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FEDERAL COLUMBIA RIVER TRANSMISSION SYSTEMS ACT

GOVERNMENT

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HEARING BEFORE THE SUBCOMMITTEE ON WATER AND POWER RESOURCES OF THE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

SECOND SESSION

ON

H.R. 14168

A BILL TO ENABLE THE SECRETARY OF THE INTERIOR
TO PROVIDE FOR THE OPERATION, MAINTENANCE, AND
CONTINUED CONSTRUCTION OF THE FEDERAL TRANS-
MISSION SYSTEM IN THE PACIFIC NORTHWEST BY USE
OF THE REVENUES OF THE FEDERAL COLUMBIA RIVER
POWER SYSTEM AND THE PROCEEDS OF REVENUE
BONDS, AND FOR OTHER PURPOSES

HEARING HELD IN WASHINGTON, D.C.

JUNE 7, 1974

Serial No. 93-66

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FEDERAL COLUMBIA RIVER TRANSMISSION SYSTEMS ACT

FRIDAY, JUNE 7, 1974

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON WATER AND POWER RESOURCES OF THE
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 1324, Longworth House Office Building, Hon. Harold T. Johnson (chairman of the subcommittee) presiding.

Present: Representatives Johnson (presiding), Dellenback, Meeds, Clausen, Foley, and Hosmer.

Also present: Jack Daum, Jim Casey, Sidney McFarland, and Charles Leppert.

Mr. JOHNSON. The Subcommittee on Water and Power Resources will be in order to hear testimony on H.R. 14168 to enable the Secretary of the Interior to provide for the operation, maintenance, and continued construction of the Federal Transmission System in the Pacific Northwest by use of the revenues of the Federal Columbia River Power System and the proceeds of revenue bonds, and for other purposes.

At this time unless there is objection I would like to place into the record a copy of H.R. 14168. Is there objection?

Hearing none, so ordered.

[The bill, H.R. 14168 follows:]

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93D CONGRESS
2D SESSION

H. R. 14168

IN THE HOUSE OF REPRESENTATIVES

APRIL 10, 1974

Mr. JOHNSON of California (for himself, Mr. HOSMER, Mr. DELLENBACK, Mr. ULLMAN, Mr. LUJAN, Mr. WYATT, Mr. FOLEY, Mr. RONCALIO of Wyoming, Mr. TOWELL of Nevada, Mr. PRITCHARD, Mr. MEEDS, Mrs. HANSEN of Washington, Mr. HICKS, Mr. McCORMACK, and Mrs. GREEN of Oregon) introduced the following bill; which was referred to the Committee on Interior and Insular Affairs

A BILL

To enable the Secretary of the Interior to provide for the operation, maintenance, and continued construction of the Federal transmission system in the Pacific Northwest by use of the revenues of the Federal Columbia River Power System and the proceeds of revenue bonds, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 That this Act may be cited as the "Federal Columbia River
4 Transmission System Act".

5 SEC. 2. (a) Congress finds that in order to enable the
6 Secretary of the Interior to carry out the policies of Public

1 Law 88-552 relating to the marketing of electric power
2 from hydroelectric projects in the Pacific Northwest, Public
3 Laws 89-448 and 89-561 relating to use of revenues of the
4 Federal Columbia River Power System to provide financial
5 assistance to reclamation projects in the Pacific Northwest,
6 the treaty between the United States and Canada relating
7 to the cooperative development of the resources of the Co-
8 lumbia River Basin, and other applicable law, it is desirable
9 and appropriate that the revenues of the Federal Columbia
10 River Power System and the proceeds of revenue bonds
11 be used to further the operation, maintenance, and further
12 construction of the Federal transmission system in the Pacific
13 Northwest.

14 (b) Other than as specifically provided herein, the
15 present authority and operations of the Secretary of the In-
16 terior relating to the Federal Columbia River Power Sys-
17 tem shall not be affected by this Act. Powers and duties of
18 the administrator referred to herein are subject to the super-
19 vision and direction of the Secretary.

20 SEC. 3. As used in this Act—

21 (a) The term "Administrator" means the Administra-
22 tor, Bonneville Power Administration.

23 (b) The term "electric power" means electric peaking
24 capacity or electric energy or electric power and energy.

25 (c) The term "Pacific Northwest" means—

1 (1) the region consisting of the States of Oregon,
2 Washington, and Idaho, the State of Montana west of
3 the Continental Divide, and such portions of the States
4 of Nevada, Utah, and Wyoming as are within the Co-
5 lumbia drainage basin, and

6 (2) any contiguous areas, not in excess of seventy-
7 five airline miles from said region, which are a part of
8 the service area of a distribution cooperative which has—

9 (i) no generating facilities, and

10 (ii) a distribution system from which it serves
11 both within and without said region.

12 SEC. 4. The Secretary of the Interior, acting by and
13 through the Administrator, shall operate and maintain the
14 Federal transmission system within the Pacific Northwest
15 and shall construct improvements, betterments, and additions
16 to and replacements of such system within the Pacific North-
17 west as he determines are appropriate and required to—

18 (a) integrate and transmit the electric power from
19 existing or additional Federal or non-Federal generating
20 units;

21 (b) provide service to the Administrator's cus-
22 tomers;

23 (c) provide interregional transmission facilities;
24 and

1 (d) maintain the electrical stability and electrical
2 reliability of the Federal system.

3 SEC. 5. (a) Unless specifically authorized by Act of
4 Congress, the Administrator shall not pursuant to the author-
5 ity of this Act—

6 (1) acquire any operating transmission facility by
7 condemnation: *Provided*, That this provision shall not
8 restrict the acquisition of the right to cross such a facility
9 by condemnation;

10 (2) construct additional transmission facilities which
11 duplicate existing facilities or will duplicate transmission
12 facilities which a utility (or utilities) commits itself to
13 construct unless such facilities are required for one or
14 more of the purposes specified in section (4) hereof, and
15 the Administrator, at or prior to the time the Adminis-
16 trator's budget is submitted to Congress for the use of
17 revenue or the issuance of revenue bonds to finance the
18 construction of such transmission facilities, after good-
19 faith negotiations, is unable to make arrangements for
20 the use of non-Federal transmission facilities which shall
21 be at least equivalent in electrical capability to the
22 proposed Federal facilities and which arrangements
23 shall be no less favorable to the Government than the
24 financing and construction of the proposed Federal fa-
25 cilities.

1 (b) At least sixty days prior to the time the budget
2 for the Bonneville Power Administration is sent to Congress,
3 the Administrator shall notify utilities in the Pacific North-
4 west of the new transmission facilities proposed for con-
5 struction therein. If the Administrator, after good-faith
6 negotiations with a utility desiring to provide all or a part
7 of such facilities, retains an item in his budget for a trans-
8 mission facility, such utility may bring suit in the Federal
9 District Court of Oregon for the purpose of determining if
10 the Administrator has complied with the provisions of this
11 section. The Administrator shall not begin construction of
12 such a facility until at least one hundred and fifty days after
13 the budget proposing to initiate such facility has been
14 presented to both Houses of Congress and he has given such
15 utility at least thirty days prior written notice of his intent to
16 begin such construction. No such suit may be brought by
17 such utility after the later of (1) said one hundred and fifty
18 days or (2) thirty days after notice by the Administrator of
19 his intent to begin construction.

20 SEC. 6. The Administrator shall make available to all
21 utilities on a fair and nondiscriminatory basis any capacity
22 in the Federal transmission system which he determines to
23 be in excess of the capacity required to transmit electric
24 power generated by, acquired by, or under the control of
25 the United States.

1 SEC. 7. Subject to the provisions of section 5 of this
2 Act the Administrator may purchase or lease or otherwise
3 acquire and hold such real and personal property in the
4 name of the United States as he deems necessary or appro-
5 priate to carry out his duties pursuant to law.

6 MARKETING AUTHORITY

7 SEC. 8. The Administrator is hereby designated as the
8 marketing agent for all electric power generated by Federal
9 generating plants in the Pacific Northwest, constructed by,
10 under construction by, or presently authorized for construc-
11 tion by the Bureau of Reclamation or the United States
12 Corps of Engineers except electric power required for the
13 operation of each Federal project and except electric power
14 from the Green Springs project of the Bureau of Reclama-
15 tion.

16 RATES AND CHARGES

17 SEC. 9. Schedules of rates and charges for the sale, in-
18 cluding dispositions to Federal agencies, of all electric power
19 made available to the administrator pursuant to section 8
20 of this Act or otherwise acquired, and for the transmission
21 of non-Federal electric power over the Federal transmission
22 system, shall become effective upon confirmation and ap-
23 proval thereof by the Federal Power Commission. Such
24 rate schedules may be modified from time to time by the
25 Secretary of the Interior, acting by and through the Ad-

1 administrator, subject to confirmation and approval by the
2 Federal Power Commission, and shall be fixed and estab-
3 lished (1) with a view to encouraging the widest possible
4 diversified use of electric power at the lowest possible rates
5 to consumers consistent with sound business principles, (2)
6 having regard to the recovery (upon the basis of the appli-
7 cation of such rate schedules to the capacity of the electric
8 facilities of the projects) of the cost of producing and trans-
9 mitting such electric power, including the amortization of
10 the capital investment allocated to power over a reasonable
11 period of years, and (3) at levels to produce such addi-
12 tional revenues as may be required, in the aggregate with
13 all other revenues of the Administrator, to pay when due
14 the principal of, premiums, discounts, and expenses in con-
15 nection with the issuance of, and interest on all bonds issued
16 and outstanding pursuant to this Act, and amounts required
17 to establish and maintain reserve and other funds and ac-
18 counts established in connection therewith.

19 SEC. 10. The said schedules of rates and charges for
20 transmission, the said schedules of rates and charges for
21 the sale of electric power, or both such schedules, may
22 provide, among other things, for uniform rates or rates uni-
23 form throughout prescribed transmission areas. The recovery
24 of the cost of the Federal transmission system shall be

1 equitably allocated between Federal and non-Federal power
2 utilizing such system.

3 BONNEVILLE POWER ADMINISTRATION FUND

4 SEC. 11. (a) There is hereby established in the Treasury
5 of the United States a Bonneville Power Administration
6 Fund (hereinafter referred to as the "fund"). The fund
7 shall consist of (1) all receipts, collections, and recoveries
8 of the Administrator in cash from all sources, including
9 trust funds, (2) all proceeds derived from the sale of bonds
10 by the Administrator, (3) any appropriations made by the
11 Congress for the fund, and (4) the following funds which
12 are hereby transferred to the Administrator: (i) all moneys
13 in the special account in the Treasury established pursuant
14 to Executive Order 8526 dated August 26, 1940, (ii) the
15 unexpended balances in the continuing fund established by
16 the provisions of section 11 of the Bonneville Project Act
17 of August 20, 1937 (16 U.S.C. 831 et seq.), and (iii) the
18 unexpended balances of funds appropriated or otherwise
19 made available for the Bonneville Power Administration.
20 All funds transferred hereunder shall be available for ex-
21 penditure by the Secretary of the Interior, acting by and
22 through the Administrator, as authorized in this Act and
23 any other Act relating to the Federal Columbia River
24 Transmission System, subject to such limitations as may
25 be prescribed by any applicable appropriation Act effective

1 during such period as may elapse between their transfer
2 and the approval by the Congress of the first subsequent
3 annual budget program of the Administrator.

4 (b) The Administrator may make expenditures from
5 the fund, which shall have been included in his annual budget
6 submitted to Congress, without further appropriation and
7 without fiscal year limitation, but within such specific direc-
8 tives or limitations as may be included in appropriation Acts,
9 for any purpose necessary or appropriate to carry out the
10 duties imposed upon the Administrator pursuant to law,
11 including but not limited to—

12 (1) construction, acquisition, and replacement of

13 (i) the transmission system, including facilities and
14 structures appurtenant thereto, and (ii) additions, im-
15 provements, and betterments thereto (hereinafter in
16 this Act referred to as "transmission system") ;

17 (2) operation, maintenance, repair, and relocation,
18 to the extent such relocation is not provided for under
19 subsection (1) above, of the transmission system ;

20 (3) electrical research, development, experimenta-
21 tion, test, and investigation related to construction, oper-
22 ation, and maintenance of transmission systems and
23 facilities ;

24 (4) marketing of electric power ;

1 (5) transmission over facilities of others and rental,
2 lease, or lease-purchase of facilities;

3 (6) purchase of electric power (including the en-
4 titlement of electric plant capability) (i) on a short-
5 term basis to meet temporary deficiencies in electric
6 power which the Administrator is obligated by contract
7 to supply, or (ii) if such purchase has been heretofore
8 authorized or is made with funds expressly appropriated
9 for such purchase by the Congress;

10 (7) defraying emergency expenses or insuring con-
11 tinuous operation;

12 (8) paying the interest on, premiums, discounts,
13 and expenses, if any, in connection with the issuance of,
14 and principal of all bonds issued under section 13 (a) of
15 this Act, including provision for and maintenance of
16 reserve and other funds established in connection there-
17 with;

18 (9) making such payments to the credit of the
19 reclamation fund as are required by or pursuant to law
20 to be made into that fund: *Provided*, That this clause
21 shall not be construed as permitting the use of revenues
22 for repayment of costs allocated to irrigation at any
23 project except as otherwise expressly authorized by law;

24 (10) making payments to the credit of miscellane-
25 ous receipts of the Treasury for all unpaid costs required

1 by or pursuant to law to be charged to and returned to
2 the general fund of the Treasury for the repayment of the
3 Federal investment in the Federal Columbia River
4 Power System from electric power marketed by the
5 Administrator; and

6 (11) acquiring such goods and services, and paying
7 dues and membership fees in such professional, utility,
8 industry, and other societies, associations, and institutes,
9 together with expenses related to such memberships, in-
10 cluding but not limited to the acquisitions and payments
11 set forth in the general provisions of the annual appro-
12 priations Acts for the Department of the Interior, as the
13 Administrator determines to be necessary or appropriate
14 in carrying out the purposes of this Act.

15 (c) Moneys heretofore or hereafter appropriated shall
16 be used only for the purposes for which appropriated, and
17 moneys received by the Administrator in trust shall be used
18 only for carrying out such trust. The provisions of the Gov-
19 ernment Corporation Control Act (31 U.S.C. 841 et seq.)
20 shall be applicable to the Administrator in the same manner
21 as they are applied to the wholly owned Government cor-
22 porations named in section 101 of such Act (31 U.S.C.
23 846), but nothing in the proviso of section 850 of title 31,
24 United States Code, shall be construed as affecting the
25 powers granted in subsection (b) (11) of this section and

1 in sections 2 (f) , 10 (b) , and 12 (a) of the Bonneville Proj-
2 ect Act (16 U.S.C. 832 et seq.).

3 SEC. 12. (a) If the Administrator determines that
4 moneys in the fund are in excess of current needs he may
5 request the investment of such amounts as he deems advis-
6 able by the Secretary of the Treasury in direct, general ob-
7 ligations of, or obligations guaranteed as to both principal
8 and interest by, the United States of America.

9 (b) With the approval of the Secretary of the Treasury,
10 the Administrator may deposit moneys of the fund in any
11 Federal Reserve bank or other depository for funds of the
12 United States of America, or in such other banks and finan-
13 cial institutions and under such terms and conditions as the
14 Administrator and the Secretary of the Treasury may mu-
15 tually agree.

16

REVENUE BONDS

17 SEC. 13. (a) The Administrator is authorized to issue
18 and sell to the Secretary of the Treasury from time to time in
19 the name and for and on behalf of the Bonneville Power Ad-
20 ministration bonds, notes, and other evidences of indebted-
21 ness (in this Act collectively referred to as "bonds") to
22 assist in financing the construction, acquisition, and replace-
23 ment of the transmission system, and to issue and sell bonds
24 to refund such bonds. Such bonds shall be in such forms and
25 denominations, bear such maturities and be subject to such

1 terms and conditions as may be prescribed by the Secretary
2 of the Treasury taking into account terms and conditions pre-
3 vailing in the market for similar bonds, the useful life of the
4 facilities for which the bonds are issued and financing prac-
5 tices of the utility industry. Refunding provisions may be
6 prescribed by the Administrator. Such bonds shall bear inter-
7 est at a rate determined by the Secretary of the Treasury
8 taking into consideration the current average market yield on
9 outstanding marketable obligations of the United States of
10 comparable maturities, plus an amount in the judgment of the
11 Secretary of the Treasury to provide for a rate comparable to
12 the rates prevailing in the market for similar bonds. The ag-
13 gregate principal amount of any such bonds outstanding at
14 any one time shall not exceed \$1,250,000,000.

15 (b) The principal of, premiums, if any, and interest on
16 such bonds shall be payable solely from the Administrator's
17 net proceeds as hereinafter defined. "Net proceeds" shall
18 mean for the purposes of this section the remainder of the
19 Administrator's gross receipts from all sources after first
20 deducting the costs listed in section 11 (b) (2) through 11
21 (b) (7) and 11 (b) (11), and shall include reserve or other
22 funds created from such receipts.

23 (c) The Secretary of the Treasury shall purchase forth-
24 with any bonds issued by the Administrator under this Act
25 and for that purpose is authorized to use as a public debt

1 transaction the proceeds from the sale of any securities issued
2 under the Second Liberty Bond Act, as now or hereafter in
3 force, and the purposes for which securities may be issued
4 under the Second Liberty Bond Act, as now or hereafter in
5 force, are extended to include any purchases of the bonds
6 issued by the Administrator under this Act. The Secretary
7 of the Treasury may, at any time, sell any of the bonds
8 acquired by him under this Act. All redemptions, purchases,
9 and sales by the Secretary of the Treasury of such bonds
10 shall be treated as public debt transactions of the United
11 States.

Mr. JOHNSON. I would also like to place into the record at this time the Executive communication dated April 3, 1974, from the Secretary of the Interior, Rogers Morton, which states that the Department is in support of the legislation and ask for its passage.

Is there objection?

Hearing none, so ordered.

[The departmental report and letter from Deputy Comptroller General of the United States follow:]

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C. April 3, 1974.

HON. CARL B. ALBERT,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: Enclosed is a bill "To enable the Secretary of the Interior to provide for the operation, maintenance and continued construction of the Federal transmission system in the Pacific Northwest by use of the revenues of the Federal Columbia River Power System and the proceeds of revenue bonds, and for other purposes." Also enclosed is a section-by-section analysis of the bill.

We recommend that this proposed legislation be enacted.

The purpose of this bill is to shift the financing of the Department of the Interior's electric power transmission program in the Pacific Northwest from the present arrangements of funding through Federal appropriations to a self-financing basis.

The Pacific Northwest is liberally endowed with hydroelectric plant potential, and over the period of the last sixty years the Federal Government, acting through the Department of the Interior and the Department of the Army has invested heavily in the construction of some two dozen dams and generating plants to develop this significant energy resource. The Department of the Interior acting through the Bonneville Power Administration has also constructed an extensive transmission system to market the electric power and energy from these projects and to interconnect these projects and the load centers of the Pacific Northwest. Today the Federal transmission system in the Pacific Northwest incorporates over 12,000 circuit miles of 115 kv to 500 kv ac and 800 kv dc transmission lines, and over 330 substations, representing a Federal investment of \$1.3 billion. This system provides approximately 70 percent of the bulk power transmission grid in the Pacific Northwest.

As the construction and improvement of hydroelectric projects in the region approaches the level of full development of the energy resource, the utilities in the Pacific Northwest have turned to the construction of large thermal generating plants to meet the continually growing requirements of their customers for electric power. The remaining hydro projects to be developed will be essentially peaking projects. Working through the Joint Power Planning Council and the Pacific Northwest Utilities Conference Committee, the Bonneville Power Administration has cooperated with the 108 utilities in the region to coordinate the planning and construction of Federal and non-Federal facilities. This effort has resulted in the Pacific Northwest Hydro-Thermal Power Program. Phase 1 of the program, adopted in 1969 and approved by Congress, is expected to meet the power needs of the region for generation and transmission facilities through the early 1980's, and the recently proposed Phase 2 extends the program and proposes a schedule of generating projects through 1986.

The hydro-thermal program involves contributions by each or the cooperating entities. The non-Federal utilities have sole responsibility for the construction of the new thermal generating plants, which will be fueled by coal mined in the Pacific Northwest or adjacent areas, or by nuclear energy. This constitutes the largest amount of new investment. The Bureau of Reclamation and the Corps of Engineers have the responsibility for the installation of additional generating units at Federal hydroelectric power projects as now

authorized. The continuation of the Federal Columbia River transmission grid under the Bonneville Power Administration is looked upon as the most feasible and efficient approach for interconnecting the new generating units with the rest of the system and for transmitting their output throughout the region.

The enclosed bill would deal with a separate issue relating to the unique situation in the Pacific Northwest by authorizing the Secretary of the Interior to finance the operation and maintenance and the future construction of the Federal Columbia River transmission system from revenues and from the proceeds of revenue bonds. This will free BPA from the constraints inherent in the appropriations process that impede compliance with financing and construction schedules. As in the past, all capital and O&M costs of the Federal Columbia River System will be fully recovered from the power users of the region. However, the proposed legislation would alleviate the demand on appropriated Federal funds resulting from BPA's transmission system financial requirements.

The Bonneville operations are comparable to those of an electric utility. The revenues from the sale and the transmission of electric power will be more than adequate to cover annual operating costs, repay the Federal investment in both generation and transmission facilities as required by law, and amortize the investment in new transmission facilities financed from the proceeds of revenue bonds. The ability of BPA to construct modifications or additions to the transmission system on a timely schedule is highly important in order to assure reliability of the system and to assure that the needed transmission facilities are in place and operational at the time that the power from the new generating units comes on line. The appropriations method of financing is not satisfactory for this kind of a program because delays are often encountered that are caused by other budgetary considerations which are not related to the merits of the construction program.

It would put Bonneville on a "pay as you go" basis for future investments utilizing revenue bonds on a business-like repayment basis and giving the flexibility in obtaining financing that is considered necessary in carrying out this utility-like transmission function.

The bill would authorize the Bonneville Power Administration to construct transmission facilities in the Pacific Northwest that are needed additions to the regional grid. Restrictions are included, however, which would prevent encroachment upon the opportunity for non-Federal utilities to construct facilities which are equally adequate to serve the regional purposes.

The Federal transmission system will carry both power generated or acquired by the Government and power generated at non-Federal facilities owned and controlled by others. Rates for transmission of non-Federal power over the Federal system are subject to review and approval by the Federal Power Commission.

The BPA activities would be subject to the provisions of the Government Corporation Control Act. The budget would be submitted to Congress for review by the appropriations committees and be subject to limitations or directives contained in appropriations acts.

The Administrator would be authorized to issue and sell bonds to the Secretary of the Treasury up to a maximum amount outstanding at any time of \$1.25 billion. This amount is estimated to be sufficient to meet borrowing needs for approximately 10 years. The Secretary of the Treasury will prescribe the form and denomination, maturities, and terms and conditions relating to the bonds issued, taking into account terms and conditions prevailing in the market for similar bonds, the useful life of the facilities for which the bonds are issued and the financing practices of the utility industry. The interest rate is also determined by the Secretary of the Treasury to provide rates comparable to those prevailing in the market for similar bonds.

Other than the specific changes required to accommodate the new financing method, the bill preserves the existing provisions of law relating to the Bonneville Power Administration. Among other things, this leaves unchanged the preference rights of public bodies and cooperatives to acquire Federal power.

Because this bill deals primarily with the method of financing the Federal transmission program in the Pacific Northwest rather than the program itself,

the proposal does not significantly affect the quality of the human environment. Accordingly, no environmental impact statement is submitted herewith.

The Office of Management and Budget has advised that enactment of the proposed bill would be in agreement with the program of the President.

Sincerely yours,

ROG MORTON,
Secretary of the Interior.

Enclosure.

A BILL To enable the Secretary of the Interior to provide for the operation, maintenance and continued construction of the Federal transmission system in the Pacific Northwest by use of the revenues of the Federal Columbia River Power System and the proceeds of revenue bonds, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That

SHORT TITLE

SEC. 1. This Act may be cited as the "Federal Columbia River Transmission System Act."

DEFINITIONS AND INTERPRETATION

SEC. 2. (a) Congress finds that in order to enable the Secretary of the Interior to carry out the policies of Public Law 88-552 relating to the marketing of electric power from hydroelectric projects in the Pacific Northwest, Public Laws 89-448 and 89-561 relating to use of revenues of the Federal Columbia River Power System to provide financial assistance to Reclamation projects in the Pacific Northwest, the treaty between the United States and Canada relating to the cooperative development of the resources of the Columbia River Basin, and other applicable law, it is desirable and appropriate that the revenues of the Federal Columbia River Power System and the proceeds of revenue bonds be used to further the operation, maintenance and further construction of the Federal transmission system in the Pacific Northwest.

(b) Other than as specifically provided herein, the present authority and operations of the Secretary of the Interior relating to the Federal Columbia River System shall not be affected by this Act. Powers and duties of the administrator referred to herein are subject to the supervision and direction of the Secretary.

SEC. 3. As used in this Act—

(a) The term "administrator" means the Administrator, Bonneville Power Administration.

(b) The term "electric power" means electric peaking capacity or electric energy or electric power and energy.

(c) The term "Pacific Northwest" means (1) the region consisting of the states of Oregon, Washington, and Idaho, the state of Montana west of the Continental Divide, and such portions of the states of Nevada, Utah, and Wyoming as are within the Columbia drainage basin, and (2) any contiguous areas, not in excess of seventy-five airline miles from said region, which are a part of the service area of a distribution cooperative which has (i) no generating facilities, and (ii) a distribution system from which it serves both within and without said region.

THE FEDERAL COLUMBIA RIVER TRANSMISSION SYSTEM

SEC. 4. The Secretary of the Interior, acting by and through the administrator, shall operate and maintain the Federal transmission system within the Pacific Northwest and shall construct improvements, betterments and additions to and replacements of such system within the Pacific Northwest as he determines are appropriate and required to:

(a) integrate and transmit the electric power from existing or additional Federal or non-Federal generating units;

(b) provide service to the administrator's customers;

(c) provide interregional transmission facilities; and

(d) maintain the electrical stability and electrical reliability of the Federal system.

SEC. 5. (a) Unless specifically authorized by Act of Congress, the administrator shall not pursuant to the authority of this Act:

(1) acquire any operating transmission facility by condemnation, provided that this provision shall not restrict the acquisition of the right to cross such a facility by condemnation.

(2) construct additional transmission facilities which duplicate existing facilities or will duplicate transmission facilities which a utility (or utilities) commits itself to construct unless such facilities are required for one or more of the purposes specified in section 4 hereof, and the administrator's budget is submitted to Congress for the use of revenue or the issuance of revenue bonds to finance the construction of such transmission facilities, after good faith negotiations, is unable to make arrangements for the use of non-Federal transmission facilities which shall be at least equivalent in electrical capability to the proposed Federal facilities and which arrangements shall be no less favorable to the Government than the financing and construction of the proposed Federal facilities.

(b) At least 60 days prior to the time the budget for the Bonneville Power Administration is sent to Congress, the administrator shall notify utilities in the Pacific Northwest of the new transmission facilities proposed for construction therein. If the administrator, after good faith negotiations with a utility desiring to provide all or a part of such facilities, retains an item in his budget for a transmission facility, such utility may bring suit in the Federal District Court for Oregon for the purpose of determining if the administrator has complied with the provisions of this section. The administrator shall not begin construction of such a facility until at least 150 days after the budget proposing to initiate such facility has been presented to both houses of Congress and he has given such utility at least 30 days prior written notice of his intent to begin such construction. No such suit may be brought by such utility after the later of (1) said 150 days or (2) 30 days after notice by the administrator of his intent to begin construction.

SEC. 6. The administrator shall make available to all utilities on a fair and nondiscriminatory basis, any capacity in the Federal transmission system which he determines to be in excess of the capacity required to transmit electric power generated by, acquired by, or under the control of the United States.

SEC. 7. Subject to the provisions of section 5 of this Act the administrator may purchase or lease or otherwise acquire and hold such real and personal property in the name of the United States as he deems necessary or appropriate to carry out his duties pursuant to law.

MARKETING AUTHORITY

SEC. 8. The administrator is hereby designated as the marketing agent for all electric power generated by Federal generating plants in the Pacific Northwest, constructed by, under construction by, or presently authorized for construction by, or presently authorized for construction by the Bureau of Reclamation or the United States Corps of Engineers except electric power required for the operation of each Federal project and except electric power from the Green Springs Project of the Bureau of Reclamation.

RATES AND CHARGES

SEC. 9. Schedules of rates and charges for the sale, including dispositions to Federal agencies, of all electric power made available to the administrator pursuant to section 8 of this Act or otherwise acquired, and for the transmission of non-Federal electric power over the Federal transmission system, shall become effective upon confirmation and approval thereof by the Federal Power Commission. Such rate schedules may be modified from time to time by the Secretary of the Interior, acting by and through the administrator, subject to confirmation and approval by the Federal Power Commission, and shall be fixed and established (1) with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles, (2) having regard to the recovery (upon the basis of the application of such rate schedules to the capacity of the electric facilities of the projects) of the cost of producing and

transmitting such electric power, including the amortization of the capital investment allocated to power over a reasonable period of years, and (3) at levels to produce such additional revenues as may be required, in the aggregate with all other revenues of the administrator, to pay when due the principal of, premiums, discounts and expenses in connection with the issuance of, and interest on all bonds issued and outstanding pursuant to this Act, and amounts required to establish and maintain reserve and other funds and accounts established in connection therewith.

SEC. 10. The said schedules of rates and charges for transmission, the said schedules of rates and charges for the sale of electric power, or both such schedules, may provide, among other things, for uniform rates or rates uniform throughout prescribed transmission areas. The recovery of the cost of the Federal transmission system shall be equitably allocated between Federal and non-Federal power utilizing such system.

BONNEVILLE POWER ADMINISTRATION FUND

SEC. 11. (a) There is hereby established in the Treasury of the United States a Bonneville Power Administration fund (hereinafter referred to as the "Fund"). The Fund shall consist of (1) all receipts, collections and recoveries of the administrator in cash from all sources, including trust funds, (2) all proceeds derived from the sale of bonds by the administrator, (3) any appropriations made by the Congress for the Fund, and (4) the following funds which are hereby transferred to the administrator: (i) all moneys in the special account in the Treasury established pursuant to Executive Order No. 8526 dated August 26, 1940, (ii) the unexpended balances in the continuing fund established by the provisions of section 11 of the Bonneville Project Act of August 20, 1937 (16 U.S.C. 831, et seq.), and (iii) the unexpended balances of funds appropriated or otherwise made available for the Bonneville Power Administration. All funds transferred shall be available for expenditure by the Secretary of the Interior, acting by and through the administrator, as authorized in this Act and any other Act relating to the Federal Columbia River transmission system, subject to such limitations as may be prescribed by any applicable appropriation act effective during such period as may elapse between their transfer and the approval by the Congress of the first subsequent annual budget program of the administrator.

(b) The administrator may make expenditures from the Fund, which shall have been included in his annual budget submitted to Congress, without further appropriation and without fiscal year limitation, but within such specific directives or limitations as may be included in appropriation acts, for any purpose necessary or appropriate to carry out the duties imposed upon the administrator pursuant to law, including but not limited to

(1) construction, acquisition and replacement of (i) the transmission system, including facilities and structures appurtenant thereto, and (ii) additions, improvements and betterments thereto (hereinafter in this Act referred to as "transmission system");

(2) operation, maintenance, repair and relocation, to the extent such relocation is not provided for under subsection (1) above, of the transmission system;

(3) electrical research, development, experimentation, test, and investigation related to construction, operation and maintenance of transmission systems and facilities;

(4) marketing of electric power;

(5) transmission over facilities of others and rental, lease or lease-purchase of facilities;

(6) purchase of electric power (including the entitlement of electric plant capability) (i) on a short-term basis to meet temporary deficiencies in electric power which the administrator is obligated by contract to supply, or (ii) if such purchase has been heretofore authorized or is made with funds expressly appropriated for such purchase by the Congress;

(7) defraying emergency expenses or insuring continuous operation;

(8) paying the interest on, premiums, discounts and expenses, if any, in connection with the issuance of, and principal of all bonds issued

under section 13(a) of this Act, including provision for and maintenance of reserve and other funds established in connection therewith;

(9) making such payments to the credit of the reclamation fund as are required by or pursuant to law to be made into that fund: *Provided*, That this clause shall not be construed as permitting the use of revenues for repayment of costs allocated to irrigation at any project as otherwise expressly authorized by law;

(10) making payments to the credit of miscellaneous receipts of the Treasury for all unpaid costs required by or pursuant to law to be charged to and returned to the General Fund of the Treasury for the repayment of the Federal investment in the Federal Columbia River Power System from electric power market by the administrator; and

(11) acquiring such goods and services, and paying dues and membership fees in such professional, utility, industry, and other societies, associations and institutes, together with expenses related to such memberships, including but not limited to the acquisitions and payments set forth in the General Provisions of the annual appropriations acts for the Department of the Interior, as the administrator determines to be necessary or appropriate in carrying out the purposes of this Act.

(c) Moneys heretofore or hereafter appropriated shall be used only for the purposes for which appropriated, and moneys received by the administrator in trust shall be used only for carrying out such trust. The provisions of the Government Corporation Control Act (31 U.S.C. 841, et seq.) shall be applicable to the administrator in the same manner as they are applied to the wholly owned Government corporations named in section 101 of such Act (31 U.S.C. 846), but nothing in the proviso of 31 U.S.C. 850 shall be construed as affecting the powers granted in subsection (b)(11) of this section and in sections 2(f), 10(b), and 12(a) of the Bonneville Project Act (16 U.S.C. 832, et seq.).

SEC. 12. (a) If the administrator determines that moneys in the Fund are in excess of current needs he may request the investment of such amounts as he deems advisable by the Secretary of the Treasury in direct, general obligations of, or obligations guaranteed as to both principal and interest by, the United States of America.

(b) With the approval of the Secretary of the Treasury, the administrator may deposit moneys of the Fund in any Federal Reserve bank or other depository for funds of the United States of America, or in such other banks and financial institutions and under such terms and conditions as the administrator and the Secretary of the Treasury may mutually agree.

REVENUE BONDS

SEC. 13. (a) The administrator is authorized to issue and sell to the Secretary of the Treasury from time to time in the name and for and on behalf of the Bonneville Power Administration bonds, notes, and other evidences of indebtedness (in this Act collectively referred to as "bonds") to assist in financing the construction, acquisition and replacement of the transmission system, and to issue and sell bonds to refund such bonds. Such bonds shall be in such forms and denominations, bear such maturities and be subject to such terms and conditions as may be prescribed by the Secretary of the Treasury taking into account terms and conditions prevailing in the market for similar bonds, the useful life of the facilities for which the bonds are issued and financing practices of the utility industry. Refunding provisions may be prescribed by the administrator. Such bonds shall bear interest at a rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities, plus an amount in the judgment of the Secretary of the Treasury to provide for a rate comparable to the rates prevailing in the market for similar bonds. The aggregate principal amount of any such bonds outstanding at any one time shall not exceed \$1,250,000,000.

(b) The principal of, premiums, if any, and interest on such bonds shall be payable solely from the administrator's net proceeds as hereinafter defined. "Net proceeds" shall mean for the purposes of this section the remainder of the administrator's gross receipts from all sources after first deducting the

costs listed in section 11(b)(2) through 11(b)(7) and 11(b)(11), and shall include reserve or other funds created from such receipts.

(c) The Secretary of the Treasury shall purchase forthwith any bonds issued by the administrator under this Act and for that purpose is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as now or hereafter in force, and the purpose for which securities may be issued under the Second Liberty Bond Act, as now or hereafter in force, are extended to include any purchases of the bonds issued by the administrator under this Act. The Secretary of the Treasury may, at any time, sell any of the bonds acquired by him under this Act. All redemptions, purchases, and sales by the Secretary of the Treasury of such bonds shall be treated as public debt transactions of the United States.

SECTION BY SECTION ANALYSIS OF THE FEDERAL COLUMBIA RIVER TRANSMISSION SYSTEM ACT

Sec. 1. The short title is the "Federal Columbia Transmission System Act."

Sec. 2. The general purposes of the Act are set forth. The current authority of the Secretary of the Interior regarding the Federal Columbia River Power System is not affected by the Act unless specifically provided. The general intent of the Act is to provide for the use of revenues and revenue bond financing as a substitute for the appropriations presently used to finance the operation, maintenance and continued construction of the Federal transmission system in the Pacific Northwest. The provisions of the Bonneville Project Act, the Flood Control Act of 1944 and the Reclamation Project Act of 1939 giving preference and priority to public bodies and cooperatives for power produced by Federal projects is not affected by the Act. The powers and duties designated to the administrator under the Act are made subject to the supervision and direction of the Secretary of Interior.

Sec. 3. The definition of "Pacific Northwest" encompasses the boundaries of the region which have priority on hydroelectric generation from the Federal Columbia River Power System pursuant to Public Law 88-552. This definition is important in defining the areas in which the Bonneville Power Administration may use revenue financing to construct transmission facilities.

Sec. 4. The Secretary of Interior, acting by and through the administrator, is authorized to construct additions to the Federal transmission in the Pacific Northwest for four specific purposes. These are (1) the transmission of the output from new Federal or non-Federal generating units, (2) for additional service to Bonneville's customers, (3) for inter-regional transmission facilities, and (4) maintain electrical stability and reliability on the Federal system.

Sec. 5. Unless specifically authorized by Act of Congress, including appropriations acts, the administrator has no authority under the Act to condemn non-Federal transmission facilities and his authority to construct duplicating facilities is specifically limited. The administrator is obligated to enter into good faith negotiations with any utility which proposes to provide facilities in lieu of Federal construction on a time, facility and cost equivalency. This section also provides that a utility which contests Federal construction of new transmission facilities will be given adequate notice of Bonneville's intent to construct and time to bring legal action to challenge such construction in the Federal District Court of Oregon. Specific time periods are allowed so that there will be no cloud upon any bonds which Bonneville issues to finance a contested transmission facility.

Sec. 6. This section provides that any capacity in the Federal transmission system excess to the needs of the Government will be made available to all utilities on a fair and nondiscriminatory basis. It is anticipated that firm long term contracts for the transmission of non-Federal power will be executed by the administrator in the same manner as has been previously the case.

Sec. 7. This section gives the administrator the right to enter into such real and personal property transactions as are necessary to carry out his responsibilities under this and the Bonneville Project Act. No change is anticipated in current procurement and property transactions of the administrator.

Sec. 8. This section designates the administrator as the marketing agent for all Federal hydroelectric projects constructed, under construction, or authorized in the Pacific Northwest excepting the Bureau of Reclamation's Green Springs Project in Southern Oregon currently under long term con-

tractual arrangements with Pacific Power & Light Company. The administrator is presently designated as marketing agent of excess power from most federal projects by Secretarial Order which could be withdrawn at any time. Since Bonneville revenues will be used to secure bonds issued to finance future construction it is important that this marketing authority be designated by statute.

Sec. 9. This section restates the standards for Bonneville's wholesale power rates which are provided in existing law, applies these standards to the rates for the transmission of non-Federal power, and adds the requirements to provide revenue sufficient to pay debt service on revenue bonds issued. All rates are made subject to the approval of the Federal Power Commission.

Sec. 10. This section allows the administrator to establish uniform rates throughout the region or throughout prescribed transmission areas. It also places an obligation to equitably allocate transmission system costs between Federal and non-Federal utilization.

Sec. 11. This section establishes the Bonneville Power Administration Fund which will be the depository of all funds which are received in Bonneville. The administrator is authorized to make expenditures from the Fund for any purpose which is necessary under this Act, the Bonneville Project Act, or any legally incurred expenses. Specific categories of expenditure are outlined to make clear the extent of this authority. The Fund will also include trust funds deposited by non-Federal agencies to pay the cost of power purchased or facilities constructed on behalf of such agencies by the administrator. The variety, size and quantity of trust fund transactions entered into by the administrator are expected to increase substantially in the future.

Bonneville is subject to the budget and audit provisions of the Government Corporation Control Act. This would require the administrator to submit a budget through the Department of the Interior to the OMB for review and then to the congressional appropriations committees which currently review Bonneville's appropriation requests. This method would allow for the same kind of review that BPA appropriations currently undergo. Specific reference is made to 31 U.S.C. 850 and its relationship to several sections of the Bonneville Project Act. There is no intent in this section to change the interpretation which Bonneville and the General Accounting Office have made of these sections and their relationship to current legal requirements upon Bonneville.

Sec. 12. This section allows Bonneville to request investment of surplus funds by the Secretary of the Treasury in direct, general obligations of, or obligations guaranteed as to both principal and interest by the United States. With the approval of the Secretary of the Treasury he may deposit moneys from the Fund in any Federal Reserve bank or other United States depository.

Sec. 13. The administrator is authorized to issue and sell bonds to the Secretary of the Treasury to finance construction of the transmission system. The maximum amount outstanding at any time is limited to \$1.25 billion.

Debt service on the bonds is payable from Bonneville's net proceeds. Net proceeds are the amounts remaining in the Bonneville Fund after paying Bonneville's O&M and other related costs. The administrator is prohibited from making a payment from the net proceeds to the Reclamation fund or the miscellaneous receipts of the Treasury until he has met such of the currently due debt service on the revenue bonds.

The bonds sold to the Secretary of the Treasury will be in the form, of the maturities and subject to the terms and conditions prescribed by the Secretary of the Treasury, taking into account the terms and conditions prevailing in the market for similar bonds, the useful life of the facilities for which the bonds are issued, and the financing practices of the utility industry. The interest rate on the bonds will be determined by the Secretary of the Treasury so as to provide an interest rate comparable to that for bonds of a similar quality.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., June 5, 1974.

HON. JAMES A. HALEY,
Chairman, Committee on Interior and Insular Affairs,
House of Representatives.

DEAR MR. CHAIRMAN: This refers to H.R. 14168, 93d Congress, a bill referred to your Committee which if enacted would be cited as the "Federal Columbia River Transmission System Act."

Because one aspect of the bill bears upon the duties of this Office, we offer, as agreed with your staff, the following suggestions for the Committee's consideration.

Section 11 of the bill would establish a "Bonneville Power Administration Fund" in the Treasury, referred to as the "fund." Section 11(c), after setting forth certain restrictions on the use of moneys by the Administrator, Bonneville Power Administration, provides that the Administrator shall be subject to the provisions of the Government Corporation Control Act (31 U.S.C. 841 *et seq.*) "in the same manner as they are applied to the wholly owned Government corporations named in section 101 of such Act (31 U.S.C. 846) * * *" (with exceptions not here relevant). Section 105 of the Government Corporation Control Act requires among other things, that this Office make annual audits of the corporations subject to the act, and report thereon to the Congress.

We recommend that, to allow flexibility to the General Accounting Office in the use of its available manpower resources to the maximum advantage, the bill be amended by adding the following sentence to section 11(c) :

"Notwithstanding the provisions of sections 105 and 106 of the Government Corporation Control Act, the financial transactions of the Administrator shall be audited by the Comptroller General at such times and to such extent as he deems necessary and reports of the results of each such audit made to the Congress within six and one-half months following the end of the fiscal year covered by the audit."

On page 8 at line 17, the reference to "16 U.S.C. 831" should be to "16 U.S.C. 832."

Sincerely yours,

R. F. KELLER,

Deputy Comptroller General of the United States.

Mr. JOHNSON. I might say, H.R. 14168 was coauthored by myself and most other members from the Pacific Northwest who are on the full committee. The draft bill was taken from the executive communication from the Secretary of the Interior. This is the bill that we are placing into the record and on which we will receive testimony.

I would hope that the witnesses today would try to confine their remarks to somewhere in the neighborhood of 5 minutes. We will take for the record their complete statements and any other pertinent information that they would like to leave with us for the record. Thereafter we will expect them to stand for questions from the members of the committee.

If they will cooperate with us, we will move this hearing along. I understand you had a full and complete hearing in the Senate, and a very fine record was made over there during a period of about 7 hours or so. We hope we will have a shorter time than that here.

I might say at the present time that the Senate will probably act first on this particular matter, moving their bill over to us. We would probably take their bill and work from it when we get into the markup sessions of the Subcommittee.

Mr. DELLENBACK. Would the Chair yield?

Mr. JOHNSON. The gentleman from Oregon.

Mr. DELLENBACK. We certainly don't want to shorten, to short-change the witnesses' time. And if they feel we ought to break the Senate's record today by stretching our hearing out instead of condensing our hearing into an hour or so, we could go on deep into the day or the evening.

Mr. JOHNSON. Well, from what I learned recently, there is not too much opposition to the whole bill. It would probably shorten up the whole process in the House if we moved expeditiously.

Mr. DELLENBACK. We just don't want them to go away feeling they didn't get full benefit of the House.

