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BONNEVILLE POWER ADMINISTRATION FINANCING

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HEARING

BEFORE THE

SUBCOMMITTEE ON WATER AND POWER RESOURCES

OF THE

COMMITTEE ON INTERIOR AND INSULAR AFFAIRS UNITED STATES SENATE

NINETY-THIRD CONGRESS

SECOND SESSION

ON

S. 3362

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

JUNE 6, 1974

Printed for the use of the
Committee on Interior and Insular Affairs

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BONNEVILLE POWER ADMINISTRATION FINANCING

THURSDAY, JUNE 6, 1974

U.S. SENATE,
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 3110, Dirksen Office Building, Hon. Henry M. Jackson [chairman], presiding.

Present: Senators Jackson, Church, Metcalf, Metzenbaum, Hansen, Hatfield, and McClure.

Also present: Jerry T. Verkler, staff director; Daniel A. Dreyfus and Russell R. Brown, professional staff members.

OPENING STATEMENT OF HON. HENRY M. JACKSON, A U.S. SENATOR FROM THE STATE OF WASHINGTON

The CHAIRMAN. The committee will come to order. The purpose of this hearing before the Water and Power Resources Subcommittee this morning is to take testimony on S. 3362, 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.

The measure we have before us was recommended by the Secretary of the Interior and was introduced by myself and Senators Hatfield, Magnuson, Mansfield, Church, and Packwood on April 22 of this year.

The intent of this legislation is to shift the financing of the Department of the Interior's electric power transmission program in the Pacific Northwest from the appropriations process to self-financing derived from revenues to the system and proceeds from revenue bonds.

I understand that S. 3362 is the result of extensive discussions among the Federal agencies and public and private utilities which serve the electric power needs of the Pacific Northwest.

There is no doubt about the significance of the Bonneville transmission system to the future economic and social well-being of the people in the region. Almost 80 percent of the bulk power transmission grid in the Pacific Northwest is operated by the Bonneville Power Administration and it is essential that the Federal responsibility for the planning, construction, and management of this system be carried out in a timely and responsible manner.

I am hopeful that this legislation will be the catalyst for the Congress to develop a clear policy assuring that essential goal for the further benefit of the electrical consumer in the Pacific Northwest.

I am pleased to note among the witnesses scheduled for today many who are experts in the field of public and private utility operations and I am sure that their testimony will prove invaluable to the members of the committee during consideration of this measure.

The text of S. 3362, the letter transmitting the proposed bill to the Congress, and a report of the Comptroller General will be inserted in full in the record at this point.

[The material referred to follows:]

93D CONGRESS
2D SESSION

S. 3362

IN THE SENATE OF THE UNITED STATES

APRIL 22, 1974

Mr. JACKSON (for himself, Mr. CHURCH, Mr. HATFIELD, Mr. MAGNUSON, Mr. MANSFIELD, and Mr. PACKWOOD) (by request) introduced the following bill; which was read twice and 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.

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

SHORT TITLE

SECTION 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 Power 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 electric 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, at or prior to the time the Administrator's budget is submitted to Congress for the use of revenue or the issuance or 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 sixty 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 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.

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 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 Administra-

tor, 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 equi-

tably 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 Numbered 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 hereunder 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 except 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 marketed 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 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 section 850 of title 31, United States Code, shall be construed as affecting the powers granted in subsection (b) (11) of this section

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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 purposes 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.

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

Hon. GERALD R. FORD,
President, U.S. Senate,
Washington, D.C.

DEAR MR. PRESIDENT: 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 arrangement of funding through Federal appropriations to a self-financing basis.

The Pacific Northwest is liberally endowed with hydroelectric power 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 power program involves contributions by each of 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 Power 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 progoram 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 accord 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 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

SECTION 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 Power 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, 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 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 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 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 hereunder 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 neecssary 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 except 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 marketed 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 purposes 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 transaction of the United States.

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

SECTION 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 constructon 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 contractual 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 by 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 for 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 as 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. HENRY M. JACKSON,
Chairman, Committee on Interior and Insular Affairs,
U.S. Senate.

DEAR MR. CHAIRMAN: This refers to S. 3362, 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.



REPORT TO THE CONGRESS

Pacific Northwest Hydro-Thermal Power Program—— A Regional Approach To Meeting Electric Power Requirements

B-114858

Department of the Interior
Department of the Army

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114358

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the Pacific Northwest Hydro-Thermal Power Program--a regional approach to meeting electric power requirements.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretaries of the Interior and the Army.

Acting Comptroller General
of the United States

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ABBREVIATIONS

BPA	Bonneville Power Administration
GAO	General Accounting Office
WPPSS	Washington Public Power Supply System

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

PACIFIC NORTHWEST HYDRO-THERMAL POWER PROGRAM--A REGIONAL APPROACH TO MEETING ELECTRIC POWER REQUIREMENTS
Department of the Interior
Department of the Army B-114858

D I G E S T

WHY THE REVIEW WAS MADE

A Joint Power Planning Council--comprising 104 publicly owned utilities, 4 privately owned utilities, and the Bonneville Power Administration (BPA)-- developed the Hydro-Thermal Power Program in 1969 to meet growing electrical energy needs of the Pacific Northwest through the integration of regional power resources.

GAO made this review to

--assess the progress that has been made under the program and

--identify problems which must be resolved to enable the prompt development of planned electrical energy.

FINDINGS AND CONCLUSIONS

The Pacific Northwest has historically met 93 percent of its electricity needs through hydroelectric projects. Because most of the desirable hydroelectric sites in the region have been developed, the program aims to satisfy future power needs, in large part, through energy developed from thermal plants--coal burning or nuclear power.

The program is divided into two phases. Phase I covers estimated annual increases in demand for energy through 1981. Phase II covers the region's energy needs after 1981. (For a list of the hydroelectric and thermal projects in the Council's January 1969 plan, see app. I.)

Under the program plan, the Corps of Engineers and the Bureau of Reclamation--Departments of the Army and the Interior, respectively--are to construct and operate hydroelectric generating facilities at present and proposed Federal projects.

BPA is to construct and operate most of the regional transmission facilities (to move electrical energy in bulk).

Private and public utilities are to construct and operate generating facilities, primarily thermal projects, and distribution facilities, which serve consumers.

Each of the participants is to construct facilities in time to meet increases in power requirements estimated to occur through 1990.

The cost of the January 1969 plan was estimated at about $17.9 billion through July 1990. Of this amount, $6.1 billion would be provided by the Federal Government and about $11.8 billion by the 108 non-Federal utilities.

The Public Works Appropriation Act of

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1971 authorized BPA to enter into a net billing arrangement to acquire part or all of the generating capacity of seven non-federally financed thermal plants to be constructed under phase I. (See p. 3.)

Under net billing, BPA acquires its preference customers' share of the electric power generated by the new nonfederally financed thermal plants. The 104 publicly owned utilities are preference customers of BPA.

This thermal power is integrated into BPA's hydroelectric system and sold to BPA's customers at BPA's rates.

In return for the power acquired, BPA assumes the preference customers' share of the construction, operation, and maintenance costs of these plants and pays for these costs by offsetting them against the amounts due BPA for the sale and/or transmission of power to the preference customers.

BPA's authority to acquire thermal power under net billing is limited by the amounts preference customers owe BPA for their power purchases. (See p. 16.)

Power shortages resulting from program delays

Through cooperation between Federal, public, and private utilities, the program has been successful in providing additional generating capacity.

As of September 30, 1973, about 4,200 megawatts of additional generating capacity had been provided under phase I; however, 1,590 megawatts of additional generating capacity, scheduled to be available by September 30, had not been provided.

An additional 8,670 megawatts scheduled to become available between October 1, 1973, and December 31, 1981, were behind schedule by an average 4-1/2 years.

As a result of the delays, power shortages in increasing amounts have occurred and are expected to continue to occur. (See p. 6.)

Delays in providing generating capacity under phase I resulted from problems in

--obtaining funds for constructing the Federal hydroelectric projects to be provided under the program plan (see p. 8),

--planning, designing, and constructing both Federal and non-Federal facilities (see pp. 9 and 11),

--obtaining public acceptance of a Federal hydroelectric project (see p. 10), and

--meeting State air pollution control requirements for a thermal plant (see p. 13).

Actions taken to reduce impact of program delays

Actions being taken will reduce the impact of program delays, but BPA is predicting regional power shortages during the next 4 years. (See p. 15.)

To reduce the impact of those delays, the Federal Government has

--requested that the public voluntarily curtail use of electricity and suggested that utilities do the same;

--extended an agreement for the sale

of steam produced from an Atomic Energy Commission reactor for utilities to use in operating an 840-megawatt thermal electrical generating plant from July 1, 1975, to October 31, 1977; and

--accelerated its plans for providing about 1,800 megawatts of hydroelectric power at the Bonneville Second Powerhouse in Oregon and Washington and at the Lower Granite and Little Goose projects in Washington and increased the generating capability of three units at Grand Coulee, in Washington, by 100 megawatts each.

The utilities have

--encouraged customers to reduce their use of electricity and told them how to use electricity more wisely,

--started planning and constructing combustion turbine generating facilities to provide 1,150 megawatts of additional generating capacity not scheduled under the program, and

--begun planning and constructing a thermal coal generating project providing 1,400 megawatts of capacity not scheduled under the program.

Additional funding requirements for phase I

BPA's current capability to net bill its preference customers is not sufficient, under existing rates, to meet all of its contracted commitments for the program. According to BPA this situation is due to escalation in thermal plant construction, operation, and maintenance costs.

BPA estimates that rate increases of between 40 and 75 percent will be needed by 1980 to meet its contractual obligations to construct, operate, and maintain thermal plants included in phase I. (See p. 16.)

Additional appropriated Federal funds totaling about $2 billion will be required for other hydroelectric projects and transmission facilities in order to complete phase I of the program, according to BPA.

Plans for implementing phase II of the program

Pacific Northwest utilities and BPA have agreed upon a plan for implementing the program through 1986.

Under this plan:

--Federal hydroelectric projects will be completed under Federal budget and appropriation processes in accordance with Corps and Bureau construction schedules.

--Net billing will be discontinued and there will be no Federal participation in the cost of constructing, operating, and maintaining the non-Federal thermal projects.

--The Federal Government will construct, operate, and maintain the main transmission system needed for the additional hydroelectric and thermal projects. (See p. 19.)

Proposed changes in funding BPA transmission program

According to BPA, prompt access to funds is necessary to continually supply Federal power to its customers and to construct and operate economic facilities added to the

Federal transmission system. BPA estimated that the cost of these additions and related expenses will average $177 million annually over the next decade.

BPA has concluded that continued reliance on Federal appropriations will not insure the availability of funds to coordinate the completion of transmission and powerplant facilities. (See p. 21.)

BPA has developed a legislative proposal authorizing it to finance operation and maintenance expenses and additions to its transmission system by using its revenues and by selling revenue bonds to the Secretary of the Treasury. The proposal has been incorporated in H.R. 14168 and S.3362, introduced on April 10 and April 22, 1974. (See p. 21.)

The purpose of these bills is to shift the financing of the Interior's electric power transmission program in the Pacific Northwest from the present arrangement of funding through Federal appropriations to a self-financing basis and thereby enable BPA to more effectively coordinate transmission completion with powerplant completion.

BPA activities would be subject to the budget and audit provisions of the Government Corporation Control Act.

The BPA budget would be submitted annually to the Congress and be subject to limitations or directives contained in appropriations acts.

