing statements at this time that show a percentage of their bill dedicated to that.

Ms. MCMORRIS. OK, thank you.

Mr. BORCHARDT. For the Southeastern Power Administration, we have several species of fish, sturgeon and darters, and we have also have some fresh water mussels that have been identified on the endangered species list. However, the habitat has not been identified, so consequently we have been very fortunate in not having to incur any of those types of costs, and consequently we do not have anything on the customers' bill in that regard.

However, I would say that we and the other PMAs, the Corps does spill water to enhance low dissolved oxygen and to help with the put-and-take operation of fisheries downstream, and we have lost revenues in that regard. It is not exactly endangered species, but it is that type of operation.

Ms. MCMORRIS. OK, thank you.

Mr. WRIGHT. Madam Chairman, I do not have the numbers at my fingertip with respect to our ESA costs. We have calculated that, and I would be happy to provide that as an insert for the record.

Our customers tend to be more focused on our overall fish and wildlife mitigation costs, and those costs currently run about \$600 million a year if you include both the direct costs and the costs of changes on hydro system operations.

We do not at this point show that on the wholesale bill. The information though has been provided to customers.

Ms. MCMORRIS. OK, thank you.

Ms. Napolitano.

Ms. NAPOLITANO. Thank you, Madam Chairwoman.

I apologize. I had a speaking engagement at ACWA so I had to be present.

To Mr. HacsKaylo, your statement on page 10 refers to the proposed use of what you call the agency rate. As justification for this proposal you say that this will align interest rates on certain investments with those paid by Bonneville Power Administration.

Why is it so important to align the interest rates, and is there any other reason given to support the Administration's decision to make this change?

Plus what legislative authority, and I alluded to that earlier, now exists that allows the change in the interest rates, and can you provide us with written opinion to the legal counsel that supports the Administration's position that no new legislative authority is needed to implement this new policy?

I want to be sure that a copy comes to this Committee to support that.

Mr. HACS KAYLO. Yes, ma'am, thank you.

With regard to the agency rate, currently Western Area Power Administration, Southeastern and Southwestern use the treasury

yield rate which does recover to the treasury of the cost of borrowing funds.

However, the agency interest rate, the agency rate represents an additional risk factor which the Administration believes is appropriate given the potential risk somewhere down the road of the Power Marketing Administrations not being able to make repayment to Treasury because of—

Ms. NAPOLITANO. Excuse me. I am sorry. Explain potential risk.

Mr. HACSKAYLO. Potential risk could be a catastrophic event taking out a power plant, for example, where we would have to purchase additional very expensive energy. There could be some risk there in terms of not being able to collect revenues from customers in selling power, and thus not make our treasury payments every year.

Ms. NAPOLITANO. OK. I am sorry, you were explaining.

Mr. HACSKAYLO. Yes. With regard to the question about a legal, or the legal authority, I believe the legal authority is within the Department of Energy Organization Act as well as the Reclamation Project Act of 1939 for Western Area Power Administration.

Finally, with regard to any sort of legal opinion, I am not aware of any, but I will be certain to carry your request to the Department of Energy, and if there is such an opinion, we will deal with that with the Committee at that time.

Ms. NAPOLITANO. I would really appreciate it, and to me the risk is great if you have had episodes that demand attention to that type of risk. Have you had any of those things happen?

Mr. HACSKAYLO. No, ma'am.

Ms. NAPOLITANO. Second question. The Bureau of Reclamation's budget request includes a proposal to reallocate irrigation costs for the Pick-Sloan Program, and this is expected to increase power rates.

Are you familiar with the Bureau's proposal?

Mr. HACSKAYLO. I am aware of the proposal in the President's budget for the Bureau of Reclamation, yes, ma'am.

Ms. NAPOLITANO. Were you consulted on it?

Mr. HACSKAYLO. No, ma'am.

Ms. NAPOLITANO. Can you explain how the proposal might affect your agency?

Mr. HACSKAYLO. If the reallocation by the Bureau of Reclamation results in additional costs to power users, those additional costs will be picked up and paid for in the power rates we charge to the Pick-Sloan Missouri Basin Program power customers.

Ms. NAPOLITANO. I appreciate that.

I would like to submit some others for the record.

Ms. MCMORRIS. OK.

Ms. NAPOLITANO. Right now, I am trying to formulate in my mind. Thank you, Madam Chair.

Ms. MCMORRIS. Ms. Musgrave.

Ms. MUSGRAVE. Thank you, Madam Chair.

Mr. Hacskaylo, this question is for you. In your written statement and in the President's budget proposal the Eastern Plains Transmission Project is referenced. This will have a huge impact on my constituents, and I would like you to explain WAPA's role in this project.

I also would wonder if there are any other requirements from Congress that you might need to proceed on this project. Then also I would like to know what criteria does WAPA use to determine its participation in these types of projects.

Mr. HACSKAYLO. Yes, ma'am.

Western Area Power Administration is a partner with Tri-State Transmission and Generation Association on the Eastern Plain Transmission Project. By good coincidence and good planning, Tri-State has determined that it needs additional generation to meet its growing load in its multi-state service territory, and Western Area Power Administration needs additional transmission reinforcement and additional efforts on transmission to enhance the system reliability in southern and southeastern Colorado.

Working together, working closely with Tri-State, we have come up with a plan where Western Area Power Administration would acquire right-of-way. We would do the environmental impact statement for the project. We would design and oversee the construction of the transmission facilities that would be needed, anywhere between 600 to 800 miles of 340,000-volt transmission lines for this project over a good five to seven-year period.

With regard to anything additional we might need from the Congress, we believe we have existing legal authority. We have existing partnership arrangements and contracts with Tri-State to get this job done.

You also asked what criteria we use in terms of planning to come up with a project like this. Western participates in all the planning processes within the Western Electricity Coordinating Council regional reliability area, which is the western half of the United States.