Mr. JOHNSON. No, but we spent a very pleasant evening with the people, who are going to testify here, and the Congressmen from the Northwest, last evening. So we already have a great deal of pertinent information that was given to us last evening. So we are much better informed on what we are going to be confronted with than we would otherwise be.

We will not restrict the time of the departmental witnesses, however. We expect them, the departmental witnesses, to give us a full and complete statement so that we will have that to work from in the record.

We don't want to shorten anyone else that has real pertinent information. Feel free to take a long 5 minutes if you see fit.

I would now recognize the gentleman from Washington, Mr. Meeds, for any statement he would like to make.

Mr. MEEDS. Mr. Chairman, I thank the chairman for yielding and I would just say at the outset that we are delighted to have this group from the Northwest and from the West here to hear their testimony. I am sure that testimony will establish beyond cavil the need for this legislation.

I have talked with some of the individuals and the administration witnesses previously and it seems very clear to me that there is a great need for this legislation, and I would like to express the appreciation of all of the members to the chairman for the expeditious way in which he has scheduled it. I am certain that we do not need to duplicate the Senate's record, where filibuster is the regular course of action. I am sure we can shorten up the hearing time and gain all of the information we need for the passage of this legislation.

Mr. JOHNSON. I now recognize the gentleman from Oregon.

Mr. DELLENBACK. Thanks, Mr. Chairman. I won't take any of our hearing time this morning other than to indicate that we, in the State of Oregon, consider this to be very important legislation. I am pleased that the chairman of the subcommittee has agreed to be the principal sponsor on the legislation. As you indicated earlier, those of us from the Northwest very, very enthusiastically have joined in supporting this, including both my colleague from the State of Washington, Mr. Meeds, and myself. And I might say all the other three members of the Oregon delegation also join in that.

We think this is a needed piece of legislation. We are interested in what the witnesses will have to say about it so we can make the analysis as to whether there ought to be modifications in it, but certainly the need is present and we think it is of major importance.

Mr. JOHNSON. The gentleman from California, Mr. Clausen, who is very close to the Pacific Northwest.

Mr. CLAUSEN. Well, in keeping with the tone you have set, my eyes are open, my ears are open, and my mouth will be shut as we proceed through the meeting.

Mr. JOHNSON. Thank you.

I do have a statement from one of the coauthors, Congressman Towell of Nevada, and I would ask unanimous consent that his statement appear in the record at this point.

Do I hear objections?

Hearing none, so ordered.

[The statement of Congressman David Towell follows:]

STATEMENT OF HON. DAVID T'WELL, A REPRESENTATIVE IN CONGRESS FROM THE
STATE OF NEVADA

As a co-sponsor of H.R. 14168, the legislation before the Subcommittee today, I wanted to briefly comment on the reason why I believe that this is a sound and constructive proposal which deserves our consideration.

Clearly, the main purpose of H.R. 14168 is to make the Federal Columbia River Power System pay for itself, through the use of revenues of the System and the proceeds of revenue bonds. I believe that few of us would object to allowing a federally funded project, once it was permanently established on a sound basis, to shift to a more financially independent position.

As you know, the Columbia River Power System, under the direction of the Bonneville Power Administration, has been developed through federal commitment to the development of hydroelectric power in the Pacific Northwest area has been exercised for the past sixty years with impressive results. Furthermore, there have been substantial efforts to co-ordinate the use of federal and non-federal facilities in the region in order to provide needed services to the customers of Oregon, Washington, Idaho, Montana, and portions of Nevada, Utah and Wyoming.

Apparently, the Pacific Northwest Hydro-thermal Power Program, the joint federal and non-federal venture, has reached the stage of development where continued reliance on the congressional appropriations process would place undue stress on the financial requirements of the Bonneville Power Administration. It is totally understandable that the construction schedules and financial commitments of the Administration are greatly affected by the annual appropriations which must be approved by Congress.

Frankly, I believe that the "pay as you go" approach which is proposed by this bill for the Bonneville Administration deserves congressional consideration and study by this Subcommittee. With the increasing demands on the federal budget to fulfill varied national priorities, I feel we should welcome all opportunities to lessen federal funding commitments to projects, such as the Federal Columbia River Power System, which exhibit the potential of becoming financially independent. Consequently, I joined in co-sponsoring this bill and urge my colleagues on this Subcommittee to carefully review the measure.

Mr. JOHNSON. I also want to reserve space for any statements that any of the coauthors, or the U.S. Senators, who are involved in this particular piece of legislation, want to submit.

[The statement of Mrs. Julia Butler Hansen, follows:]

STATEMENT OF HON. JULIA BUTLER HANSEN, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF WASHINGTON

Mr. Chairman: I am pleased to submit this statement to your committee in support of H.R. 14168.

The Bonneville Power Administration is a very important element in the economy of the Pacific Northwest. Publicly and privately-owned utilities, and large direct service industries are presently dependent on BPA for all or a large part of their power supply and on the vast Federal transmission network which delivers both Federal and non-Federal power over a 300,000 square mile area. Since we are approaching the time when Federal Hydro will no longer be able to meet the electric energy load growth of preference customers and the local utilities will be developing their own thermal energy supply, the BPA transmission system becomes more and more important.

The legislation before this Committee will put BPA on a more business-like basis in constructing necessary transmission facilities. Electric power transmission in the Pacific Northwest by the Federal Government became a necessity because the Federal Government was the only entity which could develop the great multi-purpose hydro projects in the Columbia River Basin.

There are only a few great river basins in the world—much less the North American continent—where such hydroelectric developments can and have been built. Because of their multi-purpose aspects they are properly built by the Federal Government so that all non-power purposes (navigation, irrigation, flood control, recreation, municipal and industrial water, etc.) can be incorporated into the projects.

To continue this great and cooperative effort in the Pacific Northwest, after long study and negotiations, it is evident that BPA should continue to be the major transmission agency. However, with that responsibility, it becomes necessary for BPA to have the ability, as a partner in a regional program, to be able to perform on a timely basis. This is imperative so that the local agencies who are building the generation can be assured that the power will be delivered to the multitude of participants who are contributing to the cost of building the required thermal powerplants.

As Chairman of a Congressional Appropriations Subcommittee, I well know how difficult it is to make budget judgments and assign priorities to appropriated funds among competing public needs. This is the big reason I support H.R. 14168 so that BPA can use its revenues and raise money by issuing revenue bonds to assure timely construction of transmission facilities. The bill has broad regional support and represents the thinking of a lot of hard working people who have spent a lot of time and effort to reach agreement on the proposal. I respectfully urge your favorable support so that the bill will be enacted into law.

Mr. JOHNSON. We are now ready to receive our first witnesses, this morning. We have Mr. C. King Mallory, Acting Assistant Secretary, Energy and Minerals, U.S. Department of the Interior and Mr. Donald Paul Hodel, Administrator, Bonneville Power Administration, U.S. Department of the Interior. If you people would come forward and bring any of the other experts that you have with you as back-up capability, we can proceed.

I want to say that we are very glad to have this opportunity to hear you in connection with this bill. We are very thankful. We have had a good relationship with the Bonneville area. Its intertie to California has helped us greatly in the energy crisis we have experienced. The more we can perfect that transmission system, the better I will like it and I am sure all of the people in the Western part of the United States will like it. We are going to have to tie ourselves together, develop the resources we have, and move power to load centers quickly and efficiently and at the lowest possible cost, and yet have reliable service.

Mr. Mallory, you may proceed.

STATEMENT OF HON. C. KING MALLORY, ACTING ASSISTANT SECRETARY, ENERGY AND MINERALS, U.S. DEPARTMENT OF THE INTERIOR, ACCOMPANIED BY DONALD PAUL HODEL, ADMINISTRATOR, BONNEVILLE POWER ADMINISTRATION, U.S. DEPARTMENT OF THE INTERIOR; BERNARD GOLDHAMMER, ASSISTANT ADMINISTRATOR, POWER MANAGEMENT; JEROME KATZIN, FINANCIAL CONSULTANT; ROBERT RATCLIFF, REGIONAL SOLICITOR; DOUGLAS HANSEN, ASSISTANT ADMINISTRATIVE MANAGER; AND WILLIAM CLAGETT, ASSISTANT ADMINISTRATOR, WASHINGTON, D.C.

Mr. MALLORY. Thank you very much, Mr. Chairman. What I would like to do with your permission is first ask Mr. Hodel to introduce

the people from his staff who are with him here and then very briefly summarize my statement and ask Mr. Hodel to carry the ball as the administration's witness.

MR. HODEL. Mr. Chairman, I have with me Mr. Bernard Goldhammer, the Assistant Administrator for Power Management at Bonneville and also behind Mr. Goldhammer is Jerome Katzin, who is our consultant from the firm Kuhn, Loeb & Co., which firm has been retained by Bonneville as financial consultants since 1967. Next to him is Mr. Robert Ratcliff, Regional Solicitor for the Department of Interior in the Pacific Northwest. Also with me is Mr. Douglas Hansen, Assistant Administrative Manager, and Mr. William Claggett, our Washington, D.C. Assistant Administrator.

MR. JOHNSON. Very glad to have you with us.

Your statement, Mr. Mallory, will be placed in the record as if read in full and you may summarize it.

[The statement of C. King Mallory in full follows:]

STATEMENT OF C. KING MALLORY, ACTING ASSISTANT SECRETARY, ENERGY AND MINERALS, U.S. DEPARTMENT OF THE INTERIOR

Mr. Chairman and Members of the Committee: As the Deputy Assistant Secretary—Energy and Minerals, I am the Department of the Interior official to whom the Administrator of the Bonneville Power Administration reports in the formal chain of command. I have worked closely with the Bonneville Administrator and his associates in the formulation of a self-financing mechanism for BPA. Such a plan has been formulated and is embraced in the proposed legislation before you today. I can report to you that the proposed legislation has the enthusiastic support of the Department of the Interior and the Administration.

BPA Administrator Don Hodel will describe in detail for you the precise terms of the proposed Federal Columbia River Transmission System Act, how it will affect BPA's mission, and the impact which such legislation is expected to have on the overall power program of the Pacific Northwest. He and his associates are prepared to spell out the specifics of the bill and to answer any questions you may have. I would like to set the stage for Mr. Hodel's presentation.

The entire Federal Columbia River Power System (FCRPS), which consists of hydroelectric dams built and operated by the Army Corps of Engineers and the Bureau of Reclamation in the Pacific Northwest and BPA's high voltage nationwide transmission network, operates on a self-liquidating basis. BPA is the wholesale power marketing agency for the FCRPS. From BPA's revenues there is repaid to the Federal Treasury all of the Government's costs of the FCRPS including timely recovery of the Federal investment in Northwest power facilities plus interest. Complete cost recovery has been an overriding principle of the Federal power program in the Pacific Northwest and it will continue to be an inviolate rule of conduct after enactment of the proposed Federal Columbia River Transmission System Act. This legislation will enable BPA to function and operate on the basis of its own economic viability.

Stripped down to its bare essentials, the proposed legislation will permit BPA to plan, design, build, and operate its transmission system and to perform its critical power marketing functions without being totally dependent upon the traditional appropriation process as in the past. Presently, all of BPA's cash receipts are deposited into the General Fund of the Treasury. And each year, BPA, the Army Corps of Engineers and the Bureau of Reclamation must obtain congressional appropriations to carry on their respective portions of the Federal Columbia River Power System's operations—BPA building transmission facilities and marketing power and the Corps and Bureau building and operating hydro power generating projects.

The proposed bill will not alter any of the financial procedures with respect to the Corps and the Bureau. The construction and operation of the hydro

power facilities of the Corps and the Bureau will continue to be financed through the congressional appropriations process as at present.

The legislation will grant BPA the authority to issue revenue bonds and to use the proceeds from those revenue bonds to finance capital requirements of its transmission system. Additionally, BPA will be granted authority to use its revenues directly to finance capital requirements and its day-to-day operations.

As in the past, BPA's revenues will continue to be used to repay to the Treasury the entire Federal investment in the Federal Columbia River Power System. And BPA's revenues will also be used to pay the principal and interest on any revenue bonds it issues and to pay its operation and maintenance expenses. As always, BPA's wholesale power rates and its charges for wheeling will continue to be set at whatever levels are necessary to recover all of the costs of the FCRPS from its ratepayers.

The Federal Columbia River Power System is an enormously successful enterprise. It has helped transform the Pacific Northwest into a prosperous and economically self-reliant region. It has served to develop the extraordinary hydroelectric potential of the area and, as a result, it has contributed significantly to the national objective of energy self-sufficiency. During the past 6 months alone, the equivalent of approximately 10 million barrels of scarce low-sulphur oil has been exported from the Pacific Northwest to the Pacific Southwest in the form of surplus hydro power to displace fuel at thermal powerplants in California.

Throughout the Nation it is becoming progressively more difficult for electric utilities to secure adequate financing to provide the necessary capital funding to meet America's growing energy demands. Investors are becoming increasingly cautious and require the highest levels of assurance that the enormously expensive facilities made possible by their investments will not founder for want of an essential ingredient such as transmission. Projections by financial experts indicate that attempts to satisfy the industry's future demands for capital will continue to be circumscribed by stringent standards. Thus there is some urgency attached to the problem, especially so in light of the essential nature of electricity to the social well-being of the American people.

The proposed Federal Columbia River Transmission System Act is an important step in attempting to alleviate this problem for the Pacific Northwest. With enactment of this self-financing legislation for BPA, an unusually broad and diversified financial base will be established for the capital needs for the Northwest's power facilities. An important leg will be added to the region's capital resources base for power facilities.

The region's private utilities will continue reliance on their traditional sources of capital—retained earnings and the proceeds from utility corporation bonds and other securities—to finance construction of thermal powerplants and subtransmission and distribution lines. These securities have been particularly appealing, although by no means exclusively so, to tax exempt institutions such as state and local governments, foundations, pension trust funds, and profit sharing trust funds. This is the first leg.

The region's public-energy utilities will continue to rely on their traditional sources of capital—net revenues from operations and the proceeds of municipal corporation bonds—to finance their share of thermal powerplants and distribution lines. These tax exempt bonds appeal particularly to taxable corporations and to individuals, to banks and other financial institutions. The region's cooperatively owned utilities will continue to use their net revenues and to obtain Federal loans from the Rural Electrification Administration. These public agency and cooperative sources of funds represent the second leg.

Additional authorized Federal hydro generation facilities to be constructed and operated by the Army Corps of Engineers and the Bureau of Reclamation will continue to be funded through the traditional congressional appropriations process. As in the past, reimbursable funds will be appropriated from the General Fund of the Treasury. This is the third leg.

Finally, the construction of BPA transmission facilities, if the proposed self-financing legislation is enacted, will be funded either directly from BPA revenues or from BPA revenue bonds, and BPA's power marketing operations will be funded exclusively from BPA revenues. BPA revenue bonds will bear

interest rates that are more nearly in line with those borne by comparable bonds in the open market. They will be sold to the Federal Treasury which, presumably, will either invest surplus funds or acquire additional funds from the traditional purchasers of the U.S. Government securities—Government trust fund accounts, the Federal Reserve, financial institutions, and individuals. Use of BPA revenues and revenue bond financing would be the fourth leg contributing to the diversification of the region's capital resources base.

Enactment of self-financing for BPA will give the Pacific Northwest balanced access to the Nation's diffused primary capital markets. With satisfaction of essential energy demands ranked high on the list of national priorities and with the future supply of capital uncertain, it is fitting that this kind of financial diversification be established. Self-financing for BPA will provide the Northwest with additional security from the pitfalls of an overreliance on one or a few primary sources of capital to finance power facilities.

In conclusion, Mr. Chairman and members of the Committee, we believe that enactment of the proposed Federal Columbia River Transmission System Act will be a step forward toward regional self-sufficiency and self-determination. The 108 investor-owned and publicly owned utilities that participate with the Bonneville Power Administration in the Northwest's joint Hydro-Thermal Power Program and BPA's direct-service industrial customers speak with one voice in endorsing this legislation. With that kind of unified regional support and with the importance of assuring an adequate future power supply for the region, the Department of the Interior urges enactment of this landmark legislation.

Thank you for your attention.

Mr. MALLORY. Well, listening to your words of advice, Mr. Chairman, I am going to be very brief and just report to you in the way of summary that the proposed legislation is enthusiastically supported by both the Department and the administration. My statement is only four pages long. I think I will leave it at that and ask Mr. Hodel to present a summary of his statement.

Mr. JOHNSON. Mr. Hodel, I think you should give us the benefit of your full statement.

Mr. HODEL. Thank you, Mr. Chairman. I have submitted a lengthy statement covering the bill and the background of the bill in detail for the record. There are a number of items, however, which I think with your permission I would like to summarize.

Mr. JOHNSON. Fine. Your statement in full will be inserted in the record.

[The statement of Donald Paul Hodel in full follows:]

STATEMENT OF DONALD PAUL HODEL, ADMINISTRATOR, BONNEVILLE POWER
ADMINISTRATION

Mr. Chairman and Members of the Committee: Although I was appointed Deputy Administrator of the Bonneville Power Administration in the fall of 1969 and Administrator a year-and-a-half ago, this is the first time I have had the privilege of appearing before this Committee in either of those capacities. I am pleased to have this opportunity to describe the BPA program for you, to tell you about the proposed Federal Columbia River Transmission System Act, an important piece of legislation we hope the Congress will enact, and to answer your questions.

The two bills introduced in the Senate and in the House of Representatives—S. 3362 and H.R. 14168, respectively—are identical in every respect.

The proposed legislation is called the Federal Columbia River Transmission System Act. If enacted it will permit the construction of BPA transmission facilities and the performance of BPA's power marketing functions to be funded directly out of BPA revenues and from the proceeds of revenue bonds rather than through the traditional congressional appropriations process as at present. Before I describe the proposed BPA self-financing leg-

isolation and why I believe there are compelling reasons for its enactment, I would like briefly to give you some background about BPA, how it is presently funded, the stringent repayment requirements under which it operates and under which it will continue to operate, and the role it plays in the Pacific Northwest regional power system.

BACKGROUND

The Pacific Northwest has one-third of the total water power potential of the United States, more than any other region. Because of the Federal Government's historic interest in water resources and because the Nation was struggling to recover from the most devastating depression in its history, an effort was launched in the mid-1930's to secure for America some of the extraordinary benefits available from the comprehensive development of the water resources of the Columbia Basin.

The Bonneville Power Administration was established in 1937 first as the wholesale power marketing agency for electricity generated at Bonneville Dam and subsequently as the power marketing agency for other Federal hydroelectric projects in the Basin. These dams, built and operated by the Bureau of Reclamation and the Army Corps of Engineers, together with BPA's transmission system, comprise the Federal Columbia River Power System.

Today the System consists of 27 multipurpose Federal dams with a peaking capacity of almost 13 million kilowatts, and with over 12,000 circuit miles of high-voltage transmission lines. The System supplies about 50 percent of the electric energy consumed in the Pacific Northwest, and it accounts for about 80 percent of the region's high-voltage transmission capacity because BPA also transmits a major portion of power from non-Federal projects in the region to various private and public utilities in the Northwest. The BPA power network is the largest high-voltage transmission system in the Free World.

BPA also acquires power generated by non-Federal utilities by purchase and exchange to blend with Federal hydro power. The integrated product is sold to 149 BPA customers—publicly owned utilities, cooperatives, privately owned utilities, other Federal agencies, and electro-process industries, principally aluminum reduction plants that account for one-third of America's primary aluminum production capacity. Some of BPA's utility customers have generation of their own in addition to the power they buy from BPA, but 91 of them that are either publicly or cooperatively owned depend upon BPA as their sole source of power supply.

SELF-LIQUIDATION

The Federal Columbia River Power System and the people of the Pacific Northwest are proud that the System has always been and will continue to be self-liquidating. The System pays its own way.

BPA is required by law to set its wholesale power rates so as to recover all of the costs to the Federal Government of generating, purchasing, and transmitting electric energy in the region. Specifically, the costs which must be recovered by BPA revenues and returned to the Treasury include (1) expenses of operating and maintaining Federal power generation and transmission facilities, (2) costs of acquiring power by purchase or exchange, (3) interest on the unamortized portion of the Federal investment in power facilities, (4) repayment of the capital investment in Federal power facilities, and (5) repayment of irrigation construction costs at Federal reclamation projects that are beyond the ability of irrigators to repay and that have been assigned for recovery from power revenues. These same repayment requirements will continue in force whether or not the proposed Federal Columbia River Transmission System Act is enacted. Payout of the System is on schedule provided BPA's proposed rate increase, the second in its history, is approved later this year by the Federal Power Commission.

REVENUES AND RATES

By June 30, 1974, BPA cumulative revenues are expected to reach approximately \$2-2½ billion. BPA revenues for the fiscal year beginning July 1,

1974, are estimated to exceed \$200 million based on the existing wholesale power rate level. However, to insure that BPA revenues continue to be adequate to meet all of the repayment requirements as required by law, we will soon submit a proposed 25 to 30 percent rate increase to the Federal Power Commission for approval to go into effect on December 20, 1974.

THE APPROPRIATIONS PROCESS

Inspection of BPA's financial records over the years shows strict compliance with the requirements of law that the Federal Columbia River Power System be self-liquidating. But being self-liquidating is one thing and being self-sufficient is quite another. Unlike an enterprise which is self-sufficient, BPA must prepare and submit an annual budget request for appropriations through the traditional Government appropriations process—first to the Department of the Interior, then to the Office of Management and Budget, and finally to the Congress. The Corps of Engineers and the Bureau of Reclamation must do the same thing. Except for exchanges, power purchases through net billing, and trust account transactions, the FCRPS depends upon congressional appropriations for virtually every aspect of its operations from capital investments to day-to-day operating and maintenance functions.

This appropriations procedure is desirable and proper for most Federal agencies, those that perform conventional governmental functions. But for a commercial enterprise which is required to operate on the basis of sound business practices, which has revenues as well as expenditures, which is obliged to charge rates so that it stands on its own two feet without subsidization, and which must plan, construct and operate in close harmony with non-Federal entities, the traditional appropriations process can be inappropriate.

THE PROBLEM

The Federal power program in the Pacific Northwest is involved in a very complicated but exceedingly efficient coordination program for operations of the regional power system and in an equally efficient joint Hydro-Thermal Power Program for construction of new generation and transmission. The programs call on all participants to exert high levels of interutility cooperation. Everyone depends on everyone else. The problem is that while on the one hand the Federal Government is a vital partner in a complex interdependent regional power program, on the other hand the Federal component of that regional power program is but one of many meritorious Government programs competing for limited Federal appropriations. Notwithstanding BPA's self-liquidating nature, it must stand in line along with other Government agencies to obtain its allotted share of the annual budget appropriations.

The Government has just so many General Fund dollars to go around. It is always a difficult problem to decide how limited funds should be divided among worthy competing programs. Sometimes, as a result of this process, the BPA transmission construction program is forced to cut back below funding levels that sound business management would deem prudent.

When cut are made, as unfortunately they sometimes have been, two things happen: First, transmission reliability standards are not met and parts or all of the region are subjected to increased risks of power failures; in other words, transmission capacity sometimes falls behind generation capacity and power demands.

Second, by deferring construction of proposed transmission system additions and stretching out construction work programmed in prior years, overall costs run significantly higher than they otherwise would. While delaying expenditures helps overcome budget difficulties for a particular year, general price inflation, contract change orders, penalty payments, escalation of construction costs, and less-than-optimum construction scheduling means that in the long run costs are almost invariably higher than necessary. That's bad enough. What is worse is that power system reliability is sacrificed and the risk of power failures increased. And to make matters still worse, the non-Federal partners in the region's Hydro-Thermal Power Program begin to question the determination and ability of the Federal Government to fulfill its role in that Program.

Cutting back on budget requests may sometimes be good. But sometimes it is unambiguously bad. And it can be particularly disruptive to an efficient on-going business operation such as BPA which depends on others to perform their assigned functions and upon whom others depend to perform its functions.

The Congress has almost always looked with favor upon the Federal power program in the Pacific Northwest. The region is grateful for the cooperation it has received in this regard. In the past, the traditional appropriations process has not been so troublesome as to warrant major revision in procedures. But in changing from a virtually all-hydro system dominated by the Federal Government to a mixed-thermal system in which non-Federal investments will dominate and where the highest level of cooperation between all participants is required, much greater assurance must be given that bulk transmission will be available when scheduled. Investors will need to know that firm arrangements for wheeling power will be available when expensive new thermal powerplants become operational. It is BPA's job to provide that transmission.

DESCRIPTION OF THE SELF-FINANCING BILL

The proposed Federal Columbia River Transmission System Act is designed to achieve a relatively narrow objective. It is not intended to disturb the existing rights, obligations and procedures regarding the marketing and management of the Federal power supply in the Pacific Northwest as those rights, obligations and procedures are spelled out in the Bonneville Project Act, the Northwest regional preference legislation, and other Federal marketing acts, except as expressly set forth. The provisions of the bill do not prohibit application of the appropriation process in the future but minimize the need for appropriations by granting to BPA access to its revenues to meet its operation and maintenance expense and to finance the future construction of the Federal transmission system.

The bill provides that a Fund will be created into which will be deposited all existing appropriations and other revenues to which PBA may be currently entitled, together with future BPA revenues. A provision is made for the acquisition of additional moneys through the issuance of revenue bonds to the Secretary of the Treasury.

In the absence of further congressional direction, the activities for which expenditures from the Fund may be made are limited to those specified in the bill. The construction of transmission facilities financed through the Fund is limited to facilities within "the Pacific Northwest." In defining the Pacific Northwest, the bill borrowed the definition of the area referred to in Public Law 88-552 (the Northwest regional preference act). It is within this area that the customers of BPA having preference and priority to federally-generated hydroelectric energy are located.

It is not the intent of BPA to encourage indiscriminate exercise of the authority to finance the construction of transmission facilities within the Pacific Northwest where satisfactory wheeling arrangements are existing or may be available. For example, BPA customers in Southern Idaho are presently being served through long-term wheeling arrangements with the Idaho Power Company and Utah Power & Light Company on terms satisfactory to BPA. There is no intention to exercise the authority conferred by the bill to construct transmission facilities which would replace the facilities provided by these companies pursuant to those arrangements so long as the agreed service is provided by the companies pursuant to such arrangements.

In the administration of the funds earned by BPA, the bill preserves the active participation of the Congress and the Administration. The annual budgets of BPA are to be submitted to the Department of the Interior, the Office of Management and Budget and the Appropriations Committees of Congress pursuant to the Government Corporation Control Act. However, it is the intent of the bill that once a transmission facility has been included in an annual budget and has cleared this review process BPA will be in position to do these things necessary to complete the construction of such facility in a timely and business-like manner even though the financing and completion of construction of such facility may extend over a period of several years. This concept is at the very heart of the bill so as to assure to the

region that needed transmission will, in fact, be available on a schedule which will coincide with the schedules for completion of the hydro and thermal generation required to meet regional loads.

With specific reference to the issuance of bonds to the Secretary of the Treasury, several provisions require special note and comment. The Secretary of the Treasury is required to purchase the bonds immediately upon tender to assure to BPA the availability, without delay, of those funds necessary to provide the facilities upon which the Government and the non-Federal utilities of the region are dependent. The terms and conditions of the bonds, including the interest rate, are determined by the Secretary of the Treasury on the basis of comparability with the practices prevailing in the open market for sale of prime utility bonds. The refunding provisions to be included in the bonds are determined by the Administrator.

The designation of the Administrator as the marketing agent for all but one of the existing and authorized Federal hydroelectric projects in the Pacific Northwest assures to the Secretary of the Treasury a security of the highest quality. This designation does not alter or expand the existing function of the Administration but converts his role of marketing agent for all of such projects from one established primarily by Secretarial Order to one established on a permanent basis by congressional action. Permanency of the designation removes all doubts as to the quality of the assurances which the Administrator can pledge to secure his bonds, therefore guaranteeing an interest rate no higher than that paid by the best of the revenue bonds being offered on the open market. Since the bonds will be sold to the Secretary of the Treasury, the Treasury Department is assured of control over the timing and frequency of its over-all financing and eliminates the possibility of competition between the Treasury Department and BPA on the money markets.

The purposes for which BPA transmission facilities are to be constructed are limited to those which the Administrator determines fall within one of more of the purposes set forth in Section 4 of the bill, namely to integrate and transmit electricity from existing and new generating units, to provide service to BPA customers, to provide interrogational transmission facilities, and to maintain the stability and reliability of the Federal system. It is the intent of the purposes specified in Section 4 that the utility industry within the Pacific Northwest be able to rely upon the Federal transmission system to carry power from both Federal and non-Federal generating facilities to load centers throughout the region. Any capacity on a Federal transmission line which is excess to the needs of the Government and which has not been previously committed under firm wheeling agreements will be made available on a fair and non-discriminatory basis.

The bill requires that in addition to the existing practice of submitting rates for the sale of power to the Federal Power Commission for approval, rates for BPA transmission services shall likewise be reviewed by the Federal Power Commission before becoming effective. In assessing such transmission rates, it is incumbent upon BPA and the Federal Power Commission to assure that each user or class of user of the Federal transmission system will bear its fair share of the cost. It is not intended by this provision that the "postage stamp rate" for the sale of power will be eliminated but rather that all customers comprising the class of user to whom the postage stamp rate is applicable will bear, in the aggregate, their full share of the costs of the transmission system. It is further incumbent upon BPA and the Federal power system to see that the total revenues of BPA are adequate to meet the operation and maintenance expense, the existing obligation to repay the Federal power investment in the region as prescribed by law, and to meet the obligations specified in the revenue bonds issued to the Secretary of the Treasury.

The bill does not authorize the Administrator to construct duplicating transmission facilities if reasonable wheeling arrangements which are no less favorable to the Government are available. To assure compliance with this limitation, a utility within the region may object to the inclusion of a transmission facility in BPA's annual budget if such utility is committed to provide comparable service. In the determination of comparability of service, the costs, the timing of the availability of the wheeling service, the electrical capability of the facilities, and the adaptability of the facilities

to serve the purpose intended are all to be taken into account. If, after good faith negotiations, the Administrator and such utility cannot agree, the utility is afforded a limited time within which the dispute may be submitted to the United States District Court for the District of Oregon for determination.

It is anticipated that if such dispute is submitted for judicial determination, the Court will expedite the determination of those factors which will permit the construction of any required facilities needed to insure the integrity of the region's transmission requirements. It is my belief, however, that the existence of this possibility will prevent its occurrence and we will, as in the past, invariably reach amicable arrangements on the size, timing, location and pricing of transmission facilities.

As a part of the ongoing power program in the Pacific Northwest, it is anticipated that BPA will be acting as an agent for a number of utilities in the region to acquire a future power supply for them. This agency arrangement will require that the utilities involved deposit money with BPA in amounts sufficient to cover the costs of the acquisition of such power supply. The moneys so deposited will be maintained in a separate account in the Fund established by the bill and will be disbursed solely for the purpose for which deposited. Likewise, any appropriated funds included within the Fund will be disbursed only for the purpose for which the money was appropriated.

Section 11(b) of the bill identifies a number of purposes for which expenditures from the Fund may be made. It is the intent of the bill that these purposes shall be broadly construed so as to afford the Administrator full opportunity to carry out the duties imposed upon him pursuant to law in a business-like manner.

THE HYDRO-THERMAL POWER PROGRAM

To appreciate the importance and desirability of self-financing for BPA, it is necessary to understand the Hydro-Thermal Power Program and the role BPA plays in the program.

The objective of the Hydro-Thermal Power Program is to develop a regional power plan among the 108 public and investor-owned utilities and the Federal Government in the Northwest that will meet the growing demand for electric energy in the region with an adequate and reliable power supply, a supply that will be produced in the most efficient least-cost way in terms of economic and environmental costs.

The Program is expected to achieve the following goals:

1. Best preserve the environment and natural beauties of the Pacific Northwest.
2. Make efficient and economic use of the Federal Columbia River Power System.
3. Obtain the economies of scale from larger thermal generating plants.
4. Meld the output of large thermal generating plants with the output of existing hydro generating units and the peaking generation units which will be installed at existing dams, to achieve the most economic and reliable power supply to meet the power demand of the Pacific Northwest.

It was early established that the closer the system approaches maximum integration among its diverse participants, the greater will be its versatility, the lower will be its capital investment and operating costs, and the lesser will be its impact on the environment.

Under the Hydro-Thermal Power Program, the region's utilities and the Federal Government are planning, building, and operating the region's entire electric system on a coordinated basis. Thermal power is being integrated with hydro power. Markets are being assured for the output of the largest and most economical thermal powerplants. Bulk transmission, hydro peaking capacity, forced outage reserves, reserves for unanticipated load growth, and, when available, surplus hydro energy for displacement of fuel at thermal powerplants are the principal Federal involvements. Building the largest and most economical thermal powerplants, optimally timed, sized, and located to meet regional demands instead of just the needs of owners, and providing the essential low-voltage transmission and distribution are the key responsibilities being borne by the non-Federal privately owned, publicly owned and cooperative utilities. A high level of interutility cooperation without precedent in the United States is being achieved.

THE END OF PHASE 1

More than 2 years ago it was recognized that what we now call Phase 1 of the Hydro-Thermal Power Program would come to an end soon and that even before its conclusion it would prove inadequate. That phase of the Program, approved by Congress and the Administration in 1969, was designed to take care of the power requirements of the Pacific Northwest, as those requirements were then perceived, up to the early 1980's. In terms of long-range planning, for the early 1980's, it is already too late. Worse still, in the near-term, principally because of slippages in generating plant schedules, power shortages are expected to arise that are quite beyond the scope of Phase 1 to remedy.

All affected interests recognized that unless something was done quickly to extend the Hydro-Thermal Power Program beyond its first phase, the benefits of long-range power planning could be effectively wasted—inefficient, costly, uncoordinated development of power resources would probably take over and increased risks would arise that demands for energy could not be successfully or efficiently met. The question which presented itself in the most urgent terms was whether or not the region could devise satisfactory new arrangements that would solve the problem and in which the interests of all parties would be protected and served to the benefit of the region at large.

THE GENESIS OF PHASE 2

Recognizing this problem and the relatively unique business enterprise character of the BPA program, the Secretary of the Interior in the spring of 1973 directed BPA to work with the utilities in the Pacific Northwest and with BPA's industrial customers to come up with a long-range plan to provide an adequate future power supply for the region and at the same time minimize appropriation demands upon the Federal Treasury.

After months of negotiations, and after a deadline set by the Secretary came and went without agreement, all affected parties within the region finally reached an accord in December 1973 on what is now referred to as Phase 2 of the Hydro-Thermal Power Program. This separate legislation does not depend on Phase 2 of the Hydro-Thermal Power Program; to be successful, Phase 2 need not depend on limited self-financing for BPA. But the odds of its success and of an optimum regional power system evolving would be materially improved if BPA is provided with self-financing authority.

According to the long-range accord, installation of additional generating units at Federal hydroelectric projects will continue to be financed through the traditional Federal budgetary process. The region separately recognized, however, that some of the pressure for Federal funds could be significantly reduced and the success of Phase 2 enhanced if BPA, with the concurrence of the region's utilities, secures legislation that will give it authority to pay its own operation and maintenance expenses directly from revenues, and to finance additions to the Federal transmission system which may average about \$200-million annually over the next decade either by direct application of revenues or by revenue-bond financing.

PHASE 2

Essentially, Phase 2 of the Hydro-Thermal Power Program supplements and overlaps Phase 1 by providing for the addition of more generating capacity from July 1, 1978, through the early 1980's than was contemplated under Phase 1. This is essential if the objective of the Hydro-Thermal Power Program is to be met.

The reason that the projects identified as part of Phase 1 are inadequate to do the job is that serious powerplant delays have been experienced since the inauguration of Phase 1, additional future delays of similar nature are a realistic expectation, and revised load estimates are several hundred megawatts higher than earlier projected due to an acceleration in electric energy load growth. All of these factors combine to precipitate forecasts of near-term power shortages. Additional resources beyond those contemplated in Phase 1 must be added to compensate for these factors if shortages are to be avoided.

Some of the forecasted shortages are no longer avoidable, however. Long construction leadtimes make it impossible to eliminate completely all of the projected load-resource deficits in the next few years. The best that can be achieved is to try to minimize the short-term power deficits and see to it that deficits projected for the long-term are effectively overcome.

In addition to adding more generation in the late 1970's than contemplated under Phase 1, Phase 2 also includes an extended schedule of specific powerplants to be completed by 1986 although it is expected to be a continuing program that will meet the region's power demands out to the end of the century. No new Federal legislation or approval is required for Phase 2 because it is essentially an agreement among the non-Federal utilities. It does not provide either for Federal construction of thermal generation or for pooling of hydro and thermal power rates. Nevertheless, the Congress will be periodically posted on its progress as well as on the annual budgetary requirements of BPA, even with self-financing authority as envisioned under the proposed Federal Columbia River Transmission System Act.

Enormous non-Federal investments will be required to implement Phase 2. During the next 20 years it is estimated that approximately \$31 billion worth of new power facilities will be built in the region. Of this sum, non-Federal interests are expected to invest some \$25 billion or about 80 percent, principally in coal and nuclear-fired thermal powerplants and for subtransmission and distribution. The Federal power investment in the region over the next 20 years including potential projects not yet authorized is estimated at about \$6 billion of which about half will be in Corps of Engineers and Bureau of Reclamation hydro generation facilities and the other half in BPA transmission facilities.

The specific thermal powerplants identified in the early years of Phase 2 will be used primarily for generation of base-load energy. Approximately 3.7 million kilowatts of peaking capacity, in addition to existing authorized units, will also be needed to complement the baseload generation and meet estimated 1985-86 loads. Some of this additional peaking capacity will probably come from the installation of additional generating units at existing Federal hydroelectric projects. In addition, however, some pumped storage projects, for which the Pacific Northwest is potentially well endowed, are also under investigation.

What role will BPA play in Phase 2? BPA will provide energy for regional load growth reserves, it will meet average energy requirements of preference customers up to 25,000 kilowatts each, and it will serve existing commitments. In addition, of course, BPA will continue its traditional role of providing most of the bulk transmission for the region.

How will BPA acquire the additional energy required to meet these obligations? First, there will be additional energy generated at the peaking units to be installed at existing Federal hydroelectric plants. And second, BPA will obtain additional electric energy by exchanges of peaking capacity and other services such as bulk transmission, load shaping, and forced outage reserves. Naturally, whatever rates BPA will charge for its services and for the sale of energy that it acquires, will be set at levels adequate to fully recover all of the costs of Federal power operations in the Northwest, including, of course, repayment of the Federal investment plus interest.

The scope of Phase 2 is broad. Its objective is to see to it that arrangements are developed to meet the power demands of the region reliably and with the least economic and environmental cost. The scheme, which as I have noted will involve every substantial financial commitments by all participants, was developed on a cooperative basis with BPA, the region's investor-owned and public owned utilities and BPA's direct-service industrial customers all working hand-in-hand to identify the best way to meet the Hydro-Thermal Power Program objective. It represents an example of how diverse enterprises can subordinate their own individual interests and work in cooperation with one another and with the Federal Government for the best interests of a region. The participants have done a fine job; the high level of interutility cooperation achieved is as much a source of pride for the participants as it will be a source of benefits to the region and the Nation.

THE NEED FOR LIMITED SELF-FINANCING

As previously indicated, BPA provides approximately 80 percent of the high-voltage transmission in the region. Unlike other regions, the Northwest has an integrated high-voltage transmission grid that is planned, designed, constructed, and operated as a single unit and, as a result, yields maximum economic, environmental and electrical benefits. All of the participating non-Federal utilities in the region, public and private, support this arrangement as being technically and economically superior. They acknowledge that it is unsound and imprudent from both an engineering and economic standpoint for different entities to get into unproductive competition with an existing and functionally sound main transmission grid that is operated for the benefit of an entire region. Costly duplication of transmission facilities has been and will continue to be avoided and thus the costs of providing electric service are lower than they would otherwise be.

But without the assurances that timely evolution of the transmission system will take place, the billions of dollars of non-Federal funds required for new generation in the Pacific Northwest over the next 2 decades will be more difficult to finance; utilities must be assured of adequate transmission. It is essential that required transmission facilities be funded on a timely basis; that transmission be closely coordinated with powerplant unit completion. It is becoming progressively more unthinkable, in view of the enormous capital expenditures that are required to build generating capacity, to have any of that capacity lie idle or to have unreliable delivery of its output to load centers, for want of adequate transmission.

Recent experience has shown that that is precisely what can happen when development of the high-voltage transmission network is left to the traditional appropriations process. The proposed legislation recognizes that BPA's present financial requirements often get caught between the imperatives of a responsible utility type operation and the equally important imperatives of the Federal budgetary process. Notwithstanding the new self-financing authority it would confer upon BPA, the Public Works Subcommittees of the House and Senate Committees on Appropriations would remain vital links in the process; BPA will still report annually to the Committees as in the past and complete congressional control of the program will be continued, including review of BPA's annual budget and program.

With the aid of this self-financing step, the region's utilities will be better able to undertake their long-range planning of reliable power facilities to meet energy demands under the Hydro-Thermal Power Program with confidence that essential future transmission facilities will be in place and available when needed.

A HIGHER INTEREST RATE

For the transmission portion of the Federal Columbia River Power System that would be financed by revenue bonds instead of through congressional appropriations as in the past, a higher interest rate will have to be paid. The present repayment interest rate policy provides an interest rate on each year's new investment based upon the average yield on long-term Treasury bonds which are backed by the "full faith and credit" of the Federal Government. BPA revenue bonds, on the other hand, would be secured only by BPA revenue and consequently would warrant a higher interest rate.

The region is willing to pay a higher interest rate for money borrowed to construct transmission facilities in order to eliminate the uncertainty associated with the Federal appropriations process, to afford the region the opportunity and obligation to determine its own destiny, to stand more securely in its determination to be self-supporting without indirect interest rate subsidies, and to relieve the Federal budget of the burden of BPA appropriations. The region's power industry believes that a higher interest rate will purchase improved reliability by granting BPA the flexibility and capability needed to provide required high-voltage transmission facilities on a timely and reliable basis.

There is another offset to higher interest rates, too. With timely construction of transmission facilities, the region's power system will avoid lost revenues and the higher expenses of escalated construction costs that result from not keeping projects on schedule.

CONCLUSION

The non-Federal participants in the joint Pacific Northwest Hydro-Thermal Power Program have indicated their readiness to carry out the heavy share of the overall responsibilities they have agreed to assume. The close coordination required of the Federal Government to carry out its role under this cooperative program emphasizes the beneficial effect of the timely availability of funds that will be derived from BPA self-financing. Installation of additional Federal hydro capacity will still be required to be financed through the appropriations process. And the importance of keeping authorized hydro installations on schedule should not be lost sight of in the unified enthusiasm which the region expresses for BPA self-financing. But there is little doubt that the region's power industry and power consumers alike will breathe a sigh of relief when they know that development and operation of the important BPA transmission system and performance of the critical BPA power marketing function will go forward with a sense of assurance that is lacking without self-financing. It is this sense of assured long-term reliability in transmission that is so beneficial to the long-range success of the Hydro-Thermal Power Program.

Thank you for this opportunity to discuss the proposed Federal Columbia River Transmission System Act. I will be happy to answer any questions you may have.

Mr. HODEL. I want to summarize the background of the bill. Its origins are in the tradition of a number of other joint cooperative efforts out of the Pacific Northwest, such as the Canadian Treaty on the Columbia River; the Pacific Northwest-Southwest Intertie; Hanford New Production Reactor; and more recently the Hydro-Thermal Power Program.

Realizing that the Hydro-Thermal Power Program has confined within its limitations to its duration, the utilities in the region, which consist of 108 public and private utilities, and Bonneville industrial customers, were concerned. We and the utilities from adjacent areas got together and nearly 2 years ago began talking about how we would carry forward the principles of the Hydro-Thermal Power Program to assure that there would be an adequate power supply at a reasonable time and at a reasonable cost in the Pacific Northwest.

In the course of developing what is now called phase two of the hydro-thermal power program, for which the agreements in principle have been established, it was recognized that where we are asking investor-owned and large publicly-owned systems, and all of the smaller publicly-owned systems, in the Pacific Northwest to invest over the next 20 years approximately \$25 billion in facilities, and these would be generating facilities, subtransmission and distribution facilities, where they are being asked to make that kind of investment, it is imperative that a reliable transmission system be available. Financing a \$600 million or \$700 million nuclear plant without the assurance of the transmission capability when the plant is completed, can affect not only the quality of the money which is borrowed, the bonds which are issued to finance that plant, but certainly, of course, the power supply to the region.

So it was decided that where in the region the Federal Government had 80 percent of the high voltage capacity at the present time in the Bonneville system, it would be appropriate to assure that there was sufficient flexibility and reliability for us to be able to meet our obligations on that transmission system.

We had experience through the annual budget process of delays from budgetary problems, and we found ourselves in the Department of the Interior competing with human resource problems. And it is difficult for budget officers to allocate between a human resource program affecting the daily lives of people today in terms of their wellbeing and a long-range transmission construction program, which has perhaps not only power supply consequences, 5 or 10 years away, but also the economic benefits of the system are 5 or 10 years away.