The foregoing arrangements would give the Congress a satisfactory measure of control over BPA activities covered by the proposed legislation. (See p. 22.)

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations or suggestions.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Departments of the Interior and the Army in general agreed with this report. The Interior provided a detailed description of the agreement between BPA and the utilities to implement phase II of the program. (See p. 22.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

The report should help the Congress in considering the method and level of funding and priorities for planned Federal hydroelectric projects and related facilities in the Pacific Northwest region.

CHAPTER 1

INTRODUCTION

In October 1966 the Joint Power Planning Council in the Pacific Northwest region,[1] comprising representatives of 104 publicly owned utilities; 4 privately owned utilities; and the Bonneville Power Administration (BPA), Department of the Interior, was formed to develop a plan to meet the anticipated power supply needs of the region. In 1969 the Council established the Hydro-Thermal Power Program to accomplish this purpose.

Program objectives are to (1) supply adequate power for the Pacific Northwest, (2) provide efficiencies in plant size, operations, and electrical distribution systems which serve consumers, and (3) minimize environmental impact. The program is designed to meet the growing electrical energy needs of the Pacific Northwest region through the integration of regional power resources--Federal and non-Federal, public and private, existing and planned. In 1969 BPA estimated that the electrical energy needed in the Pacific Northwest region was expected to triple between 1970 and 1990.

In 1969 hydroelectric projects were providing about 93 percent of the electrical energy in the Pacific Northwest; of this amount, about 50 percent was being supplied by BPA from Federal hydroelectric projects. Because most of the desirable hydroelectric sites in the Pacific Northwest had been developed, it was recognized that the region's future power needs would have to be met, in large part, through energy developed from thermal plants.[2]

The Joint Power Planning Council decided that the most efficient way to provide for future power needs would be through joint efforts of Federal agencies and utility companies. By constructing thermal plants jointly, larger, more economical plants can be built to achieve lower power production costs. Also, the construction of larger, but

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[1]Oregon, Washington, and Idaho and parts of Montana, Utah, California, Nevada, and Wyoming.

[2]"Thermal plants," as used in this report, means coal-burning or nuclear powerplants.

fewer, plants reduces the number of transmission facilities[1] needed and thereby reduces the environmental impact.

The program entails the merging of hydroelectric power with thermal power. The plan for implementing the program was prepared in January 1969 by the Joint Power Planning Council and provides for developing about 21,700 megawatts of hydroelectric generating capacity and about 21,400 megawatts of thermal electrical generating capacity to meet the estimated annual increases in demand for energy through 1990.

The program is divided into two phases. Phase I covers the estimated annual increases in demand for energy through 1981, and phase II covers the region's energy needs after 1981. The plan originally provided for 20,100 megawatts of generating capacity to be provided under phase I and 23,000 megawatts under phase II. (See app. I for a list of the projects--hydroelectric and thermal--in the January 1969 plan.)

Under the program plan the Corps of Engineers, Department of the Army, and the Bureau of Reclamation, Department of the Interior, are to construct and operate hydroelectric generating facilities at existing and proposed Federal projects. BPA is to construct and operate most of the regional transmission system. The non-Federal private and public utilities are to construct and operate generating facilities, primarily thermal, and distribution facilities which serve consumers.

The Administrator, BPA, is authorized to dispose of electrical energy generated at Federal projects constructed by the Corps and the Bureau in the Columbia River Drainage Basin, comprising a system known as the Federal Columbia River Power System. The Administrator markets power at rates approved by the Federal Power Commission. The power rates are required to be set at levels to provide sufficient revenues to repay the Treasury for funds made available to construct and operate the system.

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[1]Facilities used to move electrical energy in bulk.

The 108 non-Federal utilities which have teamed together with BPA under the program are customers already purchasing power from BPA. Of these, 104 are public utilities defined as "preference customers" under the Bonneville Project Act (16 U.S.C. 832c) and are entitled to preference and priority with respect to the delivery of electricity from the Federal system. The remaining four participants are private utilities which are not entitled to preference in the purchase of power from BPA but which are paying for about 60 percent of the program's non-Federal costs.

Program participants are to construct facilities in time to meet the annual increases in power requirements that are estimated to occur through 1990.

The cost of the January 1969 plan was estimated at about $17.9 billion through July 1990; the Federal Government was to provide about $6.1 billion of this amount to construct Bureau and Corps hydroelectric generating facilities and BPA transmission facilities. The 108 non-Federal utilities were to provide about $11.8 billion under this plan to construct thermal and hydroelectric generation facilities and transmission facilities.

In November 1973, BPA estimated that an additional $2 billion in Federal appropriated funds would be needed to complete phase I. It also estimated that the costs of phase II--Federal and non-Federal--would be $23.4 billion.

In December 1973, in reassessing the electrical energy needs of the Pacific Northwest region, BPA estimated that even more generating capacity would have to be provided than originally planned under the program.

CONGRESSIONAL AUTHORIZATION OF THE HYDRO-THERMAL POWER PROGRAM

In October 1969, the Secretary of the Interior announced that the President had approved the program. The Congress approved its implementation in the Public Works Appropriation Act for 1970 (Public Law 91-144, Dec. 11, 1969), by appropriating funds for preliminary engineering required by BPA to acquire generating capability from thermal generating plants under an arrangement called net billing.

Public Law 91-439 (Oct. 7, 1970), appropriated additional money for preliminary engineering and referred to the House Committee on Appropriations report (House report 91-1219, June 18, 1970), in describing the way the program was to be implemented. The Committee's report states that:

> "The program includes the construction of seven thermal generating plants between 1971 and 1981. None will be federally constructed, financed or owned. The committee approves implementation of the remainder of the program by the use of net billing as the means of affecting payment by the Bonneville Power Administration for part or all of the generating capacity of nonfederally financed thermal plants, under suitable agreements between Bonneville Power Administration and preference customers to accomplish this purpose. Such agreements would provide that the Bonneville Power Administration will acquire from a date certain, on a cost basis, the preference customers' rights to the generating capability of nonfederally financed plants whether or not they are operable. Any costs or losses to the Bonneville Power Administration under these agreements will be borne by Bonneville Power Administration rate payers through rate adjustments if necessary."

Under net billing, BPA acquires its preference customers' share of the electric power generated by the new nonfederally financed thermal plants. This thermal power is integrated into BPA's hydroelectric system and sold to BPA's customers at BPA's rates. In return for the power acquired, BPA assumes the preference customers' share of the construction, operation, and maintenance costs of these plants. BPA pays for these costs by offsetting them against the amounts due BPA for the sale and/or transmission of power to the preference customers.

Assume that one of BPA's preference customers has a 5-percent interest in a thermal plant. The customer pays its 5-percent share of the total plant costs, including construction, operation, and maintenance costs--$400,000 per period--in return for the rights to 5 percent of the thermal plant output. The customer assigns its 5-percent

share of plant output to BPA. BPA sells the customer power from various sources, including the thermal plant, and may provide other services, such as transmission over BPA's system, amounting to $500,000 per period. BPA offsets the $400,000 costs against the $500,000 charge. Thus, BPA net bills the customer $100,000 per period.

The result of net billing is that BPA integrates the preference customer's share of the more costly thermal power with the less costly hydroelectric power. BPA averages the cost of the combined thermal and hydroelectric energy in its overall charge to its power customers, preference and nonpreference.

SCOPE OF THE REVIEW

We examined the pertinent documents, records, reports, and files relating to BPA, Corps, and Bureau participation in the Hydro-Thermal Power Program covering fiscal years 1970-73. We did our work at BPA in Portland, Oregon; the Bureau's regional office in Boise, Idaho; the Corps' division office in Portland, Oregon; and in the Washinton, D.C., offices of these agencies. We discussed the program with officials of these Federal agencies and representatives of industrial power customers, utilities participating in the program, and utility and industrial customer committees working on various aspects of the program.

CHAPTER 2

PROGRESS AND PROBLEMS IN IMPLEMENTING PHASE I OF THE PROGRAM

As of September 30, 1973, about 4,200 megawatts of additional generating capacity had been provided in the Pacific Northwest under phase I of the program. Even with this increase, however, the program was behind schedule because of problems encountered by Federal agencies and participating utilities. As a result of the delays that have affected the program, power shortages in increasing amounts have occurred and are expected to continue.

STATUS OF PROGRAM

The following table shows the number of megawatts of generating capacity scheduled to be provided under the program by September 30, 1973, compared to the number actually provided.

Type of project	Number of megawatts		Percent behind schedule
	Scheduled	Provided	
Federal hydroelectric	3,862	2,272	41
Non-Federal hydroelectric	500	500	-
Non-Federal thermal	1,400	1,400	-
Total	5,762	4,172	28

The extent of the delays in the Federal hydroelectric projects that were behind schedule is shown in the following table.

Project	Unit number	Number of megawatts	Estimated completion date as of January 1969	Estimated completion date as of September 1973	Months of delay
The Dalles	21	86	Nov. 1972	Oct. 1973	11
(Wash. and Oreg.)	22	86	Feb. 1973	Nov. 1973	9
Grand Coulee	7	48.5	Mar. 1973	Dec. 1973	9
(Wash.)	8	48.5	June 1973	Dec. 1973	6
	19	600	Sept. 1973	Aug. 1975	23
Dworshak	1,2	180	June 1972	May 1974	23
(Idaho)	3	220	June 1972	May 1974	23
Libby	1	105	July 1973	July 1975	24
(Mont.)	2	105	July 1973	Oct. 1975	27
Ice Harbor (Wash.)	4	111	July 1973	Feb. 1975	19
Total		1,590			

About 14,330 megawatts of Federal and non-Federal electrical generating capacity were scheduled to become available under phase I between October 1, 1973, and December 31, 1981.[1] Of the 14,330 megawatts, about 8,670, or 60 percent, were behind schedule by an average 4-1/2 years as of September 1973. Also, eight projects originally scheduled to provide about 2,460 megawatts have been deferred.

Some of the power shortages occurring in the Pacific Northwest in December 1971 and 1972 and again in 1973 could have been lessened if the additional generating capacity had been available as scheduled. In December 1971, average deliveries of 373 megawatts an hour to industrial customers were interrupted for 6 hours during 1 day, and in December 1972, average deliveries of 473 megawatts an hour to industrial customers were interrupted for 71 hours over a 10-day period.

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[1]One thermal plant was planned to become available by January 1982 but was included under phase I by BPA.

We were informed by 12 of BPA's industrial customers that the December 1972 power interruptions cost them production losses valued at about $2.6 million.

In 1973 power shortages occurred earlier than in the previous years because of an unusually dry winter and low streamflows in the spring. On April 11, 1973, power deliveries to industrial customers were reduced by 520 megawatts through July 20, 1973, when power deliveries were further reduced by an additional 260 megawatts. BPA advised us that, as a result of the power reductions, industrial customers were employing 1,070 fewer workers as of November 1973. BPA advised us further that the monthly payroll for these employees was about $1 million and that the losses in production were valued at about $15 million.

All the reductions in power deliveries were to those industrial customers with contracts providing for interruptible power.[1]

PROBLEMS CONTRIBUTING TO PROGRAM DELAYS

The delays in providing the scheduled generating capacity resulted generally from problems in (1) obtaining funds for constructing the Federal hydroelectric projects to be provided under the program plan, (2) planning, designing, and constructing both Federal and non-Federal facilities, (3) obtaining public acceptance of a Federal hydroelectric project, and (4) meeting State air pollution control requirements for a thermal plant.