We work closely with all utilities to do the planning, to learn where the transmission needs are, where the transmission bottlenecks are, and how working jointly, working together with other utilities we can solve those problems so that we can provide open access to the transmission system and move power from wind generation and other renewable generation as well as other sources of generation like coal to best meet customer need and keep the cost as low as to the consumer that we can.

Ms. MUSGRAVE. Thank you, Mr. Hacskaylo, and thank you, Madam Chairman.

Ms. MCMORRIS. Mr. DeFazio.

Mr. DEFAZIO. Thank you, Madam Chair.

Mr. Wright, as I understand your advocacy of the OMB provisions in the budget here, the theory is that it would be good to prepay debt. Now, I understand prepayment and I make a little prepayment on my mortgage, but at the end I get my house. Do we get BPA when we are done repaying this debt?

[Laughter.]

Mr. DEFAZIO. A simple answer would suffice, yes or no.

[Laughter.]

Mr. WRIGHT. The Federal government will retain.

Mr. DEFAZIO. OK, all right, thank you.

So then let us maybe go to the other great reasons for prepaying debt.

My understanding is that theoretically this would free up some of your statutory borrowing authority to construct transmission, but I seem to remember, and you know, again, since OMB refuses to testify here, you will have to fill in for them, but did not in the 2003 and 2004 budget OMB advocate that we should have third-party financing so that we would not encumber the Federal government with this debt and only the ratepayers would be encumbered through third-party transactions?

And did you not develop actually a procedure to do that, and did you not in fact go forward with some third-party financing, and did not in fact it work out quite well?

Mr. WRIGHT. The 2003 budget did include a request, the President's budget did include a request for an increase in Bonneville's borrowing authority, and associated with that was an encouragement for us to move forward with non-Federal financing.

And of course, Congress did grant the borrowing authority and we did move forward, and implement non-Federal financing on the Shultz-Wantoma line, a \$125 million line that was built. So yes, we have actually accomplished some non-Federal financing at this point.

Mr. DEFAZIO. OK, and so the Federal taxpayers are not on line there, it did not create any theoretical obligation and/or debt for the Federal government, correct?

Mr. WRIGHT. Well, there has been concern on the part of the Administration. Certainly the bond covenants as they have been written reflect that the ratepayers are on the hook.

Mr. DEFAZIO. Right.

Mr. WRIGHT. But there has been concern that as a Federal agency Bonneville is incurring a liability, and hence the proposal that is included in this budget for the Financial Transparency and Accountability Act that would count on—

Mr. DEFAZIO. So there has been some sort of change in OMB's positions since 2003-2004 when they wanted us to do this because they thought it would be great because it was privatizing debt, and now they do not want us to do that, so now they have come up with something new.

Let me get into the specifics of this. The assumptions, I am thinking maybe you could do away with the people in BPA if these folks are so good at OMB, because I notice here that their assumptions are much more optimistic than yours in the rate case about so-called surplus revenues. In fact, over a three-year period they estimate \$509 million more than you do.

Now, are you low-balling or they high-balling?

Mr. WRIGHT. The estimates were made at different times.

Mr. DEFAZIO. Oh, I see. OK, good. So do you think then maybe you ought to revisit all your estimate and jack them up to these extraordinary levels that OMB assumes? And if so, then maybe you should in reopening the rate case you would not want to just provide room for them, but you would want to lower our rates because we are going to have a lot more revenue than you anticipated just a couple of months ago when you entered into this rate case.

If there is new information out there, if you are going to reopen the rate case for their proposal, would you not be required at the same time if their estimates are accurate to include those enhanced

revenues in that, and perhaps lower our rates instead of jacking them up to accommodate their proposals?

Mr. WRIGHT. I would say the good thing about our initial rate proposal and the President's budget proposal is they are forecasts from which the actual impact will only be whatever our secondary revenues are. So under our initial rate proposal, our rates will reflect whatever our actual secondary revenues are.

Mr. DEFAZIO. Right, because you have authority to do interim rate increases if you do not realize your goals.

Mr. WRIGHT. Or rate decreases.

Mr. DEFAZIO. Right. OK.

Mr. WRIGHT. And so we actually have set this up—

Mr. DEFAZIO. So you think that their estimates, as I understand, OMB used some very high estimates for gas, and that exceed now what is being offered in futures contracts rather considerably for gas in the western U.S.

Are you optimistic that—I mean, are you pessimistic? Do you think gas prices—I mean, I am just trying to get a little advice here. You know, I might go out and get some futures. Are gas prices going to go up dramatically. Is OMB right or are you right here?

Mr. WRIGHT. The markets are extremely volatile. I would urge you, Congressman DeFazio, to not make any investments on the basis of the advice that I would give you.

Mr. DEFAZIO. Again, I should not—

[Laughter.]

Mr. DEFAZIO. And I probably should not go with OMB's numbers and bet on those either. I mean, my predecessor really liked to get into futures contracts. I was thinking about it.

[Laughter.]

Mr. DEFAZIO. All right, I will not do that. Now, let me understand this new extraordinary process. What is this supplemental rate case we are going to get into? What is it based on?

I mean, how is it going to work? I mean, I really do not understand it. I mean, I know we have had interim rate cases because of huge unanticipated events, you know, like Enron and things like that, or bad water, but this is a proposal by the Administration where you are going to hold—how do we reopen or have a supplemental rate case based upon their estimates about the future for power versus your estimates about the future costs of power and/or the availability and/or sale of surplus power, and the revenues that might or might not be realized?

This sounds like kind of a “whooooo”. You know, this is going to be kind of a strange procedure here based on—I mean, are they going to come in and testify at the rate case?

Mr. WRIGHT. Let me say first of all—

Mr. DEFAZIO. I mean, they cannot talk here. Maybe they can talk there. I do not know where they can talk other than whisper in peoples' ears.