Now the weighing of that process is difficult. So the objective that was set forth by the utilities in the region, both public and private, was for Bonneville to achieve, with the minimum possible change in the existing situation, a bill which would provide that kind of flexibility. The bill that is before the committee today is the result of well over 1½ years effort, almost 2 years, of hundreds of hours of meetings, numerous people getting together in that spirit of cooperation which has so often characterized the utilities in the region.

Now I don't intend to summarize the bill here verbally to the committee except there are a number of items I think merit some special emphasis. First of all, I am aware of amendments which have been agreed upon amongst the utilities who drafted the bill. They will be presented to the committee by Mr. Culp from the policy committee of the Pacific Northwest Utilities Conference Committee this morning.

As far as I can tell from examining those amendments, their only purpose is to further the intent of the bill and to clarify the bill and none of them present any problem to us.

The bill relates to the existing service area of Bonneville. It relates to the existing transmission system's functions. It is not intended to expand or alter those in any significant way. It does provide for the use of revenues and receipts by Bonneville in its annual operations and for the construction, maintenance, and replacement of its transmission system. It authorizes borrowing from Treasury the funds that are necessary for construction, acquisition, and replacement of transmission facilities.

All of this process is subject to the same controls or the same kinds of controls that now exist in our budget process.

We would still prepare our annual budget and we would submit it to the Department of the Interior for approval, and to the Office of Management and Budget for review and approval, and we would submit it to Congress pursuant to the Government Corporation Control Act. Upon completion of that review process, we would be permitted to borrow such funds as the bill authorizes, namely, those for construction, acquisition, and replacement of transmission facilities.

There are two items I would like to submit for the record which relate to the internal procedures that would be used by the executive branch in dealing with this legislation if it passes substantially in this form.

First is a set of correspondence between the Department of the Interior and the Office of Management and Budget relating to the budget procedures which we would follow. I would like to quote from the May 31 letter from Undersecretary Whitaker to Mr. Zarb—

Mr. JOHNSON. I might say at this point that we will place in the record the entire set of correspondence that you have offered to us.

[The correspondence between the Department of Interior and the Office of Management and Budget follows:]

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, D.C., June 4, 1974.

Hon. JOHN C. WHITAKER,
Under Secretary of Interior,
Washington, D.C.

DEAR JOHN: In a memorandum of March 29, 1974, the Office of Management and Budget recognized that regional interests in the Pacific Northwest are prepared to assume the higher costs associated with the form of financing in the Federal Columbia River Transmission System Act in exchange for the assurance that the Bonneville Power Administration (BPA) would be given the flexibility and capability to provide the transmission facilities required on a timely and reliable basis.

I have reviewed your letter of May 31, which seeks to clarify the budget procedures for the BPA under the proposed act. The letter accurately reflects the understanding reached between this Office and the Department of the Interior that a separate annual planning ceiling for BPA would be sent to the Department which will be adequate, to the greatest extent possible, to enable the BPA to meet its planning schedules. This procedure, which will provide necessary financial flexibility, assumes enactment of legislation substantially the same as the Administration bill recently introduced in the Congress.

Sincerely,

FRANK G. ZARB,
Associate Director.

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., May 31, 1974.

Mr. FRANK G. ZARB,
Associate Director,
Office of Management and Budget,
Washington, D.C.

DEAR MR. ZARB: Your memorandum of March 29 recognizes that regional interests in the Pacific Northwest are prepared to assume the higher costs associated with the financing represented by the proposed act in exchange for the flexibility and capability to provide in the Pacific Northwest the transmission facilities required on a timely and reliable basis. Based on further discussions between your staff and mine, our understanding of the procedures necessary to implement the bill are summarized below.

BPA will submit to the Department of Interior a budget consistent with the provisions and the purposes of the proposed act, which will be within the debt ceiling of the bonds BPA can have outstanding. We anticipate that in addition to the information BPA's budget now includes, the document will contain a program and financing schedule which derives the "net outlay" budget control figure, and a complete presentation of the status of the "Bonneville Power Administration Fund" as described in the proposed act.

After program and policy review within the Department, the budget will then be sent to OMB and will be sufficient to enable BPA to meet planning schedules. It is our understanding that a separate annual planning ceiling for BPA would be sent by OMB to the Department in order to provide necessary flexibility to BPA. To the greatest extent possible, the annual planning ceiling will be set at a level to enable BPA to meet its planning schedules. The Department will treat BPA's planning ceiling completely separate from other Department ceiling(s).

BPA's budget authority, which is to be derived from outstanding authority within the bond debt limit available, application of revenues, and other

funding derived from the authorities of the bill, will be on a multiyear basis in order to allow BPA necessary year to year program flexibility.

Ltr. to F. Zarb, OMB, Subj: New Budget Procedures for BPA Under the Proposed Federal Columbia River Transmission System Act.

The procedures set forth above assume enactment of legislation substantially the same as the Administration bill recently introduced in Congress (S. 3362 and H.R. 14168).

We anticipate that this letter and any response by you will become part of the legislative history in Senate and House hearings now scheduled for June 6 and 7 respectively.

Sincerely yours,

JOHN C. WHITAKER,
Under Secretary of the Interior.

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, D.C., March 29, 1974.

Memorandum for Under Secretary John C. Whitaker

From: Frank G. Zarb, Associate Director
Subject: Federal Columbia River Transmission System Act

The Department of the Interior has recently submitted to this Office for review a bill "to enable the Secretary of the Interior to provide for the operation, maintenance and continued construction of the Federal transmission system in the Pacific Northwest by use of the revenues of the Federal Columbia River Power System and the proceeds of revenue bonds, and for other purposes."

The bill authorizes the Bonneville Power Administration to finance its construction, operation, and maintenance activities through the sale of bonds and notes and the use of revenues. The Bonneville Power Administration would be allowed to sell its obligations to the Secretary of the Treasury, up to the limit of \$1.25 billion on outstanding debt, at an interest rate comparable to the prevailing private market rates for similar utility bonds.

The Office of Management and Budget recognizes that regional interests in the Pacific Northwest are prepared to assume the higher costs associated with this form of financing in exchange for the assurance that the Bonneville Power Administration would be given the flexibility and capability to provide the transmission facilities required on a timely and reliable basis.

The Office of Management and Budget understands its role in providing this flexibility and capability to be as follows. The annual planning ceiling for the Department of the Interior will indicate this Office's estimates of both budgetary and employment requirements for the Bonneville Power Administration. These estimates will be adequate, up to the ceiling on the bonds that may be outstanding, and subject to the overall demands placed on Federal budgetary resources, to enable the Administration to meet its planning schedules.

Please be advised that this understanding is based on enactment of legislation the same as or not substantially different from the proposed legislation which the Department transmits to the Congress.

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., March 27, 1974.

MR. FRANK G. ZARB,
Associate Director,
Office of Management and Budget,
Washington, D.C.

DEAR MR. ZARB: Donald Hodel has recommended, based on discussions between representatives of Interior, OMB and Treasury, that we agree to

Treasury's proposed modifications to the legislation we recently submitted for your review, subject to certain firm agreements to be reflected in a Memorandum of Understanding between OMB and Interior. The Memorandum of Understanding would recognize that the regional interests in the Pacific Northwest are prepared to assume the higher costs associated with this form of financing BPA's future construction of transmission facilities in exchange for assurance that BPA will have the flexibility and capability to provide the transmission facilities required within the region on a timely and reliable basis. Therefore, the basic understanding must recite that the budget planning allowance for BPA, including personnel ceilings, will be separate from the planning allowance for the Department of the Interior and will be adequate, up to the ceiling of the bonds BPA can have outstanding, to enable BPA to meet planning schedules.

The substance of the Memorandum of Understanding stated above is consistent with the expectations of the interests in the Pacific Northwest which will be relying upon BPA to provide the transmission facilities to move the generation from new thermal plants to their load centers. Absent such understanding, we cannot commit their continued support for the arrangement which has been proposed.

Sincerely yours,

JOHN C. WHITTAKER,
Under Secretary of the Interior.

Mr. JOHNSON. You may point up any pertinent points within the correspondence.

Mr. HOEL. Thank you, Mr. Chairman. I would quote this one portion of the letter simply to indicate the general scope and tone of the anticipated relationships regarding our budget process. This is in a letter from Interior to the Office of Management and Budget:

It is our understanding that a separate annual planning ceiling for BPA would be sent by OMB to the Department in order to provide necessary flexibility to BPA. To the greatest extent possible, the annual planning ceiling will be set at a level to enable BPA to meet its planning schedules. The Department will treat BPA's planning ceiling completely separate from other Department ceiling(s).

"BPA's budget authority",—and here I will delete intervening words—"[its] budget authority . . . will be on a multiyear basis in order to allow BPA necessary year to year program flexibility."

That highlights one of the understandings under this bill, which is that following approval, the budget process relating to a project which may take several years to construct, we would be permitted, subject to the annual budget review process I just described, to continue the borrowings as appropriate to continue the construction of that project on a reasonable schedule.

We feel that this is an appropriate and very excellent procedure which has been worked out.

The other item I would like to submit for the record, Mr. Chairman, is correspondence between the Department of the Interior and the Department of Treasury regarding the procedures which would be followed with regard to the borrowing and the maintenance of accounts with the Treasury.

Mr. JOHNSON. That that correspondence will be accepted for the record at this point unless I hear objection.

Do I hear any objection?

Hearing none, so ordered.

[The correspondence between the Department of the Treasury and the Department of the Interior follows:]

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C. June 5, 1974.

HON. JOHN K. CARLOCK,
Fiscal Assistant Secretary,
Department of the Treasury,
Washington, D.C.

DEAR MR. CARLOCK: For the purpose of supplementing the presentation to be made by the Department of the Interior to the Senate and House Committees on S. 3362 and H.R. 14168, we will appreciate your answers to the following questions regarding the manner in which this legislation, if enacted, will be implemented.

Question 1. What immediate actions are needed by Treasury on the effective date of the legislation?

Question 2. Will the Treasury invest and manage funds from PBA revenues which are temporarily surplus to BPA's cash needs?

Question 3. Will unexpended appropriated funds in the Bonneville Power Administration Fund be available for investment by BPA?

Question 4. What forms of securities would BPA issue to Treasury under the provisions of the Act?

Question 5. What are the maturities that Treasury anticipates for long-term bonds to be issued?

Question 6. How would Treasury determine the interest rate for the proposed bonds?

Question 7. How is the interest expense on the short-term Treasury advance computed?

Question 8. Is there any specific requirement as to when interest is payable on notes and bonds to Treasury?

Question 9. Does Treasury require a separate bond indenture or bond resolution to support particular or overall bond issues?

Question 10. If refunding provisions are included in the terms of bonds issued, will the interest rate payable on such bonds be higher than that applicable to nonrefundable bonds?

Question 11. Will Treasury require a change in audit emphasis by GAO?

Question 12. Will Bonneville be able to allow interest credits to depositors of unexpected trust funds which are in the Bonneville Power Administration Fund?

Question 13. When the appropriated funds carried in BPA appropriation account 14x0826 are transferred to the Revolving Fund established by the legislation (possibly account 14x4326) will Treasury consider this an expenditure of appropriated funds, and that the funds are now corporate funds?

Sincerely yours,

W. W. LYONS,
Deputy Under Secretary of the Interior.

THE DEPARTMENT OF THE TREASURY,
Washington, D.C., June 5, 1974.

HON. WILLIAM W. LYONS,
Deputy Under Secretary,
U. S. Department of the Interior,
Washington, D.C.

DEAR MR. LYONS: In response to your letter of June 5, there is attached our answers to your questions concerning borrowings and investments by the Bonneville Power Administration under the provisions of proposed legislation H.R. 14168 and S. 3362.

I understand our response is to be used in your hearings with Congress on the above bills.

Sincerely yours,

JOHN K. CARLOCK.

Attachment.

BONNEVILLE POWER ADMINISTRATION—QUESTIONS AND TREASURY RESPONSES
(Relating to H.R. 14168 and S. 3362)

1. *Question.* What immediate actions are needed by Treasury on the effective date of the legislation?

Answer. The Treasury will furnish the symbol for the "Bonneville Power Administration Fund" established in section 11(a) of the legislation and begin promptly to credit all revenues of BPA to that fund. The symbol assigned will identify the fund as a Revolving Fund. Immediate steps will also be taken to establish a procedure for advancing funds on short-term notes as discussed below. Also, discussions should be held as early as possible on the technique and mechanics for investing for income the corporate funds which are temporarily surplus to BPA's cash needs.

2. *Question.* Will the Treasury invest and manage funds from BPA revenues which are temporarily surplus to BPA's cash needs?

Answer. The Treasury will invest such funds in accordance with instructions of BPA. Treasury will also advise BPA of the various Government securities available for investment. However, BPA will be responsible for the day-to-day management of such funds and the selection of the appropriate investment to meet its needs.

3. *Question.* Will unexpended appropriated funds in the Bonneville Power Administration Fund be available for investment by BPA?

Answer. No, unexpended appropriated funds as a matter of Treasury policy are not available to BPA until actually expended.

4. *Question.* What form of securities would BPA issue to Treasury under the provisions of the Act?

Answer. The Treasury will be flexible in the form and provisions of the securities issued and will consider any appropriate evidence of indebtedness. Longterm bonds in either serial or term form as currently sold on the commercial market would be contemplated for permanent funding of the capital investment. Shorter term securities would be appropriate during the construction period of specific facilities. Advances for working capital and construction funds by means of note issues would be appropriate for temporary funding purposes.

5. *Question.* What are the maturities that Treasury anticipates for long-term bonds to be issued?

Answer. The act provides that the Treasury shall take into account the terms and conditions prevailing in the market for similar bonds, the useful life for the facilities for which the bonds are issued, and the financing practices of the utility industry. It is our understanding, from BPA, that long-term bonds would be issued for a term which reflects the useful life of the facilities financed (BPA is currently using an estimated life of 40 years for its transmission facilities). Use of levelized debt service by issuance of serial bonds which mature annually during the life of facilities financed or term bonds maturing at the end of the anticipated facility life with the concurrent repayment through a sinking fund to refund bonds at or prior to maturity would be acceptable.

6. *Question.* How would Treasury determine the interest rate for the proposed bonds?

Answer. The interest rate for both long and short-term borrowing will be determined by analyzing the current market yield of Treasury securities of comparable maturities and adding an additional interest increment to bring the total interest rate to a rate comparable to the rates prevailing in the market for similar securities. We anticipate that Bonneville's bonds will be comparable to prime investor-owned utility bonds. Therefore, at present, these comparable securities would be used to determine BPA's total interest rate.

7. *Question.* How is the interest expense on the short-term Treasury advance computed?

Answer. The amount of the daily cash drawdown of the advance is the proper base for the interest calculation and is determined by subtracting the cash balance in the Bonneville Power Administration Fund from the amount of the advance. However, it is recognized that since BPA does not have authority to disburse its own funds, precise daily cash balances are therefore difficult to determine by BPA. There is a lag between the dates of submittal of the Schedules of Disbursement by BPA and the payment by the Treasury Disbursing Office in San Francisco, but this lag can be averaged based on experience. BPA would be allowed to use the average lag in its determinations of daily cash balances. Receipt funds will be no problem since they are received and deposited in the Federal Reserve Bank in Portland by BPA daily. Interest rates applicable to net disbursements are established each month by the Secretary of the Treasury on a formula which reflects the cost of short-term financing.

8. *Question.* Is there any specific requirement as to when interest is payable on notes and bonds to Treasury?

Answer. No, only that interest is payable at least once each year. Bonneville in the notes or bonds may elect to pay interest monthly, quarterly, semi-annually or annually, provided that the effective yield is the equivalent of payment on a semiannual basis.

9. *Question.* Does Treasury require a separate bond indenture or bond resolution to support particular or overall bond issues?

Answer. No, the form of bond on note issued will contain the basic terms of the issue. The statutory requirements as to payment of obligations will be sufficient without further covenants.

10. *Question.* If refunding provisions are included in the terms of bonds issued, will the interest rate payable on such bonds be higher than that applicable to nonrefundable bonds?

Answer. Yes, if such refunding provisions demand a premium on the commercial market at the time of issue. If not, no increase would apply.

11. *Question.* Will Treasury require a change in audit emphasis by GAO?

Answer. No. The new procedures required by the legislation will, of course, be included in the GAO audit programs, but there need be no particular change in emphasis from the present commercial-type audit. The GAO certification as to the adequacy of the financial statements will satisfy Treasury's needs in these areas.

12. *Question.* Will Bonneville be able to allow interest credits to depositors of unexpended trust funds which are in the Bonneville Power Administration Fund?

Answer. To the extent that trust deposits earn interest income or serve to reduce interest expense on the short-term Treasury advances, it may be appropriate to pass an interest credit along to the entity for whom the trust deposit is held.

13. *Question.* When the appropriated funds carried in BPA appropriation account 14x0326 are transferred to the Revolving Fund established by the legislation (possibly account 14x4326) will Treasury consider this an expenditure of appropriated funds, and that the funds are now corporate funds?

Answer. No. The funds must continue to be recognized as appropriated funds until expended for the purposes for which appropriated, and they are not available for corporate purposes such as investing them for income.

Mr. JOHNSON. You may summarize and give us highlights of that correspondence.

Mr. HODEL. Mr. Chairman, I think with your permission I will let those documents speak for themselves.

Mr. JOHNSON. Fine.

Mr. HODEL. They are essentially related to the details of the operation. I would just again like to make two further points.

First, it is not our intention by this bill to change the existing relationships. We do have a unique relationship; we, Bonneville, and the utilities in the region, amongst ourselves. It has resulted, I be-

lieve, in the best possible combination of an excellent transmission system, generation system, and low cost power with the least possible environmental impact in the Pacific Northwest. It has been of benefit to all of us and no one I know of within that region would suggest that any bill should be pushed or supported which would disrupt that relationship.

We presently have many wheeling arrangements with utilities adjacent to or within our service area, and we have found them to be on a satisfactory basis. We would expect to continue those kinds of relationships in the future. The policies which have led to those arrangements, we think, are still available to us pursuant to this bill.

My concluding remark would be that it would be remiss for me not to compliment all of the people who have participated in this process. It has taken a great deal of patience, as I have indicated, and many, many hours. The utilities in the Pacific Northwest and from the adjacent states I believe have carried themselves forward in this process in the most statesmanlike possible fashion.

I am aware that there are some reservations regarding the bill from adjacent utilities to our service area or within it, but even where those differences occur they have been in a cordial atmosphere and one where we are all attempting to solve what is the fundamental problem for every electric utility in this country—and this is a reliable power supply for the citizens, which they are going to demand.

It is my hope that any differences can be resolved and that within a reasonable period of time we will be able to carry out our responsibilities under this legislation.

Thank you very much.

Mr. JOHNSON. Do any of the other gentlemen with you want to make any comments at this time?

I want to say that you have offered an awful lot of material here for the record. We will have to do a careful job of reading the whole record to get a good feel for it.

You people in the Northwest, and your Congressmen and Senators of the Northwest, have followed this project from the start. You have effected a very fine meeting of the minds amongst the private and public utilities and the government, and you certainly and we certainly want to see that continued.

You mentioned the Canadian power. I presume that has been very helpful too? Would you explain that a little further? You mentioned that you are concerned and gave a recommendation that that continue. Just what does that amount to in our system at the present time? How do you receive it from the Canadians and what happens to it?

Mr. HODEL. I would like to ask Mr. Goldhammer, who is our Power Manager, to respond to that question.

Mr. GOLDHAMMER. Mr. Chairman, the treaty with Canada provided for the construction in Canada of storage reservoirs amounting to 15 million acre-feet. They built three dams, Duncan, Arrow Lakes and the most recent and largest one at Mica. The treaty also provided for flowage rights of Libby Dam into Canada.

The water that is available for power generation, the 15 million acre-feet, is released in accordance with joint arrangements between

the United States and British Columbia Hydro. These releases for power purposes are made at times when they can be utilized downstream.

As a part of the treaty, half the power that results from the improvement of stream flows, is returned to Canada. The other half accrues in the United States. The half that has been assigned to Canada has been sold in the United States for a period of 30 years, for a lump sum, to what is known as the Columbia Storage Power Exchange. This is a nonprofit corporation set up by groups in the Northwest.

That power in turn, as part of the energy arrangements on the Pacific Northwest—Southwest intertie, was sold in California until April 1 of 1975. Some quantity of it will be sold to the State of California through 1982.

The quantity of power involved just from the upstream storages in Canada is a little over 2 million kilowatts, about 2,400,000 kilowatts. Another 700,000 kilowatts are at site and downstream from Libby Dam. It is a considerable amount of additional storage for the Northwest.

Mr. JOHNSON. Well then at the present time Canada is selling most of that power?

Mr. GOLDHAMMER. That is right. It has been sold for 30 years. However, Canada will get some power benefits from it also because they are now in the process of installing generators at Mica Dam. Although that dam has 7 million acre-feet of storage which will be used for downstream generation, they have 8 million acre-feet of storage which will be dead storage there and another 5 million acre-feet of storage can be established in addition.

So this will be a very large project in Canada when the generators are installed. Ultimate plans for this dam call for generation in excess of 2 million kilowatts.

Mr. JOHNSON. With this new generation then, new facilities and generation in Canada, would that also be available for sale in the United States?

Mr. GOLDHAMMER. The generators that are being installed at Mica will be needed to meet the loads in Canada. However, we will be starting discussions probably sometime later this summer on the additional 5 million acre-feet that can be established and of course there will be downstream benefits from the 5 million acre-feet. The question is: how is the water going to be stored and how is the power going to be handled. This is something that is going to have to be negotiated and determined later.

Mr. MALLORY. Mr. Chairman, if I might add something to that?

Mr. JOHNSON. Yes, sure.

Mr. MALLORY. In my statement, and I didn't summarize it, but in addition to these contractual agreements on power, in the last 6 months alone surplus power in the equivalent of approximately 10 million barrels of scarce low sulphur fuel oil has been exported from the Pacific Northwest to the Pacific Southwest, principally California, in the form of the surplus hydro power that has been sold from this system to displace the use of this fuel in thermal power plants in California. I think that this is a very important

benefit of the system that you all worked so hard to bring to this country.

Mr. JOHNSON. Yes, we were very fortunate to have this enthusiasm. Yes, that was funded pretty well.

They didn't have the problems that you are relating now. At that time the money flowed in and we were able to effect the portion of the intertie. We could have stood more money to effect additional lines but that didn't happen.

But certainly we don't want to do anything that would upset the apple cart. I mean we want to keep that available and working.

God willing, we will have enough water fall in Canada and the States of Washington and Oregon and elsewhere in the Northwest up there that we can have a good year every year.

Now, you indicated, Mr. Hodel, that you would like to have more lead time for planning these construction projects that have to go forward and certainly you want leeway with the financing. That is your main purpose for having this bill. If you go into these projects you want to have the ability to construct them with the least amount of time and the least amount of cost, especially with all of this inflation that has taken place. I can certainly agree with you there because, watching the construction programs in the Corps of Engineers and the Bureau of Reclamation, it is piecemeal financing and isn't any good. I can see from your huge fund requirements for investments in various facilities, that you need some enabling legislation to allow you to carry out more of these beneficial programs. Having need to provide these facilities and have them on time and in the right place, they must be financed adequately to the money to do this you need this legislation?

Mr. HODEL. In that regard, Mr. Chairman, I should perhaps say that Bonneville does repay all of the Federal investment that is made in, not only our transmission system but in the Federal Columbia River Power System which includes the dams constructed by the Corps of Engineers and the Bureau of Reclamation together with some irrigation payments for that portion of irrigation projects which cannot be borne by the users of the project.

We have maintained a good pay out schedule. One of the arguments we have usually attempted when we are having budgetary problems, we usually say: Well, after all we do pay ourselves back.

One of the arguments has been, however, we're competing for dollars in a limited market of dollars. And if we are as we say we are a self-sustaining program, we ought to be on a self-financing basis.

And that is the kernel of the idea that has been incorporated by the utilities of the region in this proposal where we would borrow the funds, as distinguished from having them appropriated. We leave the balance of the process essentially the same.

Mr. JOHNSON. Well, I can appreciate what you are confronted with at the present time in trying to find a spot on the list of priority items of who get what. I know how thin we are spread as far as dollars are concerned. The gentleman from Washington, Mr. Meeds.

Mr. MEEDS. Thank you very much, Mr. Chairman. First I would like to commend the Secretary and the Administrator, Mr. Hodel,

for their testimony. Secondly I would like in their own words a summary of what will happen if this legislation is not passed.

Mr. MALLORY. Why don't you go ahead?

Mr. HODEL. Mr. Mallory suggested that I hazard an answer to that question. Without this legislation the present process will continue in the region which means that we will attempt to carry out our program in connection with phase two of the hydro-thermal program through appropriations just as we would attempt to carry it out pursuant to this legislation.

One of the concerns that we have all had was that under the continuation of the existing process it may be difficult to provide the assurances to these people building the thermal plants that our transmission will be available in a timely fashion. That is essentially our concern.

This year we have found it necessary to curtail the construction of one project for the lack of funds as a result of escalation in costs. We originally anticipated the project would cost \$76 million. The current estimate is \$83 million. We are delaying the project for another year in its total construction span which will be about a 5-year period, and by the time it is completed it will probably, at the present rate of escalation of cost, it may well be over \$100 million and a year or two late. This results, of course, in reduced reliability in the Puget Sound area below what we feel is appropriate.

So we would be faced, without this legislation, with a continuation of that kind of problem, which is felt by us and by the utilities not to be desirable where you have a coordinated program in the region.

Mr. MEEDS. Are you on the schedule now that you projected 5 years ago for construction of facilities and transmission facilities?

Mr. HODEL. No, Congressman. The schedule that was set forth in the original hydrothermal power program in 1969, with regard to virtually all of the hydroelectric projects, has been delayed anywhere from 1 to 5 years. As a result of it, the transmission projections have all been delayed in accordance with that generating schedule.

Mr. MEEDS. What was the cause of that delay?

Mr. HODEL. A number of factors. Take the Grand Coulee Third Powerhouse for example. Our problems there have been largely construction problems; the kinds of delays one encounters in construction projects, like strike delays, the unloading of ships in Vancouver, British Columbia of some of the equipment for the projects, for example. The bulk of the slippages have been construction slippages.

Mr. MEEDS. Do you have any idea of the undelivered kilowatts caused by that slippage? Could you give us just a kind of horseback guess?

Mr. HODEL. I would defer for the horseback guess to Mr. Goldhammer.

Mr. MEEDS. Go ahead and ride this one.

Mr. GOLDHAMMER. Congressman, it will be a very horseback guess but just to take some of the delays like the delay that we had—

Mr. MEEDS. Well, enumerate them for us.

Mr. GOLDHAMMER. Well, let's go through the hydro projects first.

Mr. MEEDS. Right.

Mr. GOLDHAMMER. The units at Grand Coulee—the third powerhouse, the first units were to be in service in 1973. They will now be in 1975. These first three units comprise nearly 2 million kilowatts well, it is mostly peaking capacity. The average firm power out of those units is about 115 average megawatts.

Lower Granite was scheduled for construction in 1973. It will be in operation in 1975. That comprises 405,000 kilowatts.

Libby Dam, the storage is available currently but the generators that were originally scheduled for 1971, later in 1973 and now won't be in until 1975.

Mr. MEEDS. So there was a delay from 1971 until 1975?

Mr. GOLDHAMMER. Until 1975. These were projects that were all under construction but as Mr. Hodel mentioned, the Grand Coulee was delayed largely on technical problems that arose. They had adequate funding.

Lower Granite and Libby were delayed because of budgetary considerations.

Then if we look at the thermal projects, this year the Trojan nuclear plant is being built by Portland General Electric and with participation by 20 publicly owned and cooperative systems and one other investor owned utility. It was scheduled for operation in 1974. It is now scheduled for 1975.

Mr. MEEDS. How much does that provide?

Mr. GOLDHAMMER. That is 1,200,000 kilowatts.

The Centralia coal fired plant, which is owned by four investor-owned utilities and four publicly owned systems, came in on schedule in 1971 but hasn't been able to operate at full capacity because of the problems relating to air quality control. There was a loss there of about 700 megawatts.

I might state it this way. Last year we had a drought condition. We had a conservation program. We cut off a considerable amount of industrial load. If the plants that were scheduled for operation had been in service we wouldn't have had to curtail any load.

Mr. MALLORY. Mr. Meeds, if I might add something to that? I do feel constrained to point out that this bill does not relate to the financing of the hydro additions that the Federal Government built.

Mr. MEEDS. I understand that.

Mr. MALLORY. But is limited to the transmission by Bonneville—

Mr. MEEDS. Oh, that would be my next question. In terms of transmission, what losses have occurred?

Mr. GOLDHAMMER. Well, Mr. Hodel just mentioned the delays from Grand Coulee to Seattle. This means that when the Grand Coulee units are in operation in 1975 there will not be a reliable transmission system to take that power to the load centers in the Puget Sound area. It means that if there are outages on the line, we will have less reliable service and two large industries in the Puget Sound area, the Intalco aluminum plant at Bellingham and the Kaiser aluminum plant at Tacoma will have to be curtailed.

I might mention we had this situation arise in the past. But delays in transmission lines are usually a matter of reduced reliability. If there is an outage on the line, we can't carry all the load.

In the past we had situations, and I think Mr. Harris of the Aluminum Co. of America will point out, due to inadequate transmission there have been numerous times when the aluminum plants, for example, have been curtailed. I think the most severe situations happened to the Intalco Co.—

Mr. MEEDS. And that happens to be in my congressional district.

Mr. GOLDHAMMER. That was due to a cross-mountain—

Mr. MEEDS. There was a slippage because of finance there?

Mr. GOLDHAMMER. Yes, this was due to slippages for budgetary reasons and also due to some problems we had of a technical nature on some of the transformers. I might mention our outages would be very much greater, in answer to a question the chairman was asking in relation to Canada, but frequently we were able to avoid that because we got some power from British Columbia Hydro.

Mr. MEEDS. Is there reason to believe that plans not only for increased generation but transmission will be curtailed in the future because of a failure of the budgetary process to provide adequate funds?

Mr. GOLDHAMMER. Yes, sir. I think that one of the most severe problems we face in the budgetary process, the budgetary appropriation process, is the problem of inflation. Let's take for example the budget which we are operating under currently. The data was prepared as of 1972. The costs are July 1, 1972, costs. Our construction budget for this year is about \$98 million. Well, we get to the point in 1974 where we are constructing these facilities and we find that we are \$9 million short simply because of the cost increases. We find that in our proposed budget that we have before Congress, which has costs as of 1973, well, we are about \$11 million short out of a budget of \$114 million simply because of inflation.

Mr. MEEDS. And isn't it also reasonable to speculate with the passage of this legislation and the ability to sell bonds, that there will not be that question of financing?

Mr. GOLDHAMMER. No, the Government Corporation Control Act permits you to include in your estimates contingencies and escalation in costs so that if we run short we would borrow additional funds. We wouldn't have to delay lines as Mr. Hodel mentioned, such as the Grand Coulee-River line.

Mr. MEEDS. Is there any reason to believe that on the failure of passage of this legislation, and we projected \$31 billion of investment over the next 20 years, we will have to curtail that?

Mr. HODEL. Congressman, I could only speculate on that and it would probably not be very good speculation at this time. I think the fact that the utilities in the region who have dealt with this problem are faced with that kind of financing obligation, the fact that they support this legislation as clearly preferable to the alternative of continuing under the present process suggests they at least feel there are benefits to the region.

I would assume that would be one of the benefits; that it would provide greater certainty of the financing.

Mr. MEEDS. Of that \$30 billion of investment, 80 percent is private?

Mr. HODEL. Yes, sir, that is correct. At the present time the ratio of investment in the region is roughly 35 to 36 percent of the invest-

ment in the electric system has been Federal. Under this approach that drops on a percentage basis. It still is an increasing system, but proportionately less on a percentage basis.

Mr. MEEDS. On the basis of 20 percent investment by the Federal Government, what in percentage terms of that would be utilized for transmission facilities?

Mr. HODEL. Approximately one-half of the 20 percent. That is the anticipated cost of the completion of the hydro system and the attendant transmission system for the generation we are talking about in the region over the next 20 years. Well, that would be \$6 billion out of the \$31 billion plus total regional investment in this area and approximately one half of that would be for transmission.

Mr. MEEDS. So we are talking about approximately \$3 billion worth of transmission facilities?

Mr. HODEL. Yes, sir.

Mr. MEEDS. What was the appropriation or what was utilized by Bonneville in the last 5 years for your transmission facilities? Could you give us some explanation?

Mr. HODEL. Yes, it would be in the neighborhood of \$500 million. Roughly \$100 million a year for construction plus additional amounts also for operation and maintenance which is in each budget.

Mr. MEEDS. So even if we continued to operate at the present level, we would have appropriated only about two thirds of what you would need in that projected time?

Mr. HODEL. Yes, sir. Our appropriation forecasted for the next several years indicates sharply increasing requirements for appropriated dollars over our past history.

Mr. MEEDS. Now in the event that the Congress continues to operate at present levels and your projections were required to be carried out, say the \$31 billion or the approximately \$25 billion was actually invested by private companies, by private and public companies, in generating capacity. How will this power be transmitted? How would it be done if we can't do it this way? And assuming it is done, what will happen? Will it require duplicating transmission facilities? Would it require more environmental impact statements? Would it require more transmission facilities across the landscape in the Pacific Northwest?

Mr. HODEL. All of those effects could result from the failure of the presently existing system to develop in an orderly fashion. And it becomes incumbent upon the builders of plants to attempt to seek right's-of-way or find places to build transmission lines with regard to a single plant as distinguished from a system approach. Again this is a consideration. This is a consideration in the whole hydro-thermal power program which have guided the region for the last 5 years, and that is the recognition on the part of the technical people in the federal system, in the public agencies, in the private utilities, that it makes much greater sense when you have an existing facility, to upgrade that line, for instance, or to build it with sufficient capacity to carry future generation that you anticipate will be built in the area rather than building just enough capacity for a single plant and then building an adjacent line and then another and another and another.

Our policy has been to avoid taking additional right-of-way wherever possible in upgrading lines.

Mr. MEEDS. So the chances are that upon failure of this legislation and failure of the Congress to appropriate additional funds, one of two things will result: either needed power will not be made available in the Pacific Northwest, or if it is available, it will be made available at an additional cost to private and public utilities and an additional cost to the environment?

Mr. HODEL. I believe that is accurate, yes.

Mr. MEEDS. One of those two results? Very well, thank you.

Mr. JOHNSON. Would the gentleman yield?

Mr. MEEDS. Delighted to yield.

Mr. JOHNSON. How were you treated in the budget that was accepted yesterday on the part of the House as it related to Bonneville Power Administration transmission?

Mr. HODEL. The House was very kind to us, Mr. Chairman, and supported the budget that we had submitted to them. As Mr. Goldhammer indicated that budget, which was prepared based on cost levels as of July 1, 1973, we now anticipate, is approximately \$20 million short of what is necessary to carry out the program that the House approved yesterday.

Mr. JOHNSON. The gentleman from California, Mr. Clausen.

Mr. CLAUSEN. Well, I want to join the others in complimenting you for not only your oral testimony but the very detailed testimony that you presented which will be extremely helpful for the record and provide those who were not able to be here with the kind of detailed information necessary for them to pass judgment on this as the committee gives further consideration to it.

In the legislation itself it deals with the question of paying the interest on premiums, discounts and expenses, if any, in connection with the issuance of and principle of all bonds issued under section 13(a) of this act. This is on page 10 of the bill itself, line 15, "including provision for and maintenance of reserve and other funds established in connection therewith" and so on and so on.

Now, as I am sure you are aware there has been some discussion and in certain cases possibly criticism of the fact that maybe the rate structure is affected as the result of significant reserves being carried forward.

Now how large is the reserve that we are referring to in this legislation? How is it determined and do you have any specific limitation on reserve?

Mr. HODEL. Mr. Clausen, my understanding is that this provision relates to the bonding approach and I would like to ask Mr. Ratcliffe, who is our solicitor, to comment on that provision.

Mr. RATCLIFFE. I don't believe that any limits have as yet been established. One of the matters that Mr. Hodel submitted for the record was an exchange of correspondence with the Treasury Department, where it was pointed out that we had endeavored to resolve certain problems and relationships as between the Interior and Treasury Departments. This question of reserves has not been resolved. There is not a limit as yet imposed; simply none in the bill.

I think the idea there was that whatever reserves the Treasury would require to make this a viable security would be the reserves that would be established.

Mr. CLAUSEN. I see. In other words, it will be something that will be worked out in consultation with and negotiated with the Treasury Department?

Mr. RATCLIFFE. That is correct.

Mr. CLAUSEN. It may be necessary for us to have more information that you obviously cannot supply now. How long do you believe that that would take?

Mr. RATCLIFFE. I should think we could get that information very rapidly for you.

Mr. CLAUSEN. It might be helpful if we had that information and could put it in the record, so, Mr. Chairman, I would ask unanimous consent that they be permitted to respond further to the question that I have asked at this point in the record.

Mr. RATCLIFFE. If I could add—

Mr. JOHNSON. You heard the request of the gentleman from California. Any objection?

Hearing none, so ordered.

You will prepare the information requested after consulting with other officials. We will place it in the record at this point.

[The information follows:]

Section 11(b) (8) of H.R. 14168 authorizes the use of the Bonneville Power Administration Fund for the purpose of: "paying the interest on, premiums, discounts, and expenses if any, in connection with the issuance of, and principal of all bonds issued under section 13(a) of this Act, including provision for any maintenance of reserve and other funds established in connection therewith;"

The same reserve fund referred to in the subsection quoted above is also referred to in Section 9 of H.R. 14168 with reference to the setting of rates and charges by the Administrator.

The purpose for which the reserve funds referred to in the foregoing sections are to be established is directly related to the payment of debt service on the bonds to be issued by the Administrator pursuant to Section 13(a) of the bill. Normal and prudent cash management by the Administrator requires the establishment of a reserve account to enable him to meet in a timely manner the debt service payments provided in the security document issued to the Secretary of the Treasury. In the open market, a typical bond indenture would require that a reserve account be maintained in an amount equal to the debt service requirement over a period of six months to one year.

We have been advised by officials of the Treasury Department that because of Bonneville Power Administration's status as a Federal agency, it is not presently contemplated that any particular level of reserve account will be required. However, the Treasury Department does recognize that prudent business practice would require the establishment of a reserve account in a reasonable sum to assure the timely payment of debt service on the Administrator's bonds.

Mr. RATCLIFFE. If I could add one further comment on that? I would believe that the reserves that the Treasury Department would require would be considerably less than the reserves which would have been required had we been going to open market with bonds and I would imagine that what Treasury anticipates doing with the securities, whether they intend to hold them or whether they intend to resell them, would have some impact on what the reserves would be.

Mr. CLAUSEN. If I understand your answer, then, it is basically a reserve established to meet financing, I mean, sound financing requirements for bonding purposes?

That is to say it is not an operating reserve?

Mr. RATCLIFFE. Oh, no, not at all.

Mr. CLAUSEN. And you are not maintaining any kind of a reserve that would be subject to criticism other than meeting the financing requirements for bonding purposes?

Mr. RATCLIFFE. That is right, only the reserve for financing purposes.

Mr. JOHNSON. The gentleman from Washington, Mr. Foley.

Mr. FOLEY. No questions.

Mr. JOHNSON. The gentleman from Oregon.

Mr. DELLENBACK. Thank you, Mr. Chairman. I am particularly glad to have Mr. Hodel here. I notice that while he has occupied the position that he has occupied for a matter of 1½ years or so and before that was the Deputy Administrator, this is the first time I believe that he has appeared before this committee or this subcommittee. And as a man whom I have known for more years than he served in this position, and with whom I have a very high regard, I am delighted to see you here now. You have done well and been very helpful to us.

But in addition to the very helpful statement that has been presented or the statements rather that have been presented to us, and while the prior questioning was going on, I have read your statement, Mr. Hodel, and find it very valuable in building a full background for us, and I think the colloquys that have taken place have been helpful, but there would be a couple of things that I think ought to be on the record that I would like to ask you about so that we can be sure that our members of the Subcommittee know that the record spells them out.

And to break them down for just a minute, I recognize that to a degree some of this is going to overlap what has gone on before, but to put it in order for me, at least, would you answer a few questions? I read the basic problem as being that on the one hand, while you are—and “you” meaning BPA—a key part of a very complex interdependent regional power system, with the Government being part of something that is largely nongovernmental, and as such you are involved in trying to operate it as efficiently and effectively and with as much reach into the future as possible, but at the same time you are only one of a series of supplicants or applicants for Federal money. And as the operator of a business enterprise you might be very desirous of spending funds because in the long run they will prove more efficient if spent and of doing a great many things in cooperation with the other members of the joint partnership operation, but because of the competition for Federal dollars through the appropriations process you may not be able to get those dollars?

Is this a fair spelling out of the really basic underlying problem?

Mr. HODEL. I think you summarized it very well and that situation then necessarily raises concern on the part of all of the people with whom we have contractual arrangements as to just how well or in what kind of a timely fashion we will meet our obligations.

Mr. DELLENBACK. And since to such a very substantial degree the transmission of the power, however generated, is in the hands of BPA, we are going to find that in this growth that you have outlined for Phase Two, largely financed by non-Federal dollars, those who are expecting to put up the non-Federal dollars are going to be reluctant to do that unless they are sure that the load on BPA of doing the transmission construction and planning and implementing is adequately carried out. Is that a fair representation?

Mr. HODEL. I think that is a fair representation of the situation, yes.

Mr. DELLENBACK. So it becomes extremely important that BPA would be able to go forward, be able to go forward on a long-range basis instead of a year-to-year basis looking to the appropriation process to yield the dollars, which cannot be soundly planned for on a year to year basis?

Mr. HODEL. That is correct. Each year now we do have to obtain a new appropriation for the continuation and construction of a project and the process has been responsive to these needs, but there is no way today to provide the assurances to our counterparts that we will always be able to have a responsive reaction on the part of the budgetary process.

Mr. DELLENBACK. And I noted in your colloquy with my colleague from Washington, Mr. Meeds, that you talked in term of very substantial amounts of money. You are talking in terms not of—and I can't, coming from Oregon, I can't say "only \$1 million in the same sentence" because there is no such thing as only one million dollars, but you are not talking in terms of millions, but you are talking in terms of billions?

Mr. HODEL. Over time, billions, over 20 years.

Mr. DELLENBACK. Over a long time?

Mr. HODEL. Yes.

Mr. DELLENBACK. And it is the umbrella type need that those long-range investments be made and what you are really doing is coming to us with the projection that the Federal Government change a procedure in order to give the assurances to the non-Federal branch of this joint operation that will lead them to make the investment of the billions of non-Federal dollars that are necessary to make the program work?

Mr. HODEL. Mr. Dellenback, the utilities in the region are highly responsible organizations. The people who lead them are fully aware of the tremendous responsibility they bear to provide power to the people of the Pacific Northwest.

What we are saying here is, as you have very well summarized it, we need to be able to assure them that when we undertake a project and it has been approved through the process we have discussed that we will carry it through to completion in accordance with a regional schedule and that is essentially what this we feel presents.

Mr. DELLENBACK. And I won't go over again your colloquy with Mr. Meeds where you and he brought out some of the things that will follow if this kind of a program is not gone forward with, which are likely to follow, I mean.

May I ask then for a simple coverage of it so that we may all understand it, exactly how this fund would work? I gather from the provisions of the bill which we have introduced and which you have testified on that there would be created a fund in the Treasury and into it would go all of the receipts and collections and recoveries of the Administrator and cash from all sources and, secondly, all proceeds from the sale of bonds and thirdly any appropriations made and fourthly certain carryover monies, meaning monies in special accounts, monies in balances of various funds.

This is what would make up the fund. Is that correct?

Mr. HODEL. Yes, sir.

Mr. DELLENBACK. And from those funds you would be able to make expenditures which are outlined in section 11 of H.R. 14168 and they are spelled out on pages 9 and 10 and 11. Essentially those are not expenditures to create generating facilities; those are expenditures to take care of transmission facilities and operations?

Mr. HODEL. Solely. It does not include generation. We do not now have responsibility for generation construction programs, although we do fund them by the sale of power from them.

It is not Bonneville's role though. We only market the power from those projects. We do not construct those projects. And this bill does not change that relationship.

Mr. DELLENBACK. So whereas the need calls for the construction of extensive generating capacity, we're not here dealing with the Federal share of that generating capacity and the funds that would be necessary for that construction?

Mr. HODEL. You are correct. We are not.

Mr. DELLENBACK. We are here dealing only with the transmission?

Mr. HODEL. Yes, sir.