Federal projects

1. Funding problems--To develop the Nation's water resources, the Corps and the Bureau construct projects for such purposes as recreation, flood control, and irrigation, as well as for hydroelectric power. In considering projects for construction, the Corps takes into account the needs of each region of the country for such projects. The Bureau's project development work is confined to 17 western

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[1]Power made available under agreements which permit curtailment or cessation of delivery by the supplier.

States. The Federal hydroelectric projects included in the Hydro-Thermal Power Program are included in the overall Corps and Bureau programs for the development of water resources.

Executive branch budget limitations were placed on the construction of water resource projects during each of the fiscal years included in our review--1970-73. During this period, the construction of 10 hydroelectric projects (including those projects listed in the table on p. 7) scheduled to provide about 6,000 megawatts of electrical generating capacity under the program was delayed because of the budget limitations.

For example, construction work at the Chief Joseph Dam on the Columbia River involves the installation of an additional 11 hydroelectric generators with a total generating capacity of 1,045 megawatts. The January 1969 program plan scheduled the first generator to be available by November 1974 and the last one by November 1976. Although the Corps requested funds in fiscal year 1970, the project was not approved for funding by the Office of Management and Budget.

The Corps repeated its request for funds to start construction at the Chief Joseph Dam, as well as at other projects, in fiscal years 1971-73. The Chief Joseph project was not included in the President's annual budget until fiscal year 1973. Funds to start construction at the Chief Joseph project in fiscal year 1973 were appropriated by the Congress in the act of August 25, 1972 (86 Stat. 621). However, the Executive Office did not make the funds available for the Corps until April 1973 and, as a result, construction of the additional power-generating facilities at the project has been delayed 28 months.

2. Design and construction--Design and construction problems occurred after the January 1969 plan was developed. This delayed construction of the Corps' Bonneville Dam Second Powerhouse and the Bureau's Teton Basin project and therefore delayed the provision of 346 megawatts of additional generating capacity by about 2 years.

In January 1969, the Corps said preconstruction planning for the Bonneville Dam Second Powerhouse could be completed in fiscal year 1970 and that construction could begin in fiscal year 1971. The Corps, however, had problems in selecting a site that would be compatible with another project

for improving the navigation facilities at Bonneville Dam. As a result, the Corps made more studies to investigate alternative sites. This caused about a 3-year delay in completing preconstruction planning and therefore delayed provision of the 324 megawatts of generating capacity.[1]

In January 1969, the Bureau's construction plans for the Teton Basin project showed that 22 megawatts of generating capacity would be provided by April 1974. However, more detailed construction plans prepared in October 1970 showed that this capacity could not be provided until May 1976--a delay of about 2 years.

According to Bureau officials, collection of more detailed design data and preparation of construction specifications showed that (1) the original time estimate was overly optimistic, (2) there was more construction work than originally planned, and (3) the original plan did not adequately consider the effect of winter weather conditions on the time required for construction.

The Bureau estimates that construction delays at the Columbia Basin Project Third Powerplant (Grand Coulee) will delay 1,800 megawatts of generating capacity by about 15 months and another 1,800 megawatts by about 10 months. The major construction work on this project is behind the Bureau's original construction schedule. The Bureau has allowed the contractor some construction delays due to (1) adverse weather conditions, (2) labor strikes, and (3) additional construction work not originally planned.

In February 1974, the Bureau advised us that the first three units at Grand Coulee which were behind schedule about 15 months had been delayed an additional 8 months. The Bureau advised us also that it did not anticipate a delay for the second units which were behind 10 months.

3. Problems in obtaining public acceptance of project construction--Public resistance has delayed the construction of one Corps program project--Asotin Dam--to be located on the Middle Snake River between Washington and Idaho.

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[1]In addition, the project was delayed about 3 years due to budget limitations.

Several bills have been introduced in the Congress to preserve this area of the Snake River. For example, Senate bill 717, 92d Congress, 1st session, provides that this segment of the river be designated as the Hells Canyon-Snake National River and precludes the construction of any additional dams or other water impoundments in this area. As of a result of the controversies over plans for ultimate development of the area, the Corps has indefinitely delayed providing 270 megawatts of electrical generating capacity originally scheduled to be available by June 1977.

Non-Federal projects

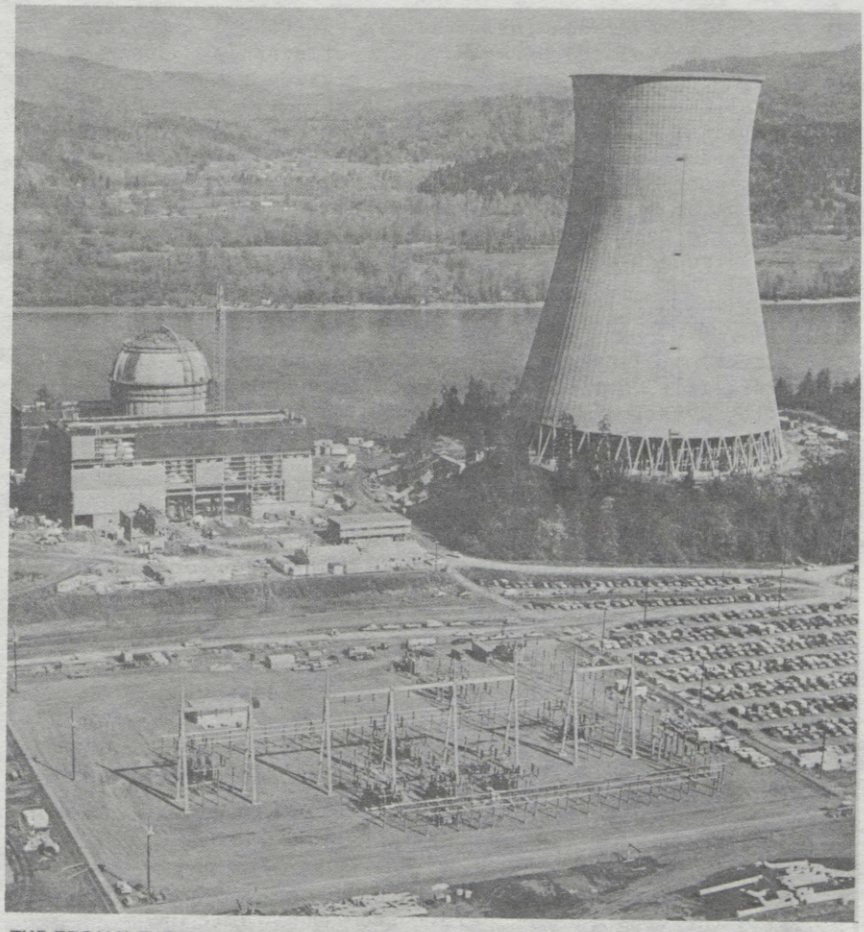
Thermal projects to be provided by the private and public utilities have also been delayed because of problems in meeting construction schedules and in meeting State air pollution control requirements.

1. Problems in meeting construction schedules--The Trojan thermal plant in Prescott, Oregon (see picture below), when completed, will be the first nuclear project under the program. The Portland General Electric Company--a private utility--will construct and operate the Trojan plant and will finance about two-thirds of the costs. The remaining costs will be borne by 15 other utilities in varying proportions. Under the January 1969 program plan, the project was expected to provide 1,000 megawatts of generating capacity by February 1975.

The revised date for completing the Trojan plant is now July 1975, and the plant is expected to provide 1,130 megawatts. Utility officials advised us that the original project construction schedule did not allow enough time for contingencies. They stated, for example, that the original construction schedule did not provide enough time to obtain the construction permit from the Atomic Energy Commission or allow for adverse weather conditions.

The Atomic Energy Commission issued a construction permit and the Oregon Department of Environmental Quality a certificate of compliance, both in February 1971. Construction of the plant is well underway.

Three other nuclear projects included in the January 1969 program plan have also been delayed, as follows.



THE TROJAN THERMAL NUCLEAR PROJECT IS UNDER CONSTRUCTION ON THE COLUMBIA RIVER AT PRESCOTT (AS OF APRIL 1973). THE LARGE TOWER ON THE RIGHT IS THE COOLING TOWER, AND THE BUILDING ON THE LEFT WILL HOUSE THE REACTOR.

Source: BPA

Project	January 1969 program plan: Megawatts	January 1969 program plan: Estimated installation date	Estimated installation date as of September 1973
Thermal plant 3 (WPPSS 2) (note a)	1,000	Apr. 1977	Sept. 1978
Thermal plant 4 (Boardman, Oreg.)	1,000	Oct. 1978	Sept. 1980
Thermal plant 5 (WPPSS 1)	1,000	Apr. 1980	Sept. 1981

[a]Washington Public Power Supply System.

The dates have been moved backward for WPPSS projects numbers 1 and 2 in anticipation of (1) delays in licensing by the Atomic Energy Commission, (2) the unavailability of certain craftsmen and skilled laborers when they are needed, and (3) suppliers' inability to meet delivery dates for project equipment.

The estimated installation date for the Boardman plant was delayed because of a site problem. The Oregon State Nuclear and Thermal Energy Council rejected the plant site because of the hazards posed by low-flying aircraft at a nearby U.S. Navy practice range where nonexploding bombs are dropped. Efforts are being made to get the Navy to relocate the bombing range.

2. Problems in meeting State air pollution control requirements--The Centralia plant near Centralia, Washington (see picture below), was the first thermal coal plant to be constructed under the program. It was constructed and is operated by the Pacific Power and Light Company--a privately owned utility--which is financing about half the costs. Seven other utilities are paying the remaining costs in varying proportions. The project has two power-generating units, each of which is designed to provide 700 megawatts of electrical generating capacity. These are the largest generating units in the area.

The Centralia plant's first unit began to produce power in August 1971 and the second unit in August 1972. However, the units have been permitted to operate at only about 50 to 70 percent of capacity because, when operated at full

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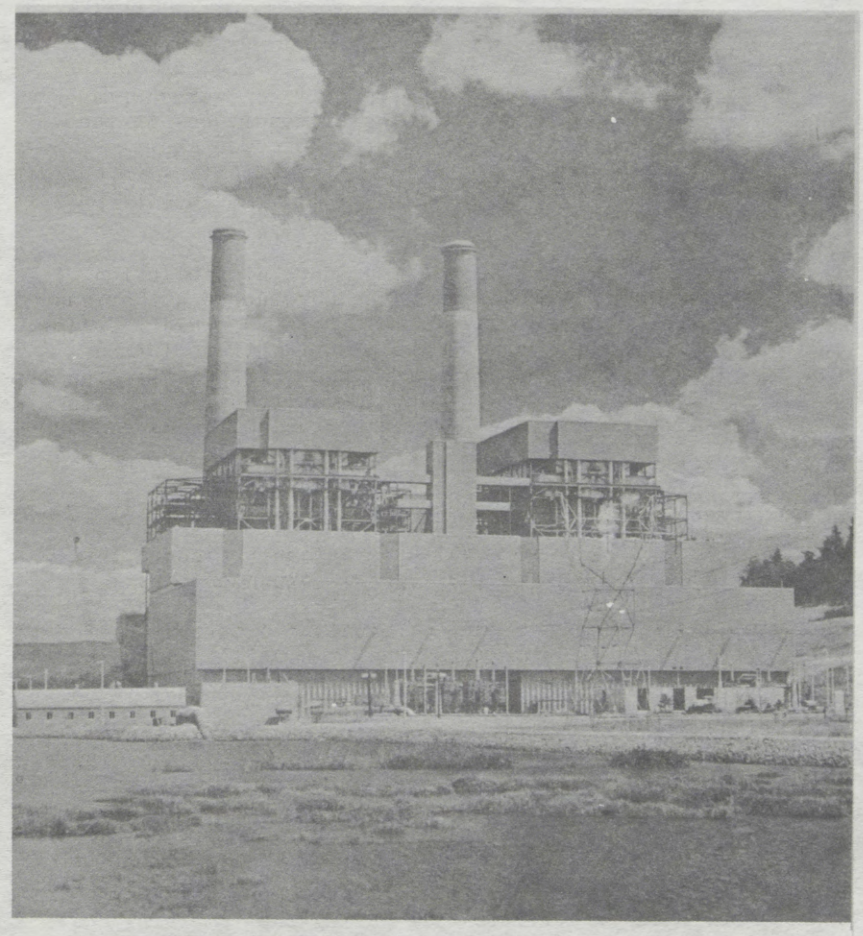

THE CENTRALIA PLANT LOCATED NEAR CENTRALIA IS THE FIRST THERMAL PLANT COMPLETED UNDER THE PROGRAM.