Mr. WRIGHT. So first the—

Mr. DEFAZIO. And write things down. You know, I remember Al Swift. He used to talk about the trolls at OMB. I mean, they are looking a lot better than in Al's day, but they always hid under the bridge and they came out at budget time, and you know, there

have been so many proposals to attack BPA over the 20 years I have been in Congress. This is the most creative because it uses the inherent powers doctrine to do this administratively, but it is still nothing but, it seems to me, an availed way to either make the deficit look smaller because they seem to be very optimistic revenue assumptions and surplus revenue assumptions.

But what are you going to base this new rate case on? Reality or supposition or wishful thinking or making the deficit look smaller or what?

Mr. WRIGHT. It is important to understand, first of all, we intend to complete the current rate case. And if the—

Mr. DEFAZIO. But then immediately undertake another supplemental one right here?

Mr. WRIGHT. That is right. So we have not made a decision yet as to how we will handle secondary revenues. That is a decision that actually I need to make as part of that rate case, and I am not going to prejudice that decision here.

Mr. DEFAZIO. No, of course it is an ex-parte contact. I understand.

Mr. WRIGHT. Right.

Mr. DEFAZIO. And you would not be reopening it just because you are being pushed there, you are reopening it because you just think there is new things out there that should be considered.

Mr. WRIGHT. So our intent would be to complete this current rate case, and then to move forward with a separate rate case to implement the President's proposal, and exactly how that would be implemented I could not answer today because we would need to complete the first rate case to figure out how we are going to deal with secondary revenues.

There are a variety of issues that would come up in a rate case. You know, the most typical issues are rate design, who pays. And you would also have to deal with the kind of questions like on secondary revenues are you making an assumption about what the secondary revenues will be, or do you just create a mechanism that says whatever those secondary revenues are if they are above \$500 million a payment will be made, and that will be reflected in subsequent rate adjustment clauses. So those are the type of issues that we would be—

Mr. DEFAZIO. All right, some experts have estimated that the rate increase to accommodate the proposal of this administration would be between 6 and 10 percent.

Mr. WRIGHT. So our estimate based on if the secondary revenues did come in at the levels projected in the President's budget is that we would have no change in rates in 2007, but rates would vary by about 10 percent in 2008 and 2009.

Now, that will change based on whatever the actual secondary revenues are though, and that was just based on the forecast, and that forecast was put together in January. The market is different today than it was in January.

Mr. DEFAZIO. January this year?

Mr. WRIGHT. January of this year, yes.

Mr. DEFAZIO. So OMB's forecast is based on—no, wait a minute. The President's budget came at the end of January too, so what did they base their forecasts on?

Mr. WRIGHT. No, the President's budget is what I was referring to.

Mr. DEFAZIO. OK.

Mr. WRIGHT. The President's budget forecasts.

Mr. DEFAZIO. Sorry. OK, yes. So your information in the rate case is dated, but by June things will change yet again, and will you use new forecasts that are impartial or are you obligated to use in this impartial, quasi-judicial proceeding the forecasts of the Administration, which would by then be six months dated?

Mr. WRIGHT. I would anticipate in any rate case we would use the most current information that is available.

Mr. DEFAZIO. And would you obtain them from the experts at OMB or from impartial experts in power marketing and gas pricing and things like that?

Mr. WRIGHT. Actually, the way our ex-parte rules work Bonneville officials can only conduct conversations off the record with other officials in the Department of Energy. And so we would not be conducting off-the-record conversations with other members of the Administration, including the folks at OMB.

Mr. DEFAZIO. But if OMB talked to these other people who aren't bound by your rules at the Department and Energy, and they—as your bosses tell you, you will assume these assumptions as part of this, that could happen, right?

I mean, you are not telling me that somehow impartially you are going to come up with assumptions about the market and use say neutral experts outside the Administration. You are going to consult with the Administration on what the projections might be about future gas prices and other pertinent costs that would affect the power markets?

Mr. WRIGHT. Actually, the way the ex-parte rules work, the code—

Mr. DEFAZIO. Yes, but you will not be ex-parte on this new process. You will be out of your old process and before you go into the new process there is no ex-parte rules, right?

Mr. WRIGHT. Yes. In the period before we start the rate case—

Mr. DEFAZIO. Right.

Mr. WRIGHT.—on ex-parte applies.

Mr. DEFAZIO. Right.

Mr. WRIGHT. Once the rate case starts, ex-parte applies to all Department of Energy officials.

Mr. DEFAZIO. OK, but where would you go to obtain the assumptions at that point in time? Would they come from within BPA? Would you use their assumptions? Would you use some neutral third-party expert assumptions? I mean, would you commission some—where would get, I mean, because since there is a half a billion dollars difference between your estimates and their estimates, if you are going to base a rate case on these differences, where are you going to get the information and entering into that rate case?

Mr. WRIGHT. Well, without making judgments, because that is a judgment—

Mr. DEFAZIO. No, not judgment. That is a factual question. Where do you get them? That is not a judgmental thing. That does not violate anything. Where will you get them?

Mr. WRIGHT. Actually, within the rate case you usually have a number of parties who make pleadings, and so it actually would be a judgment I need to make in the rate case as to what forecast I would use.

Mr. DEFAZIO. So you would let—so people come in and say, I think this, I think that, I think this, I think that, and you will choose one?

Mr. WRIGHT. That is the way it is.

Mr. DEFAZIO. OK, and if OMB cannot testify in the rate case, or can they testify in the rate case?

Mr. WRIGHT. I am unaware of any prohibition.

Mr. DEFAZIO. OK, so they could come in and testify, and you might just happen to choose their numbers? I mean, it could happen.

Ms. MCMORRIS. Mr. DeFazio.

Mr. DEFAZIO. Thank you, Madam Chair. Thank you.