Mr. DELLENBACK. Would you in your own words tell us simply without going through all of the complexities, how you would deal with the budgetary process, the appropriation process, and how that would mesh with this fund we have just been talking about?

Mr. HODEL. Under the bill if it passed?

Mr. DELLENBACK. Under the bill if passed, correct.

Mr. HODEL. All right. The present process on our budget would be followed in, I would say, in identical fashion to what it now is.

Mr. DELLENBACK. Which means you would go through the process of preparing your own rough draft, submitting it up through the Department, and then on to OMB, correct?

Mr. HODEL. Correct. And when we reach an approved budget, it becomes a part of the President's budget message which is presented to Congress. Then comes a difference in the procedure that whereas now we go through the appropriation process and our funds are dependent upon passage of the appropriation bill. Under H.R. 14168 and the Government Corporation Control Act there is provision for review by Congress of those budgets which still gives and permits to the committees the authority to make limitations or reject projects that are not viewed as appropriate or such other indications, I gather, as they choose to make.

Mr. DELLENBACK. So does the bill that is before you propose to take out for review and control any of the expenditures?

First, within the departments as you outline you would go through the budgetary process and secondly having once arrived at that budget you would not have any power to move ahead without first submitting to the Congress and then the Congress can overview and change and modify and restrict and control.

If we of the Congress with that budget before us though do not do those particular things, then without our acting affirmatively to appropriate you would be able to go forward and make these particular expenditures?

Mr. HODEL. Yes, we would then be able to utilize monies in the fund in accordance with the program.

Mr. DELLENBACK. Only in accordance with the program and in accordance with the general powers that are set forth in the bill?

Mr. HODEL. Yes.

Mr. DELLENBACK. You couldn't use them for any other purpose other than the purposes expressly spelled out in the statute?

Mr. HODEL. That is my understanding. That provision, 11 (b), with—well, it says: "including but not limited to" and then attempts to list all of the kinds of functions which we expect to expend money for.

Mr. DELLENBACK. You were doing beautifully Mr. Hodel right up until you said "that is our understanding." I want as a statement of fact for the record the answer and not just as statement of opinion.

Mr. HODEL. Yes, sir.

Mr. DELLENBACK. It is correct that your expenditure powers would be limited to the authorities expressly spelled out in the bill?

Mr. HODEL. Our authorities come from this bill and the Bonneville Act and are limited to what are in those enactments of Congress. We cannot go beyond them to my understanding.

Mr. DELLENBACK. When you say that, you create in our minds the spectre that maybe somebody would understand it differently. I am just trying for the sake of the legislative record to be explicit that under the terms of section 11 of the bill it says: "The Administrator may make expenditures from the fund" and so on "to carry out the duties imposed upon the Administrator pursuant to law."

Now it does go on there to say "including but not limited to" and then it spells out section 11 but you've got to find in the statutes either in this bill or under the general powers of Bonneville and of the act that created Bonneville Power, you must find expressed statutory authority in one or the other of these places to spend any funds that are in this fund.

Mr. HODEL. Yes, sir, without reservation.

Mr. DELLENBACK. Beautifully handled. I am standing out on the pitcher's mound, you see, and am just throwing them out to you.

Mr. HODEL. I must apologize to the Congressman. Before I went to Bonneville, I practiced law.

Mr. DELLENBACK. Well, in real life I am a lawyer too.

Just a couple of more questions, Mr. Hodel. Now it is clear from this bill that is before us that if you get approval on this through this budgetary process you can then proceed to use that money as needed even if the construction goes on over several years, is that correct?

Mr. HODEL. Yes.

Mr. DELLENBACK. So you wouldn't be in a short term situation; you will have continuing authority? And this is projected as part of the decision we will follow.

Mr. HODEL. Yes.

Mr. DELLENBACK. Will publicly owned systems and co-ops still have preference and priority in attracting further power if this legislation becomes law?

Mr. HODEL. This legislation does not affect that and it was drafted purposely in a way not to affect the preference rights of the power from the Federal Columbia River power system, which we market.

Mr. DELLENBACK. I think it is important we make this clear. This does not in any way attempt to deal with preference and priorities. It does not affect that part of the priorities and responsibilities of Bonneville.

Mr. HODEL. That is correct.

Mr. DELLENBACK. I notice one section here, section 5, that deals with a word which causes certain questions to arise in the Congress and I would like to be sure of it and that is the word "condemnation."

As I read section 5, "The Administrator shall not, pursuant to the authority of this Act" and goes on to say "(1) acquire any operating transmission facility by condemnation: provided, that this provision shall not restrict the acquisition of the right to cross such a facility by condemnation."

Is my understanding of what is intended accurate, that this is not intended to create new powers of condemnation in Bonneville to acquire transmission facilities involuntarily so far as the present occupants or owners or operators are concerned?

Mr. HODEL. You are correct in that. And I should say that presently by statute the Administrator has authority to condemn but so far as I know the history that has been related to me before my time with Bonneville, and certainly since I have been with them, shows we have never utilized the authority to condemn operating transmission facilities. And it is felt appropriate that in light of the cooperative arrangements in the Pacific Northwest, we should remove this provision as part of this bill; that we would not use borrowed funds for that purpose in other words.

Bonneville would still have the opportunity, should it feel it was necessary, to seek an act of Congress—and my feeling is and I certainly hope that all successive Administrators will feel that, if a time ever arises when that kind of problem confronts us, that we should have an act of Congress we disrupt the relationships by rather arbitrary or capriciously seeking condemnation and—

Mr. DELLENBACK. It is clear this bill would not create that right of condemnation?

Mr. HODEL. This removes it.

Mr. DELLENBACK. You are again raising a question in my mind. Does this remove the power? This section 5(a) says: "unless specifically authorized by act of Congress, the Administrator shall not pursuant to the authority of this act acquire any operating transmission facility by condemnation."

In other words, it is clear that this act does not give the right of condemnation but there is no attempt by this act to say that any rights that are existent under other statutes are negated?

Mr. HODEL. That is correct. You are correct, Congressman. It does not carry into this act for the use of borrowed funds what now exists in the law with appropriated dollars.

Mr. DELLENBACK. And it certainly doesn't create any new language to condemn under these circumstances?

Mr. HODEL. No, sir.

Mr. DELLENBACK. One last and final question and we will be sure on it.

What would happen if at the time you needed funds and moved into the Treasury and asked them to buy as they are bound to proceed to comply with the statute and do, but what if the Treasury had reached its debt ceiling at that time?

Mr. HODEL. If I may use the phrase, my understanding in this instance, it is my understanding that like all Government corporations under the Government Corporation Control Act we would still be subject to the fiscal limitations imposed on the Federal Government. If that situation arose, we would sit with others until something was done to alter the situation.

Mr. DELLENBACK. I would agree. It would seem to me, without any research, but that is right. The Secretary of the Treasury, even when mandated to do certain things under trust funds and the like, if there is no power to go beyond a certain debt limit he just plain can't do it. So you are aware of that limitation?

Mr. HODEL. Yes, sir.

Mr. DELLENBACK. Even though section 13 of the bill talks in terms of "The Secretary of the Treasury shall purchase forthwith" but we recognize that as an obligation.

Now what about your intentions if by the time that ceiling should be reached if and when that should happen, what if inflation has made it such a pressure on you in the interim that you haven't been able to do everything that you wanted to do with that \$1,250 million?

Mr. HODEL. We would expect to come back to the Congress and seek additional authority as would seem appropriate at that time.

Mr. DELLENBACK. We would hope that that doesn't prove necessary either from the inflationary standpoint or from the standpoint of what you need do, but you recognize that.

Thank you and thank you, Mr. Mallory, and Mr. Goldhammer. We appreciate this and it has been very helpful.

Mr. JOHNSON. The gentleman from California, Mr. Hosmer.

Mr. HOSMER. I have studied this plan and see it as a very clever and progressive scheme to accomplish a particular purpose. And when we enter into these areas where the nature of the activity by Government is more of that of a business activity than it is that of a government activity there is every justification in the world for attempting to adjust the financing features of the scheme to those which are normally used by the business community. And in this particular case I know that the plan has been carefully worked out or discussed with investment bankers, who would be expected to

handle these bonds as they come to the market and as a consequence the various difficulties that might otherwise have occurred with them, they had anticipated and eliminated. All in all I would congratulate the Bonneville people in coming forward with such a plan as this.

As a matter of fact, I am expecting to steal some of the features of it for another Government corporation which I would like to see established, the U.S. Enrichment Corporation. Thank you, Mr. Chairman.

Mr. FOLEY. Mr. Chairman, I am delighted to hear that elegant statement on behalf of the gentleman from California. If we had a quorum present I would move the immediate passage.

Mr. JOHNSON. We haven't heard from all of the witnesses yet.

The majority counsel, Mr. Casey, has some questions.

Mr. CASEY. I would like to discuss very briefly section 13, page 13, the general subject of interest rates.

Mr. Hodel, your authority is by delegation from the Secretary and he derives his authority from what acts of Congress?

Mr. HODEL. The basic act is the Bonneville Project Act of 1937 as amended.

Mr. CASEY. Do you receive any marketing authority from section 5 of the Flood Control Act of 1944?

Mr. HODEL. Yes.

Mr. CASEY. And from section 9 of the Reclamation Project Act of 1939?

Mr. HODEL. Yes.

Mr. CASEY. Now, in the case of the Bonneville Act, is the formula for establishment of interest rates discretionary with the Secretary?

Mr. HODEL. Mr. Casey, so far as I know, I don't know the source of it. We can supply that for the record but the interest rate which we now pay on Federal investment in the Pacific Northwest on electric projects, the rates are set by the Secretary of the Interior presently pursuant to Secretarial Order No. 2929—oh, excuse me, on the transmission system. I want to correct that.

Mr. CASEY. That is on Bonneville investments?

Mr. GOLDHAMMER. On Bonneville investments.

Mr. JOHNSON. Now if there is additional information that should be placed in the record in response to the question, I would ask permission that be authorized.

Is there objection to receiving additional information?

Hearing none, so ordered.

[The information referred to follows:]

On January 29, 1970, the Secretary of the Interior issued Departmental Order No. 2929, establishing a standard formula applicable to all Interior power agencies for fixing the interest rates for repayment purposes on new system transmission facilities for which administrative discretion to establish such rates is vested in the Secretary of the Interior. The applicable rate for Fiscal Year 1970 was established at 4½% as the formula for annual adjustment based upon the average yield during the preceding Fiscal Year on interest bearing marketable securities of the United States having remaining terms of 15 years or more.

A copy of Departmental Order No. 2929 is attached hereto.

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., January 29, 1970.

[Order No. 2929]

Subject: Standard repayment interest rate formula for new Federal power projects and system transmission facilities

Sec. 1 *Purpose.* The purpose of this Order is to establish a standard formula applicable to all Interior power agencies for fixing the interest rates for repayment purposes on new Federal power projects and system transmission facilities for which the administrative discretion to establish such rates is vested in the Secretary of the Interior. The resulting rates will more closely reflect the current interest costs of money borrowed by the Federal Government than the rates which have been utilized in recent years.

Sec. 2 *Authority.* This Order is issued pursuant to the authority of the Secretary of the Interior under section 9(c) of the Reclamation Project Act of 1939, 53 Stat. 1194, 43 U.S.C. 485h(c); section 5 of the Flood Control Act of 1944, 58 Stat. 890, 16 U.S.C. 825s; sections 6 and 7 of the Bonneville Project Act, 50 Stat. 734, 735, as amended, 16 U.S.C. 832d, e; Reorganization Plan No. 3 of 1950, 5 U.S.C. 133z-15, note (1964 ed.); and Section 2 of the Act of June 14, 1966, Public Law 89-448, 80 Stat. 200, as amended.

Sec. 3 *Definitions.* For the purpose of this Order:

(a) The term "Federal power project" means any reservoir project of the Department of the Interior or the Department of the Army which includes the generation of electric power as one of its purposes, or any unit or separable power feature thereof, which is treated as a separate entity for repayment purposes, including transmission, substation and other appurtenant facilities.

(b) The term "system transmission facilities" means transmission lines, substations and appurtenant facilities which are treated for repayment purposes as a separate entity not a part of a Federal power project.

(c) The terms "new Federal power project" and "new system transmission facilities" mean a Federal power project or system transmission facilities the construction of which is initiated after the date of this Order.

Sec. 4 *Interest rate formula.*

(a) Except as otherwise provided by law, the interest rate to be used for computing interest during construction and interest on the unpaid balance of the costs of new Federal power projects and new system transmission facilities which are properly allocated to commercial power development, shall be the applicable rate, as hereinafter provided, during the fiscal year in which funds are first appropriated to initiate construction of such projects or facilities.

(b) The applicable rate for fiscal year 1970 shall be 4½ percent.

(c) Each subsequent fiscal year, the Assistant Secretary—Water and Power Development shall request the Secretary of the Treasury to inform him of the computations made as of July 1 in accordance with subsection (d) for the preceding fiscal year. If the yield rate so computed does not differ from the applicable interest rate used by Interior for the previous fiscal year by more than ½ percent, the applicable rate to be used by Interior shall be equal to the yield rate. If the yield rate differs from the applicable interest rate used by Interior for the previous fiscal year by more than ½ percent, the applicable rate to be used by Interior shall be the applicable rate used in the previous fiscal year increased or decreased by ½ percent toward the yield rate.

(d) For the purposes of this section the yield rate is the average yield during the preceding fiscal year on interest-bearing marketable securities of the United States which, at the time the computation is made, have terms of 15 years or more remaining to maturity. The average yield shall be computed as the average during the fiscal year of the daily bid prices. Where the average rate so computed is not a multiple of one-eighth of 1 percent, the rate of interest shall be the multiple of one-eighth of 1 percent nearest to such average rate.

(e) The Assistant Secretary—Water and Power Development shall annually advise the power agencies of the applicable interest rate for the current fiscal year.

WALTER J. HICKEL,
Secretary of the Interior.

Mr. JOHNSON. So if you have additional comments, et cetera, from your solicitor or yourself, get that in for the record and we will place it in the record.

Mr. CASEY. Mr. Chairman, I might request pursuant to that order that we be supplied with the Secretarial order and that we further be told at this time what interest rate that order results in for this fiscal year. If anybody can tell us that?

Mr. HODEL. At the present time our investment is at a $5\frac{5}{8}$ percent interest rate. We anticipate, pursuant to the Secretarial Order, commencing July 1, it will be $6\frac{1}{8}$ percent.

Mr. CASEY. Now could you estimate for us what interest rate would flow from the formula that is expressed on page 13 of the bill starting with the sentence which reads: "Such bonds shall bear interest at a rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding" and so on.

Mr. HODEL. I would like to refer that question, if I may, to Mr. Katzin, who has reviewed that aspect of the bill.

Mr. KATZIN. Mr. Casey, the formula, as you noted, is a two part formula and the first part is based upon the rate for Treasury bonds, but since this is not a direct obligation of the Treasury nor is it guaranteed, there is a plus factor and it is the plus factor which has required some analysis and really cannot be answered definitively. But we have advised Bonneville of our professional opinion as to where we think these bonds would come in the market were they to be offered. And we feel they fall somewhere above in quality the TVA and Triple A utility bonds and somewhere in the area of the government agency bonds which are in the marketplace.

Now that interest rate varies from day to day. I can give you an opinion of where we think it might be today.

Mr. CASEY. Well, just roughly. It doesn't vary a percent or 2 percent or anything like that day by day?

Mr. KATZIN. Well, the long term bonds of the federal government, the issue that matures in 1999, is selling today at about an 8.12 yield and the TVA, they are long bonds, are selling at 8.44.

Mr. HOSMER. What was the comparable interest a year ago? What was the comparable figure a year ago?

Mr. KATZIN. I think we are about $1\frac{1}{2}$ points or maybe 2 points above where we were. This comes from memory.

Mr. HOSMER. What will it be a year from now?

Mr. KATZIN. I am the wrong witness to ask for that.

Mr. CASEY. We have, I think by your testimony, established that there is probably a swing on today's criteria and today's market of one to two percent between what Mr. Hodel would be obliged to charge for appropriated funds and what some of these bonds might indeed sell for if they were available today?

Mr. KATZIN. That is correct.

Mr. CASEY. Would it be your feeling then Mr. Administrator, that the flexibility and the ability to manage more effectively and efficiently on-going construction programs would result in operating efficiencies sufficient to offset this apparent or this hypothetical interest burden that I have identified here? Have you made any estimates on that subject?

Mr. HODEL. We think that the increased cost, whatever the range would be, that we have identified, as Mr. Katzin has testified to here, is a reasonable price to pay for the flexibility and reliability. We also think there would be some offsets to the increased interest rate. For instance, I did mention earlier the line that we have delayed. At the present time the delay of that line is going to have a direct and immediate impact on the overall cost of that line, which if treated as an offset to the increased interest expense might very well make a significant difference in the amount.

So we do feel that whatever increase results here, within the range we are talking about, is a worthwhile expenditure.

Mr. CASEY. Mr. Chairman, we frequently have these coalitions of strange composition come in here. They make me a little nervous as to how long they will stay united. You have a lot of preference customers and I am wondering what the chances are of their falling out when they really realize there is a couple of percent of interest going into their rate base? I am simply trying to envision some arguments to use for them to stay in.

Mr. JOHNSON. Mr. McFarland, do you have anything special?

Mr. MCFARLAND. I would like to ask Mr. Hodel one question. You indicate—

Mr. JOHNSON. Mr. McFarland, I might say, is semiretired but is a consultant to the committee and has a lot of expertise. He has been through this whole ball game since it started.

Mr. MCFARLAND. You indicated your annual programs for expenditures comes from the regular procedure?

Mr. HODEL. Yes.

Mr. MCFARLAND. It carries with it—in other words, your annual program has administration approval?

Mr. HODEL. Yes, sir.

Mr. MCFARLAND. Now when it comes to the Congress, Mr. Hodel, why do you not trust the Congress to appropriate these funds? Why do you ask that the appropriations process be bypassed?

Mr. HODEL. Mr. McFarland, candidly, our problem in the last few years has not been with the response Congress has made to the requests we have made to the Congress. Our problem has been as a part of a budget process taking into account numerous factors including human factors, at the budget establishment level within the administration. We find ourselves competing, and not always successfully, with human resource programs.

Mr. MEEDS. Mr. Hodel, wouldn't it be more proper to say that the budget process or the appropriations process is not being bypassed but that it is being supplemented?

Mr. HODEL. Yes, sir.

Mr. McFARLAND. But what is wrong with Congress appropriating from the fund? You have established the fund into which the sources of revenue and so forth go. What is wrong with Congress appropriating from the fund like we do in the land and water conservation fund for instance?

Mr. HODEL. I would like to have Mr. Katzin respond.

Mr. KATZIN. I think the answer is Congress is in effect appropriating from the funds but the funds need to be supplemented by outside capital from the capital market since you will not be taking it from tax receipts.

Mr. McFARLAND. But Congress doesn't appropriate from this fund. You would have the authority to go ahead and expend from the fund without any appropriation from Congress.

Mr. HODEL. Mr. McFarland, the Congress will approve the expenditure or must approve the expenditure.

Mr. McFARLAND. Let's say Congress disapproves one.

Mr. HODEL. If Congress disapproves, my understanding of the Government Corporation Control Act is that they indicate their disapproval and that prevents the expenditures.

Mr. McFARLAND. Who does it?

Mr. HODEL. The Appropriations Committee with a line item in the Appropriation Act in a given year. And each year our budget would come back to the committee, contain updates on the projects, identify expenditures made and expenditures anticipated and Congress would continue to have the full review that it now has and—

Mr. McFARLAND. If Congress can disapprove a line item, what is wrong with the Congress making the appropriations from the fund?

Mr. HODEL. As Mr. Katzin indicated—

Mr. McFARLAND. There is no point in pursuing this, Mr. Chairman, but this is a problem that is going to cause more controversy on this bill when it gets to the floor, I think, than any other one in it. So it is just my thought to bring this out.

Mr. DELLENBACK. Mr. Chairman?

Mr. JOHNSON. The gentleman from Oregon.

Mr. DELLENBACK. I think Mr. McFarland has asked a very sound question and it is one that we are going to have to be prepared to answer in connection with this. And it would seem to me that the general thrust of the answer is a realistic one. You touched on the first part of it, Mr. Hodel, you made the point that in the budgetary process of going through all of the internal administrative—and I am not referring to this administration because I think it just gets more complex in whatever administration is in—but in going through this process, find that every dollar we ask for this purpose is in competition with another kind of request and it is going to look much more stringently and much more carefully at it than if there is a set aside fund. So that is the first part of the answer.

And then Mr. McFarland comes in with the second part: Oh, there are other special funds. The earmarked funds are not unusual. We do it under land and water conservation. So if you insist there be a special fund available, why not instead of dipping the dye in favor of the expenditures, say that at least you ought to go affirmatively

and ask for affirmative action by the Congress to appropriate that fund as it does in land and water conservation?

It seems to me the answer revolves around the unique nature of the relationship of the Federal Government with the non-Federal agencies. And whereas in land and water conservation we are principally talking about Federal expenditures, and not coordinating Federal expenditures with non-Federal expenditures, but here we have a very special situation where really generating capacities, for example, with those the bulk of those funds come from non-Federal sources and we as the Federal Government, we yet play a key role and we must be able to give those non-Federal sources every assurance possible that what is really thought to be necessary will be made available.

And I think quite frankly as a realistic thing we make it more likely by saying if you propose an expenditure unless the Congress says no to it that the Congress will not say no to it and the expenditure will be made.

It is not a gigantic step from that to say you must go to the Congress and affirmatively ask for affirmative action by the Congress but I think it does make it more difficult to be assured of those particular expenditures.

And it is in this area of difference that we are going to have to be sure of our grounds and be sure because the questions Mr. McFarland asked are going to be asked on the floor and all through the legislative process, our grounds are firm.

Mr. MALLORY. If I might add something to this? I think another problem we have faced in this long range planning for electrical reliability is the need for assurance that the funds will be available. You all have a horrendous job to do that here. Sometimes it happens when July 1 comes around, and the planning just can't be augmented with the funding level they have looked for, and the bill is not passed by then, it makes it very difficult for electric reliability planning. And I think that freedom from this process is something that you have hit on very well in your exposition.

Mr. DELLENBACK. Have there been many times that we haven't appropriated all appropriation bills by July 1?

Mr. JOHNSON. Just one question. On the moneys that Congress has made available to you, what has happened? Have all of those funds been released to you or have you experienced withholdings, impoundments, budgetary reserves, etc., the same as the other departments and agencies of our Government?

Have you been confronted with that? Is that a problem?

Mr. HODEL. To the best of my recollection, Mr. Chairman, we have not suffered an impoundment problem on our funds for construction. If I may expound.

Mr. HANSEN. There have been a few.

Mr. HODEL. I am advised there have been a few occasions where we have encountered such impoundments.

Mr. JOHNSON. Any further questions?

The minority counsel, Mr. Leppert, do you have any?

Mr. LEPPERT. No, thank you, Mr. Chairman.

Mr. JOHNSON. Well, we want to thank you Mr. Mallory and Mr. Hodel and your people there. You have done a wonderful job in responding to the questions. You have placed a lot in the record. We will have to take a hard look at it and try to do the best we can in resolving our difficulties within the Committee and based upon the action of the Senate we will be ready.

Mr. HODEL. Thank you, Mr. Chairman.

Mr. JOHNSON. Our next group of witnesses will be headed by Mr. Gordon Culp, attorney, representing Pacific Northwest Utilities Conference Committee, the policy committee, also accompanied by Mr. Alan H. Jones, general manager, water and light department, McMinnville, Oreg., and Mr. George L. Beard, senior vice president, power resources and power planning, Pacific Power & Light Co., Portland, Oreg., and finally Mr. Lyman J. Harris, Northwest area power manager, Aluminum Co. of America, Vancouver, Wash.

We are very glad to have with us this very able group before us.

Mr. Culp, you may proceed and I would say that all of your statements, if you have statements for the record, will be placed in the record in full in the order of presentation.

You may summarize your statements.

Mr. Culp, we will start with you.

STATEMENT OF GORDON CULP, ESQ., ATTORNEY, REPRESENTING PACIFIC NORTHWEST UTILITIES CONFERENCE COMMITTEE—POLICY COMMITTEE, ACCOMPANIED BY ALAN H. JONES, GENERAL MANAGER, WATER & LIGHT DEPARTMENT, McMINN VILLE, OREG., AND CHAIRMAN, PUBLIC POWER COUNCIL; GEORGE L. BEAD, SENIOR VICE-PRESIDENT, POWER RESOURCES & POWER PLANNING, PACIFIC POWER & LIGHT CO., PORTLAND, OREG.; AND LYMAN J. HARRIS, NORTHWEST AREA POWER MANAGER, ALUMINUM CO OF AMERICA, VANCOUVER, WASH., REPRESENTING DIRECT SERVICE INDUSTRIAL CUSTOMERS OF THE BONNEVILLE POWER ADMINISTRATION

Mr. CULP. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I will drastically curtail and summarize this rather lengthy statement that we did put in the record after which we would ask that the other gentlemen be, you know, permitted to say a few words.

Mr. JOHNSON. Certainly.

Mr. CULP. I would first say that the Policy Committee of the Pacific Northwest Utilities Conference Committee, for which I speak, contains representation from over 100 public agencies and electric coops, four investor owned utilities in what we call the West Group of the Northwest Power Pool Area, and 19 individual industrial companies that are direct purchasers from BPA.

We have included in the written statement a complete list of these organizations. It appears after page 13 of my written statement.

As Mr. Hodel has referred to and has been otherwise described to you here, we believe that the power system in the Pacific Northwest

is indeed unique, primarily from the standpoint that it is comprised of these many many utilities of every kind that maintain their own independence and autonomy but at the same time through many co-operative programs operate an integrated and coordinated very large regional power system.

In order to do that, for many years, almost from inception let's say of the Bonneville program, it has been necessary that the various segments of the industry contribute to the overall regional plan important parts of the facilities, of the know how, of the operating availability in order to make the whole thing work.

As has been described slightly as we go out into the future the amount of the capital requirements will rather more heavily fall into the non-Federal sector, both the public agencies and the investor owned utilities with help from the direct service industries also because with an increasing increment of thermopower needed for firm energy purposes, the proportion of the hydropeaking and transmission that would be provided by the Government will become a continuously lesser proportion of the total capital requirements.

Having said that, this does not at all reduce the necessity of an integrated backbone transmission grid in order to make the whole system work.

That transmission grid is, as you know, now primarily to the extent of about 80 percent, is the Federal BPA grid. The need for its orderly continuation is greater today than it was before for the many financing reasons that have been discussed and I won't need to go back into here.

But it is because of that imperative of the reliable, orderly development of a backbone transmission system that this bill comes about. As you know it provides a financing method to be able to develop the system. It is not intended to change anything else with regard to the way the Northwest Power System operates or fits together.

We think it is a very good system and that it works and we are trying everything in our power to keep it developing along the lines that have proved so successful in the past.

Now I mentioned that we worked with all of these organizations, who are members of the policy committee or represented on that Policy Committee. We also dealt with and discussed all of this with certain companies like Montana Power Company, Idaho Power Co., Utah Power Co. and Light Co., which are in the eastern side of this general area. They have some differences of opinion with this bill which they will describe themselves later on. All of these have been known to us from the beginning.

We have, you know, worked with them and tried to work this out on a very open basis. There have been no secrets anywhere in the Northwest, you know, as to who stood where in the process of trying to prepare this bill.

The original bill or at least the concept of this bill was prepared in the Northwest through cooperation of the Policy Committee and its various participating organizations and Bonneville and the other Federal power agencies. We arrived at a consensus bill that all of these organizations represented on the policy committee could support. It represented many many compromises and accommodations

amongst the various segments of the industry in order to get a consensus with which we could appear as we are doing today and say this very large group can live with this.

Now after that was completed, by Bonneville that is, it was delivered to the Department, of course, and went through the Executive Department for its comments. And as you know, it was brought to the hill as an Executive Communication. And thanks to the assistance of many of the fine members of this committee, we had many sponsors who introduced the bill.

Now as it went through the Executive process, the Departmental review process, they did make one major change in the type of bill that had been prepared in the first instance in the Northwest. That change was: we had prepared it on the basis that the bonds would be offered on the general money market, the regular money market directly. As a result of the desires of the administrative departments, that was changed in order to make it so that these bonds would be sold to the Treasury exclusively, perhaps resold by the Treasury in their discretion thereafter. That required many word changes, but all of them or substantially all of them related to that basic change.

We have reviewed this bill extensively since it was introduced. The same group that worked on it in the first instance reviewed it. We have proposed several amendments which are all set out and contained in the written statement that I have submitted.

Some of them are merely for clarification. Some of them have a little more substance to them than that but in all cases we don't believe any of the amendments we suggest would create a change in the intention of the people in the Northwest as to what this bill should accomplish at the time it was put together. It sometimes left out things that we intended that we didn't think were said. Others merely clarify something that we think should be a little clearer.

We don't believe any of the amendments change anything basic that was intended from the very inception of this.

I might only just in closing mention only two of the amendments that we have proposed, not to make them sound more important, but only to call attention to a couple of things. If you will refer to page 10 of my written statement, we ask for the addition of a provision on page 4, following line 2, the second proviso in the marked up bill which reads:

And provided further that the Administrator shall not commence construction of a new project without approval of the committees of the Congress to which his budget is submitted or by which it is reviewed.

This proposed amendment I believe relates in some way to the discussion that just went on previously when Mr. Hodel was here having to do with the review and approval process. Throughout the time that we worked on the bill back home it was everyone's understanding that a part of this package of procedures by which each interested part of the industry would have methods to be heard and a kind of a balance of the controls on this whole regional system, that one of the pieces of that whole collection of things was that we thought that, as to new starts, that there should be an affirmative go ahead from someone, not necessarily from Congress, as an act of Congress because I recognize there are some problems that may arise,

but at least from the appropriate committees of Congress more in following the procedures that have been followed in the past on several types of programs that we have had.

So that it was the intention of that proposed amendment to make it clear that as to new starts, the appropriate committees should however informally say it is okay to go ahead with that program.

The other side of that is we think it is equally important that once a project a new project has been approved once, that it need not be annually affirmatively approved again, but it can go forward then in accordance with a businesslike time schedule.

We believe that that part is carried out by the normal operation of the Government Corporation Control Act in which year after year would be included in the budget and be in Congress for review according to the regular provisions of the Government Corporation Control Act but would not without something further being said require continuing affirmative approvals on previously approved projects. Now we have thought in the Northwest that Congress would probably want to have that modicum of continuing control as they have in the past over new projects and in the region we too would want that additional way to make everyone's views heard before commitments to new projects under this bill.

Only one other amendment that I will mention and it is shown on page 11 of my written statement and is numbered number 8, shown on page 4, line 25 of the bill, which is a proposed amendment to somewhat we hope explain some parts of the standards that we have put in the bill or the provisions we have put in the bill to try and reduce the possibilities of duplicating facilities and to protect the autonomy of local utilities in such cases where that autonomy wouldn't be injurious to the public.

I just call your attention to that. It is a very important part of the bill in terms of the local compromises that went into it and is also involved with some of the disputes we had with other utilities at the edge of the region who will address themselves to it later.

We had some discussions as to some possible legislative history questions that might clarify some of those problems. Mr. Hodel has referred to them also in his testimony.

That is more time than I intended to take and I think I will quit at that point.

[The statement of Gordon Culp in full follows:]

STATEMENT ON BEHALF OF THE POLICY COMMITTEE—PACIFIC NORTHWEST
UTILITIES CONFERENCE COMMITTEE, SUBMITTED BY GORDON C. CULP

INTRODUCTION

I am Gordon C. Culp of Culp, Dwyer, Guterson & Grader, Seattle, Washington, speaking on behalf of the Policy Committee—Pacific Northwest Utilities Conference Committee. I am accompanied by Mr. Alan H. Jones, General Manager, City of McMinnville, Oregon Water & Light Department, and Chairman of the Public Power Council; Mr. George L. Beard, Senior Vice President, Pacific Power & Light Company, Portland, Oregon, representing investor-owned utilities in the Pacific Northwest; and Mr. Lyman J. Harris, Northwest Area Power Manager, Aluminum Company of America, Vancouver, Washington, representing the Bonneville direct service industrial customers.

The Policy Committee is a voluntary, non-governmental committee composed of representatives of 107 publicly-owned and cooperative electric systems and

4 investor-owned electric utilities in the Pacific Northwest and 19 industrial companies that purchase electric service directly from the Bonneville Power Administration. A list of represented organizations is attached at the end of this statement.

Following presentation of this statement, with the Committee's permission, my three colleagues will add brief statements. Many other representatives of utilities and industries in the Northwest are present in the room and will be available for questions.

THE UNIQUE POWER SYSTEM OF THE PACIFIC NORTHWEST

Mr. Chairman, the Pacific Northwest has a unique power system in which utilities of all kinds and Federal power agencies retain their individual identities but operate a very large regional power system on a coordinated basis for the maximum overall benefits. No other part of the country has quite the same necessities and opportunities for cooperation between Federal agencies and all non-Federal segments of the industry; and this proposed legislation, which is an integral part of that cooperative effort, probably would not apply in any other region.

The Columbia River and its major tributaries were especially adapted to multi-purpose development by the Government for realization of the greatest public benefit. The hydro-electric generating facilities associated with that great multi-purpose development are a very important component of the regional power system.

The non-Federal investor-owned, public, and cooperative electric utilities always have been the sole retailers of electricity to residential and commercial consumers and to all industries except a limited number of large basic industries served directly by BPA. These non-Federal utilities, too, have developed large hydro-electric power sources and some sources of thermal power. They have also provided substantial portions of major transmission that are especially appropriate to their individual needs; and they have developed all of their distribution facilities.

The BPA transmission system as initially constructed was designed to take power from Federal hydro generating projects to load centers nearer the Pacific coast, particularly to the loads of utilities entitled to a preference under Federal power legislation. There were economies and advantages in reliability to be derived from interconnecting Federal facilities with those of other systems controlling generating resources, and the urgency for energy in the World War II production effort provided incentives to interconnect systems within the region in order to realize the economies of a region-wide integration of resources.

Largely as a result of this emphasis upon interconnection and integration, as well as the scale of Federal hydro development, the Federal grid became the dominant factor in linking all of the utilities in the Pacific Northwest into a single operating entity serving the entire region—encompassing Federal generation and privately-owned as well as non-Federal publicly-owned generation and distribution.

Despite controversy from time to time as to what was or what was not properly a responsibility of BPA, both publicly-owned and privately-owned utilities in the region have come to see the benefits of a fully integrated transmission system within the region, in which the major portion of the high voltage (230 kv and higher) transmission has been constructed by BPA. BPA presently provides about 80 percent of the transmission grid in the Pacific Northwest.

Thus, the BPA grid is a major element in the regional power system and cannot be separated from it. To maintain a reliable system in the future, new lines must be added to the BPA grid whether such lines are most directly related to Federal or non-Federal generation.

THE PACIFIC NORTHWEST HYDRO-THERMAL PROGRAM

In the mid-1960s, it became apparent that the region was approaching the end of an era in which it could rely almost entirely on hydro-electric sources for its power generation, and that we must conceive an energy program which would add thermally produced power to the regional power supply. From this

recognition came the creation of the Pacific Northwest Hydro-Thermal Program in 1969, a consensus program of the local public and cooperative power systems, investor-owned utilities, the Bonneville Power Administration and Department of the Interior, the Corps of Engineers, and, of course, the Congress. Under this program the Federal Government will complete installation of generating facilities, especially peaking power facilities, in the Columbia River system. BPA continues to fulfill its traditional role of marketing hydro-electricity from Federal dams of the Columbia River system, and it also acquires through a net billing process with its preference customers the outputs of public non-Federal thermal power plants which it markets to its customers, including its commitments to basic industry.

For their part of the program, the public and private utilities of the region embarked on a very large program of financing and building nuclear power plants, coal-fired thermal plants, and additional hydro-electric resources to help meet the total needs, timing and locating the plants for the best advantage of their individual systems and the region as a whole. BPA has continued to develop the increased transmission line capacity required to fulfill regional needs.

The hydro-thermal accord has not in any way reduced the need for the BPA transmission system as the backbone regional transmission grid. On the contrary, the evolving program makes the Bonneville grid even more necessary and desirable. The creation of large thermal generating plants and new hydro-electric resources at many locations throughout the Pacific Northwest and the complexity of the growing system make it increasingly logical and necessary that there be a properly planned, constructed and operated regional transmission system to move power from point to point. Concern for the environment and proper use of our lands, as well as operating efficiencies, add greatly to the need for a regionally integrated transmission system without duplication of facilities. The Bonneville grid fulfills this role throughout most of the region, and its continuing development and improvement as and when necessary to meet requirements in the region is of crucial importance.

The ability of BPA to acquire power through net billing runs out in about 1983. For that and other reasons, the hydro-thermal program must evolve into a second phase, continuing the basic concept that each segment of the industry will provide portions of the total facilities needed to meet regional requirements, but with some changes in procedures that experience suggests.

PHASE 2 OF THE HYDRO-THERMAL PROGRAM

By last December, following about one year of analysis and discussion by the Federal power agencies and all participants in the Policy Committee, the outline for a Phase 2 program was developed. If proper decisions can be reached on some basic points, we are confident it can become a sound program for meeting the power needs of the region.

Though the Government will continue and complete installation of the hydro generating capacity of the Federal Columbia River system, this phase recognizes that BPA can no longer after 1982-83 supply all of the load growth of its preference customers and requirements of its industrial customers from power supplies generated by the Government or received under net billing agreements. Present and future supplies of Federal hydro-electricity, together with thermal energy received by BPA under Phase 1 net billing agreements, will be allocated to BPA customers and marketed to industrial customers and private utilities in accordance with the Bonneville Act and appropriate contracts consistent with that Act and other Federal laws.

Public bodies and investor-owned utilities will each provide the capital required and secure the necessary plant construction for their future load growth. BPA will continue to supply the requirements of the smaller (below 25,000 average kilowatts) preference bodies and load growth of direct service industry due to technical advances, acquiring energy for these purposes by exchanges. BPA will provide an agency service to preference bodies or industries desiring that BPA purchase power for their accounts. However, these entities will also have the option to construct resources or purchase power directly from other plant owners. The direct service industries are to assist in the financing of plants from which they benefit. Various combinations of owner-

ship and participation in generating plants are possible, and construction efforts by all participants will continue to coordinate on a regional basis for the maximum benefit for all.

Success in achieving these objectives will require a massive financial commitment by the non-Federal utilities (in addition to Federal commitments for additional hydro generating units) and it will require important additions to the BPA transmission facilities as and when needed to make the whole thing work.

We had hoped to be able to do without any legislation, but, because of the imperative that necessary transmission be completed on time, we concluded that it has become necessary that Bonneville have the self-financing authority provided in H.R. 14168. The non-Federal utilities must plan ten years and more ahead for major power plants. The ability to finance power plants requires assurance that there shall be transmission lines over which to market the power. Assured transmission lines require assured financing for the lines themselves, and the bonding authority we seek for BPA will provide such assurance that the transmission lines can be financed when necessary to meet the power plant schedules.

We recognize that financing of transmission through the bonding authority contained in H.R. 14168 may result in some increase in interest costs for Federal transmission facilities compared to the costs that would be paid by Northwest consumers if the Federal appropriations and funding processes were to continue as the exclusive method of financing. But we believe the financial losses, as well as the loss of system reliability, that can result from delays in transmission construction could cause vastly greater injury to the public. We owe the security provided by this bill to the bond holders who underwrite the non-Federal thermal plants, and we owe the reliability of an adequate and timely-built transmission system to the people of the Pacific Northwest.

DEVELOPMENT OF H.R. 14168

Development of regional decisions through consultation among all segments of the industry has been required and has been the way of life in the Pacific Northwest for thirty years or more. But the importance of Phase 2 and this bill convinced us to form a new regional group—a single reporting and negotiating committee that would represent all interested entities in the industry and could participate in the entire process of forming the program. Therefore, the Pacific Northwest Utilities Conference Committee, a voluntary group of some public agencies and four investor-owned utilities which has carried out certain regional studies and activities for 28 years, agreed to form the Policy Committee which expanded representation to include all electric cooperatives, the remaining public agencies, and the BPA direct service industrial customers. Like the original Conference Committee, it is a consensus group that takes no action that is legally binding on any of its participating organizations. All public agencies and electric cooperatives in the region are participants in an activity named the Public Power Council which represents those agencies on a wide spectrum of matters, and the entire executive committee of the Public Power Council has membership in the Policy Committee. The formation of the Policy Committee was completed in February 1973, and it went immediately to work toward a Phase 2 program and this bill, concentrating on the guidelines necessary to provide the needed generation and transmission through 1986, and hopefully beyond.

A fundamental assumption that underlies the hydro-thermal program is that the legal and traditional practices and relationships of all segments of the industry will remain undisturbed to the fullest extent possible in preparing to meet the changed conditions of the future; and the responsible utilities and agencies will continue to make the significant decisions in the future. This bill will continue the crucial function of BPA in the development of the backbone transmission grid. We hope and believe that the Congress will have a desire equal to ours that this productive Federal role be continued.

From the beginning of the effort on this bill, it has been apparent that substantial agreement among the many affected entities would be required. Otherwise we thought it unlikely that the legislation could be enacted without perilous delays. Furthermore, all parts of the Hydro-thermal program require

a high degree of acceptance and cooperation in order to be effective. Therefore, the Northwest entities, working together and with BPA, through the Policy Committee, prepared the first drafts of the bill. Of course, many compromises and accommodations were made among the various segments of the industry. In late February of this year, we completed draft legislation which represented our best efforts to resolve disputes between individuals and groups and which could be supported by the Policy Committee. That draft was then submitted to the Department of the Interior and subsequently reviewed in detail by the interested officials of the Executive Branch of the Government. They made many changes, after which it was introduced by Executive request, as you know.

The Policy Committee and its participating organizations have reviewed the bill in detail since it was introduced. We do not believe that modifications made by the Administration have changed fundamental intent and effects of the draft legislation which was prepared in the Pacific Northwest. However, we propose and urge adoption of the several amendments which are set forth and discussed later in this statement.

MAIN FEATURES OF THE PROPOSED LEGISLATION

The central purpose of the bill is to authorize the Bonneville Power Administration to issue revenue bonds to finance improvements to the Bonneville transmission grid as needed and to permit the use of BPA revenues to retire such bonds and pay the other charges and obligations of the Administrator, including repayment with interest of the Federal investment in the Federal Columbia River system which is repayable from power revenues.

Many provisions throughout the bill are intended to preserve the present status, authority and policies of Bonneville except insofar as specific provisions of this bill make necessary changes. Section 2 emphasizes this point. Also, the definition of "Pacific Northwest" in subsection 3(c) is the same definition used in Public Law 88-552, the Pacific Northwest Preference Act.

Section 4 sets forth the purposes for which the Secretary of the Interior, acting by and through the Administrator, shall operate, maintain, add to, improve and replace the Federal transmission system within the Pacific Northwest.

Section 5 establishes rules and procedures to avoid duplication of transmission facilities in the region and protect the autonomy of the local utilities in instances where such autonomy will not be injurious to others. Procedures are provided for judicial protection of the rights of local utilities.

Section 9 subjects Bonneville transmission rates to Federal Power Commission confirmation and approval. BPA rates and charges for the sale of electric power are subject to the same confirmation and approval under existing law. Section 9 further requires BPA rates to be established at levels necessary to produce, in the aggregate, sufficient revenues to pay all bonds issued, and outstanding under the Act together with all other charges, expenses and obligations of BPA.

Section 10 is meant to confirm that individual utilities or groups of utilities will pay an equitable part of the Federal transmission costs.

Section 11 establishes the Bonneville Power Administration Fund which is necessary to carry out the purposes of the bill and the duties of the Administrator. The Fund will receive all moneys coming to the Administrator from all sources. The section also states purposes and uses for which moneys in the Fund can be expended and limitations on the use of funds from certain sources such as appropriated funds and trust funds. Section 11 makes Bonneville subject to the budget and audit provisions of the Government Corporation Control Act. Thus the Administrator would submit a budget through the Department of the Interior to the OMB for review and then (under present Congressional procedures) to the Congressional Appropriations Committees which review Bonneville's appropriations requests.

Section 13 authorizes the Administrator to issue revenue bonds and sell them from time to time to the Secretary of the Treasury. The Secretary of the Treasury is required to purchase such bonds forthwith; however, the aggregate principal amount of such bonds outstanding at any one time cannot exceed \$1,250,000,000. The principal and interest on the bonds will be payable solely

from the Administrator's net proceeds. Net proceeds are the amounts remaining in the Bonneville Power Administration Fund after paying Bonneville's O&M and other related costs.

The Secretary of the Treasury will determine the terms and conditions of the bonds, including the interest rate, taking into consideration several standards and comparisons for making such determinations. We would expect that the Secretary of the Treasury would consider these bonds to be as good quality, for purposes of setting the interest rate, as any revenues bonds being offered on the market.