Source: BPA

capacity, the units cannot meet the State of Washington's air pollution standards.

During fiscal year 1974, hydroelectric power shortages occurred because of unusually low water conditions in the Pacific Northwest. To help alleviate the power shortage, the Governor of Washington authorized the utilities to operate the project up to an average output of 1,200 megawatts during the period November 9, 1973, to May 1, 1974.

However, the problem of meeting State air pollution control requirements remains when the Governor's authorization expires. Utility officials told us that the air pollution problems occurred because the plant's air pollution control equipment had not performed in accordance with specifications and that they plan to install additional air pollution control equipment to correct the problems by September 1, 1974.

ACTIONS TAKEN TO MEET POWER NEEDS

Program participants have taken action to reduce the impact of program delays. The Federal Government has

- --requested that the public voluntarily curtail use of electricity and suggested that the utilities promote such energy conservation to their customers;
- --acquired 400 megawatts of power from the Southern California Consolidated Edison Company for the winter of 1973-74;
- --extended an agreement for the sale of steam produced from an Atomic Energy Commission reactor for utilities to use in operating an 840-megawatt thermal electrical generating plant from July 1, 1975, to October 31, 1977;
- --authorized BPA to purchase additional power from utilities outside the region; and
- --accelerated its plans for providing about 1,800 megawatts of hydroelectric power at the Bonneville Second Powerhouse, Lower Granite, and Little Goose projects and increased the generating capability of three units at Grand Coulee by 100 megawatts each.

The utilities have

--encouraged customers to reduce their use of electricity and told customers how to use electricity more wisely;

--begun planning and constructing combustion turbine generating facilities to provide 1,150 megawatts of additional electrical generating capacity not scheduled under the program;

--begun planning and constructing a thermal coal generating project providing 1,400 megawatts of capacity not scheduled under the program;

--accelerated the construction schedules for providing 700 megawatts of additional hydroelectric power generation at three projects in Washington--Rock Island Additions and Mossyrock Additions (included in the program) and High Ross (not included in the program); and

--planned to purchase power from California utilities during 1973-74 and 1974-75.

It is apparent that, due to the leadtime required for implementation, some of the actions being taken by program participants will not have an immediate impact in meeting the Pacific Northwest's power needs. As of January 1974, BPA was still predicting regional power shortages for the next 4 years, as follows.

	1974-75	1975-76	1976-77	1977-78
Estimated power shortages (megawatts)	2,381	957	1,467	1,062

RATE INCREASE REQUIRED TO MEET CONTRACTUAL COMMITMENTS

BPA's authority to acquire thermal power under net billing is limited by the amounts preference customers owe BPA for their power purchases. The preference customers have no right to payment in cash from BPA for thermal power delivered to BPA. BPA's current capability to net bill with its preference customers is not sufficient, under existing power rates, to meet all of its contractual commitments for

the program. According to BPA, this situation has occurred because of the escalation in thermal plant construction, operation, and maintenance costs.

BPA expects to raise its rates for power, which would increase its revenues from preference customers and enable BPA to meet its contractual obligations for the construction, operation, and maintenance costs of thermal plants included in the program. BPA estimates that rate increases between 40 and 75 percent will be needed by 1980.

CONCLUSIONS

Through cooperation between the Federal Government and public and private utilities, the Hydro-Thermal Power Program has been successful in adding generating capacity in the Pacific Northwest. There have been significant delays, however, in both the Federal and utility segments of the program.

Many of the delays have been caused by site, licensing, design, and construction problems similar to those encountered throughout the electric power industry in recent years. Some of the delays in Federal projects, however, have been directly related to funding problems inherent in the Federal budgetary process.

According to BPA, additional appropriated Federal funds totaling about $2 billion will be required for other projects and transmission facilities in order to complete phase I of the program. In view of the constantly changing priorities that must be considered in developing the Federal budget, it is apparent that there can be no assurance that these funds will be available when needed. Thus, the utilities in the Pacific Northwest will have to consider these uncertainties in planning how to meet increasing power requirements through 1981--the scheduled completion date of phase I.

CHAPTER 3

PLANS FOR IMPLEMENTING PHASE II OF THE HYDRO-THERMAL POWER PROGRAM

The January 1969 program plan provided that 23,000[1] megawatts of capacity--15,200 from non-Federal hydroelectric and thermal facilities and 7,800 from Federal hydroelectric facilities--would be made available from 1982 through 1990. In November 1973 BPA estimated program costs from 1982 through 1990 at $3.2 billion for the Federal Government and $20.2 billion for the public and private utilities.

As we said in the preceding chapter, the constantly changing priorities that must be considered in developing the Federal budget cause uncertainties in planning the extent of Federal participation in the construction of Federal hydroelectric projects and transmission facilities. Also, even with future rate increases, BPA does not expect to have sufficient revenues to enable it to participate--under net billing--in assuming the preference customers' share of the output from additional non-Federal thermal plants after the completion of phase I of the program.

Recognizing the problems concerning the extent of continued Federal participation in the program, the Secretary of the Interior, on March 12, 1973, instructed the Administrator, BPA, to begin planning for phase II by

--informally notifying all BPA customers that notices of power insufficiency, effective 1982, would be issued within 1 year unless the utilities and BPA developed a plan for carrying forward the program or some alternative procedure which would assure the region of a future power supply and minimize financial demands on the Federal Treasury;

--advising the utilities and other interested regional parties that, as long as affirmative progress was being made on such a plan, the Interior Department

[1] One thermal plant was planned to become available by January 1982 but was included under phase I by BPA.

would make every effort to support timely completion of Federal hydroelectric generating facilities under construction; and

--proceeding as rapidly as possible in developing the plan and reporting to the Secretary of the Interior.

The Administrator, BPA, advised us that a policy committee composed of representatives of the utilities and industrial power consumers in the region was asked to prepare the plan.

PROPOSED COOPERATIVE ROLE UNDER PHASE II

On December 14, 1973, the Pacific Northwest utilities and BPA agreed upon a plan for implementing the program through 1986. Under this plan:

--The Federal hydroelectric projects will be completed under Federal budget and appropriation processes in accordance with Corps and Bureau construction schedules.

--Net billing will be discontinued and there will be no Federal participation in the cost of constructing, operating, and maintaining the non-Federal thermal projects.

--The Federal Government will construct, operate, and maintain the main transmission system needed for the additional hydroelectric and thermal projects.

In addition to the agreement on phase II, BPA and the utilities agreed that--instead of obtaining annual appropriations--it would be advisable for BPA to seek legislative authority to use its revenues to pay operation and maintenance expenses and to finance additions to its transmission system by selling bonds which would be guaranteed only to the extent of revenues earned by BPA.

Under phase II the utilities and BPA agreed to move forward in a cooperative effort to implement the financing, construction, and operation of hydroelectric and thermal generation facilities. BPA and the utilities identified the

thermal generation to be developed and revised the schedule of hydroelectric generation to be supplied from 1973 through 1990.[1]

Under the revised schedule, the 7,800 megawatts of Federal hydroelectric generation, originally planned to be supplied under the January 1969 program plan, were reduced by about 5,700 megawatts. About 1,410 megawatts of this reduction was due to rescheduling the projects from phase II to phase I. A BPA official advised us that about 4,560 megawatts to be provided by Federal hydroelectric project construction were dropped from the program because of project uncertainties, such as those associated with the Asotin project on the Middle Snake River. (See p. 10.) One project for providing about 270 megawatts (Bonneville Second Powerhouse) was added which was not in the January 1969 program plan.

The 2,100 megawatts of Federal hydroelectric generation now scheduled under phase II are estimated to cost about $345 million. As of December 1973, the facilities to produce about 1,860 megawatts of this power were not yet under construction.

BPA suggested that other possible hydroelectric projects, estimated to provide 3,700 megawatts, be investigated by the utilities, the Corps, and the Bureau to minimize power deficits beginning in the 1983-84 period.

BPA and the utilities have also determined the specific thermal projects to be provided by the utilities for the period July 1, 1978, to July 1, 1985. The thermal plants are scheduled to provide 7,560 megawatts, of which 840 megawatts will be provided if the agreement for operating an Atomic Energy Commission reactor is extended beyond October 1977. (See p. 15.) BPA has advised us that, without the hydroelectric facilities (3,700 megawatts), the following power deficiencies are projected.

	1983-84	1984-85	1985-86
Estimated power shortages (megawatts)	650	1,634	3,006

[1] The schedule includes five units providing 275 megawatts which are to be operational by 1993.

Under the recently announced phase II plan, utilities will provide the additional thermal generation without using net billing. BPA's preference customers may directly purchase all or part of the thermal generation or they may request BPA to act as an agent to purchase power for them. Under the agent approach, BPA will obtain the lowest cost power available, deliver the power to the preference customer requesting it, and charge the customer for the cost of the power and the expenses incurred in delivering it.

Nearly all the power becoming available under the program is to be transmitted on BPA's transmission system to participating utilities and BPA customers in the Pacific Northwest. To implement the plan, BPA will have to construct new transmission facilities to transmit the increased power generated. BPA provides about 80 percent of the transmission system in the region.

PROPOSED CHANGES IN FUNDING
BPA ELECTRIC POWER TRANSMISSION PROGRAM

According to BPA, prompt access to funds is necessary to continually supply Federal power to its customers and to construct and operate economic facilities added to the Federal transmission system. BPA estimated that the cost of these added facilities and related expenses would average about $177 million annually over the next decade.

BPA has concluded that it cannot satisfactorily meet the objectives of an optimal transmission system if it continues to rely on Federal appropriations. According to BPA, because of other Federal budget priority items, there is little assurance that required facilities will be funded as promptly as necessary to coordinate transmission completion with powerplant completion. BPA stated that the utilities could, individually or collectively, finance and construct more transmission facilities but that such an arrangement would place additional financial responsibility on utilities which already have the rapidly increasing financial burdens associated with the construction of major new thermal plants.

Therefore, BPA has developed a legislative proposal which would authorize it to finance operation and maintenance expenses and additions to its transmission system by using its revenues and by selling revenue bonds to the Secretary of the Treasury. The proposal was incorporated in

H.R. 14168, introduced in the House of Representatives on April 10, 1974, and in S. 3362, introduced in the Senate on April 22, 1974.

The purpose of these bills is to shift the financing of the Interior's electric power transmission program in the Pacific Northwest from the present arrangement of funding through Federal appropriations to a self-financing basis and thereby enable BPA to more effectively coordinate transmission completion with powerplant completion.