[Laughter.]

Ms. MCMORRIS. I appreciate your line of questioning. If we want to do a second round, we will do.

Mr. Walden.

Mr. WALDEN. I think we ought to do a second, third, and fourth round myself.

[Laughter.]

Mr. DEFAZIO. I am appreciating more Mr. Borchardt's position of retiring soon.

[Laughter.]

Mr. WALDEN. Well, you are not exactly the one we have in mind to retire.

[Laughter.]

Mr. WALDEN. All right. I have had to step in and out because of other issues going on in the world, and so I just wanted to ask point blank, Steve, are you starting a new rate case to implement this proposal in the budget?

Mr. WRIGHT. So the intention of the Administration is that we would initiate a new rate case in July.

Mr. WALDEN. July.

Mr. WRIGHT. After the completion of—

Mr. WALDEN. You did say that.

Mr. WRIGHT.—the completion of the current rate case.

Mr. WALDEN. And you have and the Administration has the authority to engage in that without consulting Congress?

Mr. WRIGHT. We believe we have that authority.

Mr. WALDEN. OK. So absent us acting, the Administration could move forward in July with a new rate case?

Mr. WRIGHT. Yes, sir, we believe that.

Mr. WALDEN. Do you think FERC would have to approve any revision of EPA's rate-setting methodology consistent with the Northwest Power Act of 1980, to certify that they represent, and I quote, "the lowest possible rates for consumers consistent with sound business principles?"

Mr. WRIGHT. The standard for FERC, excuse me, for Bonneville to establish rates, as low as possible rates consistent with sound business principles, I would need to check for the FERC standard for review. I just cannot pull it up off the top of my head.

Mr. WALDEN. It sounds very similar, lowest possible rates for consumers consistent with sound business principles.

Mr. WRIGHT. That certainly does sound very similar.

Mr. WALDEN. Because I guess some of us would say that you might be able to make the argument for a different business principle out there by changing how all this is structured, although I would question whether it is sound or not. But the threat to higher rates, which you have testified to here, would certainly not meet the test of the first provision, would it?

Mr. WRIGHT. I would say that it would not meet the test of lowest possible rates, but the test is a combination of the two, lowest possible rates consistent with sound business principle, and the administrator is frequently challenged with trying to find the balance between those two.

Mr. WALDEN. Are you aware of the fact that the standard statutorily settled repayment period for Federal investment, such as the Columbia River System, is 50 years?

Moreover, are you aware of the fact this proposals runs contrary to the legal opinions of past administrations as articulated in the 1983 letter and memorandum of Reagan Administration, Energy Secretary Don Hodel who wrote, and I quote, "That it is our belief that Congress would have to approve any of the amortization period on existing projects."?

Mr. WRIGHT. I am familiar with those. I would have to say I do not believe the President's budget proposal is inconsistent with that.

Mr. WALDEN. If I pay down my home mortgage by paying an additional interest—oh, I guess we are not paying down the principal, are we? We are not advance paying principal under the Administration's proposal?

Mr. WRIGHT. We could be advance paying principal.

Mr. WALDEN. Would that be a subject of your rate case and how the money is allocated, or does the surplus—

Mr. WRIGHT. Yes.

Mr. WALDEN.—money is envisioned at OMB simply flow to the Treasury deficit reduction or other expenditure?

Mr. WRIGHT. It does not flow just as deficit reduction. It flows as a repayment of Bonneville's debt.

Mr. WALDEN. OK, so that would shorten the amortization schedule perhaps if I am paying down principal, I pay off my home mortgage quicker, do I not?

Mr. WRIGHT. It could do that, but recall that the period—by the way, the 50-year period is associated with generation assets. It is different periods for different assets.

Mr. WALDEN. OK.

Mr. WRIGHT. It is 20 years for conservation, 35 years for transmission, et cetera.

The way repayment policy works there is no requirement that we wait until the last possible moment to repay. There is a regularly scheduled set of payments, and in fact projects can be paid off in advance of the absolute due date, and in fact frequently are. So this, I do not believe, would be inconsistent with the previous repayment policy.

Mr. WALDEN. We obviously have some concerns about the formula used by OMB to come up with their projections regarding projected future revenues, and we think there are some issues with gas pricing and everything else.

That aside, if you are prepaying and use the \$500 million to prepay or to whatever, that all works if you have a good water year and you have reserves. What happens in the reverse? What happens if you have a bad year? Do you get any credit for having paid in advance?

Mr. WRIGHT. The President's budget proposal does not address that issue specifically, and what the Secretary has said is that that is an issue that is worthy of further discussion with the Northwest Congressional Delegation, Bonneville customers, and others that have an interest here.

Mr. WALDEN. Because my concern is you go down this path and it appears we will have to pass something this time, I agree with my colleague, you have been most creative this time. Of course, that also means somehow they have to pass the budget around here. Let me just put that marker down.

Mr. WRIGHT. Yes.

Mr. WALDEN. Because some of these proposals are a bit hare-brained, and some of us are getting real tired of them, and I am just going to lay that down right here right now, and I think you have done a good job managing Bonneville during some really tough times, but I do not understand this notion of every year we get a new poison pill we are supposed to swallow that is going to adversely affect the Northwest region and its ratepayers, and an economy gets rattled all the time by different things involving the Federal government. We are fighting a lot of battles right now, and this is the latest.

So I am just concerned we are headed down a real slippery slope here. This year it may be \$500 million. Next year, the next administration or this one comes back and says, well, \$400 million, and the next one says, well, what is wrong with \$200 million or \$300 million or no million, and then you miss a treasury payment, and they say, "Ah-ha, so you cannot even make your treasury payments." This is serious stuff in our region. You know that, and I think you hear it from both sides of the aisle, and I hope our friends at OMB hear it, and hear it clearly.