PROPOSED AMENDMENTS

After reviewing the bill as introduced, the Policy Committee has concluded that several further amendments are required, some only for clarity. The marked copy of H.R. 14168 attached to this statement shows the proposed amendments in detail. In the order of the bill, they are as follows:

1. Page 1, lines 5 and 6, and page 2, lines 1 through 13—strike the entire text of subsection 2(a)

It is the opinion of our group that the recitals contained in this material are not essential to the Act, do not in fact clarify the Act, and therefore raise the possibility of creating ambiguities without serving any useful purpose. Therefore, we recommend that the material be stricken and the subsection lettering be deleted.

2. Page 2, line 15—strike "operations" and insert "duties" and on line 17 strike "Powers" and insert "Authority."

These changes are recommended merely for internal consistency.

3. Page 2, line 16—change the initial capital letters in "Power Sys(tem)" to lower case.

It is not necessary to the bill, and may cause confusion, to use "Federal Columbia River Power System" as a term of art. The expression is used again on page 11, lines 3 and 4, where its meaning is clear from the context. The same change should be made in that instance.

4. Page 2, line 24—strike "power" and insert "peaking capacity."

This amendment is for clarification only.

5. Page 3, line 24 strike "and" and insert "or".

This was an error which was carried over from the original drafting. Without the change it would be possible to read this paragraph to require that a particular transmission addition or improvement serve all four purposes set out in Section 4. Such result was clearly not intended.

6. Page 4, following line 2 (first proviso)—insert a proviso, modifying all of Section 4, reading as follows:

"Provided, however, that the Administrator shall not construct any transmission facilities, excepting customer service facilities, outside the region described in Section 3(c) (1) unless specifically authorized by Congress;"

The Committee will recognize that the construction of Federal high-tension transmission facilities without authorization of Congress is a sensitive subject to members of the utility industry throughout the United States. It has never been the intention that this bill create an authorized activity in the Administrator beyond that in general now existing under the Bonneville Project Act. It was concluded that it was advisable to be very specific on this limitation, and we recommend the inclusion of the proviso stated above not as a change in the bill as originally drafted but as an exact limitation on the authority intended to be conferred.

Secondly, this proviso touches another point. The definition of the area to which the Pacific Northwest Preference Act applies (as defined in that Act) includes portions of the states of Nevada, Utah, and Wyoming that are within the Columbia Drainage Area as well as the states of Oregon, Washington, Idaho, and the State of Montana west of the Continental Divide. In fact, a number of preference customers have service areas located both within and without the area so described. To avoid an ambiguity as to the nature of service to which such preference customers were entitled, the Pacific Northwest Preference Act definitions extended, in the case of such customers, the service area of Bonneville to a further 75-airline miles contiguous from said region. While Bonneville might provide service in such areas, there is no need that Bonneville's authority to construct transmission facilities apply to the 75-mile area except insofar as they are customer service facilities such as are necessary to

serve existing BPA customers in that area. and the manner in which the proviso is phrased reaches this result.

7. Page 4, following line 2 (second proviso)—add a further proviso, modifying all of Section 4, reading as follows:

"And *provided further* that the Administrator shall not commence construction of a new project without approval of the committees of the Congress to which his budget is submitted or by which it is reviewed."

One of the major and essential elements necessary to secure region-wide approval of a BPA self-financing proposal was a workable balance among Congress, Bonneville, and the non-Federal utilities in the region regarding additions to the BPA transmission system. During the drafting process it was the understanding of all that Bonneville should not commence construction of new projects unless the appropriate Committees of Congress, after opportunity to consider the views of interested parties, affirmatively approved such project. We believe that the Committees of Congress will want to continue this measure of control which they have heretofore exercised in guiding major new undertakings of Bonneville, and the utilities in the region unanimously desire to have the added protection that such requirement for affirmative action will provide.

On the other hand, it is our strong belief that a requirement for affirmative action as to annual budgets for the continuation of a project previously approved would unnecessarily risk delays in the financing process—a risk which must be avoided. The remaining provisions of the bill will require that an annual BPA budget be reviewed by the appropriate committees, but such review will not, as the law and practices are presently written and carried out, require affirmative action for approval.

This amendment was drafted and approved by the Policy Committee to accomplish both purposes: require affirmative approval from the appropriate committees, informal though it may and should be, to commence construction on new projects, and permit approval by acquiescence of the appropriate committees to items in later budgets needed to continue work on projects previously approved. We strongly recommend inclusion of the language set forth below.

8. Page 4, line 25—insert the following sentence:

"'Equivalent in electrical capability' means that facilities will provide equivalent service to the anticipated needs, and 'arrangements no less favorable to the Government' includes the responsibility for prospective unused capacity."

This material is intended to help explain two types of comparisons that may be needed under the provisions of Section 5(a)(2). Equivalence in electrical capability should be determined by defining the anticipated needs for transmission facilities and comparing the capability of one or another proposed transmission facilities and comparing the capability of one or another proposed transmission design or location of the proposed facilities. "Arrangements no less favorable to the Government" refers to an economic comparison between alternate proposed facilities. It includes a recognition that costs associated with prospective unused capacity in a proposed Federal transmission facility would be a burden on the Government, and that burden should be taken into account in making the economic comparison between the facilities proposed by BPA and the alternate facilities which a utility or utilities commit themselves to construct.

9. Page 5, line 24—strike the word "by" and the comma where each first occurs and insert "or"; and strike ", or under the control of".

One of the major purposes of the financing provisions of this bill is to provide transmission which will serve generating plants built by non-Federal entities, both public and private, as well as serving the Federal needs. This proposed amendment is to clarify the intention that transmission capacity excess to the needs and contractual commitments of the Government shall be made available to all utilities on a fair and non-discriminatory basis.

10. Page 7, line 11—after the word "years," insert "and payments provided for in Section 11(b)(9)."

This is a necessary clarification to assure that payments required in connection with reclamation projects in the Pacific Northwest will be a cost properly includable in determining the rates of the Administrator.

11. Page 10, line 9—after the word "Congress" insert "or (iii) if to be paid for with funds provided by other entities for such purpose under a trust or agency arrangement."

A very important element of Phase 2 of the hydro-thermal program is an undertaking by Bonneville to acquire power from non-Federal generating sources under a trust or agency arrangement for the benefit of entities that so desire. A major portion of the trust funds which will be included in the Bonneville Power Administration Fund will have been provided by those entities for the purchase of power for their account. Therefore, the Administrator should be specifically authorized to purchase power with the funds which were provided to him for that purpose. The amendment would accomplish that result.

12. Page 10, line 19—after the word “fund” insert “or other fund”; and on line 20, strike the words “that fund” and insert “such funds in connection with reclamation projects in the Pacific Northwest.”

We believe this amendment more clearly states the intention to confirm the present law and procedures for making payments in connection with reclamation projects.

13. Page 13, line 20—after the word “deducting” insert “trust funds and”.

This is a clarifying amendment consistent with the amendment proposed on page 10, line 9.

CONCLUSION

We believe this legislation is essential to an orderly evolution of the Pacific Northwest Hydro-Thermal Program. It is necessary and desirable in the public interest that the Government continue its great and traditional role through improvement of the Federal Columbia River system and particularly through the improvement and operation of the Bonneville transmission grid. This bill will further those purposes in a way that is designed to accommodate changing future conditions and still maintain our successful policy of independent power organizations practicing local, regional and Federal cooperation.

On behalf of the Policy Committee, we urgently request that H.R. 14168 and our proposed amendments be approved and enacted.

LIST OF ORGANIZATIONS WITH REPRESENTATION ON THE POLICY COMMITTEE— PACIFIC NORTHWEST UTILITIES CONFERENCE COMMITTEE

PUBLIC AGENCIES AND COOPERATIVES

City of Albion
Alder Mutual Light Company
City of Bandon
Benton County PUD
Benton Rural Electric Association
Big Bend Electric Coop.
Blachley-Lane County Coop.
Blaine City Light
Bonners Ferry Electric Department
Burley Municipal Distribution System
City of Canby
Cascade Locks City Light
Central Electric Cooperative
Central Lincoln Cooperative
Central Lincoln PUD
City of Centralia
Chelan County PUD
City of Cheney
Clallam County PUD
Clark County PUD
Clatskanie PUD
Clearwater Power Company
Columbia Basin Electric Coop.
Columbia Power Cooperative
Columbia Rural Electric Association
Consumers Power, Inc.
Coos-Curry Electric Coop.
Coulee Dam Light Department

Cowlitz County PUD
City of Declo
Douglas County PUD
Douglas Electric Coop.
City of Drain
East End Mutual Electric Company
Eatonville Power & Light Company
City of Ellensburg
Elmhurst Mutual Power & Light Company
Eugene Water & Electric Board
Fall River Rural Electric Coop.
Ferry County PUD
Flathead Electric Coop.
City of Forest Grove
Franklin County PUD
Grant County PUD
Grays Harbor County PUD
Harney Electric Coop.
City of Heyburn
Hood River Electric Coop.
Idaho County Light & Power
City of Idaho Falls
Inland Power and Light Company
Kittitas County PUD
Klickitat County PUD
Kootenai Electric Coop.
Lane Electric Coop.

Lewis County PUD
 Lincoln Electric Coop., Montana
 Lincoln Electric Coop., Washington
 Lost River Electric Coop.
 Lower Valley Power & Light, Inc.
 Mason County PUD No. 1
 Mason County PUD No. 3
 Midstate Electric Coop.
 Milton-Freewater Light & Power
 City of Minidoka
 Missoula Electric Coop.
 City of Monmouth
 McCleary Light & Power
 City of McMinnville
 Nespelam Valley Electric Coop.
 Northern Lights, Inc.
 Northern Wasco County PUD
 Ohop Mutual Light Company
 Orcas Power & Light Company
 Okanogan County Electric Coop.
 Okanogan County PUD
 Pacific County PUD No. 2
 Parkland Light & Water Company
 Pend Oreille County PUD
 City of Port Angeles
 Prairie Power Cooperative
 Raft River Rural Electric Coop.

Ravalli County Electric Coop.
 City of Richland
 Riverside Electric Company
 City of Rupert
 Rural Electric Company
 Salem Electric
 Salmon River Electric Coop.
 Seattle City Light
 Skamania County PUD
 Snohomish County PUD
 South Side Electric Lines, Inc.
 Springfield Utility Board
 Town of Sumas
 Surprise Valley Electricification Corporation
 Tacoma City Light
 Tanner Electric
 Tillamook PUD
 Umatilla Electric Coop. Association
 Unity Light & Power
 Vera Irrigation District No. 15
 Vigilante Electric Cooperative
 Wahkiakum County PUD
 Wasco Electric Coop.
 Wells Rural Electric Company
 West Oregon Electric
 Whatcom County PUD

INVESTOR-OWNED UTILITIES

Pacific Power & Light Company
 Portland General Electric Company

Puget Sound Power & Light Company
 The Washington Water Power Company

BONNEVILLE DIRECT SERVICE INDUSTRIAL CUSTOMERS

Aluminum Company of America
 AMAX Pacific Aluminum Corporation
 Anaconda Aluminum Company
 The Carborundum Company
 Cominco American Incorporated
 Crown Zellerbach Corporation
 Foote Mineral Company
 Georgia-Pacific Corporation
 Hanna Nickel Smelting Company
 ITT Rayonier, Inc.

Intalco Aluminum Corporation
 Kaiser Aluminum & Chemical Corporation
 Martin Marietta Aluminum Inc.
 Oregon Metallurgical Corporation
 Pacific Carbide & Alloys Company
 Pennwalt Corporation
 Reynolds Metals Company
 Stauffer Chemical Company
 Union Carbide Corporation

Mr. JONES. Mr. Chairman and members of the committee, I am Alan H. Jones, general manager of the Water and Light Department, McMinnville, Ore. and I am chairman of the Public Power Council. At this time I would like to acknowledge some of the other people in the room from the Pacific Northwest.

We have with us Mr. Ed Fischer, who is the commissioner of Clark County Public Utility District, Vancouver, Wash. and is chairman, executive committee, Washington Public Power Supply System.

We have Mr. Ken Billington, executive director, Washington Public Utility District's Association, Seattle, Wash.

We have Mr. Bill Cook, manager of the Coos-Curry Rural Electric Cooperative in Oregon.

Finally we have Mr. Henry Curtis, general manager of the Northwest Public Power Association, Vancouver, Wash.

Mr. Curtis has submitted a statement that he would like to go into the record.

Mr. FOLEY. Without objection.

[The statement of Henry G. Curtis follows in full:]

STATEMENT BY HENRY G. CURTIS, GENERAL MANAGER, NORTHWEST PUBLIC POWER ASSOCIATION

Mr. Chairman and Members of the Committee: I am Henry G. Curtis, general manager of the Northwest Public Power Association, with offices in Vancouver, Washington. The Association has as its members about 120 public and cooperative electric systems of Alaska, Idaho, Montana, Oregon, Washington and British Columbia. We are the parent organization of the Public Power Council represented here today by Mr. Alan Jones, and we strongly endorse his comments on behalf of our members who are Bonneville Power Administration preference customers.

The Northwest Public Power Association supports H.R. 14168 and urges its enactment by this session of the Congress. Self-financing for BPA to construct and operate necessary transmission facilities in our region is part of Phase II of the Hydro-Thermal Accord to provide the Pacific Northwest with adequate and reliable electric service. Other witnesses have explained that program to you and have told why an additional source of capital for the transmission system is desirable.

Representatives of the Northwest Public Power Association have participated in conception of all phases of the Hydro-Thermal program, and we have been in on the drafting of bills which evolved into H.R. 14168. We have been part of the Policy Committee for which Mr. Culp has made the major statement today, and we support that group's position and proposed amendments. Public power is part of the consensus for progress which this legislation represents.

At the same time, Mr. Chairman, I would be less than candid if I did not note that the very consensus nature of this bill makes it not exactly what we in public power would like to have it be.

This legislation does not, for example, remove BPA budgets from the control of the Office of Management and Budget despite our willingness to pay a money cost so high that our affairs should no longer be an OMB concern.

The bill does nothing to solve the historical lack of access by eastern Montana rural electric cooperatives to their preference power from Hungry Horse Project; and we would have preferred that it authorized BPA to build the necessary lines to correct this injustice imposed by a private monopoly.

We have reservations, too, Mr. Chairman, about the financing monopoly which this bill grants to the Secretary of Treasury. As we originally conceived it, the bill would have had BPA issue its bonds in competitive money markets. Although we welcome the additional financing which the Treasury bonds of H.R. 14168 would give BPA, we would feel more comfortable if we had the option of going to other sources if we considered the Treasury Secretary's bonding terms to be not the best which our projects could get.

We could not expect, of course, that consensus legislation would be perfect for public power, or for private power, or for other institutions which are affected and have participated in its conception. If we in public power could have exactly what we want there would be some differences from the bill you are considering. From my participation in the evolution of this bill, I know that the private power companies, too, would have liked some things different from H.R. 14168 and far different of course from what we in public power have suggested.

The fact that public power, most of private power, all of basic industry, and BPA in the Pacific Northwest can come to you together to express support for this bill, I believe, makes it well worthy of your consideration and enactment. This legislation has the single and important purpose of timely funding of the transmission system which is the key to reliable electric service for the people of the Pacific Northwest. By design it does not disturb the historical relationships between public power, private power and the federal system; and with enactment of this law we can continue to work together as we have in the past.

This legislation, Mr. Chairman, would give the electric systems an important and needed tool by which they can serve the people who are

customers of public power, or of private power, or who use the products of the region's very basic industries. That financing tool, right now, is more necessary to our electric consumers than are any philosophical considerations which any of us might have wanted to include in this opportunity for legislation. That is why we ask you for expeditious action in enactment of this bill.

Thank you for accepting these comments for the record.

Mr. JONES. Thank you. Our representation on the policy committee that Mr. Culp referred to consists of the executive committee of the Public Power Council.

The executive committee consists of six elected members from the electric cooperative from the Northwest, six PUD members and six municipal members. We are in full support of this House bill 14168 and we concur in Mr. Culp's amendments.

We thank you for your past support in help in this area and we urge your support in this bill.

[The statement of Alan H. Jones follows in full:]

STATEMENT BY ALAN H. JONES, CHAIRMAN, PUBLIC POWER COUNCIL

My name is Alan H. Jones. I am general manager of the Water and Light Department of the City of McMinnville, Oregon, and I am chairman of the Public Power Council. The PPC consists of the 104 public agencies and co-operatives which are preference customers of the Bonneville Power Administration. I am here to express on behalf of these members our support for H.R. 14168, the federal Columbia River Transmission System Act.

The Public Power Council has participated fully in conception of Phase II of the Hydro-Thermal Program in development of the BPA self-financing plan which is the basis for H.R. 14168. Our counsel and policy representatives have helped draft, and have reviewed, the various legislative bills which ultimately evolved into the legislation which now is before the Congress. We have accepted the compromises which were necessary to make H.R. 14168 a consensus proposal which can be supported by both public and private power in the Pacific Northwest.

We do concur in the amendments as proposed by the statement of the Policy Committee. We consider these amendments to be a very necessary part of Phase II of the Hydro-Thermal Program, just as the proposed self-financing of the BPA transmission system is itself a part of that consensus plan. Therefore we urge you to accept the Policy Committee statement as the position of the Public Power Council in this matter of amendments.

We need self-financing for BPA, Mr. Chairman, and we believe H.R. 14168 presents a workable plan for such self funding. All of our Public Power Council members are participants in one or more of the five nuclear power plants which public power in the Pacific Northwest is constructing between now and 1985. Some of our members are participants, too, in nuclear projects by private utilities in our region. Each of these plants will produce from 1,100 to 1,250 megawatts of electrical capacity as base load units in the regional power supply. Each is expensive as well as immense. Together they represent billions of dollars of investment for our public and cooperative power systems and for the private companies. Their demands on our traditional sources of capital are awesome.

Phase II of the Hydro-Thermal Program, with self-financing for BPA as a part, is the best means we have been able to develop to meet our financing and construction needs. It anticipates that major hydroelectric generators of the federal Columbia River System will be financed, as in the past, with appropriations to the Corps of Engineers and Bureau of Reclamation. The new thermal power plants to meet public and cooperative electric system loads will be built by these systems, with financing through municipal bonds and other traditional capital sources of public and cooperative finance; and private utilities plan to build thermal plants for their needs with stock issues and corporate bonds. The direct service industrial customers of BPA will make

financial contributions from their usual capital sources to help construct those plants which provide for their new power needs.

The financing of the BPA transmission system through U.S. Treasury bonds, Mr. Chairman, is a desirable and necessary addition to our capital sources to provide for our regional energy needs. Such self-financing properly removes BPA funding from competition with other federal projects and programs and recognizes that federal power in our region pays its way. Self-financing for BPA as proposed by H.R. 14168 does not put the transmission system in competition with local public power in our money market from which we must get capital for our generating plants and distribution systems. We believe, therefore, that this special source for BPA funding as proposed by the bill is good. We know full well that we, and the utility industry throughout the nation, shall need quantities of capital which will strain all of our resources if we are to supply the energy which society must have.

The various elements of the electric power industry in the Pacific Northwest are, together, just one regional system. Participants in our public power projects are distributed across four states extending nearly 800 miles from the Rockies to the Pacific. Their participation as the market for power from our plants depends on the transmission which ties us together. It is this market, in turn, which makes secure the investments in our thermal power plants and thus makes funding available to us. Transmission, too, is vital to make secure the investment we must put into our local distribution lines. Only security, adequacy and reliability of the integrated regional system can make Pacific Northwest power a good investment for the private investor, for Congressional appropriations and, through H.R. 14168 other Treasury funds.

We have participated in the conception of H.R. 14168 because we were asked by the Secretary of the Interior to explore another way to finance Pacific Northwest federal power projects besides through the regular appropriations process. We agree that it has been incongruous to have the profitable federal investments in this power system treated like current federal expenses; and we have been frustrated by OMB deletions and impoundments of fund requests and appropriations in a process which does not distinguish between investments and expenses. In addition, we have seen, this year, elimination by inflation of a very vital transmission line from the current construction program. Even though the Grand Coulee-Raver line was authorized and funded for fiscal year 1974, the erosion of 1974 appropriations based on 1972 money values left BPA \$9,000,000 short in its budget, and forced delay of a line we need.

The bill which is being considered by this Committee is designed to leave mostly unchanged the basic relationships between Congress, the federal government, local public and cooperative power systems, the private utilities, the BPA industrial customers, and all of our institutions and people, mostly unchanged. We have learned to live and work together in our region under terms of the Bonneville Act and other policies which have guided us. We believe H.R. 14168 changes things only to make more timely the availability and expenditure of necessary funds to build and operate the BPA transmission system and, thereby, to assure the best possible electric service for the people of our region. We believe this is a goal which all of us would like to see achieved. We therefore urge you to enact H.R. 14168 with the necessary amendments we have presented to you.

Thank you for this opportunity to appear before your committee.

Mr. FOLEY. Mr. Beard, do you have a statement,

Mr. BEARD. I have a statement that was handed in. I will be very brief. It was brief to begin with but I won't read it. I would like to present to the committee some of the other representatives here this morning from the investor-owned utilities.

From Montana Power Co. is Mr. George O'Connor, the president of the Montana Power Co.

Mr. Colin Raff, vice president of the Montana Power Co.

We have Mr. James Bruce, vice president of the Idaho Power Co. and Mr. Logan Lanham, vice president of the Idaho Power Co. and

Mr. Robert Hogg, vice president of the Idaho Power Co.; all vice presidents of the Idaho Power Co.

We have Mr. Larry Hall, vice president of the Puget Sound Power and Light Co.

We have Mr. William Reece and Mr. Verl Topham from the Utah Power and Light Co.

My own company is Pacific Power and Light. I am here really as a spokesman for our company, Portland General Electric Co., Puget Sound Power and Light Co., and the Washington Water Power Co., all who are participants in this policy committee which is the Pacific Northwest utilities conference committee.

Representatives of all these companies participated in the voluminous and detailed work that Gordon Culp has described. All of these companies are also and have been for many years strong participants in practically all of the joint developments that have gone on over the years in the northwest. That is detailed in my statement.

We do strongly support this bill and urge that it be passed as quickly as it could be including these amendments that are contained in Mr. Culp's statements.

[The statement of George L. Beard follows in full:]

STATEMENT ON BEHALF OF PACIFIC POWER & LIGHT CO., PORTLAND GENERAL ELECTRIC CO., PUGET SOUND POWER & LIGHT CO., AND THE WASHINGTON WATER POWER CO., BY GEORGE L. BEARD, SENIOR VICE-PRESIDENT, PACIFIC POWER & LIGHT CO.

Gentlemen: I appreciate the courtesy of this Committee in providing time so that I can express on behalf of the four investor-owned utilities that are members of Pacific Northwest Utilities Conference Committee our support for H.R. 14168, the bill before this Committee that would provide for self-financing of additions to the transmission system owned and operated by the Bonneville Power Administration. We have participated from the beginning in the formation of the Hydro-Thermal Program, and we regard the concept of self-financing of necessary transmission additions to the Federal System as being an integral part of that program essential to its smooth functioning. We also believe the further amendments to the bill recommended by PNUCC are essential for the reasons previously given.

The four companies were original members of the Northwest Power Pool, formed in 1942. We were charter members of the Pacific Northwest Utilities Conference Committee, the precursor of the present close cooperation of northwest utility systems, public and private. We are signatories of the Pacific Northwest Coordination Agreement, formers of the Columbia Storage Power Exchange, purchasers from Priest Rapids, Wanapum, Rock Island, Rocky Reach and Wells—major hydroelectric projects owned by Grant, Chelan, and Douglas County public utility districts in the State of Washington. We are participants in the Washington Public Power Supply System Hanford Project No. 1 and WPPSS Nuclear Project No. 1. We are joint owners with WPPSS of WPPSS Nuclear Project No. 3, for which construction permit has been applied to AEC. We have constructed or are constructing on a joint ownership basis with each other and with public bodies the Centralia coal fired plant, the Trojan Nuclear Plant, the Jim Bridger coal fired plant, and we are now undertaking Boardman Nuclear Plant and the Skagit Nuclear Plant.

All except the last is a "phase one" plant. In phase two we are sponsoring or participating in Skagit 2, Boardman 2, PP&L Nuclear #1, Jim Bridger 4, WPPSS Nuclear #5 (and perhaps #4).

The Hydro-Thermal Program, as agreed to by the utilities and major direct industry customers, placed full responsibility for the construction of future energy supplies on the non-Federal utilities of the region. We are fulfilling that obligation. It is essential also that the Federal transmission grid in turn

be maintained and expanded to meet the needs of the area. The method of financing must, we believe, be geared to the utility responsibilities of the area.

The bill before you represents a change which we consider to be significant. Under the Bonneville Project Act, the Administrator is authorized to construct transmission primarily for the purpose of delivering power generated at Federal projects to Bonneville customers. Of course, the Act also provides for integration and coordination with other systems and since the formation of the Northwest Power Pool in 1942 the Bonneville grid has performed very essential and very useful functions for non-Federal utility entities in the Northwest. This distinction between the primary and secondary purposes of the transmission grid was of little relevance while BPA had adequate power to cover the requirements of both preference and non-preference customers. As of September 1, 1973, however, the Bonneville Power Administrator ceased to make available to the investor-owned utilities of the Northwest firm energy for purchase on a long-term basis. This date signals the successful achievement of the functional policy of the preference clauses—a policy favoring the development of a pluralistic retail power supply system with a significant portion of that system in strong public ownership capable of existing without Government supports.

There remains on both the Government and on the utility industry the obligation of seeing that power consumers of the Northwest generally receive benefit from the enormous Federal investment that has been made. One very significant benefit that can be provided to all consumers in the region is the ability to utilize the Federal transmission grid, and so this bill provides that the Bonneville Administrator will have at his command funds to build transmission as required for Federal or non-Federal generation for use by both "public" and investor-owned utilities without discrimination.

It should not be understood that we support this bill for the foregoing reasons alone. We support this bill on all the bases already stated to you by Mr. Culp. We hope that the Committee will give speedy approval to the bill with the amendments PNUCC has recommended and that the Congress will adopt the legislation promptly thereafter.

Mr. HARRIS. I too have submitted a statement. I am here representing Bonneville's 19 industrial customers and we too are in support of this bill. We have worked with other groups in forming it.

And I am also accompanied by some representatives of other companies. I am accompanied by Richard L. Bidwell, regional power manager for the northwest for the Reynolds Metals Co.; by Gerald Grinstein, attorney from Seattle, Wash. who also represents our organization. We believe this bill is a very much needed bill. It is needed for financing and also to stiffen up the reliability of the transmission system in the Northwest.

The industrial customers have a major economic impact out there. We've got over \$2 billion investment. Our payrolls average about \$170 million a year. We spent about \$10 billion in the last—no, I mean about \$4 billion in the last 10 years on all kinds of services in the area.

So this is our interest in this bill and we strongly recommend it be passed.

[The statement of Lyman J. Harris follows in full:]

STATEMENT OF LYMAN J. HARRIS, NORTHWEST AREA POWER MANAGER FOR ALUMINUM COMPANY OF AMERICA, VANCOUVER, WASH.

My name is Lyman J. Harris, Northwest Area Power Manager for Aluminum Company of America, Vancouver, Washington. I am appearing here today as the representative of the 19 direct-service industrial customers of Bonneville Power Administration.

These 19 customers, in recognition of their responsibilities to the region where most of us work and live, are also participating members of the

Policy Committee—Pacific Northwest Utilities Conference Committee, whose statement has already been presented to the Subcommittee by Mr. Culp. My appearance today is in support of H.R. 14168 with proposed amendments. I hope that the interest indicated by the industrial customers also will emphasize the regional and national importance of the statement delivered by the Policy Committee—PNUCC on behalf of the utilities and industries in the Pacific Northwest. *We believe the bill under consideration provides the means for much needed and timely financing of additional transmission facilities needed to deliver power from Federal and non-Federal generators to BPA customers, including public and private utilities as well as industrial customers.*

The industrial customers of Bonneville Power Administration have a major economic stake in the Pacific Northwest. Investment in plants and equipment in the region exceed \$2 billion. Our payroll in the area is over \$170 million a year. Our total expenditures for wages and salaries, electric power, freight payments, state and local taxes, materials and supplies, and construction activities have amounted to \$4 billion in the last 10 years alone. Our plants produce abrasives, phosphorous, chlorine, ferroalloys, calcium carbide, magnesium and, of course, aluminum. The United States aluminum industry has one-third of its capacity located in the Pacific Northwest—a capacity, incidentally, equal to that of Russia, the second largest aluminum producer in the world.

My company, Alcoa, signed the first contract with BPA for direct industrial use on December 20, 1939, at a time when the region was concerned about finding markets for its power and a dependable source of income to repay Federal debts. During the Korean War, industries in the Pacific Northwest were urged by the Government to expand their operations to meet defense needs for aluminum, chemicals and nickel. As a result, in the late 1940's and early 1950's well over half of the power sales by Bonneville in the region was to industries. This is now down to approximately 30% of Bonneville's sales of electric energy. It might further interest the Committee to know that industrial energy consumers have become much more energy efficient. When Alcoa signed its first contract in 1939, it took 12 kilowatt hours to produce a pound of aluminum. Thirty-five years later, technology has sufficiently advanced so that we can manufacture one pound of aluminum using only six kilowatt hours, one-half of the original consumption.

The picture I have attempted to sketch in summary fashion is that of a favorable economic climate combined with improving technology spurred by a national need for an electro-chemical end product, resulting in the development of major new industries and thousands of new jobs in the Pacific Northwest. Because of our remote geographic location we are at a cost disadvantage in reaching the major consuming markets of this country due to higher freight costs. Without Federal development of hydro resources, including the BPA transmission system, this development and its resultant employment would never have come about.

An integral part and a logical extension of this cooperative program is *system reliability*. As industrial customers of Bonneville and an industrial citizen of the Northwest, we are firmly committed to maintaining the growing economy of the Pacific Northwest region. We support the Hydro-Thermal Power Program. We believe it is the most economical and environmentally desirable program to supply power to our region.

The proposed legislation would allow BPA to use its revenues and revenue bonds to finance and construct, operate and maintain transmission system capability that will not only keep pace with a growing Northwest and its power requirements, but provide a higher degree of transmission reliability much needed by continuous process customers.

In order to illustrate the problem of unreliable transmission, we asked one of our member aluminum companies to prepare a list of transmission interruptions and the resultant increased costs. In the last six and one-half years this company has experienced 15 interruptions as the result of line loss, with the curtailments ranging up to four and one-half hours. To give these statistics some economic substance, consider the following costs associated with power outages:

1. Any total outage of more than several hours, depending on the amount of forewarning, can cause a total shutdown of the company. The cost magnitude of a total shutdown would approximate \$12 million to \$18 million.

It would take 90 to 120 days to restart the plant in total. The ranges above depend on existing plant conditions. Any reduced load of 33% in excess of 10 to 12 hours could cause approximately the same results.

2. Interim or short-term interruptions are costly to a continuous process electric operation. For every hour of short-term outage, it takes days and sometimes weeks to reach electrolytic equilibrium. This causes loss of production and overconsumption of raw materials, and the company's costs and other losses approximate \$14,550 per hour, excluding alumina.

A specific case which illustrates the costs and losses caused by a transmission interruption occurred in the fall of 1973. The severe short-term interruption caused extensive damage to the carbon linings, or cathodes, of the smelting pots in the plant. Each of these cathodes, or potlinings, costs \$25,000. In a period of a few weeks, the company lost over \$575,000 in cathodes due to electrolytic shock, and expects to suffer \$1.2 million in total in eventual cathode failures due to shortened life. Although these costs were not directly related to line failures, they illustrate the cost magnitude and difficulties associated with sudden power curtailments in a reduction plant.

In any situation where diverse and conflicting interests compromise on the broader needs of a region, there are always areas where any side will prefer a different approach. This legislation also is a compromise. If industrial customers of Bonneville were free to draft a bill reflecting only our views, the bill would be different from the compromise version we are supporting here today. As a matter of fact, we would like to see Bonneville accept some modifications in addition to those suggested in the Policy Committee—PNUCC statement, although these would not be major revisions.

Nonetheless, we believe a cooperative effort is essential, and that this legislation is a necessary and integral part of the Hydro-Thermal Program. It will enable Bonneville to provide and maintain a transmission system needed to reliably serve the region's demands for electric energy. Passage of this bill will make possible timely construction while continuing the regional responsibility to pay its own way. Therefore, on behalf of the industrial customers of Bonneville, we respectfully urge this Committee and the Congress to favorably recommend and pass this legislation.

Mr. FOLEY. Your full statement along with Mr. Beard and Mr. Jones' will be submitted to the record.

The groups that are represented in the room today, the professional members, I recognize this is a very distinguished gathering. We are very happy to welcome you all.

Any questions of any of the witnesses?

Mr. JOHNSON. No, I too want to take this opportunity to thank all you people for appearing here on behalf of this legislation.

We are very pleased to have such unanimity of opinion at least within the States of Oregon and Washington. I want to say California agrees. We need good transmission up there. We are with you also.

You may hear from others, who might have certain objections to the bill but it is our intention to close, as soon as we are through with this group here, hopefully by 12 o'clock, and then return at 1:30 to hear the balance of the witnesses and hope to get through by 3 o'clock or 3:30.

Mr. DELLENBACK. Thank you. Let me ask a couple of previous questions after first saying I think your unanimity of opinion clearly indicates how important you all consider this legislation to be.

When this many people who have as many other things as many of you do, will take the time and trouble, the distance that you and I know it takes to reach Washington from the Pacific Northwest, we think—even those who are not in the room and who couldn't be at

the witness table—we think it worthwhile to come this far to sit and listen to these elegant witnesses and the brilliant line of questioning put to them.

And I say to you in all seriousness I think it is important that by your presence here and by the broad range of the groups and companies you represent that you are saying something to us about how important you consider it to be.

So all of you, you do have an impact and have made an impact and we do welcome you.

I would like to be sure, because I have read the testimony and the statements that each of the witnesses at the table have submitted for the record and listened to what you had to say, but to be sure of this point, you are all in support of this legislation and all of this group is also in support of the amendments? You are united in support of both the legislation and the amendments?

Mr. CULP. Yes.

Mr. DELLENBACK. May I ask, whichever of you wants to be the spokesman, and perhaps it should be Mr. Culp, is there any group or person whom you know of who are opposed to this legislation? Is this really as strongly and broadly supported as today's testimony would give us indication?

Mr. CULP. Yes, it is.

The policy committee represents all power organizations in the west group. As I mentioned, there are you know, the Idaho, Montana, Utah, who have their separate views of some parts of this that you will hear today. They are not directly members of this group though we did work with them.

But it not only was prepared, and this testimony prepared by representatives of everyone listed after page 13 but it was submitted to their representatives in final form with the request that they you know, say let us know any objection that they thought of since we last talked to them. So it is supported as universally as we know how to do it before getting here.

Mr. DELLENBACK. Well, instead of—and being very serious on this completely—instead of being concerned when I find that publicly-owned and coop systems and investor-owned utilities and industrial companies are united because there are certain instances that you have which are at least competitive if not antagonistic towards each other, but when you all are united in this kind of a stand I find that helpful because it means you hammered off rough edges and extreme positions that one or another would take which had to give way to the general synthesis of thinking here.

So the very fact that your group is as disparate in its composition as I know it is, that says something significant I think.

Instead of being here saying we really don't accept this pact and we only accept that part or that part of the fact that you all agree means that you have done some very careful thinking and the fact that you said it, that fact adds weight to it.

Mr. BEARD. Shall we say it louder?

Mr. DELLENBACK. May I ask one question of you, Mr. Beard? We understand that what you are saying to us is that even the private

utilities, in addition to the publicly-owned systems, want BPA to go forward with this particular program. You want this to be a Government, a BPA transmission line program?

Mr. BEARD. Yes. Now I would say this. We do not expect that Bonneville will forever more build all of the transmission but the transmission that is properly part of Bonneville's program, we do support and want it to be handled under this program.

Mr. DELLENBACK. So we are not to take the support for this program as an indication on the part of the investor-owned companies that they want all transmissions to be by BPA?

Mr. BEARD. That is correct.

Mr. DELLENBACK. But rather you are saying that which is to be done by BPA, is best done with this kind of additional implementation?

Mr. BEARD. Yes. And we do expect that a very great deal of the transmission needed in the Northwest will be Bonneville projects under this program.

Mr. DELLENBACK. Thank you all. Thank you, Mr. Chairman.

Mr. FOLEY. Mr. Meeds?

Mr. MEEDS. Thank you, Mr. Chairman.

I don't have any more questions because of the unanimity of opinion here and the way that this testimony meshes with that of the Bonneville Power Administration's and the administration's but I would like to commend the witnesses.

I note by a quick glance at the list provided by Mr. Culp that six of the public agencies and cooperatives are substantial users in the second congressional district; one of the four investor-owned utilities, Puget Sound Power and Light Co. is a major customer in the second congressional district and two of the Bonneville direct service industrial customers, namely Intalco Aluminum Corp. and Georgia-Pacific Corp., Bonneville direct service industrial customers supporting this legislation.

I appreciate very much the appearance here of the representatives of those particularly as regards the testimony with regard to the \$170 million annual payroll. I am delighted to see that you are here working to not only sustain your own groups but to speak for the workers, the people who are earning their daily bread by the kinds of groups you represent here and I am sure they are appreciative of it also.

Mr. FOLEY. If no further questions, Mr. Culp—oh, staff. Mr. Casey?

Mr. CASEY. Let me say, Mr. Culp, that this is an enormously impressive piece of staff work that you have done here. You have practically written our committee report.

One of the amendments you called particular attention to—and I will phrase this in form of a question because I am not supposed to make speeches—but did the people in developing the amendments page 10 of your statement that contemplates approval of the committees of Congress of new starts take into account that from time to time Presidents of the United States have held that such statutes are unconstitutional and have declined to implement them because it makes the Executive subject to a committee as distinct from the total Congress?

Mr. CULP. We have been made aware of those happenings in the past and I think the best response to what is to say that we are giving it continuing thought to see how we might build a better amendment to avoid that occurring to this bill. We will want to think more and work more on that aspect of this.

Mr. CASEY. I would phrase one more question.

Would you be willing to have your governing body address itself to this and communicate further with this committee as to whether you want to stand pat or whether you want to draw one or two cards between now and the time the members are asked to vote on this amendment?

Mr. CULP. We would be delighted to do so.

Mr. CASEY. Mr. Chairman, I would hope that communication, when it arrives, might be admitted into the record.

Mr. FOLEY. Without objection it will be admitted into the record. [The information above referred to follows:]

H.R. 14168

SEC. 4. The Secretary of the Interior, acting by and through the Administrator, shall operate and maintain the Federal transmission system within the Pacific Northwest and shall construct improvements, betterments, and additions to and replacements of such system within the Pacific Northwest as he determines are appropriate and required to:

- (a) integrate and transmit the electric power from existing or additional Federal or non-Federal generating units;
- (b) provide service to the Administrator's customers;
- (c) provide interregional transmission facilities; and, or
- (d) maintain the electric stability and electrical reliability of the Federal system;

Provided however, that the Administrator shall not construct any transmission facilities, excepting customer service facilities, outside the region described in Section 3(c) (1), nor shall he commence construction of any major transmission facility within the Pacific Northwest, unless specifically approved by Act of Congress.

SEC. 5. (a) Unless specifically authorized by Act of Congress, the Administrator shall not ~~pursuant to the authority of expend funds made available under this Act —, other than funds specifically appropriated by the Congress for such purpose,~~ to (1) acquire any operating transmission facility by condemnation: *Provided,* That this provision shall not restrict the acquisition of the right to cross such a facility by condemnation.

(2) ~~construct additional transmission facilities which duplicate existing facilities or will duplicate transmission facilities which a utility (or utilities) commits itself to construct unless such facilities are required for one or more of the purposes specified in section 4 hereof, and the Administrator, at or prior to the time the Administrator's budget is submitted to Congress for the use of revenue or the issuance of revenue bonds to finance the construction of such transmission facilities, after good faith negotiations, is unable to make arrangements for the use of non-Federal transmission facilities which shall be at least equivalent in electrical capability to the proposed Federal facilities and which arrangements shall be not less favorable to the Government than the financing and construction of the proposed Federal facilities.~~

(b) ~~At least sixty days prior to the time a request the budget for approval or authority under Section 4 or 5 of this Act the Bonneville Power Administration is sent to Congress, the Administrator shall give notice of such request to entities notify utilities in the Pacific Northwest with which the Administrator has power sales or exchange contracts or transmission contracts or which have a transmission interconnection with the Federal transmission system. of the new transmission facilities proposed for construction therein. If the Administrator, after good~~

faith negotiations; with a utility desiring to provide all or a part of such facilities, retains an item in his budget for a transmission facility; such utility may bring suit in the Federal District Court for Oregon for the purpose of determining if the Administrator has complied with the provisions of this section. The Administrator shall not begin construction of such a facility until at least one hundred and fifty days after the budget proposing to initiate such facility has been presented to both Houses of Congress and he has given such utility at least thirty days' prior written notice of his intent to begin with construction. No such suit may be brought by such utility after the later of (1) said one hundred and fifty days or (2) thirty days after notice by the Administrator of his intent to begin construction.

Mr. McFARLAND. I wonder if instead the Interior and Insular Affairs rather than the Appropriations Committee, might be the appropriate one to consider new starts?

Mr. CULP. We have not considered that. I can say almost without hesitation that there would be no resistance to so considering it.

Mr. FOLEY. Mr. Leppert, any questions?

Mr. LEPPERT. No questions?

Mr. FOLEY. If not, then Mr. Culp, Mr. Jones, Mr. Beard, Mr. Harris, we appreciate your testimony.

It is very useful in consideration of this legislation.

The committee stands in recess until 1:30

[Whereupon, the committee was recessed at 12 noon to reconvene at 1:30 p.m. the same day.]

AFTERNOON SESSION

Mr. JOHNSON. The Subcommittee on Water and Power Resources will come to order. We will continue our hearings on H.R. 14168.

Our next witness will be Mr. George W. O'Connor, president of the Montana Power Co.

You may take the witness stand and bring with you anyone you would like to have with you.

STATEMENT OF GEORGE W. O'CONNOR, PRESIDENT, MONTANA POWER CO.

Mr. O'CONNOR. Thank you very much, Mr. Chairman.

My name is George W. O'Connor, and I am president of the Montana Power Co.

Gentlemen of the committee, I would like to have the statement that I filed placed in the record if I may, Mr. Chairman? I would simply wish to summarize our comments on this piece of legislation.

Mr. JOHNSON. Your statement will appear in the record as if read in full and you may summarize any way you would like to.

[The statement of George W. O'Connor follows in full:]

STATEMENT OF GEORGE W. O'CONNOR, PRESENTED ON BEHALF OF THE MONTANA POWER CO.

My name is George W. O'Connor. I am the President and Chief Executive Officer of The Montana Power Company and reside in Butte, Montana, headquarters for the Company.

I appreciate the opportunity to appear before your committee in behalf of The Montana Power Company and to make some comments with respect to H.R. 14168.

First, however, let me tell you a little bit about the Company which I represent and the territory which we serve. The Montana Power Company is an electric and gas utility operating in the western two-thirds of Montana. Our service area encompasses approximately 96,000 square miles, an area slightly larger than all of the New England states, plus half of the state of New York. This is the largest service area of any single operating gas or electric utility company in the United States. Based upon recent studies, approximately 562,000 people live in this service area or about 75% of the total population of the state.

The Company provides electric service in 185 communities and rural areas surrounding them and the Yellowstone National Park, and natural gas service in 96 communities, 90 of which communities are served at retail and 6 at wholesale. In addition, we provide two communities with water service.

The population density of our service area is approximately 5.9 persons per square mile. The Company serves 2.1 electric customers per square mile.

Our service area spans the vast rugged area of the Continental Divide of the Rocky Mountains where elevations reach over 10,000 feet and areas where snow accumulates 50 to 60 feet in the winter time.

To serve our approximately 190,000 electric customers and 96,000 natural gas customers, the Company owns and operates some 16,188 miles of electric transmission and distribution lines and the Company and its subsidiaries own and operate some 1,681 miles of gas transmission lines and approximately 1,429 miles of gas distribution mains.

Our Company has a total assured capability of its electric system of approximately 1 million kilowatts.

Basically, we are a producer, transmitter, and distributor of both electricity and natural gas.

We appear here today in qualified support of this proposed legislation.

The primary purpose of this bill is to permit the Bonneville Power Administration to use revenue bond financing rather than congressional appropriations as a means of constructing, operating and maintaining its transmission system in the Pacific Northwest. The area Bonneville is permitted to serve under existing laws is defined in Public Law 88-552 and is essentially the States of Washington, Idaho and Oregon as well as those parts of Montana, Nevada, Utah and Wyoming lying within the Columbia River drainage.