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

We believe the foregoing arrangements would give the Congress a satisfactory measure of control over BPA activities covered by the proposed legislation.

AGENCY COMMENTS

The Interior informed us by letter dated February 27, 1974 (see app. II), that our report presented an excellent description with supporting data regarding the impact of generator installation delays on the availability of electric power in the Pacific Northwest. The Interior also gave us a detailed description of the agreement between BPA and the utilities to implement phase II of the program. The substance of these comments has been discussed previously in this chapter.

The Army commented on our report by letter dated February 25, 1974. (See app. III.) The Army stated that resolving the energy crisis in the Pacific Northwest would depend on continued cooperative efforts and on both Federal and non-Federal additions to regional power capabilities. Federal facilities could be added through the Corps' program by the timely completion or acceleration of authorized power projects currently underway, initiation of those not yet underway, or the authorization and construction of economically justified power installations having a high potential for early completion.

APPENDIX I

PLANNED AND ACTUAL INSTALLATION DATES

FOR PROJECTS IN THE JANUARY 1969 PLAN

FOR THE HYDRO-THERMAL POWER PROGRAM

Project	Unit number	Number of megawatts per unit	Total number of megawatts Phase I	Total number of megawatts Phase II	Planned installation date (note a)	Actual installation date as of September 1973
HYDROELECTRIC:						
Lower Monumental (Wash.)	1	135	135	-	Jan. 1969	May 1969
	2	135	135	-	Jan. 1969	Sept. 1969
	3	135	135	-	Jan. 1969	Jan. 1970
	4,5	135	270	-	Dec. 1978	
	6	135	135	-	Jan. 1979	
John Day (Wash. and Oreg.)	10	135	135	-	Nov. 1969	Aug. 1969
	11	135	135	-	Dec. 1969	Feb. 1970
	12	135	135	-	Feb. 1970	May 1970
	13	135	135	-	Apr. 1970	Nov. 1970
	14	135	135	-	June 1970	Feb. 1971
	15	135	135	-	Nov. 1971	Oct. 1971
	16	135	135	-	Nov. 1971	Nov. 1971
	17,18	135	-	270	Oct. 1983	
	19,20	135	-	270	Jan. 1984	
Little Goose (Wash.)	1	135	135	-	June 1970	May 1970
	2	135	135	-	June 1970	Oct. 1970
	3	135	135	-	June 1970	Dec. 1970
	4,5,6	135	-	405	Dec. 1986	
The Dalles (Wash. and Oreg.)	15,16	86	172	-	Aug. 1971	Jan. 1973
	17	86	86	-	Nov. 1971	Feb. 1973
	18	86	86	-	Feb. 1972	Mar. 1973
	19	86	86	-	May 1972	Apr. 1973
	20	86	86	-	Aug. 1972	May 1973
	21	86	86	-	Nov. 1972	
	22	86	86	-	Feb. 1973	
Rocky Reach Additions (Wash.) (note b)	8	125.4	125.4	-	Dec. 1971	Oct. 1971
	9	125.4	125.4	-	Dec. 1971	Nov. 1971
	10	125.4	125.4	-	Dec. 1971	Nov. 1971
	11	125.4	125.4	-	Dec. 1971	Dec. 1971
Grand Coulee (Wash.)	7	48.5	48.5	-	Mar. 1973	
	8	48.5	48.5	-	June 1973	
	9,10,11,12	48.5	-	194	Jan. 1989	
	19	600	600	-	Sept. 1973	
	20	600	600	-	Mar. 1974	
	21	600	600	-	Sept. 1974	
	22	600	600	-	Dec. 1977	
	23	600	600	-	Dec. 1981	
	24	600	-	600	Jan. 1983	
	25	600	-	600	Jan. 1990	
Dworshak (Idaho)	1,2	90	180	-	June 1972	
	3	220	220	-	June 1972	
	4,5,6	220	-	660	Jan. 1987	
Libby (Mont.)	1,2	105	210	-	July 1973	
	3	105	105	-	Oct. 1973	
	4	105	105	-	Jan. 1974	
	5,6,7,8	105	-	420	Jan. 1988	
Ice Harbor (Wash.)	4	111	111	-	July 1973	
	5	111	111	-	Oct. 1973	
	6	111	111	-	Jan. 1974	
Teton (Idaho)	1,2	11	22	-	Apr. 1974	

APPENDIX I

Project	Unit number	Number of megawatts per unit	Total number of megawatts Phase I	Total number of megawatts Phase II	Planned installation date (note a)	Actual installation date as of September 1973
HYDROELECTRIC (continued):						
Lost Creek (Oreg.)	1	24.5	24.5	-	Apr. 1974	
	2	24.5	24.5	-	June 1974	
Lower Granite (Wash.)	1,2,3	135	405	-	June 1974	
	4,5,6	135	-	405	Dec. 1985	
Chief Joseph (Wash.)	17	95	95	-	Nov. 1974	
	18	95	95	-	Feb. 1975	
	19	95	95	-	May 1975	
	20	95	95	-	Aug. 1975	
	21	95	95	-	Nov. 1975	
	22	95	95	-	Jan. 1976	
	23	95	95	-	Mar. 1976	
	24	95	95	-	May 1976	
	25	95	95	-	July 1976	
	26	95	95	-	Sept. 1976	
	27	95	95	-	Nov. 1976	
	28,29	116.5	-	233	Oct. 1986	
	30,31,32	116.5	-	349.5	Dec. 1987	
	33,34	116.5	-	233	Dec. 1988	
	35,36,37	116.5	-	349.5	Dec. 1989	
Bonneville Second Powerhouse (Wash. and Oreg.)	1	54	54	-	Mar. 1975	
	2	54	54	-	May 1975	
	3	54	54	-	July 1975	
	4	54	54	-	Sept. 1975	
	5	54	54	-	Nov. 1975	
	6	54	54	-	Jan. 1976	
Asotin (Wash. and Idaho)	1,2	135	270	-	June 1977	
	3,4	135	-	270	Dec. 1985	
Muddy-Meadows (Wash.) (note b)		135	135	-	July 1977	
Mt. Sheep, Low (Idaho and Oreg.) (note c)	1,2	100	200	-	Mar. 1979	
	3,4	100	200	-	July 1979	
Lower Scriver (Idaho)	1,2	30	60	-	May 1979	
	3,4	30	60	-	July 1979	
Appaloosa (Idaho and Oreg.) (note c)	1,2,3	350	1,050	-	July 1979	
	4,5,6	350	-	1,050	Jan. 1989	
Klamath River Additions (Oreg. and Calif.) (note b)		118	118	-	July 1979	
		164	-	164	July 1982	
Upper Scriver (Idaho)	1	37.5	37.5	-	July 1979	
Ben Franklin (Wash.)	1,2,3	34.4	103.2	-	Mar. 1980	
	4,5,6	34.4	103.2	-	May 1980	
	7,8	34.4	68.8	-	July 1980	
	9,10	34.4	68.8	-	July 1981	
Guffey (Idaho)	1,2	21.25	42.5	-	May 1980	
	3,4	21.25	42.5	-	July 1980	
Lynn Crandall (Idaho)	1,2	60	120	-	May 1980	
	3,4	60	120	-	July 1980	

APPENDIX I

Project	Unit number	Number of megawatts per unit	Total number of megawatts Phase I	Total number of megawatts Phase II	Planned installation date (note a)	Installation date as of September 1973
HYDROELECTRIC (continued):						
North Fork Snoqualmie (Wash.)	1,2	20	40	-	June 1980	
	3	20	20	-	July 1980	
Lucky Peak (Idaho)	1,2	17.5	35	-	July 1980	
Kootenai Falls (Mont.)	1,2,3	60	180	-	Mar. 1981	
	4,5,6	60	180	-	July 1981	
Lower Flathead (Mont.)	1,2	56.7	-	113.4	Mar. 1983	
	3,4	56.7	-	113.4	May 1983	
	5,6	56.7	-	113.4	July 1983	
Lenore (Idaho)	1,2	50	-	100	Mar. 1984	
	3,4	50	-	100	June 1984	
Quartz Creek (Mont.)	1,2	26	-	52	Apr. 1984	
	3,4	26	-	52	July 1984	
Garden Valley (Idaho)	1,2	43.75	-	87.5	Apr. 1984	
	3,4	43.75	-	87.5	June 1984	
Garden Valley Reregulating (Idaho)	1,2	9	-	18	May 1984	
	3,4	9	-	18	July 1984	
Twin Springs (Idaho)	1,2	34.5	-	69	June 1984	
Sullivan Creek (Wash.) (note b)	1,2	6.8	-	13.6	July 1984	
Spruce Park (Mont.)	1,2	60	-	120	July 1984	
Smoky Range (Mont.)	1,2	95	-	190	July 1984	
Strube (Oreg.)	1	4.5	-	4.5	July 1984	
Rock Island Additions (Wash.) (note b)	1,2,3,4,5,6,7	33	-	231	July 1984	
Libby Reregulating (Mont.)	1,2	30.5	-	61	Sept. 1984	
Wenatchee River (Wash.) (note b)			-	150	July 1985	
			-	150	Dec. 1989	
American Falls Enlargement (Idaho)			-	60	July 1985	
Ninemile Prairie (mont.)	1,2,3	40	-	120	July 1986	
Cougar Addition (Oreg.)	3	35	-	35	Oct. 1987	
Boundary Addition (Wash.) (note b)	5,6	137.8	-	275.6	Dec. 1989	
Mossyrock Addition (Wash.) (note b)	3	150	-	150	Dec. 1989	
Mayfield Addition (Wash.) (note b)	4	40.5	-	40.5	Dec. 1989	
Total megawatts (21,697.5)			12,699.1	8,998.4		

APPENDIX I

Project	Unit number	Number of megawatts per unit	Total number of megawatts Phase I	Total number of megawatts Phase II	Planned installation date (note a)	Actual installation date as of September 1973
THERMAL:						
Centralia (Wash.) (note b)	1	700	700		Sept. 1971	Aug. 1971
	2	700	700		Sept. 1972	Aug. 1972
Thermal plant 1 (Prescott, Oreg.) (note b)	-	1,000	1,000	-	Feb. 1975	
Thermal plant 2 (Jim Bridger, Wyo.) (note b)	-	1,000	1,000	-	May 1976	
Thermal plant 3 (WPPSS 2, Wash.) (note b)	-	1,000	1,000	-	Apr. 1977	
Thermal plant 4 (Boardman, Oreg.) (note b)	-	1,000	1,000	-	Oct. 1978	
Thermal plant 5 (WPPSS 1, Wash.) (note b)	-	1,000	1,000	-	Apr. 1980	
Thermal plant 6 (WPPSS 3, Wash.) (note b)	-	1,000	1,000	-	Jan. 1982	
Themal plant 7 (note b)	-	1,000	-	1,000	Mar. 1982	
Thermal plant 8 (note b)	-	1,000	-	1,000	Oct. 1983	
Thermal plant 9 (note b)	-	1,000	-	1,000	Feb. 1984	
Thermal plant 10 (note b)	-	1,000	-	1,000	Apr. 1985	
Thermal plant 11 (note b)	-	1,000	-	1,000	Jan. 1986	
Thermal plant 12 (note b)	-	1,000	-	1,000	Mar. 1986	
Thermal plant 13 (note b)	-	1,000	-	1,000	Jan. 1987	
Thermal plant 14 (note b)	-	1,000	-	1,000	Apr. 1987	
Thermal plant 15 (note b)	-	1,000	-	1,000	Jan. 1988	
Thermal plant 16 (note b)	-	1,000	-	1,000	May 1988	
Thermal plant 17 (note b)	-	1,000	-	1,000	Jan. 1989	
Thermal plant 18 (note b)	-	1,000	-	1,000	Mar. 1989	
Thermal plant 19 (note b)	-	1,000	-	1,000	Nov. 1989	
Thermal plant 20 (note b)	-	1,000	-	1,000	Feb. 1990	
Total megawatts of thermal generating capacity (21,400)			7,400	14,000		
Total megawatts (43,097.5)			20,099.1	22,998.4		

[a]Planned installation date, as used here, refers to the anticipated date when a project can be relied upon to generate electric energy on a firm basis.