Ms. MCMORRIS. Mr. Inslee.

Mr. INSLEE. Thank you. I would like to start by trying to follow my parents' admonition to say something positive, so I want to get that done, and I want to thank you, thank you, Mr. Wright, for working, to try to work on our transmission issues, to get our wind-power projects fully realized, and I appreciate your efforts to solve those problems so we can really get that resource fully maximized, and I appreciate your efforts in that regard.

But I do want to turn now to this vexing proposal that there are only two people in the Pacific Northwest who believe this really is sound business judgment. They are both heavily sedated and in custody right now.

[Laughter.]

Mr. INSLEE. And I think it is fairly obvious that none of us share the view that if you shove this down the throats—not a few—if the

Administration shoves this down the throats of ratepayers in the Pacific Northwest, it really will have been adding insult to injury.

What I mean by that is, just so you will know why we feel so strongly about this, I remember a conversation I had with the Vice President during the Enron debacle, and we went and met with him on a bipartisan basis, and we pleaded with him to do something to deal with this through FERC—this enormous theft that was obviously going on across the Pacific Northwest.

I remember showing him that 30 percent of the generators were shut off at the time we were having these brown-outs, and told him that obviously someone was gaming the system. It was quite obvious to any objective observer.

We asked him to take some action, and I remember he looked right at me and said, you know what your problem is, you just do not understand economics. And I was tempted to say that I actually do understand economics. I just do not understand people killing us, and that is what this Administration is trying to do again.

I think anyone that understands economics understands it is not in the Pacific Northwest's benefit to go on this schedule that is going to increase dramatically these rates when we experience this in the Enron debacle in part due to this Administration's failure to act.

If this was ever, and I do not believe it would be, but it was ever sound business judgment, it is not after we have suffered the deprivations of Enrons at the hands of this Administration, which has now turned around and try to shove this increase down our throat from 6 to 10 percent plus, which is going to cost, according to the best estimates I have from the Northwest Power and Conservation Council, 1,120 jobs in the next two years. It is a job killer.

So you have an unenviable job trying to sell this lemon to us, and I do not think you are going to success, and to our benefit. But I just have a question. Why should we in the Northwest, whose fates are dependent on this, if in fact the law is that we receive the lowest rates consistent with sound business judgments, why should all of us in Northwest, this sort of elected board of directors of the Northwest and a bipartisan basis, defer to an Administration who let us suffer so grievously during the Enron debacle, and let them decide what sound business judgment is?

Do you not think it would be healthy for Congress to make that decision if indeed we are going to change this repayment situation, not only from a scope of fairness but for the relationship of BPA with the Pacific Northwest, which I know you have tried to keep and have done an admirable job of having good working relationships with, do you not think it would be wise to report back to the Administration that this is going to severely impact the working relationship of the Administration and BPA with the Northwest and it is not worth a candle to keep this fight going?

Mr. WRIGHT. Sir, if I could say that I think the Secretary has heard very clearly the reaction of the Northwest members of the congressional delegation, and as well as Bonneville customers and others, and the Secretary has committed to further discussions with all of you to address the issues and concerns that you have.

Mr. INSLEE. Well, I hope that you will deliver that message with great force, and I just want to tell you that there are such lingering

hard feelings about this Administration leaving us hang out to dry during this Enron debacle.

You know, it is interesting, Mr. Cheney said, I did not understand economics. Today is Ken Lay is on trial, and we understand economics, that it is not sound business judgment for our community to expose itself to these rate increases under these economic conditions. So I just hope that you will be forceful and deliver that message, and I want to reiterate my personal appreciation for your efforts to do this job as well as you could today. I do not think you should volunteer for it, but thank you.

Mr. WRIGHT. Mr. Inslee, I can also commit to you that I will certainly report back to all the folks at the department that are engaged in this issue about what we heard here today.

Ms. McMORRIS. Any further questions? Mr. DeFazio? Yes, go ahead, Mr. DeFazio.

Mr. DEFAZIO. Thank you, Madam Chair. You were most generous in the last round. I promise not to carry on quite as long. No, no, I can deliver here.

Again, this fairly extraordinary process, this new ratemaking, what would be this year's budget makes—as my colleague pointed out, assumes over \$500 million—what would preclude you from being required to go and have another ratemaking next February 2, after we have next year's budget which says \$200 million? Would there be a statutory prohibition on again reopening the rates?

I mean, if you can reopen them in June after you have just set them based on these assumptions, I assume you could reopen them again, right? Is there a limit on how many times you could be asked to reopen and/or supplement the rates?

Mr. WRIGHT. We believe we have the authority to implement this proposal and consequently implement it at different levels. Having said that, the Secretary has heard very clearly the concerns that you and others have raised here, and would like to be clear that we are offering a dialog to see if there are ways that we could address that concern, so-called slippery slope concern.

Mr. DEFAZIO. Well, we will look forward to whatever proposals there are that might stem that slippery slope concern, and I just want to go back to, is there any guarantee here, I mean, let us just say that BPA's experts were right in the assumptions they made in the current rate case, and we prepay \$30 million of debt one year and the other years we would not prepay any. But you are saying there would be an 2007-2008 rate impact of 10 percent.

Where would that money go? We have a guaranteed rate impact but we do not have a guarantee prepayment and/or loosening up, you know, freeing up borrowing authority to go out and construct transmission. How would that benefit the Northwest ratepayers to pay 10 percent more but not get the theoretical benefit of possibly, or theoretically going out and doing some more transmission reinforcement or congestion management or whatever?

Mr. WRIGHT. If the President's budget proposal moves forward and we continue with the proposal that we have in our initial rate proposals as to how we would structure rates, and if in fact the secondary revenues turn out more like what is in our initial rate proposal, the \$30 million over three years, there will not be an impact of 10 percent.