Part of the service area of The Montana Power Company lies on the west side of the Continental Divide and is in the Bonneville marketing area.

The Montana Power Company has interconnections with Bonneville in several locations in Western Montana. The Montana Power Company and the Bonneville Power Administration are parties to several contracts by which our Company and Bonneville's system each supplies wheeling services to the other to serve each others loads.

The reliability and adequacy of the Bonneville transmission system in the Pacific Northwest is vitally important to the seven private and approximately 108 public utilities that are interconnected with Bonneville. The ability of Bonneville to properly finance its construction, operation and maintenance is a matter of mutual concern.

Largely at the urging of the Office of Management and Budget, Bonneville has sought to find a method of financing which was outside the congressional appropriations procedures. This would not only satisfy the requests of OMB, but would provide Bonneville with a means of avoiding delays in construction now occasioned through the appropriations system even though construction of specific projects have had congressional approval. At a time of critical energy supply the avoidance of such procedural delays is important.

To accomplish drafting a bill which would have maximum regional support, Bonneville worked with a drafting subcommittee of the Pacific Northwest Utilities Conference Committee (PNUCC). This group represents virtually all the public and private utilities in the States of Washington and Oregon. The MPCo. is not a member of PNUCC, but has accepted their invitation to sit in on several of the discussions held by that group in connection with this bill.

To achieve regional support for the bill, the drafting group recognized the necessity of limiting the scope of the bill to solving only the problem

at hand; the financing of transmission facilities. The drafting group very wisely determined not to write language which would unnecessarily modify any existing powers of or limitations upon the Bonneville Administrator. In so doing it would avoid upsetting the balance reached between private and public power interests, and thereby obtain the support of both groups.

To a very large degree, Bonneville and the drafting committee were successful in their efforts. We feel, however, there has been one significant and unnecessary restriction placed upon Bonneville's ability to negotiate wheeling contracts with non-federal utilities. This limitation can easily be corrected. If corrected, we will have no objection to this legislation.

Our specific comments are directed at Sec. 5(a)(2). To understand our concern, one must realize the general thrust of the entire section is to declare that this bill shall not of itself be authority to allow the Administrator to either acquire operating transmission facilities by condemnation, or to permit the Administrator to construct duplicating facilities where a non-federal utility commits itself to build such facilities, subject to certain exceptions.

It is the exceptions about which we are concerned. At page 4 of the bill the Administrator is required to determine he: "*After good faith negotiations, is unable to make arrangements for the use of non-federal facilities which shall be at least equivalent in electrical capability to the proposed Federal facilities and which arrangements shall be no less favorable to the Government than the financing and construction of the proposed Federal facilities.*"

We believe, for the reasons I will mention, that all of the language following "non-federal transmission facilities" should be deleted.

The first part of the exception relating to electrical capability is not of importance to us one way or the other; it seems unnecessary because if Bonneville is not able to make arrangements with a non-federal utility for moving a required power flow because of inadequate facilities, it is simply unable "to make arrangements" and would be free to construct necessary facilities with revenue bond proceeds.

The second part of the exception, however, is the potential source of some fundamental conflicts. That portion creates a test whereby the proposed arrangements with the non-federal utility limit the ability of the Administrator to consider items other than the cost of Federal financing and construction of the facility.

This is, as you are all well aware, a painful controversy which goes back many years. It is a very divisive issue which, in our opinion, need not be raised in this bill.

It can be avoided by simply striking the language as we quoted. This would have the effect of permitting the Administrator and the non-federal utility involved to solve each case as it arose and in the context of its own peculiar circumstances. By deleting the language, this bill's approval would be consistent with the Administrator's purpose of avoiding unnecessary disputes and leaving him with his present powers and obligations in all areas not required to be charged by the proposed shift to the use of revenue bond financing.

It should also be noted that if a genuine issue would arise between the Administrator and a non-federal utility over whether "after good faith negotiations (the Administrator) is unable to make arrangements for the use of non-federal facilities," there is nothing to prevent the Administrator from seeking an appropriation from Congress to build the facility without the use of revenue bond financing.

The deletion of the language would make the impact of Sec. 5(a)(2) consistent with the Keating Amendment which, as you gentlemen are all aware, does not contain a cost test. The Keating Amendment (PL136, 82nd Congress, 1st Sess.) has withstood many tests since 1952 and has not imposed any material hardship upon Bonneville or any other Federal agency during that time.

We also should point out what could well be a serious adverse consequence to the Administrator if the language is not deleted. The language imposes a *cost* test by which the Administrator *must* by law determine whether he must construct the proposed facility or whether he may enter into an arrangement

with a non-federal utility. There is no flexibility allowed in this determination. This would prohibit the Administrator from taking into account other equally important considerations such as:

What are the comparable environmental impacts, especially if it is a duplicating facility.

What are the risks for delay in completion of the federal project vis-a-vis the costs of wheeling over a non-federal system.

If the costs are virtually the same, shouldn't the Administrator be able to enter a wheeling arrangement simply because building the line would just not be worth all the extra effort.

It could well require the Administrator to build a costly line which he does not desire to build and which line should not be built merely because this limitation upon his discretion would foreclose negotiating an otherwise desirable and equitable wheeling contract.

At the present time the Administrator has considerable latitude to enter arrangements which he feels are beneficial to the Bonneville Power Administration after taking into account all legal and practical consideration. Failure to delete this language removes that latitude.

As an example, The Montana Power Company now has wheeling arrangements with both Bonneville and the Bureau of Reclamation which are highly beneficial to the Federal Government. These wheeling arrangements serve areas where neither agency desires to duplicate our system which system has adequate capacity to provide reliable service to them. Had these restrictions been applicable, such highly desirable arrangements could not have been negotiated.

For these reasons, we urge the deletion of the language mentioned in Section 5(a)(2). If that language is deleted, we have no objection to this legislation. Without deletion of the language I have mentioned we would desire to go on record as being in opposition to this legislation.

Mr. O'CONNOR. I would like to appear here today in qualified support of this proposed piece of legislation and to suggest that a substantial part of the Montana Power Co. service area is in the Bonneville service area and that it is of interest to us.

We have a number of interconnections with Bonneville in several locations in western Montana. The Montana Power Co. and Bonneville Administration are parties to several contracts by which our company and Bonneville's system each supplies Wheeling services to the other to serve each other's loads. So the ability of Bonneville to finance this construction operation and maintenance is a matter of mutual concern, I assure you.

At a time of critical energy supply, the avoidance of such procedural delays is important to us.

Montana Power Co. is not a member of the Pacific Northwest Utility Conference Committee, but we were cordially and graciously invited to sit in with that committee as they were trying to put this bill together. We accepted that invitation. We served in the discussions held by that group in connection with this bill.

I think that to a very substantial degree, that the Bonneville and the drafting committee were successful in their efforts in solving all of the problems that we saw or that anyone else saw in connection with this legislation.

We feel, however, there has been one significant and unnecessary restriction laced on Bonneville's ability to negotiate Wheeling contracts, with non-Federal utilities. That limitation can be easily corrected, and if corrected, we will have no objection, I assure you, to this legislation.

Our specific comments are directed at section 5(a)(2). There is an exception which states the Administrator is required to determine he:

After good faith negotiations, is unable to make arrangements for the use of non-federal facilities which shall be at least equivalent in electrical capability to the proposed federal facilities and which arrangements shall be no less favorable to the government than the financing and construction of the proposed federal facilities.

And that is, we believe, the part of the bill that limits the capacities of the government to negotiate with the utilities.

The first part of the exception relating to electrical capability is not of importance to us one way or the other.

The second part of the exception, however, is the potential source of some fundamental conflicts. That portion creates a test whereby the proposed arrangements with the non-Federal utility limit the ability of the Administrator to consider items other than the cost of Federal financing and construction of the facility.

By deleting this language, simply deleting this language, the bill's approval would be consistent with the Administrator's purpose of avoiding unnecessary disputes and leaving him about his present power and obligations in all areas not required to be changed by the proposed shift to the use of revenue bond financing.

We would like to point out that it could well be a serious adverse consequence to the Administrator if the language is not deleted. The language imposes a cost test by which the Administrator must by law determine whether he must construct the proposed facility or whether he may enter into an agreement with a non-Federal utility. There is no flexibility in this determination.

This would prohibit the Administrator from taking into account other equally important considerations such as:

What are the comparable environmental impacts, especially if it is a duplicating facility.

What are the risks for delay in completion of the federal project vis-a-vis the costs of wheeling over a non-federal system.

If the costs are virtually the same, shouldn't the Administrator be able to enter a wheeling arrangement simply because building the line would just not be worth all the extra effort.

And it could well require the Administrator to build a costly line which he does not desire to build and which line should not be built merely because this limitation upon his discretion would foreclose negotiating an otherwise and certain wheeling contract.

At the present the Administrator has considerable latitude to enter arrangements which he feels are beneficial to the Bonneville Power Administration after taking into account all legal and practical considerations. Failure to delete this language removes that latitude.

As an example, the Montana Power Co. now has wheeling arrangements with both Bonneville and the Bureau of Reclamation, which are highly beneficial to the Federal Government. These wheeling arrangements serve areas where neither agency desires to duplicate our system, which has adequate capacity to provide reliable service to them. Had these restrictions been applicable, such highly desirable arrangements could not have been negotiated.

For these reasons, we urge the deletion of the language mentioned in section 5(a)(2). If that language is deleted, we have no objection to this legislation. Without deletion of the language I have mentioned, we would desire to go on record as being in opposition to this legislation.

Thank you very much, Mr. Chairman.

MR. JOHNSON. If I construe your statement that you have summarized correctly, I think I get the key spots of differences between your position and the position taken by the others who testified this morning on behalf of the bill and the language in it.

I wonder if you would expand on your example a little bit, which you cited, more than just in the broad terms that you have given us here? Under what circumstances was the wheeling arrangements brought about?

MR. O'CONNOR. Well, Mr. Chairman, we wheel power for Bonneville Power Administration to each one of the cooperatives in western Montana, that is, that are in our service area. And I guess the best example would be a cooperative known as the Vigilante Cooperative, which serves a substantial area east of the Continental Divide, but within the 75 mile limitation of the Continental Divide.

We had capacity to serve that cooperative because they bought their power from us prior to buying it from Bonneville, and we delivered that power to them. We have an interconnection with Bonneville at their substation at Anaconda, Mont. We were able to negotiate a satisfactory contract and one that was satisfactory to us, one that obviously was satisfactory to the Bonneville Power Administration. And had we not been able to negotiate that contract, had the limitations of the language that are found in this bill been in effect at that time, we believe that using only cost criteria as the basis of whether or not we could negotiate a contract, that they would have been required to build duplicating transmission facilities to have served Vigilante Cooperative on the east side of the Continental Divide.

And we are concerned, frankly, about this precedent if it goes into this bill. We serve power from Great Falls, Mont., to Cut Bank, Mont.; and over 100,000 voltage transmission line to serve Glacier Electra Cooperative.

If the cost criteria had been the only one that could have been used in determining whether or not we should negotiate with the Bureau, the Bureau would have been compelled to have built their own line.

We don't think that this is consistent with our desires to not have duplicating facilities. We don't think it is consistent with the environmental thrust to have single transmission facilities in an area. And we, frankly, think that this limitation, which has not been in the law, this limitation, which has never been imposed on the Administrator previous to this, would require in many instances, duplicating facilities when he could negotiate a contract that was better for the government and for the utilities both.

MR. JOHNSON. Well, are there similar situations in the area that was represented by the investor owned, public and federal people, who testified today?

They must have similar situations where they have wheeling arrangements, and yet they all testified in behalf of the language of the bill as being acceptable to them.

Mr. O'CONNOR. Mr. Chairman, I suspect that there are similar situations in Washington and Oregon. I simply can't say positively that I know of one instance.

There is a similar situation in Idaho, about which I do know, a situation which is similar to ours. And I suspect, and I am certainly not trying to anticipate Idaho's testimony, but I suspect that Idaho is going to have the same objection that we have, based on what they said to the Senate yesterday.

Mr. JOHNSON. To the best of my knowledge I think we have an example in California where the Pacific Light and Power people wheeled Bonneville Power to a cooperative in California.

Mr. O'CONNOR. Right.

Mr. JOHNSON. The Surprise Valley Cooperative I think that is. I think they receive power, which is Bonneville power, wheeled to them by Pacific Light & Power.

Mr. O'CONNOR. And I think this is a highly desirable arrangement, Mr. Chairman, but let me suggest again that if this limitation had been placed on the Administrator at the time they made that wheeling arrangement, it is entirely possible that they could not be wheeling power at this time.

Mr. JOHNSON. Well much of our power in our state from the federal system is wheeled by private enterprise or investor-owned companies such as Pacific Gas & Electric Co., We have no direct ties with the Federal system—

Mr. O'CONNOR. Much of the power in Montana is wheeled by the privately owned utilities to the cooperatives and to customers of that nature by the privately owned utilities. As a matter of fact, the majority of the area of Montana is served in that manner. Our concern is that these arrangements perhaps couldn't have been made with the limitations that are imposed on the government in this bill.

Mr. JOHNSON. Oh, by the same token you mentioned in here the Keating amendment, which made it almost impossible for the government to build a line.

Mr. O'CONNOR. Well, the Keating amendment—

Mr. JOHNSON. That was put in 1952.

Mr. O'CONNOR. The Keating amendment I think has been in practically every appropriation bill for a considerable amount of time, and I suppose there were instances where it might not have been consistent with everybody's appetites and wishes.

But I should like to suggest, Mr. Chairman, that I think that the Keating amendment has not imposed any hardships on Bonneville and to my knowledge, no other Federal agency. I think it has been advantageous.

I believe that it has stopped the duplication of a number of lines that might otherwise have been built, which we would now regret.

Mr. JOHNSON. The gentleman from California, Mr. Clausen.

Mr. CLAUSEN. I have no questions. I believe he stated his position very clearly, and the dialog between the chairman and the witness has brought out all the points made.

Mr. JOHNSON. The consultant to our committee, Mr. Casey, do you have any questions?

Mr. CASEY. I don't believe I have any questions.

Mr. JOHNSON. Well, we want to thank you, Mr. O'Connor. You certainly have given us a very clear and forthright statement here, and your summary in response to the questions, your answers, have been well said and placed in the record. So I think we do have a good record from the Montana Power Co. here.

Mr. O'CONNOR. Thank you, members of the committee and Mr. Chairman.

Mr. JOHNSON. Our next witness is Mr. Robert A. Hogg, the consultant, Idaho Power Co.

Do you have anyone you wish to bring up with you, Mr. Hogg? We heard you in Idaho at Burley, and here in Washington about a little matter there in Idaho, that has affected your company. I hope it is working out to the satisfaction of all?

STATEMENT OF ROBERT A. HOGG, CONSULTANT, IDAHO POWER CO.; ACCOMPANIED BY JAMES E. BRUCE, VICE PRESIDENT AND SECRETARY, COUNSEL OF IDAHO POWER CO.

Mr. HOGG. It is working out very good, Mr. Chairman. I do have in the room with me Mr. James E. Bruce, who is vice president and secretary and general counsel for the company. I would like for him to come up if he could.

Mr. JOHNSON. Come right on up.

Mr. BRUCE. Thank you, Mr. Chairman.

Mr. HOGG. I have submitted to the staff the statement for the Idaho Power Co., Mr. Chairman, which I would like to have in the record.

Mr. JOHNSON. It will be placed in the record at this point as if read in full and you may summarize it.

[The statement of Robert A. Hogg follows in full:]

STATEMENT OF IDAHO POWER CO., SUBMITTED BY ROBERT A. HOGG, BOISE, IDAHO

My name is Robert A. Hogg, Boise, Idaho, a registered Professional Civil Engineer. I was Vice President of Idaho Power Company at the time of my retirement at the end of 1972. I have been retained in a consulting capacity for the Company in this matter because of my previous experience in this area. I am appearing to present Idaho Power Company's position on H.R. 14168, cited as the "Federal Columbia River Transmission System Act," and to review the history of transmission line construction and the delivery of Federal power to preference customers in southern Idaho.

Idaho Power Company is a public utility which, since 1916, has been providing electrical energy to serve the needs of customers in southern Idaho, eastern Oregon and a portion of northern Nevada. Idaho Power Company, in order to provide this service, has constructed a series of 16 hydroelectric generating plants located along the Snake River and its tributaries and is currently engaged in constructing a coal-fired thermal electric generating plant in a joint venture with Pacific Power & Light Company, at Rock Springs, Wyoming.

The Company over the years has constructed an extensive transmission line network within its service area to interconnect its 16 generating plants, provide high capacity interconnections with adjoining utilities and to transmit power and energy to its service area loads as well as interchange and sale of power to other utilities in the Pacific Northwest, Southwest and Intermountain areas. This transmission line network consists of over 4,300 miles of transmission lines ranging from 69 KV to 345 KV in size.

Over the past years 8 municipalities and 12 cooperatives have received electricity from power facilities constructed by the United States Bureau of Reclamation as a part of a Reclamation project. These entities received Reclamation power at rates designed to pay for the power facilities constructed as an adjunct to Reclamation facilities and to contribute to the payment of the irrigation facilities. This electric energy until 1963 was delivered at an average cost of approximately 5.6 mills per kilowatt-hour. In 1963 the Secretary of the Interior designated Bonneville Power Administration to replace the Bureau of Reclamation as the marketing agent for Federal power in southern Idaho. Immediately upon this transfer the power rates for government power to these customers in southern Idaho dropped from approximately 5.6 mills per kilowatt-hour to Bonneville Power Administration's standard rate. The average cost to these customers would be about 3.0 mills per kilowatt-hour. This decrease occurred despite the fact that the primary source of power was still the Reclamation facilities. Due to increasing Federal loads, the capability of the Reclamation power facilities to satisfy these loads was expected to be exceeded about 1964 and, accordingly, it was necessary to obtain power from other sources.

Idaho Power Company and the United States Bureau of Reclamation had a long history of contractual relations in the interest of developing and paying for reclamation projects. At the time of transfer of the USBR power marketing responsibilities to BPA, a contract executed in 1959 was in effect for the coordinated operation of Government and Company systems, for interchange and sale of electric power and energy and for service to loads of the United States and the Company. The contract term extended to October 31, 1976.

Conferences between BPA and the Company on transmission and integration service were initiated late in 1963, with BPA insisting that the Company agree to wheel to all future preference customers which BPA might take over or which might be formed in the future. This position would have permitted BPA's wide open utilization of the Company's system to compete with the Company for loads being served by the Company. Furthermore, a review of wheeling agreements in California, Washington, Montana, Utah and Wyoming disclosed these agreements did not contain such provisions.

The Senate Public Works Committee in 1966 approved a \$1,000,000 appropriation for a high capacity transmission line across southern Idaho. However, it directed BPA to continue efforts to reach a wheeling agreement with non-Federal utilities and to forego use of this appropriation, if such an agreement could be reached. The Committee expressed the view that Bonneville power should be available to all preference customers, but the Administration should not engage in promotional efforts to organize new preference customers or to persuade existing power users to contract with it for future power needs. Furthermore, the Committee recommended addition of the following language to the bill:

Provided, That the Bonneville power Administration shall not supply power, directly or indirectly to any phosphorous electric furnace plant in Idaho, Utah, or Wyoming; *And provided further*, That the Administrator of Bonneville Power Administration shall cancel contract No. 14-03-44107, executed April 9, 1964, with the Monsanto Company as provided in section II(f) thereof.

Negotiations continued and an agreement amending in its entirety the previous agreement (Contract No. 14-06-100-1763) was executed March 29, 1968, effective August 31, 1968 and terminating October 31, 1986. The provisions of this contract provide for Idaho Power Company to provide up to 720,000 kilowatts of transmission capacity. For the 1974-75 period it was

estimated that the public load, including the Bureau of Reclamation irrigation load, would amount to 339,700 kilowatts. However, at this time the maximum load has been only 256,000 kilowatts.

The Idaho Power Company has constructed transmission grids and lines of size and capacity required to meet Idaho Power Company's load and its obligations under the wheeling agreement with BPA and the Company intends, and will continue, to make whatever additions are necessary in order to fulfill its contractual commitments. This contractual commitment has involved a substantial expenditure of money by Idaho Power Company and will continue to require additional expenditures. The wheeling agreement has saved the government an estimated \$132 million investment in facilities, and the estimated governmental savings in revenue, interest, operation and maintenance costs over a 20 year period will approximate \$89 million.

Southern Idaho and eastern Oregon are substantially different from the remainder of the Pacific Northwest, in that the Federal government (Bonneville Power Administration) has constructed a Federal grid which acts as the backbone system for transmission of electric power and energy throughout Washington, western Montana and western and central Oregon. In southern Idaho and eastern Oregon there is no Federal electrical transmission system nor is there a need for one. Construction of transmission lines across southern Idaho has been performed by Idaho Power Company or Utah Power & Light Company. Federal lines that have been constructed have been relatively few and have covered only a very small territory or connect a USBR powerplant to the main transmission line of either Utah or Idaho.

H R 14168 would allow the Bonneville Power Administration to construct, operate and maintain the Federal transmission system in the Pacific Northwest by use of the revenues of the Federal Columbia River Power System and the proceeds of revenue bonds, as contrasted with the appropriation method which has historically been required in order to authorize and pay for the construction of Federal transmission facilities in the Pacific Northwest.

The Pacific Northwest Utilities Conference Committee, a group composed of public and private utilities and industrial customers, have studied this legislation and have proposed a number of changes in the bill. We are also informed they have prepared an analysis of the bill, which should be used as the "Legislative History." This analysis notes the fact that the customers of the Administrator in southern Idaho are presently served through long-term wheeling arrangements with Idaho Power Company and Utah Power & Light Company on terms satisfactory to BPA. It further states there is no intention of the Administrator under this bill to construct transmission facilities which would replace the facilities provided by the companies, unless there is a failure to provide service agreed to under such arrangements. Idaho Power Company is in accord with this summary of the existing factual situation. Idaho Power Company, Utah Power & Light Company and The Montana Power Company were invited to and participated in discussions with the members of the Pacific Northwest Utilities Conference Committee with respect to the bill. At each of these meetings Idaho Power Company and Utah Power & Light Company have consistently pointed out the fact that we did not believe that southern Idaho should be included in the proposed legislation, because there is no existing Federal transmission system in this area and because the Administrator's customers are presently served through long-term wheeling arrangements.

Idaho Power Company and Utah Power & Light Company have a utility responsibility to serve the load in their respective service areas, which presently totals about 2,000 megawatts. The BPA load is only 256 megawatts, or about 11% of the total load. Obviously, the load of these two utilities will be the major factor in determining construction of new facilities and the BPA load will be a minor factor. The companies, of necessity, will be required to construct for their own loads and the small additional BPA load with its wheeling revenue would benefit all the customers in southern Idaho. Consequently, the companies will be desirous of continuing to provide wheeling service in their respective areas and plan on doing so.

Section 5 of H R 14168 purports to allow construction by non-Federal entities of transmission facilities for wheeling of Federal power. We emphasize that Section 5 does not provide a realistic opportunity for the non-Federal entity to construct such facilities. A private utility, in constructing a transmission line, must consider the return that it will receive from such line and this return must pay the cost of money and other costs, including the Federal, State and local taxes that the utility incurs in constructing, operating and maintaining such line. Unless the utility does receive payment for these costs, all of its other customers must bear the burden of such costs. In Idaho Power Company's service territory the local property taxes paid by the Company on transmission lines throughout the area are of utmost importance to taxing bodies and these payments in large measure help to meet educational and other governmental costs. We therefore recommend that Section 5 on page 4 be amended by striking the words "which shall" in line 20 and all of lines 21 through 25, and after the word "facilities" in line 20 insert the following: "*which are equally adequate to serve the purposes set forth in Section 4, and will reimburse a non-Federal utility constructing the transmission facilities for the cost of constructing, maintaining and operating such facilities.*"

We believe that this amendment would permit a private utility to reasonably consider the possibility of building transmission facilities that could be used by the Administrator for providing service to his customers. Unless so amended, the intent of Section 5 to allow construction of lines by non-Federal entities would be meaningless insofar as private companies are concerned.

Unless this bill is so amended, Idaho Power Company has no choice but to register its opposition to the bill.

Mr. Hogg. Thank you, Sir. I was vice president of the Idaho Power Co. at the time of my retirement at the end of 1972, and I have been retained in this matter because of my previous experience in negotiating wheeling arrangements.

I am appearing to present Idaho Power Co.'s position on H.R. 14168, cited as the "Federal Columbia River Transmission System Act" and to review the history of transmission line construction and the delivery of federal power to preference customers in southern Idaho.

I do appreciate this opportunity of appearing here before you, Mr. Chairman. As you mentioned, I appeared before you twice last year in connection with American Falls Dam Reconstruction, which is progressing very nicely.

The southern Idaho and eastern Oregon areas are included in the defined term of "Pacific Northwest" and most of the witnesses before me are in the West area of the Pacific Northwest, while the southern Idaho area, with parts of Utah, Nevada, and Montana, are in the so-called East group of the Pacific Northwest.

The East area is different from the remainder or the West group of the Pacific Northwest in that the private utilities in the East areas have met their utility responsibilities by the construction of high voltage and high capacity transmission lines.

In contrast, neither BPA nor any other Federal agency has any transmission facilities to serve significant areas in the southern Idaho area.

The BPA load in southern Idaho is served under a long-term wheeling arrangement under which the Idaho Power Co. has agreed

to deliver up to 720 megawatts of maximum load. That maximum load today has been 256 megawatts and contrasted to the utilities' load of 2,000 megawatts.

The Idaho Power Co. has constructed in southern Idaho a transmission line network of over 4,300 miles, additions to this network will be required at a faster rate than the relatively small load of BPA, which is 11 percent of the total load in southern Idaho.

BPA is not required to expend money to construct transmission lines for their loads in southern Idaho, and furthermore, Idaho Power Co. will be desirous of continuing to provide wheeling service to the preference loads.

The Pacific Northwest Utilities Conference Committee in their consideration of this bill invited Idaho Power Co. to participate with them in their deliberations, which courtesy we greatly appreciate. However, at each of these meetings, we consistently stated that southern Idaho should not be included in the bill because there was no Federal transmission grid in southern Idaho and the BPA preference customers are presently served under the long-term wheeling agreements.

The PNUCC studied this legislation in detail and in light of the needs of the west group of the Pacific Northwest, has proposed a number of changes in the bill, which we believe are improvements. We have also been informed that they have prepared an analysis of the bill, which should be used as a legislative history.

This analysis notes that the customers of the administrator in southern Idaho are presently served under long-term wheeling contracts on terms satisfactory to BPA and furthermore, there is no intention of the administrator under this bill to construct transmission facilities, which would replace the facilities provided by the companies.

This statement has also been covered by the administrator, Don Hodel, and we believe this understanding is required to preserve the existing arrangements.

We further believe that section 5(a)(2) should be amended. While section 5(a)(2) of the bill purports to allow construction by non-Federal utilities of transmission facilities for wheeling Federal power to avoid duplication of facilities, it does not provide a realistic opportunity for the non-Federal utility, because a substantial portion of the private utilities' cost is in the Federal, State and local taxes, and these are not the cost to the Federal agency.

In comparing the cost of the non-Federal or Federal installation, either the bill should be amended or the legislative history should be clear that such comparison should be correct in all respects, including Federal, State and local taxes as costs in both instances.

Unless it is understood and agreed that this payment of these taxes must be considered as part of the Federal cost, comparison of cost is meaningless. Unless so amended, the intent of section 5, to allow construction of lines by non-Federal entities, would be meaningless, insofar as private companies are concerned.

In essence, Idaho Power Co. conditionally agreed with the many amendments, as recommended on behalf of the PNUCC, Power Policy Committee, but reiterates its position that unless section 5 is amended to reflect all conditions, and including the taxes, we have no other choice but to register our opposition to the bill.

That completes my summary, Mr. Chairman.

Mr. JOHNSON. Mr. Hogg, you have given us a very clear statement on behalf of the company that you represent. You have raised the concern that you have with the proposed legislation as it now reads. I presume that you have been in on all of the conferences and meetings that have been held on this legislation when the others arrived at their positions?

Mr. HOGG. I was not in on those conferences Mr. Bruce attended those.

Mr. JOHNSON. But your company did?

Mr. HOGG. Yes.

Mr. JOHNSON. The gentleman from Washington, Mr. Foley.

Mr. FOLEY. No questions.

Mr. JOHNSON. The gentleman from California, Mr. Clausen.

Mr. CLAUSEN. No questions.

Mr. JOHNSON. Mr. Casey, do you have any questions as consultant?

Mr. CASEY. No questions.

Mr. JOHNSON. Do you have any further comments, Mr. Bruce?

Mr. BRUCE. No, we appreciate the courtesy of appearing, and I think that Mr. Hogg summarized what we see is the problem, that if there is going to be an alternative, which was the intent of the bill and one of the things that went into the background of it, that if there is an alternative, it should be viable and a fair alternative and one in which we have a chance to really have a chance to go ahead and construct. If we go ahead and construct, we have to meet our costs, otherwise all our customers have to pay for it. That is what we think.

If there is going to be an alternative, it ought to be a fair alternative.

Mr. JOHNSON. Well, we heard from a good many people representative of that group over a period of time that have arrived at a proposed bill for Congress' consideration, and they are made up of investor-owned public utilities, Federal representatives, Federal Government representatives, and now we hear from you people, who are just outside or on the fringe of the service area at Bonneville, I presume?

Mr. HOGG. That is right.

Mr. JOHNSON. Well, we thank you for giving us the benefit of your testimony.

Mr. HOGG. Mr. Chairman, I understand that the Utah people have left—

Mr. JOHNSON. Yes, their statement is going to be made a part of the record, and it pretty much goes along with your position too. It will be made a part of the record at this point.

[The statement of Mr. Verl R. Topham follows:]

STATEMENT OF UTAH POWER & LIGHT CO., SUBMITTED BY VERL R. TOPHAM,
ASSISTANT SECRETARY

I am Verl R. Topham, Assistant Secretary of Utah Power & Light Company and an Attorney employed in the Company's Legal Department in Salt Lake City, Utah.

This Statement is presented as the Company's position with reference to S3362 entitled "Federal Columbia River Transmission System Act."

Utah Power & Light Company is an investor-owned public utility serving customers in Southeast Idaho, most of Utah, Southwestern Wyoming and portions of Southwest Colorado. The Company's backbone transmission lines within this service area and interconnections with other major transmission facilities are outlined on the map attached hereto. Our generating capacity totals about 1.4 million kw. Ninety-three percent of our generation is supplied from fossil-fired steam generating units located principally in six plants in Utah and Wyoming, with the remaining seven percent being generated by hydro mostly in Southeastern Idaho.

Utah Power believes that Section 5 of the bill should be amended by striking lines 21 through 25 and inserting after the word "facilities" in line 20 the following: Which are equally adequate to serve the purposes set forth in Section 4, and will reimburse a non-Federal utility constructing the facilities for the cost of constructing, maintaining and operating such facilities.

The Company believes that this amendment clarifies the authority granted by the bill and maintains the relationship now existing between the administrator and the investor-owned utilities operating in Utah and Southern Idaho.

The Bonneville Project Act 50 Stat. 720, 16 U.S.C. 832-832(1) was not specific on the question of territorial limitations on the powers of the Bonneville Power Administrator. The statement regarding transmission lines in fact is very broad on its face. It provides as follows:

(b) In order to encourage the widest possible use of all electric energy that can be generated and marketed and to provide reasonable outlets therefor, and to prevent the monopolization thereof by limited groups, the administrator is authorized and directed to provide, construct, operate, maintain, and improve such electric transmission lines and substations, and facilities and structures appurtenant thereto, as he finds necessary, desirable or appropriate for the purpose of transmitting electric energy, available for sale, from the Bonneville project to existing and potential markets, and, for the purpose of interchange of electric energy, to interconnect the Bonneville project with other Federal projects and publicly owned power systems constructed on or after August 20, 1937.

Authority granted under this section, however, was always subject to the continuing supervision and monetary control of Congress. Prior to constructing any transmission lines pursuant to this authority, it was necessary that the project be submitted to Congress by way of a request for an appropriation. The propriety and need of any line could then be examined by the Congress and the approval or disapproval of appropriations could assure that the administrator would act to construct the transmission system in accordance with the overall policy objectives of the act and under the continuing control and supervision of Congress.

Congress has been called on in the past to contain expansion by the Administrator. In 1966 in P. L. 89-689, Congress appropriated money for transmission lines of Bonneville but included the following language in the act: "provided that the Bonneville Power Administration shall not supply power directly to or indirectly through any preference customer, to any phosphorous electric furnace plant in Southern Idaho, Utah or Wyoming."

This language was necessary at that time to protect the utilities serving those plants from having their existing customers pirated away by Bonneville and the resulting loss of their previous investment to provide service to those customers. Bonneville had in fact proposed to serve some of Utah Power's existing industrial customers.

Viewed in light of these subsequent developments, it would seem highly unlikely that the broad statement on authority to construct transmission lines would have been included in the original act had that act also contained the proposal now put forth to allow the administrator authority to borrow money, finance and construct transmission lines without requirement for any review or approval by Congress. This history also makes abundantly clear the necessity for a clear expression of intended limitations in the present act.

A more specific definition of the jurisdiction of the administrator for purposes of marketing the energy produced by the project is contained in P.L. 88-552, 78 Stat. 756, 16 U.S.C. 837.

Pacific Northwest is therein defined as follows in Section 1(b) of that act:

(b) "Pacific Northwest" means (1) the region consisting of the States of Oregon and Washington, the State of Montana west of the Continental Divide, and such portions of the States of Nevada, Utah, and Wyoming within the Columbia drainage basin and of the State of Idaho as the Secretary may determine to be within the marketing area of the Federal Columbia River power system, and (2) any contiguous areas, not in excess of seventy-five airline miles from said region, which are a part of the service area of a distribution cooperative which has (i) no generating facilities, and (ii) a distribution system from which it serves both within and without said region.

At present under determination of the Secretary of the Interior, a portion of Northwestern Utah and Southern Idaho have been included in the Bonneville Marketing Area pursuant to Public Law 88-552. It is from that act that the definition in the bill now under consideration was borrowed. Circumstances however dictated this definition in Public Law 88-552 which do not so dictate its use here.

Prior to enactment of Public Law 88-522, several municipalities and cooperatives located in Utah and Southern Idaho had been purchasing power from the United States Bureau of Reclamation. Since these customers were to be preserved as preference customers under the provisions of Public Law 88-552, the territorial definition was drawn broadly enough to include them.

However, very few Federal transmission lines have been constructed in this area. Large portions of this territory are served by Utah Power & Light Company. That company's transmission facilities have been utilized by the Administrator for many years under wheeling agreements. These facilities have been adequate to serve the needs of the Administrator in providing service to customers in those portions of Utah and Idaho. The area served by Utah Power & Light Company in Idaho and Northwestern Utah is sparsely settled and largely rural. Present transmission facilities with some improvement should be adequate to serve all customers of Utah Power and the Administrator for many years. Improvements, repairs and perhaps some small additions will of course be necessary to maintain service and to serve new customers; however, no major construction program should be necessary within the foreseeable future.

At present Utah Power has an excellent working arrangement with the Administrator; and it is our belief that the current Bonneville Administrator would at this time deny any present intention to construct transmission facilities in Utah and Southern Idaho and would agree that the wheeling arrangements furnished by Utah Power have proved most satisfactory and have been totally adequate to serve the needs of his customers in this area. While we appreciate this expression of good faith present intent, we also realize that changing conditions and personalities can soon dim memories of well-stated present intentions, particularly when coupled with a large amount of money available without restriction as would be the case once this bill authorizing the issuance of 1.25 billion dollars of revenue bonds for the construction of transmission facilities becomes law.

It is well realized that extreme pressures can build on agencies to spend available money. We point out that Secretary Morton in his letter to the Senate President accompanying this proposed bill stated the present Federal investment in transmission lines in the Pacific Northwest to be 1.3 billion

dollars. This transmission system has been built over about a 40-year period; and it is therefore evident that the money here being authorized to be spent for the construction and acquisition of a transmission system is indeed a very substantial sum. Unless Congress sets forth in clear terms the policy limitations intended upon the expenditures of those funds, it could be inferred that because of the very large amount of money authorized, it was intended that the Administrator pursue a very aggressive policy of expansion of the territory served by the Federal Transmission System. We believe this is not the case, but urge that a specific statement of policy is needed within the act to make clear the intent of Congress on this matter.

The need for specific limitations was recognized by the drafters of the proposed bill and some limitations are contained in Section 5(a). Subsection (1) for instance prohibits the acquisition of an operating transmission facility by condemnation without specific authorization from Congress. In the sparsely populated areas of Utah and Idaho herein referred to, construction of a Federal transmission system and abandonment of the joint use of facilities now affected under wheeling agreements with the investor-owned utilities could create a severe financial burden upon those utilities and their customers. Many transmission lines have been constructed by those utilities with adequate capacity to wheel energy for the Administrator. To deprive them of the revenue now received under those agreements and burden the utilities with unused capacity, would be a disservice to all persons living in the area as well as to taxpayers and ratepayers of the investor-owned utilities living elsewhere.

Subsections 5(a)(2) and 5(b) appear to have been designed to declare policy in accordance with that now proposed by Utah Power. These provisions prohibit the construction of certain lines without first following designated procedures, but the wording of the sections when analyzed leaves almost total discretion to the Administrator.

Seldom, for instance, would a transmission line duplicate another in all respects though either line may be fully capable of supplying the Government's requirements for transmission. Yet these sections prohibit only facilities which "duplicate" existing or committed facilities.

The requirement of Subsection 5(a)(2) that the service offered by the utility be furnished on terms "no less favorable to the Government than the financing and construction of the proposed Federal facilities" creates a burden so heavy upon the utility faced with the payment of taxes on such facilities that it is doubtful if the construction of Federal facilities would ever be prohibited by the terms of this section.

Present ad valorem taxes in Idaho average about 1.76% of investment annually. These funds are badly needed by local governments in this area and the loss of those revenues would cause further hardship on the residents living there. These and other taxes payable by the utilities would make it very difficult for utilities to furnish service under the provision of the present Section 5(a)(2).

Southern Idaho and Utah are unlike other areas of the Pacific Northwest. In other sections such as Washington and Western Oregon, the principal backbone transmission system has been developed by Bonneville and the situation there is quite different. We recognize that difference and have joined with other utilities in support of a more efficient method of financing growth of that system, but it is our firm conviction that extension of Federal transmission lines into new territory beyond that presently served by existing lines is a matter of major national policy which should be reviewed and decided by Congress and should not be placed in the hands of any governmental official who could act without regard to desired national policy or without review by Congress as to either the project or the amount of the expenditure. Until the bill is amended to correct this deficiency, Utah Power & Light Company desires to state firmly its position in opposition now before the Congress.

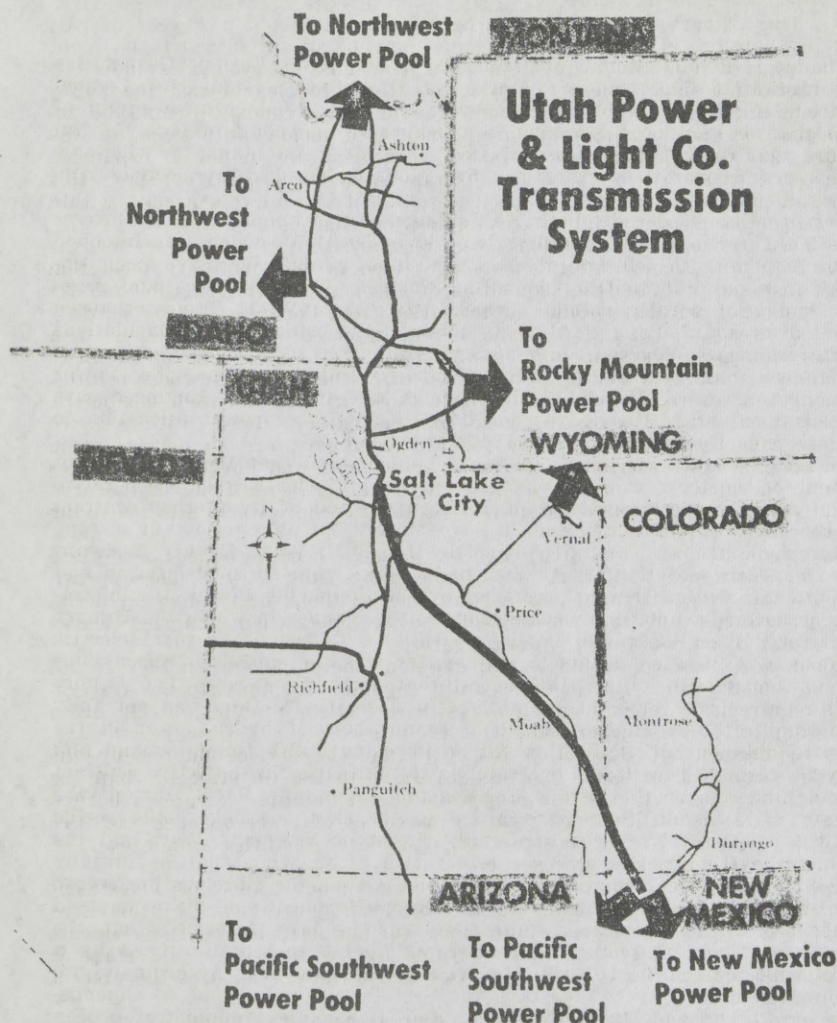


Figure No. 1

Mr. JOHNSON. Is Mr. Rod Hanson, the executive secretary, Central Montana Electric Generating & Transmission, is he here?

Oh, he is not here, and a representative is not here, but his statement will appear in the record at this point.

[The statement of Mr. Rod Hanson follows in full:]

STATEMENT OF ROD HANSON, MANAGER, SUN RIVER ELECTRIC COOPERATIVE,
FAIRFIELD, MONT.

My name is Rod Hanson. I am Manager of Sun River Electric Cooperative at Fairfield, Montana and also serve as Executive Secretary to Central Montana G&T, a wholesale power cooperative, which has a membership of 14 cooperatives in central Montana. I appear here on behalf of both Central Montana G&T and Upper Missouri G&T of Sidney, Montana, a wholesale power supply cooperative, which has five Montana-based rural electric cooperatives in its membership.

For more than a decade, both G&T's have been attempting to get access to the Hungry Horse power reservation (40 to 50 MW) which was intended for the use of rural electric cooperatives in Montana. We have been unsuccessful in our efforts. Our Consulting Engineer is R. W. Beck and Associates, and we herewith include a recent letter from W. E. Trommerhausen of that firm summarizing our efforts to date and making recommendations for future actions. We are also enclosing, for the record, a copy of an agreement between the Montana Power Company and the Bonneville Power Administration dated March 17, 1967 which our Consulting Engineer says is sufficient to assure the delivery of the Hungry Horse power allocation to cooperatives in Central and eastern Montana.

In his letter to us, Mr. Trommershausen understood that Deputy Assistant Secretary of the Interior, J. C. Watt, has assured Glacier Electric Cooperative that it could become a customer of BPA at the end of its present contract with the Bureau of Reclamation. I have since been able to obtain a copy of a letter dated March 8, 1971, signed by James G. Watt, Deputy Assistant Secretary of the Interior, (copy attached) which sets forth the terms and conditions of eventual service to Glacier by the Bonneville Power Administration. The letter does not offer suggestions on the manner in which the Hungry Horse power reservation can be made available to the other rural electric cooperatives in Montana although this matter was the subject of discussions with the Department of the Interior at that time. We believe that Deputy Assistant Secretary Watt, at the time of writing that letter, was not fully aware that by 1973 the Bureau would be so short of hydro power in the Missouri Basin by 1977 that it would be imposing a five times demand and energy charge as a penalty for overrunning the Bureau's then effective contract demand. Likewise, we believe that Assistant Secretary Jack Horton, the successor to Assistant Secretary James Smith, may not have had specific knowledge of the prior letter by Deputy Assistant Secretary Watt and the status of the Hungry Horse power reservation at the time that he initially imposed the five times demand and energy charges on the Bureau's preference customers. We doubt that Assistant Secretary Horton would have imposed the penalty on the Montana cooperatives had he been informed that the Hungry Horse hydro power reservation was being sold and utilized by a nonpreference customer; i.e., the Montana Power Company. Accordingly, we are now appealing directly to Assistant Secretary Horton, and to Commissioner of Reclamation Gilbert Stamm, and Bonneville Administrator Don Hodel, concerning a modification of the power marketing policy outlined by his predecessor in 1971 so that the cooperatives in Montana, including members of both Central Montana and Upper Missouri G&T's, can rightly and legally extend their hydro power supply by the full utilization of the Hungry Horse power reservation.