[b]Non-Federal project.

[c]Project unauthorized by the Congress.

APPENDIX II

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

FEB 27 1974

Mr. Philip Charam
Deputy Director
Resources and Economic
Development Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Charam:

Your draft report to the Congress on "Pacific Northwest Hydro-Thermal Power Program -- Problems in Meeting Regional Power Requirements" has been reviewed. That review encompassed both the original draft and subsequent revisions received February 8, 1974.

[See GAO note, p. 29.]

The draft report presents an excellent description with supporting data regarding the impact of generator installation delays on the availability of electric power in the Pacific Northwest. The impact of these delays as presented in the report has not changed significantly. However, agreement among Pacific Northwest utilities and BPA concerning Hydro-Thermal Program Phase 2 was reached on December 14, 1973. Attachment 1 is a description of the Phase 2 program. Implementation of this program is being initiated, a fact which affects certain aspects of your report

[See GAO note, p. 29.]

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[See GAO note, p. 29.]

As to the attached description of the Phase 2 Program, the last paragraph, "Implementation," indicates that no legislation is required. This has been confirmed with the Solicitor's office. This paragraph also notes that Bonneville and the utilities are developing a legislative proposal for BPA to use its revenues to pay operation and maintenance expenses and to finance additions to the transmission system. The legislative authority for this "self-financing" is not directly related to implementation of the Phase 2 Program. However, BPA and the Pacific Northwest utility representatives did reach concurrent understandings regarding the advisability of self-financing and the content of the Phase 2 Program.

[See GAO note, p. 29.]

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[See GAO note.]

We appreciate your providing us an opportunity to review your proposed report in draft form, and particularly the cooperation of your staff on report changes.

Sincerely yours,

Allan L. Reynolds
Director of Audit and
Investigation

Attachments

GAO note: The deleted comments relate to matters which were discussed in the draft report but omitted from this final report.

35-931 O - 74 - 5

APPENDIX II

HYDRO-THERMAL PROGRAM PHASE 2

On December 14, 1973, representatives of the Pacific Northwest's publicly and cooperatively owned systems, investor-owned utilities, direct-service industrial customers of BPA, and the Bonneville Power Administration, joined to pursue a plan to continue to meet the region's requirements on a cooperative basis.

Summary

The utilities, industries, and the Bonneville Power Administration agreed to move forward in a cooperative effort to implement the financing, construction, and operation of approximately 1.8 million KW of coal-fired generation, about 5.8 million KW of nuclear generation (including continuation of the New Production Reactor (NPR) at Hanford), and 3.7 million KW of peaking capacity to be added to the generation included in the already approved Phase 1 of the Hydro-Thermal Program. In view of the national energy policy, dependence upon oil or gas is avoided. Due to loads now estimated to grow faster than previously forecasted and delays in already approved projects, there is now a projected deficiency beginning in the 1970's. The resource schedule is designed to meet the regional power requirements in the late 1970's and through 1986. It is expected that additional resources to provide the power requirements beyond 1986 will also be identified soon.

Power Situation

Power shortages have been forecasted for the 1970's and 1980's. Delays in scheduled generating units, recognition of the need to provide reserves for possible delays and loads forecasted above previous estimates, account for this deficiency. For example, current load forecasts for the region in 1979-80 are 688 MW higher on peak and 377 average MW larger on energy than the forecasts appearing in last year's study.

With the general shortage of all forms of energy, there is a possibility of electrical loads growing even faster than now projected. If the loads do not materialize, generation can be delayed or, in the present energy shortage, power temporarily surplus to the region's needs probably can be sold outside the region. However, if too little is planned, the area will suffer shortages.

Proposed Generation

Subject to the results of further investigation and such substitutes as such investigation indicate desirable, the additional resources proposed to meet the deficits in the late 1970's include extension of the operation

of the NPR at Hanford (840 MW) and addition of four coal-fired generating units (1,800 MW). Discussions are now underway with the Atomic Energy Commission (AEC) and Washington Public Power Supply System (WPPSS) to extend the NPR operations past October 1977. Extension of the operation of NPR past 1977 will require moving the site of WPPSS #1 to another location on the Hanford reservation and probably delay commercial operation from 1981 to 1982.

One additional coal-fired unit is suggested at Jim Bridger and another at Centralia. Two coal-fired units are suggested for the Boardman or another appropriate site. Coal-fired electric generating units can probably be completed by July 1, 1978, unless delayed by shortages of material or other considerations.

At Jim Bridger, coal can be secured from nearby fields.

At Centralia, where local economic coal deposits may be sufficient only for the existing two units, coal might be imported from other areas.

Preliminary economic studies indicate that Centralia No. 3 be investigated as a peaking and standby plant. Under critical water conditions, it would need to operate to meet energy needs through 1981-82. Beginning in 1982-83 in our analysis, the plant factor is taken at 20 percent instead of the 75 percent used in prior years. Boardman would also be fueled by coal imported from other regions and may be in the same category. However, in this analysis, a 75 percent plant factor was used throughout.

The four nuclear units amounting to about 5,000 MW are in accordance with present investigations of Puget Sound Power & Light Company, Pacific Power & Light Company, Portland General Electric Company, and Washington Public Power Supply System. A generation schedule is shown in Exhibit A. Further studies might indicate the desirability of changing the schedule, for example, to put two units at Sedro Woolley back-to-back, or two at Hanford, or an additional unit at the Satsop site (WPPSS #3). Such a procedure would result in a substantial saving in capital investment. Exhibit B shows the area shortage and the effect of adding the thermal units. The amount of shortage is taken from the "Work Coordination Group Load-Resource Task Force" report of December 7, 1973. Peaking will be provided to go with the baseload thermal plants under the plan. About 3700 MW of peaking capability in addition to existing authorized units, exclusive of Asotin Dam, is needed to meet the 1985-86 loads. Several additional hydroelectric units, including some pumped storage projects, are under active investigation, and it is suggested that other possibilities be investigated immediately.

Allocation of Additional Power

Exhibit C shows a possible allocation among public systems, investor-owned

APPENDIX II

utilities, direct-service industrial customers, and BPA of the energy from the proposed new units. The load-resource report indicates BPA, under Phase 1 of the Hydro-Thermal Program, will meet preference and existing industrial loads through 1982-83. It is anticipated that BPA will allocate to each preference customer a share of the resources available under Phase 1 of the Hydro-Thermal Program and will make available an appropriate portion of such resources to carry out the new industrial contracts noted below. The allocation to preference customers could be increased if additional resources became available to BPA.

It is assumed in Exhibit C that the increased energy requirements of public systems would be met by their participation in new generation. Bonneville's existing commitment of 25 average MW to each preference customer is included in BPA's distribution in the exhibit and is not shown separately since it adds only a small additional amount to BPA's overall commitments.

Arrangements for Acquiring Additional Power

(1) Investor-owned utilities will own plants or part of plants or purchase power from other non-Federal utilities to meet their energy requirements. This does not represent any change from Phase 1 of the Hydro-Thermal Program.

(2) Publicly owned and cooperatively owned systems will have several ways to participate in the new generation required to meet their loads.

As individual utilities, they might own all or a portion of a thermal generating unit. An alternative would be direct participation in units owned by a joint operating agency such as WPPSS, or indirect participation with BPA acting as an agent for them. Or a utility system might utilize a combination of these methods. A small system with average energy requirements of 25 MW or less could continue to purchase all of its power from BPA until its purchases reach that level. Such a system might, if it desires, meet part of its requirements from any of the methods available to other publicly owned or cooperatively owned systems.

The agency approach is similar to "net-billing" except the ownership of acquired power is never in BPA and the actual costs flow through to the participating systems. Bonneville will act as an agent for any preference customer in acquring specific amounts of power for that system.

BPA will contract for the lowest cost power available. Full cost of such power will flow through to the electric systems in the agency arrangement. In addition, BPA will charge for its services such as overhead for handling these transactions, load shaping, wheeling, and reserves. Each electric system will estimate its own load requirements and request BPA to obtain that quantity of power for it. If any system underestimated its requirements,

it is anticipated that BPA would have power available from its load growth reserves to make up the resulting deficiency; and such power would be sold at the Reserve Power Rate discussed below. If a system overestimates its requirements, it will be required to accept its requested thermal power at cost. It is anticipated that shortages or surpluses of contracted thermal power may be reassigned among systems to minimize costs, but to the extent adequate reassignment of surpluses is not arranged, the system may sell such surplus or temporarily reduce its purchases from BPA.

(3) Direct-service industrial customers will purchase up to 1,000 MW to provide extra reserves for the area for the purposes described below or to firm up their interruptible power in case this power is not needed for such reserves.

Industries also would probably have BPA act as an agent. Alternatively, they might purchase directly from a generating plant. The reserve feature will be implemented by contracts that will provide that in case of delay in any scheduled generation, or if projected output of any units is less than the planning plant factor, any utility or BPA dependent upon such delayed or inadequate generation to meet firm loads may withdraw all or part of the reserve power contracted for by the industries. The withdrawal would have to be made on at least 30 days notice prior to July 1 of any year and effective for that year beginning July 1.

The industries will secure new 20-year contracts with BPA. These contracts will be in accordance with BPA's industrial sales policy adopted on January 22, 1971. The industries will also secure additional power for existing plants if needed because of technological changes, including improved pollution control devices.

(4) Bonneville will acquire energy for load growth reserves, to meet the requirements of preference customers up to 25 average MW, and to serve existing commitments. BPA will acquire such additional electric energy by exchanges of peaking or services for energy and by appropriations. Exchange of services from BPA for energy will provide that BPA make available one or more of the following services: transmission, load shaping, peaking capacity, or forced-outage reserves. In turn the utility will provide energy to BPA. If the energy secured by exchanges is inadequate to meet these needs, Bonneville could acquire energy through the appropriation process.

Rates

BPA will establish a Reserve Power Rate to apply to the sale of load growth reserves. The Reserve Power Rate will be set to cover anticipated cost of generation, load shaping, transmission, reserves, possible unsaleable surpluses and a fair share of BPA overheads. The Reserve Power Rate will be

APPENDIX II

higher than estimated costs of new generation as a result of including in the rate the costs attributable to unsaleable surpluses.

Rates to industry under the new 20-year contracts will gradually increase so that at 100 percent availability the BPA industrial rate will increase at a rate commensurate with the increased cost of power for preference customers.

Dry Hole

In case of a "dry hole" or costs relating to extensive plant delays or plant abandonment, the whole region or interested utilities might share in the additional costs. Further analysis should be made as to what type "dry holes" should be covered and to what extent.