My expectation is that the most likely scenario and the way that we calculated the rates is that it assumed that whatever the actual impact is will flow through to rates. And so if there is a very small or no payment to the Treasury, then there would be a very small or no impact on the rates.

Mr. DEFAZIO. But you base in part your rate proposals on a very high probability of meeting your mandatory statutory treasury obligations as renegotiated and legislated back—I was the House author and Mark Hatfield was the Senate sponsor, and so I am quite familiar with the terms of that, but you predicate on a high probability for that.

If they are assuming—you know, essentially their assumption say there will be a floor of \$500 million a year available, right, because they are assuming over \$500 million. So \$500 million would then have to get cranked into your rate case, all right, which is higher than you have currently assumed.

How is that going to spill through into the rates? Does that mean maybe then you would lower the rates? And if you lowered the rates, but then we did not reach their optimistic levels of surplus sales of \$500 million, then you would have to do one of those interim crack things or whatever they are called, the interim rate increase.

Mr. WRIGHT. That is exactly right. First of all—

Mr. DEFAZIO. They are kind of messing with the process here that is not elegant to begin with, and we are creating a whole new level of uncertainty.

I guess the key is going to be where you get the assumptions, and I know you cannot exactly answer that, but in reopening this where are you going to get the assumptions? So if OMB can testify and/or they can put their assumptions forward, I guess I could come and put my assumptions forward, and then you and your quasi-judicial hat are going to have to make a decision, but I cannot fire you and the Administration can. So it is a tough place to be in.

Mr. WRIGHT. This job usually is.

Mr. DEFAZIO. Yes, and you have done a very good job, and we would hate to lose you over something that does not go to the core mission of BPA, which is not to somehow make the Federal deficit look smaller, but to meet its obligations to the Federal treasury first and foremost, and then secondarily, to meet its statutory obligations to the ratepayers of the Pacific Northwest.

Mr. WRIGHT. Mr. DeFazio, if I could clarify one thing, I think. I cannot tell you today how the rates will actually work because, again, that would be prejudicing a decision in a rate case, and we have not even entered into that rate case. But our assumption in doing the analysis was that the amount of revenue that would flow would be dependent on what our secondary revenues would be and the actual rates would be dependent upon what the amount of revenue was that flowed across.

So if in fact our secondary revenues are low, then there would be low to no rate impact. It is not that we would set the rates in this new rate case and they would be fixed, our assumption was that they would be variable rates as we are currently proposing in

this rate case, and they will reflect what the actual secondary revenues are.

Mr. DEFAZIO. Right, but if there is a higher assumption that underpins their assumption that you are going to have more surplus sales, but that also spills through into thermal generation, which you have to acquire, and so then they are also predicting the weather here, right, three years out?

Mr. WRIGHT. Well, at least under the initial rate proposal we have tried to take all of that out of the equation and make our actual revenues less dependent on a forecast—

Mr. DEFAZIO. Right.

Mr. WRIGHT.—because we have been not all that good at forecasting, to be honest.

Mr. DEFAZIO. Right.

Mr. WRIGHT. And so we have a lot to learn.

Mr. DEFAZIO. But now we have found someone who thinks they are better at it.

Well, thank you for your indulgence, Madam Chair. If they dump you over this, I think the State Department could use you. You have done a great job here today, and very diplomatic. Thank you.

Mr. DEFAZIO. Sir.

[Laughter.]

Mr. RADANOVICH [presiding]. No sweat. I cut my hair while you were looking the other way.

[Laughter.]

Mr. RADANOVICH. I used the same barber you used too.

[Laughter.]

Mr. RADANOVICH. I did not like them until I came and saw it on you. I am thinking about growing a mustache next.

Mr. DEIHL, tell me a little bit about the challenges of transmission, the increasing of transmission capacity.

Mr. DEIHL. The Southwester region, we work very closely with the Southwest Power Pool Regional Transmission Organization, which has been recognized by FERC. We have an operating contract with them. We look at planning for a regional perspective with the power pool. We have several projects on the drawing board underway to increase some transmission in some heavily congested areas. We have a transformer job that we are going to do some cost-sharing with them to eliminate a constraint.

We also do some interconnection work with several different local entities, one being Energy. Our biggest area right now we are looking is northern Arkansas, southern Missouri area, heavily congested, and we do have quite a bit on the books planned into the future to relieve that, working with Southwest Power Pool

Mr. RADANOVICH. What would drive most of your increases in transmission, update lines or increased population or both?

Mr. DEIHL. In the area I am talking about in the southeastern part of Missouri, northeastern Arkansas is population growth in that area, Branson area

Mr. RADANOVICH. Springdale, my daughter lives there and we have two grandkids. My wife goes, and if the lights go out, I mean, you know, you just have to answer these questions at home, domestic tranquility.

[Laughter.]

Mr. DEIHL. If you give me her address——

Mr. RADANOVICH. You bet.

Mr. DEIHL.—I will put that on our priority list

Mr. RADANOVICH. Mr. Deihl, I appreciate your effort there, and it is one reason we are asking about.

What about the energy bill, Mr. HacsKaylo, did—let me see, you are Western, are you not? Yes, Western, Southwester. You got more authority to partner with third parties on transmission.

How are you using that? In other words, what are we doing with some of the increased authority?

Mr. HACSKAYLO. What we are doing, Mr. Chairman, is working with utilities in our service territory in joint planning, determine where additional transmission is necessary. One good example which may well fall under the Section 1222 authority you are talking about is with the Wyoming Infrastructure Authority, and TransElec, to build transmission from southeastern Wyoming to the front range of Colorado, to eliminate a transmission bottleneck and provide more access for wind generation in Wyoming to be moved into to the front range of Colorado. That is just one of the projects we are working on.