We regret that time did not permit us to directly explore this matter with the Assistant Secretary of the Interior and the Bonneville Administrator but the timing of these Congressional Hearings did not permit us to do so. We are hopeful, with such notice as we have been able to give, that the Assistant Secretary and the Bonneville Administrator will be in a position to promptly assure this Committee that a mutually satisfactory solution to our critical power supply problem has been reached and that the Hungry Horse power reservation will be made available to cooperatives in Montana before any penalty charges are levied by the Bureau of Reclamation.

We appreciate this opportunity to discuss our problems with this Committee. Hopefully the Department of the Interior and BPA can resolve a long-pending power supply problem facing us in Montana before they launch into the next important phase of maintenance and expansion of the Bonneville grid. If you have any questions concerning the matters facing our Cooperatives, I will attempt to answer them. Any technical questions will be directed to our Consulting Engineers who will be prompt in their response.

Attachments:

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., March 8, 1971.

Mr. N. H. NERMYR,
Manager, Glacier Electric Cooperative, Inc.,
Cut Bank, Mont.

DEAR MR. NERMYR: This is in reply to your January 29, 1971, letter relating to a proposed meeting with your attorney, Mr. Werner, to discuss Glacier Electric Cooperative's future power supply.

I am sorry that neither Deputy Assistant Secretary Watt nor I was able to meet with Mr. Werner as scheduled due to other previously unforeseen commitments; however, as I am sure you now know, Mr. Werner did meet with Mr. Bradley, Chief, Division of Power. I understand Mr. Werner and Mr. Bradley discussed all of the points presented in your letter.

The primary item discussed, and I assume of greatest importance to Glacier Electric Cooperative, concerned possible purchase of power from Bonneville Power Administration by Glacier. I understand Mr. Bradley reaffirmed our previous position that Glacier must continue to take Bureau of Reclamation power through 1977, in lieu of BPA power, in order to maintain the financial integrity of Reclamation's power investment. (Following 1977, and dependent on all Reclamation power in the Missouri River Basin being marketed, Glacier can anticipate purchasing BPA power to satisfy its load increases which will occur beyond that date.)

As we have previously advised, we do not question that Glacier is qualified for geographical preference for Hungry Horse power under Public Law 88-552; on the other hand, the Department would be remiss in its responsibilities if it permitted expansion of Bonneville power into an existing Reclamation project area when such expansion would be financially disadvantageous to that project. The latter is particularly significant in this instance since facilities and arrangements would not be available to permit potential deliveries of BPA power, if Reclamation had not made investments in facilities or incurred financial obligations for wheeling arrangements. (In the event that it may be mutually advantageous to do so after 1977, we would be willing to give consideration at that time to the possibility of Glacier taking all of its Federal purchases from BPA.)

I trust that the foregoing fully answers your questions concerning Glacier's potential future purchase of BPA power and will enable Glacier and the Bureau to proceed with consummation of the presently proposed contractual arrangements.

Sincerely yours,

JAMES G. WATT,
Deputy Assistant Secretary of the Interior.

MARCH 17, 1967.

Mr. J. E. CORETTE,
President, The Montana Power Co.,
Butte, Mont.

DEAR MR. CORETTE: At the meeting with Mr. Colin W. Raff and others of your Company on December 6, we were informed that the Montana Power Company proposes to construct a 230 kv transmission line from a point of connection with your existing Hot Springs-Anaconda line near Ovanda, Montana, to a point near Great Falls, Montana. This line will serve as an additional major interconnection between your Company's power sources and

its load centers. It will also provide a transmission path by which, subject to appropriate wheeling arrangements, power may be interchanged between the systems of Bonneville Power Administration and the Bureau of Reclamation. This interchange would be accomplished through your interconnections with the Bonneville system at Hot Springs and Anaconda and with the Bureau's Fort Peck system near Great Falls.

Your Ovando-Great Falls line would cross certain federal lands which are under the separate jurisdiction of the U.S. Bureau of Land Management and Forest Service. At the meeting on December 6 you suggested that we provide for Government use of excess capacity in your new line through a supplement to BPA Contract No. 14-03-40534, and that the supplemented be accepted in lieu of the stipulations of 43 CFR 2234.4-1(c) (5) and 36 CFR 251.52 (d) (2) required by the Bureau of Land Management and Forest Service, respectively.

In accordance with Contract No. 14-03-40534, your Company constructed its 230 kv Hot Springs-Anaconda line and connected the line to terminal facilities furnished by Bonneville at Hot Springs and Anaconda. That agreement recognizes that mutual benefits result from parallel operation of each party's Hot Springs-Anaconda line and established the basis, including charges or the method for computing charges, for use by either party of surplus capacity in the other party's line. Your Company's Hot Springs-Anaconda transmission line crosses federal lands.

Contract No. 14-03-40534, instead of the stipulations then under 43 CFR 244.4 (e), was the basis for recommendation that a permit be granted to your Company to construct your line across public lands.

Since a portion of the facilities mentioned in Contract No. 14-03-40534 will be involved in arrangements relative to your new line, it will be appropriate to provide for Government use of surplus capacity in the Ovando-Great Falls line through a supplement to that contract. Accordingly, we suggest that the following arrangements be made a supplement to said contract and that this agreement be in lieu of the stipulations of 43 CFR 2234.4-1 (c) (5) and 36 CFR 251.52 (d) (2) with respect to the new line:

(1) The Government shall have the right to utilize surplus capacity in your Company's facilities between Hot Springs and Great Falls or Anaconda and Great Falls by use of your existing 230 kv facilities and your proposed Ovando-Great Falls line and facilities in the vicinity of Great Falls which are or will be connected to the facilities of the Bureau of Reclamation. Such surplus capacity may be used for the transmission of electric power and energy between the Bureau and Bonneville, and for service to any statutory preference customer, to other federal agencies, and, as agreed upon by the parties, to other loads.

(2) Bonneville will pay your Company for Government use of surplus capacity described in (1) above. The charge will be computed at the time of use by applying the Bonneville standard wheeling formula then in effect based on the average annual costs of Bonneville transmission facilities; *provided, however*, that for transmission of dump energy between the Bureau and Bonneville over Company facilities described in (1) above the charge shall be \$0.0005 per kilowatt-hour for energy scheduled to the Company for transfer over said facilities. The Company will deliver such scheduled amount, less losses as agreed to by the parties.

If the above arrangements are agreeable to you, please so indicate below, and return one copy of this letter to me. We will then use our best efforts to assist your Company in obtaining right-of-way permits for those portions of your Ovando-Great Falls line crossing public lands, and to assure that such permits will recognize and not be inconsistent with the arrangements described in this letter agreement. This agreement shall not become effective until such permits are granted to, and accepted by, The Montana Power Company.

Sincerely yours,

DAVID S. BLACK,
Administrator.

Accepted:
The Montana Power Co.,
S/ COLIN W. RAFF,
Vice President.

R. W. BECK & ASSOCIATES,
Denver, Colo., May 29, 1974.

Mr. BERT GIBSON,
President,
Central Montana G&T Cooperative,
Livingston, Mont.
 Mr. GEORGE RAIT,
President,
Upper Missouri G&T Electric Co.
Sidney, Mont.

GENTLEMEN: In response to your request of May 28, 1974, I have reviewed our files to determine whether there is any relationship between H. R. 14168 and S. 3362 now under consideration for Revenue Bond Financing for the Bonneville Power Administration and the unresolved hydro power supply problems for Cooperatives in Montana. Our comments on this matter follow, including copies of such supporting documents as are currently available to us.

In a July 10, 1961 report on "Power Requirements and Supply" which we prepared for Central Montana G&T (pages IV-3 and IV-4) reference is made to 50,000 kW which was reserved under the Hungry Horse Authorization Act (Public Law 329, 78th Congress) for preference customers. This block of power was, however, being sold to the Montana Power Company at 80% load factor under a recallable provision that should such firm power be needed for preference customers it could be available. The original contract between BPA and MPC is designated as Contract No. 14-03-001-11975 and is dated January 29, 1956. In 1961, the MPC's reports to FPC indicate that the Company purchased 350,400,000 kilowatthours of firm hydro power at the very low rate of 2.5 mills per kilowatthour. The BPA-MPC Contract was supplanted by a new contract designated as No. 14-03-51702, dated August 21, 1967. Attached as Exhibit 1, are pages 4 and 5 of said contract which sets BPA sales to MPC at 40,000 kilowatts under a 20-year contract that can be terminated on five years' notice in the event that the Hungry Horse hydro power reservation is needed to supply Cooperatives in Montana. It seems clear, therefore, that all parties were in agreement that the Hungry Horse power reservation for Montana could, upon notice, be made available for the preference customers.

Since 1961 both Central Montana and Upper Missouri G&T's have attempted, without success, to have the Hungry Horse power reservation made available to the Montana Cooperatives located east of the Continental Divide; those Cooperatives that are located west of the Divide were favored with 20-year full power requirements contracts with BPA and therefore did not need to participate in the Hungry Horse reservation.

In 1964 the Bonneville Act was amended by Public Law 88-552, 88th Congress, August 31, 1964, which made it possible for Vigilante and Glacier Electric Cooperatives (members of Central Montana G&T) to join the ranks of western Montana Cooperatives who could be assured of a continuing supply of Federal hydro power. Vigilante Cooperative now has a 20-year BPA contract and Glacier expects to have a similar power contract by 1977.

There have been several significant developments since 1964 that should be called to the attention of the interested Congressional Committees, the Secretary of the Interior, the Commissioner of Reclamation, and the Bonneville Power Administrator, as consideration is given to new legislation now coming before the Congress as "The Federal Columbia River Transmission Systems Act." First, the Secretary of the Interior has advised all preference customers of the Bureau of Reclamation in the Missouri Basin, including those in central and eastern Montana, that the supply of Bureau of Reclamation hydro power will be frozen at the October 1977 use level. After that date, all preference customers may be forced to pay a prohibitive overrun demand and energy penalty of five times the then-existing Bureau hydro power rate. It is the position of the central and eastern Montana Cooperatives that such a penalty should not be imposed at a time when 40,000 kilowatts of firm hydro power is being sold to a non-preference customer—the Montana Power Company.

The Bureau of Reclamation and BPA have represented that it was not possible to get the Hungry Horse power allocation delivered to the member

cooperatives of Central and Upper Missouri G&T's because the intervening private utilities would not wheel Hungry Horse power East of the Continental Divide. We have always considered this to be an arbitrary position and now see the situation as indefensible from the standpoint of the Companies and the Federal power supply agencies. The Montana Power Company needed a right-of-way permit over Federal lands for its Ovando-Great Falls 230-kV line in 1967. Attached as Exhibits B and C are letters from the Assistant Secretary of the Interior to Central Montana G&T and to Senator Metcalf, dated April 13, 1967, assuring the Cooperative that wheeling rights for Hungry Horse power will be reserved in the Company's 230-kV line. We have been advised that a wheeling agreement covering this facility was signed on March 17, 1967 by David Black, the Administrator of BPA, and Collin Raff, Vice President of the Montana Power Company. Presumably, this agreement can be used for the delivery of the Hungry Horse power reservation to central and eastern Montana. If that facility does not have the full 40,000 kilowatts of surplus capacity for wheeling, a second major development should provide a solution to the wheeling transaction. The MPC 1973 Report to Shareholders discusses the construction of two 350-MW mine-mouth, steam-electric generating plants at Colstrip, Montana with the first generating unit and associated 230-kV lines to be in service by 1975. Beyond that date MPC plans to construct a double-circuit 500-kV line between Colstrip and Hot Springs, Montana. Surely this transmission facility will cross Federal lands and, again, the Secretary of the Interior will have the opportunity to negotiate arrangements for additional wheeling capacity for the Hungry Horse power reservation. It is to be noted in the proposed legislation, Section 4 (c), that BPA is expected to provide interregional transmission facilities. Query: If BPA has been unable, or unwilling, to solve a problem involving a mere 40,000 kilowatts how does it expect to fulfill the larger role now intended for it under the proposed legislation?

Based upon information and data available to us, it is clear that there are no insurmountable problems in the plan to finally make the Hungry Horse power allocation to the preference customers in central and eastern Montana as was intended in Public Law 329 of the 78th Congress. The Montana Power Company has enjoyed the benefit of sizable amounts of low-cost Hungry Horse hydro power since 1956—a period of 18 years. The preference customers are faced with increasing power costs after 1977 and are entitled to the relief that will be gained if the Hungry Horse power reservation can finally be delivered to the Cooperatives in central and eastern Montana. In our opinion, that matter merits careful review by the Congressional Committees at the time that an expanded transmission program is being considered for BPA.

If interested parties have further questions concerning this major power supply program we will respond to such requests.

Very truly yours,

W. E. TROMMERSHAUSEN,
Chief Consulting Engineer.

POWER SALES CONTRACT EXECUTED BY THE UNITED STATES OF AMERICA DEPARTMENT OF THE INTERIOR ACTING BY AND THROUGH THE BONNEVILLE POWER ADMINISTRATOR AND THE MONTANA POWER CO.

Now, therefore, the parties hereto mutually agree as follows:

1. *Termination of Contract.*—Said Contract No. 14-03-001-11975, as amended, is hereby terminated as of the time this contract takes effect, but all liabilities accrued thereunder shall be and are hereby preserved.

2. *Term of Contract.*—Each of the provisions of this contract shall be effective for a term of twenty (20) years commencing on the date of execution, except section 4 hereof which shall terminate on September 30, 1975.

3. *Sale of Power and Amount Sold.*—(a) The Administrator shall make available to the Purchaser at one or more of the points of delivery defined in section 7 hereof, and the Purchaser shall purchase from the Administrator, firm power in the amount of the Purchaser's contract demand, as defined in section 2.1 of Exhibit E attached hereto. The Purchaser's contract demand shall be 40,000 kilowatts; *Provided, however,* that the Administrator may

reduce such contract demand (1) at the expiration of five (5) years from the date he gives written notice to the Purchaser by the amount which in the judgment of the Administrator is needed to supply the increased requirements of public bodies, cooperatives, and federal agencies in Montana, which may be supplied together with the Purchaser from the Montana reservation (as determined by the Administrator pursuant to Public Law 329, 78th Congress (58 Stat. 270)), and (2) upon the date specified by the Administrator in a prior written notice to the Purchaser that, in the judgment of the Administrator all or a part of the electric energy purchased hereunder is required to serve any public body or cooperative for any distribution system, or portion thereof in Montana, hereafter disposed of to such public body or cooperative, by the Purchaser; *provided, further*, that such reduction in the Purchaser's contract demand shall be restored to the extent that the Administrator determines he can make firm power available from federal resources other than the Montana reservation. The amount of contract demand so restored shall be subject to withdrawal by the Administrator on five (5) years' written notice that, in his judgment, such capacity is needed to satisfy the requirements of public bodies, cooperatives, and federal agencies in the Pacific Northwest ("Pacific Northwest" as used herein shall be as defined in Public Law 88-552). The Administrator hereby restricts delivery of firm power to the Purchaser while each contract demand is in effect to the amount of such contract demand, and such amount shall constitute the Purchaser's restricted demand, mentioned in said section 2.4 of said Exhibit E, for each month in such period while such contract demand is in effect.

Except as otherwise agreed to by the parties, the Purchaser shall submit to the Administrator by 3 p.m. MST on Thursday of each week in the term hereof a schedule of the amounts of energy it will require during each hour of the following calendar week as firm power up to the contract demand specified in this subsection.

(b) The Administrator shall make available to the Purchaser at one or more of the points of delivery defined in section 7 hereof, and the Purchaser shall purchase from the Administrator firm capacity as defined in section 1.3 of Exhibit E attached hereto, in the amount of the Purchaser's contract demand. The Purchaser's contract demand for firm capacity shall be 10,000 kilowatts; *provided, however*, that the Administrator may discontinue the sale of firm capacity to

Mr. JOHNSON. The last witness we have scheduled is Mr. Charles A. Robinson, Jr., corporate counsel, National Rural Electric Cooperative Association. We are glad to have you here.

**STATEMENT OF CHARLES A. ROBINSON, JR., CORPORATE COUNSEL,
NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION; AC-
COMPANIED BY WILLIAM A. COOK, MANAGER, COOS-CURRY
ELECTRIC COOPERATIVE, INC., COQUILLE, OREG.**

Mr. ROBINSON. Thank you. I wonder if Mr.—

Mr. JOHNSON. We have been acquainted with you for some time. Do you have anyone you would like to have accompany you to the witness stand?

Mr. ROBINSON. Yes, Mr. Chairman. I have Mr. Bill Cook, the manager of the Coos-Curry Cooperative, Inc., Coquille, Oreg., who is here, and I would like Bill to join me if he may.

We do have a prepared statement, Mr. Chairman.

Mr. JOHNSON. Your statements will appear in the record as if read in full.

[The statements of Charles A. Robinson, Jr., and William A. Cook follows in full:]

STATEMENT OF CHARLES A. ROBINSON, JR., CORPORATE COUNSEL, NATIONAL RURAL
ELECTRIC COOPERATIVE ASSOCIATION

Mr. Chairman and Members of the Committee: My name is Charles A. Robinson, Jr. I am Corporate Counsel for the National Rural Electric Cooperative Association (NRECA), the national trade association comprised of some 950 consumer-owned cooperatives which provide electric service to about 25 million people in the rural and sparsely populated agricultural areas of 46 states.

The Bonneville Power Administration supplies wholesale energy to 45 rural electric distribution systems in California, Idaho, Montana, Oregon, Washington, and Wyoming. These systems have no generation of their own in the traditional sense. Some of them share or will share in the ownership of large nuclear generating stations in the Northwest, but even in these instances they will be 100% dependent for wholesale power supply on the BPA transmission system, and the transmission systems of other utilities, which BPA has the right to use.

Our membership in the Northwest and NRECA itself, therefore, strongly support the concept of permitting the Bonneville Power Administration to sell revenue bonds, and to use bond sales proceeds and power marketing revenues to defray the construction and operating costs of its transmission system. This concept, properly applied would place BPA funding on a largely self-supporting basis, and theoretically would work toward several desirable objectives. It would save Bonneville from the need to conform system planning and construction to the vagaries of the Federal budgetary process; it would save Congress from a sometimes controversial annual appropriations process; and it would reduce or permit redirection of Federal expenditures. We do not, however, believe that H.R. 14168 and S. 3362 in their present form would achieve these objectives.

Bond financing has worked well for the Tennessee Valley Authority which since 1959 has had broad authority to finance both power plants and transmission facilities via revenue bonds which are not obligations of the United States and the interest on which is not exempt from Federal income taxation. (As of June 30, 1973, TVA had sold about \$2.36 billion worth of bonds and notes, which together with about \$800 million of reinvested income, constituted some 72% of TVA's \$4.4 billion total investment in power facilities. TVA's most recent bond issued carried an interest rate of 8.10%.)

This transition of Federal power system financing from appropriated funds to debt capital, however, carries with its benefits a very real burden for its consumers—a higher cost of money which must be reflected in higher rates. Between 1960 and 1970, TVA's average revenue for electricity sold at wholesale to cooperatives rose from 4.6 mills per kwh to 6.1 mills per kwh (the current TVA wholesale rate to cooperatives is about 10.6 mills with added 15% rate increase in the immediate offing).

This burden of higher capital costs is one which would be imposed on consumers in the Northwest under H.R. 14168 and S. 3362. Our membership evidences a willingness to accept that burden, if in exchange BPA receives substantial freedom to build and operate whatever facilities and lines it deems necessary to provide reliable service at the most reasonable cost possible.

In our judgment, and in the judgment of many of our members in the Northwest, some of the provisions of H.R. 14168 and S. 3362 would substantially detract from the freedom which such legislation should grant Bonneville, while at the same time imposing on Northwest consumers the accompanying higher cost of investment financing. That, we think, would be an unfortunate precedent for the Congress to establish.

For instance, most of the cooperatives in the BPA service area are too small to construct their own generation, and depend on Bonneville to supply their entire wholesale energy requirements from the Federal hydro system or from non-Federal plants via the net-billing concept. Under H.R. 14168 and S. 3362 [Section 11(b)] which governs use of the BPA revolving fund, the Administrator is given no authority for long term purchases of power. This means that as BPA's hydro resources and net billing capability are fully

utilized, BPA will be unable to purchase additional power to meet the continuing needs of its cooperative distributors. Bonneville proposes to meet this problem by purchasing or otherwise acquiring additional power on behalf of the cooperatives as their collective "trustee" or agent. H.R. 14168 and S. 3362, however, do not provide BPA with any such "trustee" or agency authority. For us, this is a critical omission, and we think that the legislation should contain express authority for BPA to use the revolving fund for long term power purchases, or for BPA to make such purchases as agent or "trustee" for the account of its nongenerating distributors. Failure of the legislation to contain at least one of these authorities would, in our view, constitute a very serious deficiency.

We are also concerned with several interrelated aspects of Section 13 of H.R. 14168 and S. 3362 which contain the authority to issue bonds. This Section authorizes the BPA Administrator to sell his bonds to the Secretary of the Treasury only. He may not sell them on the open market. The terms, conditions, form and maturities of the bonds are to be prescribed by Treasury. Moreover, the legislation itself establishes as a standard for the bond interest rate the "current average market yield on outstanding marketable obligations of the United States of comparable maturities, *plus an amount in the judgment of the Secretary of the Treasury to provide for a rate comparable to the rates prevailing in the market for similar bonds*" (underling supplied). What this underlined "surcharge" language means no one seems to really know. The result appears to impose on Bonneville complete Treasury control of its bonding operations, but to deny it the benefit of Treasury's favored position in the marketplace. Thus, either Treasury itself or the secondary purchasers of the bonds stand to earn what we consider would be an unjustified profit at the expense of Northwest rate payers. We also have some apprehension that this interest rate would effectively prevent Bonneville from demonstrating the feasibility of constructing a Federal transmission line under the conditions of controversy contemplated by Sections 5(a)(2) and 5(b) of H.R. 14168 and S. 3362, namely, a desire by a non-Federal utility to prevent BPA from such construction.

By contrast, the Tennessee Valley Authority (TVA), under its bond financing statute, sets the terms and conditions for its own bonds, sells them on the open market at whatever interest rate is available below a maximum allowed by Treasury; with the Secretary of the Treasury obligated to purchase such bonds only if TVA determines it cannot reasonably sell them on the open market. In our view BPA ought to have the same bonding authority which has been given to TVA, and we urge that H.R. 14168 and S. 3362 be so amended.

Section 5(a)(1) of H.R. 14168 and S. 3362 takes from BPA the power to condemn existing transmission facilities; a power which it has held since 1937 under the Bonneville Project Act [16 U.S.C.A. 832 a. (c)]. We do not understand how this provision will help assure future power supply in the Pacific Northwest, and we urge its deletion from the Bill.

Section 4 of H.R. 14168 and S. 3362 confers authority on BPA, under certain circumstances, to build interregional transmission lines similar to the existing California-Oregon tie lines. This is one of the most valuable features of the legislation, because in our opinion there are very large benefits to be derived from a high capacity line interconnecting the Pacific Northwest with the Missouri Basin. We urge that this authority be retained in the legislation, and that no additional restrictions on construction of this type facility be added.

Sections 5(a)(2) and 5(b) of H.R. 14168 and S. 3362 contain several of what we believe to be very severe restrictions on the authority of the Bonneville Administrator to use his revolving fund for the construction of transmission facilities. Section 5(a)(2) provides that BPA may not use revenue bond proceeds to construct any line which duplicates or will duplicate existing facilities or facilities which another utility commits itself to build unless the Administrator, prior to submission of his Budget to Congress, is unable to negotiate for use of the other utility's line on terms no less favorable to the Government than financing its own line. And with the interest rate "surcharge" on BPA bonds, provided for in Section 13(a) of the Bill, BPA transmission line feasibility evaluation would probably be based on private financing costs.

In addition, Section 5(b) requires the Administrator to notify all other utilities of any new BPA construction proposed in each BPA Budget sixty days before the Budget is sent to Congress. It confers a right on each such utility to maintain an action in U.S. District Court against the Administrator to determine whether he has so negotiated in good faith for use of the non-Federal line. Construction on the Federal line may not be commenced until 150 days after presentation of the BPA Budget to Congress and 30 days after public notice of intent to begin such construction.

It is true that the law suit authorized by this Section cannot be filed after expiration of the aforementioned 150 day and/or 30 day period, whichever occurs later. We respectfully point out, however, that the trial of and appeals from this kind of suit might consume considerable time, and that this provision confers on the complaining utility standing to maintain the suit, which otherwise it would have to prove.

Therefore, it seems to us that in exchange for the authority to issue high cost revenue bonds, the BPA Administrator will now have decisions on controversial facilities reviewed by the Federal courts in addition to the traditional review by the Interior Department, by the OMB and by the Congress, all of which will apparently be continued as they now exist.

In summary, we support enactment of authority for the Bonneville Power Administration to issue revenue bonds, and to use the proceeds from their sale, together with power sales revenue, for construction, operation, and maintenance of the BPA system. We feel, however, that the present legislation (H.R. 14168 and S. 3362) imposes on BPA, and on its customers, some very severe restrictions which are not in the public interest. We, therefore, urge that the Bill be amended to (1) eliminate the "surcharge" on BPA bonds and give BPA essentially the same measure of freedom in issuing bonds as has already been conferred on TVA; (2) confer on BPA authority to make long term power purchases to meet the needs of its non-generating distributors, or, in the alternative, allow BPA to make such purchases as an agent or "trustee" of these distributors; (3) retain BPA's historic power of condemnation; and (4) rewrite Sections 5(a)(2) and 5(b) of H.R. 14168 and S. 3362 to eliminate their very severe restrictions on BPA's use of bond funds for transmission line construction. Without such amendments, we believe that enactment of the legislation would constitute a most unfortunate precedent.

We appreciate this opportunity to present our views.

STATEMENT OF WILLIAM A. COOK, MANAGER OF THE COOS-CURRY ELECTRIC CO-OPERATIVE, INC., COQUILLE, OREG.

Coos-Curry Electric Cooperative, Inc. is one of the 14 rural electric co-operatives serving the State of Oregon. I, as manager of Coos-Curry Electric Cooperative, Inc., and speaking for our Board of Directors, support the bill, but think certain sections put restraints upon the Bonneville Power Administrator, which hopefully could be modified in its final draft.

While I have questions about Section 5, if the intent of the bill, as I interpret it, is adhered to, it hopefully will not be a problem.

Section 13—commencing with line 10, page 13, reading "plus an amount in the judgment of the Secretary of Treasury to provide for a rate comparable to the rates prevailing in the market for similar bonds," this I feel could possibly put a burden on the Administrator.

The assurance that the Bonneville Power Administrator will have the power to act as agent to obtain additional power supplies, for those who are not in the position to generate power, which is necessary for the survival of public utilities in the Pacific Northwest, is the basic reason for our support.

The Oregon Rural Electric Cooperative Association has taken no formal action on this Act, however, having worked with their association and the Public Power Council, of which they are a member, I feel this basically reflects their thinking.

Thank you for the opportunity to submit our views.

Mr. ROBINSON. All right, sir. And I also have a statement by Mr. Robert B. Smith.

Mr. JOHNSON. Yes, I have that here too. It will follow Mr. Cook's statement.

[The statement of Robert B. Smith follows in full:]

STATEMENT OF ROBERT B. SMITH, MANAGER OF THE WASHINGTON RURAL ELECTRIC COOPERATIVE ASSOCIATION

The Washington Rural Electric Cooperative Association is the trade association for ten REA financed rural electric cooperatives which serve approximately 30,000 farms and rural establishments in the State of Washington.

Over the years the Bonneville Power Administration has been our sole source of wholesale power which it has delivered to our member cooperatives over the BPA transmission network. The cooperatives are also participating in nuclear plants in the region, under net billing arrangements, and in the future will have to have additional non-federal power to meet their load growth. They will continue to look to the Bonneville Power Administration to transmit this power from source to each system's load centers. We are therefore vitally concerned about the matters dealt with in this legislation.

In the past year there have been many discussions in the Region regarding possible changes in Bonneville Power Administration existing authorities and its role in meeting the regions power needs in the future. Under Phase II of the Hydro-Thermal Program it was apparent that some changes would be desirable. The Board of Directors of the Washington Rural Electric Cooperative Association, at a meeting June 23, 1973, adopted recommendations that BPA should have some type of self financing authority, and should have the right to purchase power for sale to its customers since the availability of federal hydro is diminishing.

We have been assured by the Bonneville Administrator that he now has authority to act as an agent to obtain additional power supplies for BPA customers and for this reason the authority to purchase power was not requested in the legislation under consideration. If for any reason the Administrator could not act in the capacity of agent as contemplated, we feel he should then be given authority to make direct purchases to meet the long term needs of BPA customers.

S. 3362 - H.R. 14168 will accomplish the purpose of authorizing BPA to issue revenue bonds to finance future transmission lines and use revenues to pay operation and maintenance costs of the system.

We believe these authorities are necessary to the businesslike operation of the Federal Columbia Power System and, in accordance with our recommendation of last year, our board, on May 1, 1974, voted to support the legislation in principle but with reservations about some of the provisions of the bill.

In Section 5 are a number of restrictions on the authorities granted in the bill. We can see no valid reason for taking away the right the Administrator now has to acquire transmission facilities by condemnation. This authority may never be used but it is certainly possible that at some time in the future the exercise of such authority by the Administrator could be to the best interests of the public. We think he should retain this authority.

In the same section there are other provisions which would appear to make it nearly impossible for the Administrator to build facilities if some other entity preferred to do so. We think these restrictions are too confining and should at least be modified to the point where construction of transmission facilities could not be thwarted by long drawn out negotiations, court battles and arguments over adequacy of non federal facilities or the charges for using them.

Section 13 of the bill deals with the sale of revenue bonds. It appears to us that the wording commencing on line 10, page 13, reading "plus an amount in the judgement of the Secretary of the Treasury to provide for a rate comparable to the rates prevailing in the market for similar bonds" does nothing but add an extra amount to the interest expense for the bonds which is unnecessary and should be removed.

We appreciate the opportunity to submit our views for the record, and hope the committee will give them consideration.

Mr. ROBINSON. Mr. Smith had a board of directors meeting today and is simply unable to be here.

Mr. JOHNSON. You may summarize your statement at this time, and Mr. Cook may make any comments he might like to make in connection with this bill.

Mr. ROBINSON. Thank you very much. We appreciate your courtesy and we will be brief. We appreciate the lateness of the hour, Mr. Chairman.

My name is Charles Robinson, and I am corporate counsel of the National Rural Electric Cooperative Association. I have been associated with NRECA, as we call it, for something like over 24 years.

There are 45 rural electric cooperatives in California, Oregon, Washington, Montana, Idaho, Wyoming, which are wholly dependent on the Bonneville Power Administration for their wholesale power supply. These are generally small systems. They do not have the practical opportunity to construct generation. They are existing because of the Bonneville system.

Some of them came into being because of the existence of wholesale power from Bonneville. They are, therefore, anxious to maintain a strong Federal power system in the Northwest and will support any legislation which will result in the strengthening of that Federal system.

We do strongly support the concept of bond financing for Bonneville as that principle is set forth in the legislation. We do believe that that is a good concept that has worked well for the TVA and, properly applied, will work well in the Pacific Northwest. It will avoid conforming system planning to the vagaries of the Federal appropriations process. It would save Congress from annual appropriations procedures, which are sometimes controversial. And, finally, it will permit fading or reduction of Federal funds.

We would point out, Mr. Chairman, that the benefits of bond financing will carry with it some higher investment costs, some higher capital costs, for the Bonneville system and for the consumers in the Pacific Northwest. And our people are willing to accept that burden if the bond financing legislation carries with it the breadth of authority which they feel is necessary for Bonneville to operate successfully on a continuing basis.

We feel, though, Mr. Chairman, that there are three sections of the bill which really need to be amended if Bonneville is to obtain the breadth of authority, which it needs, and which it should have in return for assuming the burden of self financing. In other words, we point out, Mr. Chairman, at the present time that Bonneville has the right to build transmission facilities on an appropriated funds basis. And we feel that if Bonneville accepts the burden of going to the market for bonds, for bond financing, it should obtain a little extra degree of freedom, and certainly should not have its present authority restricted.

In my view, the legislation as it is presently written, and in the view of some of our people in the Northwest, that legislation would

restrict Bonneville's authority unduly in exchange for that bond financing authority.

The first amendment that we suggest, Mr. Chairman, is with respect to section 11(b). Our systems, as pointed out, are small. They do not have the capacity to build generation of their own. Therefore, they will depend, as far ahead as we can see, on the Bonneville system for wholesale power supply.

The hydrosystem of the Northwest will soon be fully utilized. The ability of Bonneville to obtain outside power, power from the thermal plants external to the hydro system via the net billing concept will be exhausted in the early 1980's. Therefore, if legislation is to provide for future power supply to these systems, it must have one of two concepts written into it: Bonneville must be able to use the money it raises, and which goes into its revolving fund provided for in this bill for long-term purchases, or Bonneville must have the authority to act as the collective agency trustee for the small systems in buying outside power for them.

Now neither of these concepts are written into the bill as it has been introduced. One of Mr. Culp's amendments would take care of that in part, and we certainly urge amendment of section 11(b) to provide for either long-term purchases of power for supply to rural electric systems or, in the alternative, agency trustee authority for Bonneville to purchase power for the small co-ops with funds which the co-ops themselves will provide.

We are not seeking any authority for Bonneville to build generation. We are not seeking any authority for the Federal Government to build steam plants. All we are asking is that those systems, especially the co-ops which have been brought into existence via the Bonneville system and via the availability of wholesale power supply from Bonneville, be assured of their energy in the future by some means.

And an amendment of section 11(b) we think is required to achieve that.

With respect to section 13, which is our second suggestion, Mr. Chairman, we can see no reason why Bonneville should not be allowed to issue its bonds on the open market the same as TVA is, at least as an alternative to selling them to the Secretary of the Treasury under all circumstances.

And, of course, the interest rate would be whatever is available with perhaps some maximum set by Treasury as is done in the TVA case.

It is my understanding unofficially that Bonneville Power Administration did seek such authority, but that when the legislation was meshed in the process of administration clearance, that was deleted. We still think it is a desirable feature that Bonneville should have authority, at least alternatively, to go to the open market for its money.

This, of course, is also related to the legislative standards set by the bill for the interest rates on the bonds. These will be taxable bonds. The interest on these bonds, as I understand it, will not be exempt from Federal income tax. That is true with TVA, and would logically be true too.

But the interest rate standard set in the bill is the yield on long-term marketable securities of the United States plus a surcharge to be decided by the Secretary of the Treasury. And as was pointed out this morning, that is a novel provision in the statute as far as we can determine and has never been used before. I think that no one knows precisely what it means.

And if Bonneville is to be required to sell its bonds to the Secretary of the Treasury to yield a higher rate, then the Secretary of the Treasury in turn pays on the paper he issues to refund those bonds, and then, it seems to me the consumers and the Northwest are being asked to pay a rate higher than is justified by the risk included in the Bonneville bonds; either that or the secondary purchaser is going to make a profit.

So we would suggest, Mr. Chairman, that to hold this surcharge in line, that one way of doing that, of holding that surcharge in line would be to give Bonneville the alternative of marketing its bonds as it sees fit on the open market.

We think that would be consistent with the spirit of the Act, consistent with taking the burden from the appropriations process and transferring it to open market financing.

We understand Treasury's desire to control the issuance of federal securities in a timely fashion, and in an orderly fashion, but we can see no reason whatever why Bonneville should pay a surcharge on its bonds whereas everybody else apparently pays a standard rate.

Now, this of course, goes to the test that has been mentioned for judging whether Bonneville builds a transmission line or whether somebody else builds it.

The test there, as pointed out by the power company representatives, and of course we disagree with them on their argument, but the test is that the Bonneville Power Administrator will be required to use non-Federal facilities for the transmission of his power if they are made available to him at a cost at least equal to the cost of the facilities he would build.

Now it has been complained that, unless you add to this private taxes, then you are giving the Bonneville Power Administrator an unfair advantage. But by the same token, Mr. Chairman, I would say that if you evaluate his facilities on the basis of the cost of his bonds plus some surcharge, you are offsetting that by placing a disadvantage on the Administrator.

So I think these may well be offsetting characteristics of the legislation. We feel very strongly, Mr. Chairman, that the bond financing language itself needs some revision.

Our final suggestion, Mr. Chairman, goes to section 5(a)(2) and 5(b) of the bill, which in our opinion contain some very substantial limitations on the authority of the Administrator to build facilities which the bonds themselves are designed to finance.

As I understand that language, the Administrator may not construct any facility which another utility commits itself to build and offers BPA the right to use, if the cost of using that facility is at least as low as the one proposed to be used by the Administrator. The language requires the Administrator in such a case to look, in

any case where a non-Federal utility offers the use of its lines, to negotiate with that utility in good faith.

And if he cannot arrive at a negotiated arrangement, he must publish notice 60 days before he sends his budget to Congress with the new facility in it. And the power company thereafter for 150 days or whoever the other party is and for 30 days after that is granted an expressed standing to bring suit against the Administrator to determine whether or not he negotiated in good faith by the terms of this bill.

Now that is a pretty heavy burden for the Administrator to carry, it seems to me, before he builds a transmission line. He still must go through the normal budgetary process, you see. He must formulate his budget and he must clear it through the Department of the Interior, and he must clear it through OMB, and he must, by the terms of this bill, send it to Congress.

In addition, the bill confers on the competing utility a right to go into Federal court and get a determination of whether or not he negotiated with it in good faith.

Now I would point out, Mr. Chairman, that although the time period in which that suit can be filed is limited to the 150 days plus the 30 days, there is also a very real possibility that once that suit is filed, Mr. Chairman, there will be substantial delays in reaching a decision. It will probably be referred to a special master and back to the judge of the court, to the court of appeals, and conceivably a petition for a right of certiorari filed. Now that could delay any facility, that could delay determination of whether or not he negotiated in good faith, and presumably, it would have some adverse impact on the issuance of bonds during that period.

So I would point out, Mr. Chairman, that the burden on the Administrator to get a controversial facility approved under his bond authorization is very, very substantial according to the terms of this bill.

We feel that in exchange for accepting bonding financing and the slightly higher interest rates that may be involved in that, the Administrator should have more freedom rather than less.

A number of our people in the Pacific Northwest agree with us according to Mr. Smith's statement.

Now I would point out finally, Mr. Chairman, that Bonneville is the backbone power system in the Pacific Northwest. It has been the force which over the years has held the electric systems of that area together. It is a force which has provided the electricity, generally the Columbia River Federal Power System, until recently has provided virtually requirements of the Pacific Northwest. It no longer can obviously do that, and these requirements will be met by other utilities through steam generation.

But Bonneville will be still the principal transmission system. We ask, why should that transmission system be placed under the burden of this kind of legislation in exchange for bond financing any more than should any other system?

We support the concept of the bill. We think the thinking behind the bill is good. We just hope that the Federal system and the small

co-ops, which are served by the Federal system, are not asked to give up too much in exchange for this bond financing. We urge your consideration of the kinds of amendments which we have suggested before you report out the bill.

That concludes my remarks, Mr. Chairman. Mr. Cook, I am sure, has some remarks he would like to make.

MR. JOHNSON. Mr. Cook, you may proceed at this time.

MR. COOK. Chairman Johnson, I do not want to belabor the point or be redundant in my remarks, because Mr. Robinson has covered them, but, Mr. Clausen, I think you recognize our position, and you have some co-ops, not too many, but some in the northern part. And we are wholly dependent on Bonneville.

Now we do not want to see an erosion of Bonneville's authority which in certain cases, we feel we are seeing in this particular bill. Understandably, it is a compromise, and we do support in principle it, but we do think through the legislative process we could get some refinements and a little bit firmer basis for our position. And our position is no different than the municipalities as well as the cooperatives.

We are not unique in this because they are wholly dependent as well. And I think that is sufficient.

MR. JOHNSON. Well, I want to thank you, Mr. Robinson and Mr. Cook, for your comments in addition to your statement here. On the long-term purchase of power for preference customers, please explain that a little further. Do you now have an experience within the Bonneville system?

MR. ROBINSON. Yes, Mr. Chairman. The Bonneville system has virtually all of its hydro committed. Therefore, during the past years, it has operated under a net billing concept. And this is a very complicated arrangement under which Bonneville takes the power from a plant constructed by another utility in the area and that power is paid for by Bonneville, taking from that utility a lesser amount of power than the actual value of the federal power delivered to it. And it is based on the principle that by inclusion of steam plants in the area, Bonneville gets more firm power to sell and therefore does not suffer the full loss of the lesser revenue.

Also over a period of time the existence of these steam plants will and has and will result and has resulted in increases in the Bonneville rate. But what you are doing here is trading three or four mill federal power for power produced from a nuclear plant at somewhere between six and ten mills, whatever it might be. So in time you run out of the capability of the hydro for thermal.

Now I am sure Mr. Goldhammer can explain the net billing concept a lot more lucidly than I can because he does work with it every day. But the problem is this is the way Bonneville is providing power above and beyond that available from the actual hydro system itself at the present time.

Now the ability to make this net billing work will terminate in the first part of the decade of the 1980's because of the fact that you are trading low-cost hydro for high-cost thermal and you only have so much of it. Now beyond that Bonneville is going to have to either have some authority to enter into long-term purchases to

supply people like Mr. Cook, because he wouldn't have any more to meet his hydro growth, or else it is going to have to have what has been referred to as a trustee agency authority where it can go to Mr. Cook and say, we can buy you so much power and you pay for it and we will transmit it to you and bill you for the total cost.

Now there is some question as to whether Bonneville actually has that authority. It is certainly not set forth specifically in this bill. I understand the Administrator has had some exchange with other Government officials, the Comptroller General, for instance, as to whether or not he has that authority, and, if so, to what extent.

We would like to see some kind of authority written into this bill that will assure the small co-ops, the small preference customers, to assure them of a future power supply over at the Bonneville system. As long as we are writing a bill to take care of the future, we ought to take care of these people, it seems to us.

MR. JOHNSON. I would like to have the expert from Bonneville come back to the stand at this time to tell us how did you handle the exchange of power from California into the Bonneville system during your shortage and how did you treat the preference customers, and how did you treat your industrial faction?

MR. GOLDHAMMER. Let me start out with the power that comes in from California. I have to separate that into two different categories. This last year when we had a shortage situation and a drought, BPA received power from California utilities under some contracts. They are different types of contracts.

We have contracts, for example, with the city of Los Angeles that say that we will provide them peaking capacity or power during daytime hours, and they will return the energy that we supply during those daytime hours at night time hours and off peak. Since the daytime power or energy is worth more than the night time energy because you have peaking capacity to meet peak loads as compared to off peak loads, they return us more energy than we supply them. That energy is treated the same as any energy from our hydro-electric system, and in determining the sales of that power. It just goes into the system, in other words.

What it does is to help us keep the reservoirs higher than we would otherwise keep them.

Now, a second type of power we received during that drought period was a separate contract we had with Southern California Edison Co. They were to provide us 400 megawatts beginning December 1 of 1973 through May 31 of 1974. We took very little energy under that contract as a result of the considerable improvement we had in stream flows beginning last December. We did at times become short on peaking capacity and needed some additional energy, and we took that from Southern California Edison. Some of the power was really taken on an exchange basis. We returned the energy to them at a later time.

Now a third type of power which was taken from California during this period was one in which our industrial customers got some additional power to help carry their loads, which we had curtailed. We have a right to curtail under our contracts with them.

The California utilities, under this situation, did not have an obligation to supply and they were short of oil. However, some of our industrial customers had opportunities to secure some low sulfur residual oil for the California utilities and they worked out contracts under which the California utilities supplied up to 550 million kilowatt hours. The industries paid the cost of that power, based on whatever the oil happened to cost.

The cost of that energy averaged probably close to around 20 mills per kilowatt hour because of the high cost of the oil.

Now that power was purchased by the industries and therefore they got that energy into their own systems and they paid whatever the costs were.

Now to answer the second part of your question with regard to our treatment of the preference customers in the Northwest and the relationship to the power, as I mentioned earlier, any power that went into the Bonneville system went to Bonneville's customers. And the preference customers, of course, received their requirements.

With our preference customers we have what we call "limited requirements contracts" and they are limited in that we will meet their requirements, whatever they may be, with two limitations:

One, if they take on any load of 35,000 kilowatts or more in any year, they have to come to us to determine whether or not the Administrator has power available to meet that load. That is because if we had a number of large loads, we would be in a shortage situation. So, if power is available, we make it available. If it isn't available, normally speaking, they would take it on an interruptible basis until it does become available.

The second limitation in their contract is a provision that in case the Federal system is unable to supply their requirements, and the requirements of other preference customers, we will give them 8 years notice that we can no longer meet their requirements. And after that date there will be an allocation of power from the Federal system.