NPR and WPPSS No. 1

Since arrangements were previously worked out for operation of NPR through October 1977 and for WPPSS No. 1, these arrangements should be continued. A new extension agreement would need to be worked out for operation of NPR after October 1977. It is expected that those purchasing energy from the extended operation of NPR would pay the charges to AEC, additional costs of WPPSS, and transmission charges of BPA. The amount of energy delivered would be reduced by losses.

Implementation

No legislation is required to implement the above. Bonneville and the utilities are proceeding upon legislative authority for BPA to use its revenues to pay operation and maintenance expenses and to finance additions to the transmission system. The Pacific Northwest Utility Conference Committee is organizing task forces to work immediately on the analyses and contracts necessary to implement the plan. Sponsoring utilities are proceeding with studies of the proposed new generation.

3 Enclosures [See GAO note.]

GAO note: The enclosures are not included here but were considered in this report.

December 19, 1973

APPENDIX III

DEPARTMENT OF THE ARMY
WASHINGTON, D.C. 20310
FEB 25 1974

Mr. Harold Pichney
Assistant Director
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Pichney:

This letter is in response to your request to the Secretary of Defense for comments on a draft report entitled, "Pacific Northwest Hydro-Thermal Power Program - Problems in Meeting Regional Power Requirements," (OSD Case #3760).

The report reviews and discusses the capabilities of the regional Hydro-Thermal Power Program (Program) in meeting the objectives of providing for the area's power requirements. The Program was developed by a Joint Power Planning Council comprised of Federal and non-Federal interests and involves primarily the responsibilities of the Department of the Interior. Corps involvement results only from inclusion of the power capabilities of its projects in the Program potentials. Although no specific recommendations are made regarding Corps or other Federal participation in this Program, the report does note that its success in meeting the stated objectives may be jeopardized due to continuing uncertainties in making timely Federal power additions stemming from changing priorities in the Federal budget.

[See GAO note.]

I believe, however, that resolution of the energy crisis in the area is dependent on continued cooperative efforts and both Federal and non-Federal additions to regional power capabilities. Federal additions could be effected through the program of the Corps of Engineers by the timely completion or acceleration of authorized power projects currently underway, initiation of those not yet underway, or the authorization

GAO note: The deleted comments relate to matters which were discussed in the draft report but omitted from this final report.

and construction of economically justified power installations having a high potential for early accomplishment.

The opportunity to review the draft report is appreciated.

Sincerely,

Charles R. Ford
Chief
Office of Civil Functions

APPENDIX IV

PRINCIPAL OFFICIALS OF THE

DEPARTMENT OF THE INTERIOR

AND THE DEPARTMENT OF THE ARMY

RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES

DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
DEPARTMENT OF THE INTERIOR		
SECRETARY OF THE INTERIOR:		
Stewart L. Udall	Jan. 1961	Jan. 1969
Walter J. Hickel	Jan. 1969	Nov. 1970
Fred J. Russell (acting)	Nov. 1970	Dec. 1970
Rogers C. B. Morton	Jan. 1971	Present
ASSISTANT SECRETARY--LAND AND WATER RESOURCES (note a):		
Kenneth Holum	Jan. 1961	Mar. 1969
James R. Smith	Mar. 1969	Feb. 1973
Jack O. Horton	Mar. 1973	Present
COMMISSIONER OF RECLAMATION:		
Floyd E. Dominy	May 1959	Oct. 1969
Ellis L. Armstrong	Nov. 1969	Apr. 1973
Gilbert G. Stamm (acting)	Apr. 1973	May 1973
Gilbert G. Stamm	May 1973	Present
ASSISTANT SECRETARY--ENERGY AND MINERALS (note a):		
Stephen A. Wakefield	Mar. 1973	Present
ADMINISTRATOR, BONNEVILLE POWER ADMINISTRATION:		
Henry R. Richmond	Sept. 1967	Dec. 1972
Donald P. Hodel	Dec. 1972	Present

APPENDIX IV

	Tenure of office	
	From	To
DEPARTMENT OF THE ARMY		
SECRETARY OF THE ARMY:		
Stanley R. Resor	July 1965	June 1971
Robert F. Froehlke	July 1971	Present
CHIEF OF ENGINEERS, CORPS OF ENGINEERS:		
Lt. Gen. William F. Cassidy	July 1965	Aug. 1969
Lt. Gen. Frederick J. Clarke	Aug. 1969	Aug. 1973
Lt. Gen. William C. Gribble, Jr.	Aug. 1973	Present

[a]Secretary of the Interior Order No. 2951, dated February 6, 1973, established the Office of Assistant Secretary--Land and Water Resources, formerly the Office of Water and Power Resources, and the Office of Assistant Secretary--Energy and Minerals.

The CHAIRMAN. I want to announce that Senator Church is a few doors away chairing the hearings before the Foreign Relations Committee relating to the international oil corporations.

He will be unable to attend until later this morning. His statement, without objection, will be included in the record at this point.

[The prepared statement of Senator Church follows:]

STATEMENT OF HON. FRANK CHURCH, A U.S. SENATOR FROM THE STATE OF IDAHO

Mr. Chairman, this hearing before the Water and Power Subcommittee this morning signifies the initial Congressional action on a measure which is of great significance to the people of the Pacific Northwest.

The Northwest region is unique in that its electric energy has predominently been provided by hydroelectric projects utilizing the vast resources of the Columbia River System. The Federal water resource projects in the Columbia Basin and the transmission system of the Bonneville Power Administration which constitute the Federal Columbia River Power System provide the people of the region with more than half of their total electric energy.

As the Pacific Northwest faces the energy crisis which affects the entire United States, the continued reliable management of the Federal system will become increasingly important in the current and future critical energy situation.

One of the principal difficulties which has plagued regional planning for the electric power supply has been the uncertainty concerning Federal funding for the construction of new transmission lines. In order for the Bonneville Power Administration to perform responsibly its role as a partner in the regional power system it must have greater latitude to schedule construction with some certainty that transmission lines will be completed when they will be needed by both Federal and non-Federal participants.

The measure which we are considering today has been proposed by the Administration as one means to increase the certainty of power-line funding. I understand that the bill is the product of extended discussions and negotiations among the electric power suppliers of the Pacific Northwest. I am hopeful that the hearings which are being held this morning will provide the Committee with the advice and guidance of all of the parties which would be affected by the proposed policy. I shall give careful study both to the measure itself and other comments of these witnesses and I look forward to constructive action by the Committee.

The CHAIRMAN. Senator Hatfield also has a statement.

STATEMENT OF HON. MARK O. HATFIELD, A U.S. SENATOR FROM THE STATE OF OREGON

Senator HATFIELD. Mr. Chairman, this day is one that I have looked forward to for 2 years. It was very shortly after Don Hodel became the Administrator of BPA that he and I began serious discussions of what was to become the Federal Columbia River Transmission System Act. I followed closely the development of this legislative proposal in the working committee that was set up in the Northwest—a committee that represented Bonneville's customers and the affected Federal agencies—and I monitored the responses to this development among these agencies here in Washington. From my vantage point, I can offer this observation: The cooperative effort behind this legislation is unparallelled in my experience as a public official. It should stand as a fine example of what can be accomplished in an atmosphere of spirited, goal-oriented debate, painstaking hard work, and progressive compromise.

Today it is time for the members of this committee to hear from the people who rolled up their sleeves and did the hard work, so I will only take a moment longer. In the time that I have been a member of the Appropriations Committee—through three budget cycles—I have

seen firsthand how the yearly appropriations process frustrates the kind of long-term planning and orderly development that is necessary at BPA if they are to continue to meet the new transmission requirements of the region. But I will let Mr. Hodel describe these difficulties, for he has lived with them as the person chiefly responsible for BPA's living up to their responsibilities.

I want to thank the chairman for scheduling this early hearing on the Federal Columbia River Transmission System Act.

The CHAIRMAN. We are delighted to have our senior Senator from the State of Washington and the Pacific Northwest as our first witness, Senator Warren G. Magunson, who has been involved from the very inception of the Bonneville Power Administration program, including the construction of the great dams on the Columbia River.

Senator Magnuson.

STATEMENT OF HON. WARREN G. MAGNUSON, A U.S. SENATOR FROM THE STATE OF WASHINGTON

Senator MAGNUSON. Thank you, Senator Jackson.

I have a rather lengthy statement for insertion in the record.

The CHAIRMAN. The entire record will go in.

Senator MAGNUSON. I will summarize that very quickly.

Mr. Chairman, I am pleased to be a cosponsor of the proposed Columbia River Transmission System Act, and to urge its approval by this committee. The enactment of this bill will go far towards assuring that the Bonneville Power Administration will continue to be as effective in the future as it has been since its creation in 1937.

That was my first year in Congress. I remember the arguments very well. As a matter of fact, some of the arguments would help out this bill. Many of the people wondered at that time whether the Federal Government should continue to do this year by year by appropriations and why it should not be a quasi-private enterprise or quasi-public enterprise to finance its own operations.

That goes way back. Probably we should have done it then. But it did not happen that way. I watched the BPA develop over the years. As the chairman has said, it played a part with all of you in that development, and it has been a great success.

There can be no doubt about that. The hydrothermal power program that is sponsored is a matter of utility cooperation for the entire Nation, largely because BPA, the Federal power program in the Pacific Northwest, leads into a high-voltage transmission research and power system control.

The Bonneville Power Administration has thought this is a most significant thing over the years, which the chairman will remember and the Senator from Oregon will remember.

And I am glad to see the Senator from Ohio here. We used to be involved in terrific fights, public and private power fights, which did not help the consumer too much. But Bonneville Power Administration has brought public and private, Federal and non-Federal power interests together to serve all the needs of the people.

The BPA has developed into regional arrangements that permit the export of surplus Northwest hydropower to other regions to conserve scarce oil and gas, while at the same time permitting the North-

west to import electric energy, when oil shortages occur in their part of the country.

Perhaps the most important of all, revenues from BPA program have been paying back every cent that the Federal Government has invested in that system, plus interest. It really has not been an appropriation.

It has been a loan and we pay it back, so it is absolutely essential that the Bonneville Power Administration be fully equipped to continue to meet the energy transmission needs of the Pacific Northwest, as those needs grow in the years ahead.

That, however, will require in my opinion that BPA be freed from the severe limitations imposed upon it because of its dependency on annual Federal appropriations processes. I suppose I could be the witness with the best evidence on that, having served on Appropriations Committee for all these years, how difficult it is to arrive at the objectives and the goal under these annual Federal appropriations processes.

I need not go into detail on those limitations. Every member of this committee knows about that. All of us are aware of the problems created by the office of the OMB reductions and freezes, and the difficulties that arise when inflation makes budgets drawn up in October or November obsolete by the time they are enacted 8 or 9 or 10 months later.

The Senator from Oregon and I have been faced with that every time we have a meeting of the Appropriations Committee on these appropriations.

The limitations of annual appropriation, in the annual appropriation processes and the problems they create might be tolerable if the BPA were not essentially a business enterprise, with a record of solid fiscal management, charged with the responsibility of building this year the transmission lines that will be necessary 2, 3, and 10 years in the future.

Given these facts, it is imperative that the Bonneville Power Administration be freed from the uncertainties and limitations of annual appropriations processes. It would not be so bad if they went on from July 1 to July 1.

But they continue on and on and on. I have seen the Bonneville Power Administration waiting until December to know what they should have done back on July 1. This is why this bill is so important.

And that is the purpose of the legislation. It would provide, of course, the use of Bonneville Power Administration revenues from the Federal Columbia River power system, and the proceeds of the revenue bonds to finance the operation, maintenance, and continued construction of the BPA transmission system.