Another one, because of a request for increased transfer capability, increased transmission capacity from a project, a natural gas fire power plant in northern Mexico that would move power into southern Arizona called the San Luis Rio Colorado Project. Again, examples of requests from merchant developers to use capacity in our system, and if it is not there this authority will provide us the legal authority to build additional transmission

Mr. RADANOVICH. You are talking about wind generation. Are you doing any other renewable biomass? Anything else, solar?

Mr. HACSKAYLO. Merchant developers are looking at other sources than wind. Biomass, as you say. The solar industry seems to be coming along quite well with new development of thinner solar panels which will be much more' reliable and produce more energy.

As those projects become moved into the planning stage, those developers that they were want to interconnection with Western's system work with us in terms of planning to determine how much capacity we might have available, and so they can move their product onto our lines and we can move them to load.

Mr. RADANOVICH. Some of the renewables, what are the—I am getting a little bit off the subject here, but if you do not mind, we are having discussions in our district right now, but what are some of the cost basis per kw? What are we looking at, just approximately?

Mr. HACSKAYLO. Oh, gee.

Mr. RADANOVICH. Say for biomass.

Mr. HACSKAYLO. Biomass, I do not know. I do know that wind is roughly in the three to four cents range. Solar, as I understand, is more expensive than that. Biomass, Western has very little experience moving biomass generation just because there has not been that development in our surface territory in enough quantity to move it onto the wholesale, high voltage transmission system

Mr. RADANOVICH. I mean, I will ask the broader question so that anyone can answer, but if we wanted to reach and grab a number

or a percent of power transition into renewables within the next 10 years, what is a reasonable amount for you all, not for the whole U.S., but for you all? What percent could we reasonable accommodate? I will ask that question for all four of you, just throw a number out.

Mr. HACSKAYLO. For Western Area Power Administration, we will accommodate under the FERC open access transmission tariff any requests for generation we have from any source. So we look really to the source of the generation

Mr. RADANOVICH. OK, but I am just saying what is a practical, can we get 20 percent within the next 10 years?

Mr. HACSKAYLO. My best guess is that would be a stretch goal, but it is certainly—there is certainly public demand for this renewable generation, and that goes a long way toward ameliorating cost concerns on the part of the public.

Mr. RADANOVICH. Are any of you doing any biomass at all?

Mr. HACSKAYLO. Western is not. We do not do generation.

Mr. RADANOVICH. I mean, but are you familiar with any projects that are trying to feed into the system in your areas? I am trying to broaden beyond my own back yard here.

Mr. HACSKAYLO. Not within Western surface territory. Again, the biomass that I am aware of are very small demonstration plants, not large-scale that would actually need to use high-voltage transmission

Mr. RADANOVICH. OK.

Mr. DEIHL. And for Southwestern, we are in the same situations. Primarily wind generation right now, Oklahoma, we have I think it is about 150 megawatts of wind generation in the state, and there is some developing projects in Missouri, but we do not have any experience either in the biomass area yet.

Mr. RADANOVICH. OK. I was sitting watching the earlier panel, and having not gotten to hear your testimony, maybe you said something, but OMB keeps talking about the agency rate on this reimbursement of the interest. They say that is necessary to stop defaults.

Have there been defaults? Talk a little bit about that if you do not mind, Mr. Wright. Do you know of any defaults to the system?

Mr. WRIGHT. Sir, I am not familiar with any defaults although I would just offer that the agency rate proposal does not apply to Bonneville, and applies to the other Power Marketing Administrations.

Mr. RADANOVICH. Mr. Hacskaylo?

Mr. HACSKAYLO. No, sir, not for Western.

Mr. DEIHL. No defaults for Southwestern

Mr. RADANOVICH. Well, it is all down to just you, Mr. Borchardt.

Mr. BORCHARDT. Yes. We do not really—we are not aware of any defaults that we have had in Southeastern. I would say though that when Katrina came, and a lot of our customers down in southern Mississippi, we could not deliver power to them. Some of them just did not exist, and some of them had their infrastructure totaled.

We were very fortunate in that we did generate and we had other customers take that load, but I think that is one of the things that may be of concern here by the Administration.

Mr. RADANOVICH. You think it is a valid concern?

Mr. BORCHARDT. I do not know

Mr. RADANOVICH. And a broader basis? I know we got the specifics that could train them.

Mr. BORCHARDT. I just could not say

Mr. RADANOVICH. It is just among us friends. I am not going to tell them down—

Mr. BORCHARDT. I understand.

[Laughter.]

Mr. BORCHARDT. That camera there does not have any film in it or anything?

Mr. RADANOVICH. No, sir, they do not.

[Laughter.]

Mr. RADANOVICH. Trust me.

[Laughter.]

Mr. BORCHARDT. But I think that is of some concern, everybody is seeing what has happened in New Orleans and some of the other areas, and I think that is a concern that may have jangled a nerve.

Mr. RADANOVICH. You think you have troubles. I am asking for appropriations, those have all been zeroed out watching this hearing here.

Mr. BORCHARDT. Sorry about that.

[Laughter.]

Mr. RADANOVICH. Well, we have to wrestle through the difficult challenges of rate-type budgets and how to work with it, but I will tell you the cost shifting that sometimes I see is not one that I have been willing to support at any level, and we will go ahead and we will ask the appropriate questions on this particular budget round, and see, and if any of the other panel, I think we are pretty unanimous, but if any of you would like to dissuade me from that, well, feel free to do that after the meeting.

Ms. Napolitano, you have been very gracious. Any closing thoughts?

Ms. NAPOLITANO. Mr. Chairman, all I can say is that we are united and you hear it loud and clear from not only the Chair and the Ranking Member, myself, but also from both sides of the aisle of the unjust way of doing—the proposals that are being put forth, I think the Administration needs to either reassess and reenergize what they are trying to do and make it more justifiable, because it certainly does not look justifiable to anybody. And if it needs tweaking, whether it is legislatively or through the budget process, then so be it because that is where it is going to go. Thank you, Mr. Chair

Mr. RADANOVICH. Thank you very much.