Now under phase I of the Hydro-Thermal Program, as Mr. Robinson pointed out, we took in power from non-Federal sources. There was power from other public systems, for example. Publicly owned systems participated to the extent of 30 percent in the Trojan plant. We will get 30 percent of the power then from this Trojan nuclear plant when it comes into operation. That power will go into our system.

We will continue to meet the preference customer requirements until July 1, 1983. We will then allocate available energy. BPA will meet the requirements of the public systems until 1983 by use of thermal generation combined with the Federal hydro system utilizing federal reservoirs for load shaping and its peaking capacity for peak loads and reserves.

Now the plants under phase I—well, let me go back a minute. The hydro-electric resources would carry the loads of the preference customers through June 30, 1976. The thermal plants, in which we are taking power through this net billing process, will enable us to carry the preference loads and meet their requirements, up until July 1 of 1983. We are now working with the committees of the

preference customers on the method that will be used in allocation of the Federal power amongst the preference customers at that date. We will meet their requirements up to that date. After that date they will have an allocation of Federal power.

At the same time, the preference customers are working through their public power council on developing thermal generation, which will meet their requirements after 1983.

The long lead time in building nuclear plants means they have to get to work on this right away or they will be in short supply. The arrangements that we are working on with them give them a considerable amount of flexibility as to how they can meet their supply.

One method by which they can meet it is the same way that the investor owned utilities are doing it. They can own part of plants, which is the usual procedure in the Northwest. The large plants are usually multiowned. They can build their own plants. They can take this directly in their system.

We have agreed we will furnish the services of load shaping because, what they could not carry their loads when the plant is down. They will need reserves, and we will furnish transmission services. We recognize this might not be a viable alternative for some of the medium-sized and smaller utilities, and so we have offered as an alternative a second method which we will provide to any of the preference customers. That is that Bonneville will act as an agent or a trustee for them.

They will tell us how much power they want us to acquire and we will acquire it for them for a period of years from plants that will provide power at the lowest cost that would be available. These will be done in a cooperative and coordinated fashion. And, for example, to meet some of the loads of the public systems, the Washington Public Power Supply System is planning additional units to be constructed which would meet the requirements for quite a number of years.

One of the questions involved here that has been raised is the authority to act as an agent or trustee. I might say that we have acted for a number of years as an agent or trustee for the industrial customers in the Northwest and for the California utilities.

I might point out that one of the arrangements that was made in the intertie was that when Bonneville did not have power available and there was surplus power available the Northwest, we would seek it out and supply it to the California utilities on the same basis and uses of the transmission lines as the basis of using surplus energy. And we have acquired substantial amounts of power for the California utilities over the years in which the intertie has been in operation to displace their higher cost fuel, and it was practically always oil, used by the California utilities to generate power.

We have bought power in a number of cases from California utilities. We have gotten power from Montana, Idaho, Wyoming, and in the Northwest, and we have acted as a trustee for the California utilities. We have acted as a trustee to an even a greater extent for our industrial customers, and we have done this for quite a number of years.

To explain that further, Mr. Chairman, I will answer your third question. You asked about how we supply the industrial customers and what our relationships with them are.

At the present time we supply the industrial customers two grades of power. We do not supply them firm power. We supply them what we call "modified firm power" which gives us a right to partially curtail deliveries in case of forced outages on the Federal system or the system in which we secure power.

The second category is interruptible power. Interruptible power gives us rights to curtail whenever we find it necessary to curtail. We try to give the industries as much notice as we can. Sometimes that notice is very short. Usually the curtailments are due to adverse water conditions. They might be due to the fact that there are delays in generating units—in other words, we had to use our secondary energy to supply firm loads.

We are now in the process of negotiating with our industrial customers a new contract for a still lower grade of power because of the problems we are facing on shortages. These shortages are something that Congressman Meeds raised questions about this morning, of delays in plants. With these delays in plants, particularly the thermal plants from which we will be securing power over the next 8 or 9 years. If those plants are delayed, and the history of these nuclear plants is that they tend to be delayed, they don't tend to be on schedule, in other words, we will be short of reserves, because one of the fallacies of our hydro-thermal program phase I was that we did not provide reserves for delays in plants.

A second problem that we face is that the loads are growing somewhat faster than we had forecasted. So in order to provide the additional reserves, we are asking our industrial customers to take a lower grade of power. This lowered grade of power will enable us to curtail, in addition to the situation that I have mentioned earlier of water conditions, forced outages, in case plants can't operate at full capacity, such as the problem we had with the Centralia Steam Plant that I mentioned earlier, because of air quality control or because plants are just delayed for one reason or another for strikes, for any reason, then we would have the right to curtail this industrial power.

I might say that one of the questions that is often raised on this is the relationship of this grade of power to the power that the preference customers use.

The grade of power that we are proposing to sell industry over the next few years is not a grade of power that a preference customer could use to serve its loads, because we have a right to cut it back and they simply couldn't tolerate a condition where there is curtailment of even substantial or insubstantial parts of the load for long periods.

But in order to replace the interruptible power in the past the industries have had trust agreements with us. We have gone out and purchased power for them. They give us the limits of how much they are willing to pay for it and we have bought it from all over the western part of the United States. We bought substantial amounts of power from the California utilities. We bought even

probably greater amounts of power for them from surpluses in British Columbia. In British Columbia they have some steam generating units largely for reserves, and we buy the excess energy and they cut us off whenever, they need it for reserves. We also brought power for them from Montana, Idaho, and Wyoming.

MR. JOHNSON. I want to thank you for that very pertinent information. It seems that the word trustee you are well acquainted with.

MR. GOLDHAMMER. That is right.

MR. JOHNSON. You have it in operation. So the request of Mr. Robinson there, as far as the smaller cooperatives being protected, you have been in that business for a long time?

MR. GOLDHAMMER. I might mention, Mr. Chairman, one other thing about our policies and our contracts. We guarantee to each preference customer a minimum of 25 average megawatts. At a 50 percent-load factor that would be about 50,000 kilowatts. So we are really not talking about the very small ones, because Bonneville will continue with requirements contracts with them until they reach the size of about 50,000 peak kilowatts.

MR. JOHNSON. Thank you for coming back to the stand and giving us your words of wisdom for the record. I am sure I don't have it all in my head. You are a knowledgeable man, however, and I did want that for the record.

The gentleman from Washington, Mr. Foley.

MR. FOLEY. You have before you the statement of Mr. Smith. What specific language would you like to delete? Are you suggesting the deletion of the language on page 4, line 14 and 15?

MR. ROBINSON. I don't have any specific language, Mr. Chairman. My feeling is that section should be rewritten. I would be glad to develop language if it would be of help to the subcommittee?

MR. FOLEY. Do you feel that the Administrator should have to negotiate with a non-Federal utility if it offers to construct a line or do you want to just give the Administrator the authority to go ahead with the Federal line without having to?

MR. ROBINSON. I think under any reasonable circumstances, the Administrator, for that matter, all of the Federal power administrators, have always negotiated. The thing that disturbs me about this language and the disability under which the Administrator is placed, that if in the judgment of the Administrator the negotiations are unfruitful for some reason or another, he is then immediately in federal court at the option of the other utility and —

MR. FOLEY. I am not trying to hold you to any specific language, but just trying to get a sense of what your judgment is. Would you not object to language that requires him to negotiate, but lets him be the final judge as to whether his negotiations are fruitful, and not require him to make his final judgment on negotiations without any judicial move?

MR. ROBINSON. To me, that would be entirely acceptable.

MR. FOLEY. Is that your main thrust?

MR. ROBINSON. Yes, and this morning an additional proposal was made that before he could build any controversial line, he would have to clear it through at least one committee of Congress, which would

be still an additional burden that would be imposed. But your suggestion, Mr. Foley, would be satisfactory to us.

MR. JOHNSON. The gentleman from California, Mr. Clausen.

MR. CLAUSEN. No questions.

MR. JOHNSON. The gentleman from Washington, Mr. Meeds.

MR. MEEDS. No questions.

MR. FOLEY. I wonder if we can recall Mr. Hogg and Mr. O'Connor?

MR. JOHNSON. Mr. O'Connor has left.

MR. FOLEY. Is Mr. Hogg here?

MR. JOHNSON. Mr. Hogg was here.

MR. FOLEY. Are there any representatives of the Montana Power Co.?

MR. JOHNSON. Yes, here is one.

MR. ROBINSON. Mr. Chairman, before I leave, I would just like to touch for a second—

MR. JOHNSON. Mr. Casey may have a question for you. Go ahead and complete your statement.

MR. ROBINSON. I was going to touch on Mr. Goldhammer's discussion on the agency trustee relationship. If that actually exists, and if there is legal support for its existence, then of course we do not insist that it be added to the bill. We do not urgently ask that it be added to the bill then, but I do think the subcommittee ought to be absolutely certain that not only the administrative practice and engineering experience exists for this trustee-agent relationship, but that there is some legal support which will satisfy the New York lawyers who are going to have to pass on the powers of Bonneville Power Administration under these bond indentures. Because once Bonneville starts operating with bond money, it is going to have to pledge its revenues. And its revenues are going to have to be pledged and covered by some kind of a trust indenture in favor of the bond holders.

And the powers that are exercised by Bonneville and the use of its bond money under those powers are going to be strictly spelled out in that bond indenture. And if, at that time, there is not legal justification and legal underpinning to the exercise of that trustee agency relationship, Bonneville, in my judgment, is not going to be able to do it.

So if the legal foundation for that exists, in addition to the engineering experience and administrative practice, then that is fine. But I would hope that this subcommittee would receive assurances of that legal foundation sufficient to satisfy the bond indenture writers before it goes and recommends passage without that language.

MR. JOHNSON. Mr. Casey, do you have any questions?

MR. CASEY. No, I don't have any.

MR. JOHNSON. The minority counsel, any questions?

Well, we want to thank you appearing here and giving us the benefits of your statements. They are all in the record, and your summary and your response to the questions are there.

MR. ROBINSON. We appreciate your patience, Mr. Chairman.

MR. JOHNSON. Now, Mr. Foley, Congressman Foley I should say, of Washington, would like to further hear from the Idaho Power Co. or the Montana Power Co. or the Utah Power Co. witnesses

for a response or two to a question. Is anyone here to represent these power companies?

Would you come forward. You are the public affairs officer of Idaho Power. I presume you attended many of these hearings and are quite familiar with all of these matters of concern?

**STATEMENT OF LOGAN LANHAM, DIRECTOR OF PUBLIC AFFAIRS,
IDAHO POWER CO.**

Mr. LANHAM. Thank you, Mr. Chairman.

Mr. JOHNSON. Would you give us your full name and full title?

Mr. LANHAM. I am Logan Lanham, and I am the director of public affairs for Idaho Power Co.

Mr. FOLEY. Mr. Lanham, I don't want to put this question to you, if you feel it should be answered by some other representative of the company, but just trying to understand the suggestions of Mr. Hogg, on page 8 of his testimony, and that is section 5 on page 4, if you have a copy of the bill, he suggested it be amended by striking out the words, "which shall" in line 20 and all of lines 21 through 25.

And it is just about that if there is a non-Federal utility able to build transmission lines which meets the conditions of section 4, namely, to integrate and transmit the electric power from existing or additional Federal or non-Federal generating units; to provide service to the Administrator's customers; to provide interregional transmission facilities; and to maintain the electrical stability and electrical reliability of the federal system, that that non-Federal utility must be permitted to construct those facilities regardless of the cost as long as the cost covers the charges of construction and operation and maintenance.

In other words, would the Administrator have any discretion to consider cost under this amendment?

Mr. LANHAM. Well—

Mr. FOLEY. If you don't feel that you are in a position to answer that question, perhaps we can refer to your company for a written response. But it seems to me that the Montana Power Co. is suggesting that the Administrator ought to have complete discretion to negotiate with a non-Federal utility considering any matters that he thinks are relevant, whereas it seems that the Idaho Power Co. wants to restrict the Administrator's discretion in another area. And I get the impression that regardless of how expensive the non-Federal construction or operation and maintenance of a line would be, that if it met the conditions of section 4, the Administrator would be required to contract?

Mr. LANHAM. Congressman, I think it was Mr. Hogg's opinion that in the event that there was a comparison of whether the Administrator constructed the facility or a private utility or a non-private for that matter, that all of the costs and all of the other ramifications would be included. And one of our major costs, when it comes to constructing facilities, are State and local taxes. And everything being equivalent, taxes should be included in the comparison, and then I think—

Mr. FOLEY. Well, we will just put this as a hypothetical. Suppose that a non-Federal utility through some misfortune had extremely heavy costs of financing of the line or that in the Administrator's opinion the cost of operating and maintaining the line, because of the company's management situation, was extremely expensive. Now would he still be bound to enter into that contract as long as the line would meet the physical generational and operational requirements of section 4?

Mr. LANHAM. No. I think, in my opinion, and I think it was Mr. Hogg's, that in the event that all of these costs were sum totaled—including the cost of money in the observation that you were indicating—if in sum total, if it were more favorable for the Administrator, then so be it. But as long as all the costs were there and the other factors included, then it would be at the discretion of the Administrator.

Mr. FOLEY. Well, I don't see then what the objection would be to the existing language.

Mr. LANHAM. The objection is, as Mr. Hogg explained it, or as I understood it, the objection was that one of the major costs of operation—

Mr. FOLEY. Are taxes?

Mr. LANHAM. Yes, are taxes. In our company, it amounts to about 22 percent of our gross revenues paid in Federal, State, and local taxes. And when you consider all of the costs to build and construct and operate and maintain facilities, those have to be one of those included as in the comparison.

Mr. FOLEY. So that the thrust of this amendment is just to include the taxes in the equation of costs?

Mr. LANHAM. That is right, as I understand it.

Mr. FOLEY. And the Administrator would still be taking those into consideration and would still be able to make a comparative estimate of the costs of the Federal versus the non-Federal construction costs, just considering this kind of a tax burden though?

Mr. LANHAM. As I understand it, yes, sir.

Mr. FOLEY. Thank you.

Mr. JOHNSON. Well thank you. That concludes the list of witnesses.

Is there anyone else in the room that wants to testify?

Hearing none, we will place in the record whatever statements have been received up to now and will come in during a period of the next 10 days. They will be made a part of the record.

Is there objection? Hearing none, so ordered.

[Statements for the record follow.]

LOST RIVER ELECTRIC COOPERATIVE, INC.
Mackay, Idaho, May 28, 1974.

Hon. JAMES A. HALEY,
Chairman, Committee on Interior and Insular Affairs, U.S. House of Representatives, Washington, D.C.

DEAR REPRESENTATIVE HALEY: The Lost River Electric Cooperative, Inc., an REA financed electric distribution system, serving consumers in the rural area of Central Idaho respectfully urges your support of the Federal Columbia River Transmission System Act.

Enactment of this legislation would permit the Bonneville Power Administration to issue bonds for financing construction of their transmission system and allow them to put all revenues into a fund from which operating and maintenance costs would be paid.

If approved, this plan would exempt BPA from the appropriations process in Congress and would enable more dependable long-range planning of the transmission system.

This Act will reduce the involvement of the Federal Treasury in the long-range planning for electric power in the Northwest and has the support of all utilities in the region. It is a vital part of the planning presently underway to meet the electric energy requirements of the region in the years to come.

Please give this legislation your full support.

Sincerely yours,

M. J. MARINAC,
Manager.

STATEMENT ON BEHALF OF THE WASHINGTON PUBLIC UTILITY DISTRICTS' ASSOCIATION, SEATTLE, WASH., SUBMITTED BY KEN BILLINGTON, EXECUTIVE DIRECTOR

Mr. Chairman, this statement has been prepared in joint form because S. 3362 and H.R. 14168, being considered by the individual and respective Committees and/or Sub Committees of both Houses of Congress, are identical in wording.

Mr. Chairman, Members of the Committee: I am Ken Billington, Executive Director of the Washington Public Utility Districts' Association, with address of 601 Tower Building, Seattle, Washington 98101. We appear here in support of this legislation subject to acceptance of clarifying amendments prepared after the legislation's introduction, and to be offered for your consideration by representatives of the Pacific Northwest Utilities Conference Committee. In our testimony we refer to these as "PNUCC" amendments.

The Washington P.U.D. Association is the service organization of public utility districts operating hydroelectric generating plants and electric and water distribution systems serving in excess of 375,000 electric customers in over one-half of the land area of the State of Washington. Additionally, the Washington Public Power Supply System, a joint electric generation and transmission agency of eighteen of these districts and the three largest municipal electric utilities in our State, is a member of the Association. The Supply System is currently operating the large Hanford Generating Plant using steam from the Federal NPR reactor. It has three additional large nuclear fired generating plants under construction. Current studies are now underway for construction of two additional nuclear plants by the Supply System. Five of our members operate nine hydro-electric plants including five large installations on the main stem of the Columbia River. The hydro-electric plants, distribution facilities and the nuclear generating plants, involve current and anticipated financial investments by these non-Federal consumer owned utilities in excess of \$3¼ billion. The Public Utility Districts of the State of Washington, as a group type of utility, are the largest purchasers of Federally generated power in the Pacific Northwest. They thus have a direct interest in this legislation on a two-fold basis.

First, the reliability and continued integrity of the present Federally owned "back bone" transmission grid is essential for their future efficient operation. Second, the most efficient operation and cost saving method for both the Federal government in its hydroelectric projects and transmission system, and the non-Federal generating plants, is the continued use of a common, fully integrated transmission system. This continuation of the past basic program of operating jointly will provide the greatest production of energy, under the most efficient method, at the lowest possible cost, by all parties involved in electric energy supply in the Pacific Northwest. This includes the Federal government.

Since the Federal government now has major ownership of the regional transmission grid, it is logical to continue with its use and expansion under full integration with the non-Federal generation and transmission systems. An essential need, however, is to provide a procedure whereby such operation, maintenance and construction of the Federal transmission facilities will be handled on a business revenue supported, self financing basis. This will permit utility-like planning, construction and operation for all power service groups. We recognize also that the pressures on the Federal budget appropriations for other governmental needs are increasing. This has already restricted funds available for the Federal power system. It has caused delays in construction which have raised dangers of lower transmission reliability in certain areas. This, too, has prompted our quest to seek a self financing method by more direct use of revenues for the Bonneville Power Administration.

We have participated directly in negotiations among all utility interests, the direct industrial customers of the Bonneville Power Administration and the Bonneville Power Administration in what is termed Phase II of the Pacific Northwest hydro-thermal program. The first ten years of that hydro-thermal program involved transition from a near 100% hydroelectric power supply to a beginning base of steam power supply. It was accomplished under existing law and authority because of the major and direct involvement of the Federal hydroelectric plants. It became apparent, however, as planning commenced for power supply beyond the first ten year period, with the major amount of new power to come from non-Federally owned generating plants, that consideration had to be given to the extent of future Federal ownership and operation of an enlarged and needed basic transmission grid. The need and desirability of having a fully integrated grid, both as to electrical capacity and economic considerations, became very apparent even if some portions of that grid were to be non-Federally owned. It was at this time that the Pacific Northwest utilities working through their Conference Committee along with the Public Power Council and BPA's industrial customers negotiated and helped draft this legislation as initially introduced under the present Federal Administration auspices.

The most important principle embodied in our efforts, and that which we hope will be sustained by Congress, is to provide this needed procedure for the operation of the Bonneville Power Administration, but to leave all rights, past and present, as regards utility relations, among themselves and the BPA industrial customers, in as near status quo as is possible. We have a long history in the Pacific Northwest of working our utility service problems out on a rational mutual basis regardless of differences in basic philosophies and views on utility ownership. This has been necessary because our region is made unique as compared to other regions of the Nation by the presence of the Columbia River system as the major power supply source. River development has required Federal, local government and private industry participation. This has made it mandatory, in benefit to the people of our region, for the different utility interests to work together and operate their utilities on a coordinated and cooperative joint basis.

Our statement on preservation of present rights pertains directly to the rights of the publicly and cooperatively owned utilities under the preference clauses. These are the preference laws heretofore enacted by Congress and administered under prior Executive Orders. There is no change intended or desired by this legislation in the preference clause principle or its application.

Conversely, while there are those who prefer a broadening of the power marketing powers of the Federal Government to allow direct purchase of non-Federal power to integrate such power with Federal power and resell it under preference requirement contracts, we have accepted the "no broadening" concept of the purchase of power rights. This is provided in Section

11(b) (6), but with inclusion of the proposed "PNUCC" amendment adding an item (iii) in that subsection.

We have maintained the definition and geographic size of the Pacific Northwest region which has been heretofore defined by Congress. We do not ask that this region be enlarged as regards Federal transmission line construction by the Bonneville Power Administration. However, we would insist in our support of this legislation that the full right of construction of Federal lines within such defined region be maintained. While it is provided that a non-Federal utility may build portions of the needed transmission grid, the performance and use of the lines so substituted must be equivalent in both electrical capability and costs to the Federal Government in providing needed service to its local utility and industrial customers anywhere within such defined region. Construction of lines by the Federal government under this legislation includes those portions of any interregional tie lines located within the defined Pacific Northwest region. This is good because additional interregional tie lines will be desirable.

We would make particular reference to one of the clarifying "PNUCC" amendments. It is the second "proviso" to be added to Section 4(d). The purpose of the amendment is to maintain Congressional surveillance and approval over new projects to be constructed by the Bonneville Power Administration. Yet, it is also to make certain that once approved, such new project can be financed and completed in keeping within its needed time frame and without repeated annual budget approval. In utility planning and construction, timing is very, very important. Delays occasioned by red-tape procedures must be avoided or eliminated. Adequate Congressional surveillance is desirable but should not be administered in a way which causes delays.

We make special comment on the amendment offered by the PNUCC testimony to Section 11(b) (6). It states that the Bonneville Power Administration may purchase power if such power is to be paid for with funds provided by other entities under a trust or agency arrangement.

This clarification of the present authority of the Bonneville Power Administration to act as a trust/agency purchaser of power is particularly beneficial to, and needed by, the smaller cooperative or publicly owned utility. This will allow them to protect their right of local autonomy by participating in the future power supply of the region, but doing so without added cost or obligation on the Federal government. We urge adoption of this clarifying "PNUCC" amendment to effectuate the trust-agency part of the Phase II, Hydro-Thermal Program.

Our final comment centers on Section 13 governing the issuance of Federal revenue bonds by the Administrator with purchase by the Secretary of the Treasury.

The use of Federal taxable revenue bonds by which to finance future transmission facilities will increase the cost of transmission service. The continued use of appropriated funds would provide lower cost. However, as consumer-owned utility operators, while cost is a very important factor in service to our consumer-owners, reliability of service and the ability to provide service when it is needed is even a greater responsibility. In this legislation we of the Pacific Northwest are forfeiting lower cost participation by the Federal government in its power transmission activities for a more positive and definite method of Federal participation. This is essential where the future power supply to a major degree will come from non-Federal generating plants, but also where such plants should be operated in coordination with the Federal hydroelectric plants.

The requirement that purchase of the revenue bonds by the Secretary of the Treasury will be accomplished "forth with" is very important. We emphasize the essential need of definite financing on a definite time schedule, once the facilities or activities of the Bonneville Power Administration have passed Congressional approval.

We emphasize the need for stating a clear legislative intent in the language directing the Secretary of the Treasury to provide a rate of interest on the revenue bonds issued by the Bonneville Power Administration comparable to similar bonds. Such directive should not allow the electric customers of the Pacific Northwest utilities to be penalized by the Secretary through adding of arbitrary costs associated with non-government financing.

In conclusion, we support enactment of legislation to provide direct self financing of the Federal Transmission system in the Pacific Northwest by use of revenues for: (1) operation and maintenance; (2) construction of new and replacement facilities; and (3) direct financing by the issuance and service of Federal revenue bonds.

This will allow proper participation by the Federal government and will secure benefits to the government through full cooperation with the utilities and industries of the Pacific Northwest region under prudent utility operating practices.

We urge acceptance of the "PNUCC" amendments and passage of this legislation.

Respectfully submitted,

KEN BILLINGTON,
Executive Director,
Washington Public Utility Districts' Association.

KAISER ALUMINUM & CHEMICAL CORP.,
Spokane, Wash., May 31, 1974.

HON. HAROLD T. JOHNSON,
Chairman, Subcommittee on Water and Power Resources, House of Representatives, Washington, D.C.

DEAR MR. JOHNSON: Kaiser Aluminum & Chemical Corporation supports swift passage of the Federal Columbia River Transmission System Act (HR 14168).

As an aluminum producer with three plants in the Pacific Northwest dependent upon the Federal Columbia River Power System for electric power for production, we are concerned that Bonneville Power Administration have adequate financing to provide a reliable power system for the region. We feel that the proposed legislation will accomplish this purpose.

For example, the current delay of BPA's Grand Coulee-Raver 500,000-volt high-capacity transmission line threatens the power supply to our Tacoma plant. If the proposed legislation were presently in force, BPA could have proceeded with construction of the line as approved by financing from its revenues or from the proceeds of revenue bonds when escalating costs made it impossible to start construction with available funds.

For this reason we urge prompt approval of this Committee of this bill.

Sincerely,

BRUCE MCPHADEN,
Vice President.

UNITED STEELWORKERS OF AMERICA,
DISTRICT 38—LOCAL UNION No. 338,
Spokane, Wash., May 31, 1974.

HON. HAROLD T. JOHNSON,
Chairman, Subcommittee on Water and Power Resources, House of Representatives, Washington, D.C.

DEAR MR. JOHNSON: Local 338 of the United Steelworkers supports early passage of the Federal Columbia River Transmission System Act (HR 14168).

The Pacific Northwest is a region with little indigenous fossil fuels and is therefore heavily dependent upon adequate electrical power to supply means stability of employment and a continuing economic growth in the region. Delays in the construction of the transmission portion of the Federal Columbia River Power System can mean unemployment and a lowered economy. It is essential that Bonneville Power Administration have the ability to construct its system on schedule.

For these reasons we urge prompt approval of the legislation by this Committee.

Sincerely,

ALBERT W. KIENITZ,
President.

Mallgram

SPOKANE, WASH., May 31, 1974.

Hon. HAROLD T. JOHNSON,
Chairman, Subcommittee on Water and Power Resources, House of Representatives, Washington, D.C.

United Steel Workers Local 329 supports early passage as House bill 14168 re federal Columbia Transmission System Act.

GENE SMITH,
President.

UNITED STEELWORKERS OF AMERICA,
Tacoma, Wash., May 31, 1974.

Hon. HAROLD T. JOHNSON,
Chairman, Subcommittee on Water and Power Resources, House of Representatives, Washington, D.C.

DEAR MR. JOHNSON: The Tacoma, Washington Local 7945 of the United Steelworkers of America supports early passage of the Federal Columbia River Transmission Systems Act. H.R. 14168.

The Pacific Northwest is a region with little indigenous fossil fuel and is therefore heavily dependent upon adequate electrical power to supply the means for stability of employment and a continuing economic growth in the region. Delays in the construction of the transmission portion of the Federal Columbia River Power System can mean unemployment and a lowered economy. It is essential that Bonneville's Power Administration have the ability to construct its system on schedule, particularly at a time when escalating costs can cause delays in meeting construction schedules.

For these reasons we urge prompt approval of the legislation by this committee.

Very truly yours,

W. A. THODE,
Vice President, Local 7945.

STATEMENT SUBMITTED BY AMERICAN PUBLIC POWER ASSOCIATION

American Public Power Association, which represents some 1,400 local publicly owned electric utilities in 48 states, Puerto Rico, the Virgin Islands, and Guam, wishes to express its support for the principle of H.R. 14168.

At its most recent annual conference held in April in Phoenix, Arizona, APPA members endorsed by resolution Federal legislation "to provide self-financing for the Bonneville Power Administration through the right of (a) issuing Federal revenue bonds, (b) directly using revenues for operation and maintenance costs, and (c) retaining conditions, contracts, concepts and

preference rights previously established under the still existing Bonneville Project Act, and which are essential to allow continued full participation and cooperation by the Federal transmission agency with the utilities and the direct industrial customers of the Federal government to secure jointly an adequate power supply for the Pacific Northwest region." A copy of the resolution is attached to this statement.

Today BPA owns and operates some 12,000 circuit miles of transmission in the Pacific Northwest. Twenty percent of this regional grid is 500 kv and this proportion will grow as existing lower-voltage lines are replaced with higher capacity facilities and new lines are added to allow BPA to move larger blocks of power to meet regional needs in the 300,000 square mile BPA service area.

BPA is an active partner in the "hydro-thermal accord" through which non-Federal steam plants are being integrated into the region's water power generation base. Federal hydroelectric projects existing, under construction, or authorized in the Pacific Northwest currently have a rated capacity in excess of 21.5 million kilowatts.

Plans of Pacific Northwest electric utilities—Federal, consumer-owned, and private—to meet anticipated loads through 1986 call for sequenced construction of a series of new generating units of varying ownership and location linked together by the Federal extra-high voltage transmission system. Enactment of H.R. 14168 now is significant to fulfillment of these plans in several ways:

1. Planning for Pacific Northwest power developments is projected ahead a dozen years, and some certainty about financing methods for the Federal portion is needed so that non-Federal entities can make their technical, economic and financial decisions.

2. Orderly adherence to Federal construction schedules for the purpose of insuring availability of facilities when required for adequate and reliable service necessitates timely access to funds.

3. Delays in Federal construction due to shortages of money not only upset tight timetables but impose severe economic penalties on the region's consumers because of continuing cost escalation.

APPA believes that features of H.R. 14168 which authorize issuance of revenue bonds by BPA to finance future transmission facilities and which allow use of BPA revenues to cover operation and maintenance costs will be of aid in achieving the aims of the region's power plans.

APPA also supports the intent of the legislation to preserve without change application of the statutory "preference clause" in the marketing of Federal power by BPA, to protect the existing definition of the BPA marketing area, and to permit BPA to act in an agency capacity for the acquisition of power for smaller power systems.

Section 5 or H.R. 14168 contains language which prohibits BPA construction of duplicate existing transmission facilities or those which a utility commits itself to construct unless, after good faith negotiations, BPA is unable to make arrangements "which shall be at least equivalent in electrical capability to the proposed Federal facilities and which arrangements shall be no less favorable to the Government than the financing and construction of the proposed Federal facilities." APPA recommends insertion of the words "and consumers" after "Government". This addition would insure that the interests of the ultimate users of power moved over the system, as well as the government, will be taken into account.

Section 5 also provides a statutory system for suits against BPA when a utility believes that BPA has not complied with the standards of H.R. 14168 in rejecting a utility proposal. There appears no reason to incorporate this approach since an aggrieved party would have access to the courts under existing administrative law and the controversy would also be reviewed by the Office of Management and Budget and the Congress in the budgetary process. Creation of this special statutory procedure for contesting BPA's

decision on the basis of a variety of new standards could have three practical effects which would block implementation of the plan: (a) if Congressional approval were required, it might be withheld pending disposition of the suit; (b) BPA might be stopped by the court from proceeding until final resolution of the issues, including completion of appeals; and (c) should issuance of bonds be involved, prospective bondholders might be deterred from purchasing them. APPA recommends that this provision be eliminated. Providing such an opportunity for disruption does not seem to be necessary or in accord with the aims of H.R. 14168.

Section 13 provides for issuance of debt by BPA in the amount of \$1,250,000,000. Bonds could be sold only to the Secretary of the Treasury, unlike Tennessee Valley Authority bonds which may be sold in the open money market.

The Treasury Department would play a major role in determining the cost and conditions of BPA borrowings. Section 13 states: "Such bonds shall be in such forms and denominations, bear such maturities and be subject to such terms and conditions as may be prescribed by the Secretary of the Treasury taking into account terms and conditions prevailing in the market for similar bonds, the useful life of the facilities for which the bonds are issued and financing practices of the utility industry. . . . Such bonds shall bear interest at a rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities, plus an amount in the judgement of the Secretary of the Treasury to provide for a rate comparable to the rates prevailing in the market for similar bonds." APPA recommends that H.R. 14168 amended to permit BPA to sell its bonds in the open money market as well as to the Treasury to help insure the most favorable financing for electric consumers. The sole source requirement of H.R. 14168 leaves BPA the captive customer of a single Federal banker and eliminates any possibility of competition in keeping money costs down.

The bill does not define the following terms: (a) "market for similar bonds", (b) "financing practices of the utility industry", and (c) "rate comparable to the rates prevailing in the market for similar bonds". APPA recommends that the phrases be defined in H.R. 14168 to relate to the Tennessee Valley Authority, which at the present time is the only Federal agency which would be comparable to BPA and whose bonds would be comparable with those of BPA.

SELF-FINANCING FOR THE BONNEVILLE POWER ADMINISTRATION¹

Whereas, the consumer owned utilities in the Pacific Northwest region have joined with the Bonneville Power Administration, the investor owned utilities and the direct industrial customers of the Bonneville Power Administration of such region have formulated Phase 2 of the regional Hydro-Thermal Program; and

Whereas, this joint program of power generation and transmission extends the present hydro-thermal accord from 1983 to 1986, and establishes concepts and programs of use and value for a longer period; and

Whereas, one of the concepts involved to accomplish continuation of such hydro-thermal accord is to seek and obtain Congressional approval of self-financing legislation for the Bonneville Power Administration which will (1) provide financing for Pacific Northwest Federal transmission facilities through issuance of Federal revenue bonds, (2) allow the use of revenues for BPA operation and maintenance costs, and (3) establish the Bonneville Power Administration as a permanent agency under a more definitive law; and

¹ Resolution adopted at Annual Conference, American Public Power Association, in Phoenix, Ariz., April 23, 1974.

Whereas, legislation now has been introduced in Congress, being S. 3362 and H.R. 14168, designed to accomplish this without change of those basic fundamentals and rights heretofore established under the original Bonneville Project Act, prior Executive Orders and existing power contracts and which are essential to provide full participation by the Federal transmission agency in the Hydro-Thermal Program; now, therefore, be it

RESOLVED, That the American Public Power Association does hereby endorse in principle S. 3362 and H.R. 14168, Federal legislation to provide self-financing for the Bonneville Power Administration through the right of (1) issuing Federal revenue bonds, (2) directly using revenues for operation and maintenance costs, and (3) retaining conditions, contracts, concepts and preference rights previously established under the still existing Bonneville Project Act, and which are essential to allow continued full participation and cooperation by the Federal transmission agency with the utilities and the direct industrial customers of the Federal government to secure jointly an adequate power supply for the Pacific Northwest region.

STATEMENT OF EDISON ELECTRIC INSTITUTE

The Edison Electric Institute (Institute) is the principal national association of the investor-owned electric utility industry whose 193 member companies directly serve about 78 percent of the ultimate customers for electric services in the United States.

SUMMARY OF STATEMENT

1. The Institute supports the general objective of H.R. 14168 that would provide revenue bond financing for future transmission construction by the Bonneville Power Administration (BPA).

2. The Institute believes that authorization for the issuance of revenue bonds by BPA should in no way diminish the present control now exercised by the concerned appropriation and legislative committees of the Congress.

3. The Institute recommends that Section 13(a) of H.R. 14168 be amended to simplify and clarify the method by which the interest rate on revenue bonds will be determined; and

4. The Institute recommends the bill be amended to include an in lieu of tax, to be paid to the states in which BPA operates, as a beginning step toward equality of taxation among the customers of all segments of the electric utility industry.

1. REVENUE BOND FINANCING

The Bonneville Power Administration has been in operation for about 36 years and during that time has been the recipient of generous government financial assistance. BPA's assets place it among the largest utilities in the United States. It provides electric power over a 300,000 square mile area and employs about 3,800 personnel. As Senator Jackson stated upon introducing S. 3362, "Bonneville's operations are similar to those of an electric utility . . ." As an electric utility system, BPA should have all the rights and privileges of an electric utility and all of the responsibilities as well.

Because revenue bond financing is more flexible in application and more appropriate to the operation of an electric utility than are appropriations by the Congress, we urge the Congress to grant BPA authority to issue revenue bonds for transmission line construction consistent with the safeguards that are presently included in the bill and as proposed in this statement. While flexibility is important from the operational aspect of electric utility operation, another major reason for granting revenue bond authority is that it should eventually make more realistic the interest rate BPA will pay for its use of money.

2. CONGRESSIONAL CONTROL

Section 11(a) and (b) of H.R. 14168 set out the control that may be exercised by the Congress in various appropriations acts during and after the time the special BPA fund is established. Because BPA has not yet repaid to the Treasury over \$2.8 billion in funds appropriated by the Congress for Federal power construction in the Pacific Northwest, we recommend that the Congressional scrutiny of BPA operations be continued by close examination of its annual budget and by appropriate legislation should this become necessary.

3. INTEREST RATE ON BONDS

Section 13(a) establishes a procedure by which the Secretary of the Treasury shall determine the interest rate on the revenue bonds to be sold by BPA to the Treasury. The pertinent part reads:

"Such bonds shall bear interest at a rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities, plus an amount in the judgment of the Secretary of the Treasury to provide for a rate comparable to the rates prevailing in the market for similar bonds."

The Institute recommends that this section be simplified and clarified. Under the language in the bill the interest rate could be set at any figure the Secretary judges to be appropriate. No definition is provided for "similar" bonds. Would similar bonds be of the type issued by the Tennessee Valley Authority—another government power supplier? Might similar bonds be those issued by investor-owned electric companies or tax exempt municipal and state power agencies?

In setting the interest rate the Secretary must take into consideration the average market yield on outstanding marketable obligations of the United States of comparable maturities; however, there are few U.S. marketable obligations outstanding with maturities comparable to those of the average electric utility. Thirty year bonds are the norm in the electric industry but are the exception with Treasury obligations.

It is recommended that the bill be amended to specify that the interest rate on BPA's bonds be that rate on which comparable investor-owned electric utility bonds are priced on the open market. By comparable is meant bonds of a reasonably high rating (A and up) and having a maturity of 25 to 30 years.

4. IN LIEU OF TAX ON THE BONNEVILLE POWER ADMINISTRATION

Under present tax laws federal government-owned commercial electric systems pay no federal income taxes and virtually no other taxes. There is no justifiable reason for perpetuating this tax discrimination. If the taxpayers of this country are to pay taxes through their electric bills as a result of laws passed by Congress and state legislatures, those taxes should be paid by the customers of all ownership segments of the industry. There is ample reason and precedent for Bonneville Power Administration to make in lieu of tax payments on its power operations and the Institute recommends that such a tax be included in H.R. 14168.

PRECEDENT

The Tennessee Valley Authority makes annual in lieu of tax payments based on a rate of 5 percent of gross revenues from power operations excluding revenues from power sales to federal agencies. The 5 percent tax is apportioned among all the states in which TVA does business. TVA makes no tax payments on reservoir land or other property used for non power purposes. In fiscal year 1973 TVA made in lieu of tax payments of \$27,310,000 to state and local governments. TVA's municipal and cooperative customers made additional tax payments.

REASONS FOR EQUALITY OF TAXATION

Fair treatment of all customers of electric energy.—Under federal and state regulatory laws, electric utility companies are permitted to earn a fair return (and no more) on their rate base after allowance for necessary and proper expenses. Taxes are one of those necessary and proper expenses. Consequently, there is no doubt that the tax burden falls on the customers of the electric utility. It is grossly unfair and inequitable that because of a particular form of ownership the customers of one segment of the electric utility industry—the investor-owned electric light and power companies—must pay more than their proportionate share of the cost of government while the customers of another segment are exempted from paying their proportionate share.

Competition among electric utilities.—While most businesses compete against others in the same field of business, they do not compete against the government. This is not true in the electric utility business. Electric utility companies do not compete against each other because they are regulated and assigned service areas, but they must compete against government-owned and government-financed electric systems. These government systems have a cost and price advantage because: 1) interest on their revenue bonds is generally exempt from income tax; 2) government power systems are totally exempt from income tax; and 3) state and local taxes for such systems are generally lower than those of electric companies. In addition, in the Pacific Northwest many government-owned and government-financed electric utilities purchase their energy from the Bonneville Power Administration, which is totally exempt from all taxes, thus compounding the tax inequity.

Note on the attached chart the absurd tax situation existing in the Pacific Northwest. The tax bill, based on taxes per kilowatthour, of the seven electric companies operating in that area is almost the same as the average revenue per kilowatthour of BPA. Surely there is a gross inequity in our system of taxation when the taxes of one ownership segment of the electric utility industry are almost equal to the revenues received by another ownership segment, with both operating in the same region of the country.

Tax exemptions lead to uneconomic energy conservation policies.—The present primary energy resource in the Pacific Northwest is hydroelectric power.

A severe shortage of energy in that region due to lack of water occurred during the summer of 1973. This situation has happened before in the Pacific Northwest and may be expected to happen again. Sound energy conservation policies are necessary to prevent waste of this limited resource. One such policy, for which strong support appears among many industry, government and consumer groups, is that consumers of energy should pay the full economic costs, including proper tax burdens, of each form of energy they use.

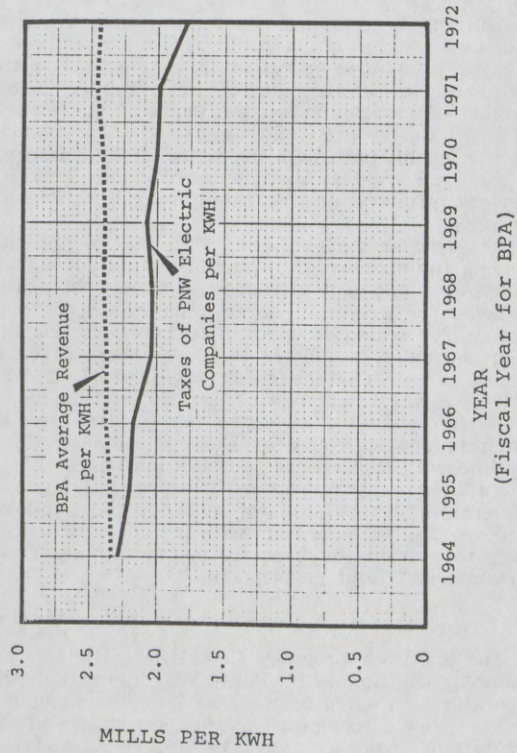
The laws which permit certain consumers of electric service to avoid their fair share of necessary tax burdens are, in effect, subsidizing the consumption of electricity by these consumers. Such a result is clearly incompatible with this energy conservation policy.

Additional tax revenues.—The proposal made by the Institute below would generate additional tax revenues for state and local governments which could relieve the pressure on presently overburdened property owners and may help to prevent the imposition of new taxes for the ever-expanding functions of state and local government.

THE INSTITUTE'S TAX PROPOSAL

The Institute proposes that H.R. 14168 be amended to include a section whereby the Bonneville Power Administration would pay to states in which it operates an in lieu of tax based on the amount of taxes other than Federal income taxes, computed as a percentage of gross revenues from electric operations, paid by the investor-owned electric companies operating in the Pacific Northwest region. The bill should also make it clear that the interest on BPA-issued bonds is subject to federal and state taxes.

COMPARISON
Bonneville Power Administration Average Revenue per KWH
with
Taxes per KWH of Electric Companies Operating in Pacific Northwest



	MILLS PER KWH		
	Electric Companies Taxes	BPA Average Revenue	BPA Average Revenue Higher Than Company Taxes
1964	2.29	2.34	0.05 Mills
1965	2.21	2.35	0.14
1966	2.18	2.38	0.20
1967	2.04	2.38	0.34
1968	2.04	2.40	0.36
1969	2.09	2.40	0.31
1970	2.01	2.41	0.40
1971	1.99	2.46	0.47
1972	1.78	2.43	0.65
1973	NA	2.44	

EDISON ELECTRIC INSTITUTE,
New York, N.Y., June 21, 1974.

HON. HAROLD T. JOHNSON,
Chairman, Subcommittee on Water and Power Resources, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: On June 13 the Edison Electric Institute submitted a statement for the record on H.R. 14168, a bill relating to revenue bond authority for the Bonneville Power Administration. We would appreciate the following addendum being added as part of that statement.

"The Edison Electric Institute believes an amendment to the bill is desirable in the interest of clarity and proposes that Section 4 of H.R. 14168 be amended to read as follows: (New wording is underlined, deleted wording is struck through.)

"Sec. 4. The Secretary of the Interior, acting by and through the Administrator, shall operate and maintain the Federal transmission system within the Pacific Northwest and shall construct improvements, betterments and additions to and replacement of such system within the Pacific Northwest as he determines are appropriate and required to (a) integrate and transmit the electric power from existing or additional Federal or non-Federal generating units; (b) provide service to the Administrator's customers in the Pacific Northwest; (c) provide interregional transmission facilities; and in conjunction with lines outside the Pacific Northwest presently in existence of hereafter specifically authorized by Act of Congress or constructed by non-Federal entities; and (d) maintain the electrical stability and reliability of the Federal system in the Pacific Northwest."

Sincerely yours,

W. DONHAM CRAWFORD,
President.

Mr. JOHNSON. We wish to thank all of you people for coming here. The committee has a little further action on a bill or two that we have considered.

[Whereupon at 2:45 p.m. the subcommittee proceeded to other business.]