If there are no other comments or questions from Committee members, you have five days to update your testimony or many any changes.

With that, the Committee stands adjourned.

[Whereupon, at 5:00 p.m., the Subcommittee was adjourned.]

[Additional statements submitted for the record follow:]

[The prepared statement of Mrs. Cubin follows:]

**Statement of The Honorable Barbara Cubin, a Representative in Congress
from the State of Wyoming**

Mr. Chairman:

The west is blessed with an abundance of natural resources that help meet our nation's energy needs. However, while there continues to be a strong focus in Congress and industry to develop those resources, there has not, in my opinion, been an adequately equal focus on assuring that our interstate transmission system also continues to grow and evolve to meet the electricity demands of our nation.

The four Power Marketing Administrations play a vital role in developing the power transmission framework for our nation. I hope in today's hearing we will hear about how PMAs are utilizing new authorities granted under the Energy Policy Act to expand and improve grid reliability, increase utility coordination and make general infrastructure improvements.

I know we will also spend some time today discussing particular aspects of the Fiscal Year 2007 budget request. While I am pleased that this year's request did not include last year's misguided "market-based rates" proposal, there are several proposals—some administrative—that power users in my home State of Wyoming have expressed concerns about.

More specifically, I am interested to hear why the Pick-Sloan cost reallocation was once again included in the Administration's budget request after Congress rejected it in no uncertain terms last year. I would also appreciate learning more about the proposed administrative change PMAs are expected to make to their borrowing rates on federal power investment. Just because an agency has been given a particular authority does not necessarily mean its implementation is the best approach.

Thank you, Mr. Chairman for calling this oversight hearing on such an important topic to my constituents and I yield back the balance of my time.

[A statement submitted for the record by George Taylor follows:]

**Statement submitted for the record by George B. Taylor, Jr., Chairman,
PMA Structural Changes Committee, on behalf of the Southeastern
Federal Power Customers, Inc.**

Thank you for the opportunity to submit a statement for the record regarding the March 1, 2006 hearing on the Administration's Fiscal Year ("FY") 2007 budget recommendations for the Southeastern Power Administration ("SEPA"), which serves our membership, and the other Power Marketing Administrations ("PMAs"). Southeastern Federal Power Customers Inc. ("SeFPC") represents the interests of cooperative and municipal systems serving more than 6 million customers in Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina and Virginia.

The SeFPC has significant concerns with a proposal contained in the Administration's FY 2007 budget. Specifically, our members are concerned about an Administration proposal to impose administratively a higher level interest rate on new investment allocated to hydropower production. This proposal would raise rates with no apparent benefit to the hydropower customer; it is simply a back-door tax on the ultimate consumers of power marketed by SEPA. The Administration's alleged rationale simply ignores the statutory regime under which the PMAs like SEPA operate.

The proposal to increase interest rates to the agency rate level has emerged with virtually no public discussion. The hearing on March 1, 2006 provided the first opportunity to review fully the implications of the Administration's proposal. Nonetheless, the magnitude of the change proposed and the precedent that could result from it suggest that Congress should provide much more active oversight over the Corps' activities. Indeed, we have questions about the Office of Management and Budget's ("OMB") decision to make the changes administratively without any input from Congress or customers of SEPA and the other PMAs.

Rate-Making Authorities

The PMAs are the rate-making agencies charged with marketing electricity from Federal hydroelectric facilities operated by the U.S. Army Corps of Engineers ("Corps") and the Bureau of Reclamation ("Bureau"). In the Southeast, when the Corps makes an investment in a hydro-electric facility, SEPA must recover the cost of that investment in the rates charged to its customers. For a half century, the PMAs have set interest rates either following explicit instructions from Congress or by charging a rate that collects the Federal Government's cost of appropriated dollars.

Now, the Administration's budget seeks to increase the interest rate charged on all new investments at projects whose interest rate is not set by law. This agency rate is higher than the yield rate, which is the current interest rate paid by SEPA. This agency rate reflects the interest cost to loan needed funds to government corporations. However, SEPA, the Southwestern Power Administration ("SWPA") and Western Area Power Administration ("WAPA") are not government corporations and do not borrow funds from the U.S. Treasury. Their rates are set to recover the appropriations established by Congress for the investment in the hydro-electric facilities and for costs to operate these projects.

We understand that the Administration has suggested that the government corporation rate is more appropriate for the PMAs because of the risk of default. This argument simply ignores the statutory authority under which the PMAs operate and long-standing history of repaying the federal investment in these projects. SEPA must collect all of the costs of generating hydropower at federal facilities in the Southeast.

By law (the Flood Control Act of 1944), SEPA must recover all of the costs of producing power. Rate schedules are developed by SEPA after a notice and comment period and submitted to the Secretary of the Department of Energy for further review and implementation on an interim basis. Once the Secretary approves the rates on an interim basis, the Federal Energy Regulatory Commission ("FERC") has the responsibility to confirm on a final basis the rate schedule developed by SEPA. SEPA, the Secretary of the Department of Energy and FERC must set a rate that by law recovers the federal taxpayer's investment in the Federal Power Program. If an existing rate is insufficient to meet repayment obligations, SEPA must file a new rate and include appropriate increases to ensure all repayment obligations are met. In other words, there is a multi-layered review process and legal obligation that ensures that the PMAs will not default on outstanding obligations.

With no real threat to PMA defaults on outstanding debt, the Subcommittee is left with little substantive reason why the interest rate on new investment should be increased. As the proposed change will only serve as a revenue enhancement measure and provide no additional benefits for PMA customers, the members of the SeFPC wholeheartedly encourage the members of the Water and Power Subcommittee and full Resources Committee to stop the Administration from implementing this budget proposal.