This limiting, self-financing arrangement of the Bonneville Power Administration would provide the Northwest publicly owned cooperatives and investment-owned utilities assurance of adequate transmission facilities in the future.

This is the very assurance, Mr. Chairman, which these utilities must have if they are to make large-scale non-Federal investment that they must make in the future to meet our Northwest energy requirements.

It would seem to me that another factor is involved in this. All of us are trying to relieve the Federal Treasury of the burdens of some

appropriations. All of us talk about the Government is too mixed up in these things, and all the limitations and problems we have on the year-to-year appropriations.

Here is a chance for these people to get out on their own and prove again, again prove after 37 years, that this has been a pretty good system and a pretty good thing for all of the consumers in the power supply, the energy needed by the Nation.

I will put my formal statement in the record. Thank you, Mr. Chairman.

[The prepared statement of Senator Magnuson follows:]

Senator Warren G. Magnuson

Statement in Support of Enactment of the

Federal Columbia River Transmission System Act,

S. 3362 and H.R. 14168

Mr. Chairman, I am pleased to testify today in support of S. 3362, a bill that will assure that the Bonneville Power Administration will continue to be the great success in the future that it has been since its inception. I was first elected to Congress as a member of the House of Representatives in November 1936. It was the 75th Congress that enacted the Bonneville Project Act which established the Bonneville Power Administration and which was signed into law by President Franklin D. Roosevelt on August 20, 1937, less than 8 months after I started my congressional career. I think it fair to say, and I do so with some pride, that I was "present at the creation." And today, I am the only member of the Northwest congressional delegation who served in Congress at the time BPA was created.

BPA has been a great success. The Hydro-Thermal Power Program it has sponsored serves as a model of utility cooperation for the rest of the

Nation. Not every Government program has achieved the kind of acclaim enjoyed by BPA. It is also a source of pride for those of us who have supported the BPA program over the past 37 years that its revenues have been paying back every cent that the Federal Government has invested in the Federal Columbia River Power System, on schedule and with interest. The Federal power program in the Pacific Northwest flies on its own wings without subsidy. At the same time, it leads in high-voltage transmission research, in power systems control, in the coordination of planning, construction and operation of power facilities, public and private, Federal and non-Federal, throughout the great Pacific Northwest, and in interregional arrangements that permit the export of surplus Northwest hydro to other regions to conserve scarce oil and gas, the import of electric energy when critical water conditions occur, and mutual assistance rendered by one region to another during power system emergencies. In short, BPA as the power marketing arm of the Federal Columbia River Power System has been showing the rest of the country what can be done when everyone pulls together on a regionwide basis to solve a regional problem.

Electricity is extremely important to the economic and environmental well-being of the Pacific Northwest. While less than 30 percent of the total energy consumed nationally is in the form of electricity, nearly half of all the energy used in the Northwest is electric energy. The region has no natural supplies of petroleum or natural gas. All of those fuels must be imported, by pipeline, by tanker, by trucks and by barges. And except

for one strip mining operation to provide coal for a large steam electric generating plant at Centralia, Washington, coal mining in the region has now virtually ceased. Hydroelectricity is the one energy resource in more abundance in the Northwest than anywhere else in America and this accounts for the importance of electricity to the region and for the Federal Government's interest in the region's power system.

Now BPA finds itself at an important milestone in its history. Through S. 3362 and H.R. 14168 it seeks to be free of the annual appropriations process to which it has been tied from the beginning. From a power systems standpoint, that process has not always served the region or the Nation well.

Financing BPA transmission facilities through the Federal appropriations process has removed responsibility far from the people and the region immediately involved. BPA's annual budgets have frequently endured successive cuts by the Department of the Interior and the Office of Management and Budget when factors of national priority intervened or, frankly, when some failed to properly understand our national priorities. Were it not that BPA is a prosperous business enterprise with a product to sell for which there is a loud and clear public demand in the marketplace, it might be proper to restrict its program from a financial standpoint the way other Government programs are restricted. But building and operating a high-voltage transmission system is not like other Government programs.

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In the first place, the BPA transmission system, as well as the generating components of the Federal Columbia River Power System, pay their own way. The rates paid by the power consumers of the Northwest reflect all of the costs of the Federal system. And those costs, including repayment of the Federal investment with interest, are completely recovered and repaid to the Federal Treasury according to a strict timetable that complies with the requirements of law.

In the second place, when transmission is needed, it cannot be stalled without suffering serious and sometimes absurd consequences. Planning for generation in the Pacific Northwest as elsewhere in the Nation is scheduled to meet projected demands for electric energy. It is ridiculous to make premature investments in generating capacity which stand idle because loads haven't materialized. And it isn't done. In fact, throughout the country and in the Pacific Northwest, too, the problem is that loads have almost invariably outstripped generating resources. Power shortages are common and all too frequently we find ourselves skirting disaster by not having enough reserve capacity to meet demand. But when that capacity is in place and capable of supplying power, and when load centers are clamoring for additional power supplies to avoid power curtailments, it is simply inexcusable to find that there is inadequate transmission available to deliver the power reliably to the load centers.

It defies common sense that, because of weak transmission links, very large Federal and non-Federal investments in Northwest generating plants should stand idle or be used at less than capacity. It is particularly aggravating when this occurs because BPA transmission construction has been slipped from one fiscal year to the next for reasons totally unrelated to the Northwest's power needs. BPA's non-Federal partners in the Pacific Northwest Joint Hydro-Thermal Power Program who depend on the BPA transmission system look upon such prospects with obvious displeasure. And, most important, those slippages threaten the economic well-being of the entire Northwest and all its residents.

The Federal Government now has an investment in the Federal Columbia River Power System of $3-½ billion of which about $700 million has already been amortized along with almost $900 million of interest payments to the Treasury. Of the original $3-½ billion investment, the BPA transmission system component accounts for approximately $1.3 billion which has been invested in 338 sub-stations and over 12,000 miles of transmission lines.

Every cent that BPA needs to plan, build, operate and maintain its transmission system must now come from Federal appropriations. And most of the funds for its other power marketing functions are also appropriated by Congress. At the same time, all of BPA's substantial cash receipts are deposited back into the Treasury. Only that portion of its revenues that are used for settlement of certain authorized net billing arrangements involving the purchase or exchange of power fails to find its way back into the Treasury.

BPA's managers have proven themselves as able and prudent. The audited income statements and balance sheets down through the years attest to successful management. I think it is high time that proven management be given financial discretion which is so critically important to assure everyone the availability of adequate and reliable transmission. At the same time, Congress and the Executive Branch will retain overall control as in the past.

Assurance that BPA can perform as expected is essential. Looking ahead over the next 20 years, a total of about $31 billion is expected to be invested in Pacific Northwest power facilities, both Federal and non-Federal, for generation, transmission and distribution. About 80 percent of this projected investment will be non-Federal; the remaining 20 percent will be divided between BPA transmission facilities and the hydro generation facilities to be provided by the Army Corps of Engineers and the Bureau of Reclamation. All of the Federal investment will be repaid with interest.

As a result of the evolution of the Hydro-Thermal Power Program, the region's publicly-owned, cooperative, and investor-owned utilities have agreed that limited self-financing for the transmission component of the Federal Columbia River Power System would provide them with the assurance of adequate transmission which they consider to be indispensable if such large-scale non-Federal investments are to be efficiently coordinated and go forward on schedule. The result of this self-financing agreement is the proposed Federal Columbia River Transmission System Act of which I am proud to be a co-sponsor.

The proposed Act would provide for the use of BPA revenues from the Federal Columbia River Power System and the proceeds of revenue bonds to finance the operation, maintenance, and continued construction of the BPA transmission system which serves the Northwest States of Washington, Oregon, Idaho and Western Montana, and which is interconnected most particularly with the Pacific Southwest and with British Columbia in Canada.

Two factors have contributed to the inadequacy of the Federal budget appropriation process in providing funds needed for the timely construction of additions to the BPA transmission system. First, as those of us who serve on Appropriations Committees know, budgets for Government programs are prepared far in advance of the time that actual appropriations are forthcoming and expenditures made. The detailed BPA construction program for any particular year must be formulated on the basis of price levels prevailing 2 years or more earlier. When construction costs are relatively stable, that is not too serious a problem. But when those costs escalate rapidly, as they have during the last few years, the results can mean that appropriations turn out to be woefully deficient in terms of the facilities they will buy. The result is that essential work must be stretched out or deferred to subsequent fiscal years. And that is exactly what has happened to BPA which today finds its fiscal year 1975 budget request $20 million short of the funds it needs to complete transmission facilities required before July 1975.

Second, we are all aware that the Federal budgeting and appropriations process involves Office of Management and Budget ceilings on the various departments. In turn the Department of the Interior makes allocations of its budget allowance among its bureaus including BPA. These ceilings and allocations are altogether unrelated to the need for power transmission facilities in the Pacific Northwest. Sometimes they exceed what is required to do an orderly job. Other times they are insufficient. Almost always they are out of phase.

It challenges the imagination to assume that the national priorities that determine budgetary ceilings and allocations would ever mesh perfectly with the needs of the BPA transmission construction program. The same is true for the operation and maintenance portion of the BPA program which has also suffered imprudent budget cuts that have reduced the reliability of the system and created a backlog of necessary equipment maintenance.

By authorizing BPA to use its revenues and the proceeds of revenue bonds to finance its construction and its operation and maintenance program, there will be much greater assurance that the transmission system will be able to keep pace with regional demands for electric energy. The greater certainty that will be purchased as a result of BPA self-financing should also have a direct effect on the quality of the securities that the non-Federal participants will sell in order to finance their 80 percent portion of the Hydro-Thermal Power Program. Hence, financial costs of the non-Federal sector of the program should be lower than they would otherwise be.

Two major goals should be achieved by BPA self-financing: the Federal budget will be relieved of future BPA appropriations, and the Pacific Northwest and the Nation will reap the full benefits from optimum design and construction of a regional bulk power transmission system to meet growing demands for electric energy.

It is a rare event for a United States Senator to ask that a program that benefits his State and region be given an opportunity to sail without dependency upon the Federal budgetary appropriations process. The power consumers of the Pacific Northwest are asking just that. They do so with the full realization that they will continue to pay the full costs of the program and that those costs may be higher than under the present system. They think it is worth it. And so do I. Thank you.

The CHAIRMAN. Thank you, Senator Magnuson for a fine statement. You have lived through this whole period, and know it better than anybody in the Congress. And we are delighted to have your statement.

Senator MAGNUSON. This is what everybody is asking, let the Federal Government get out of things and see if they can prove that they can live on their own. We can do that.

The CHAIRMAN. I think there is a whole new situation now.

Senator MAGNUSON. These people here have worked for years, as the Chairman well knows. They think they can, and I am sure they can, under this bill.

The CHAIRMAN. The biggest problem facing the utility industry today is the old question, where are you going to get the money? Anyone who has followed events of the last few weeks knows that the utility industry is facing the most severe, financial capital problem in its history.

The troubles of Con Ed will spread to all utilities, they cannot raise the equity capital. Stock they sold just a few months ago to raise equity is now worth half of what it was. The need in the energy areas, over the next 10 years, for new capital is $1.3 trillion.

I think thoughtful people in the utility industry will welcome this approach as an alternative means of assisting in providing the capital. That is a whole new factor here, that many have not thought about until about 12 months ago. In the last 12 months private utilities are going through the toughest financial situation in their history.

In the Northwest, where we have hydro, it is not so bad. But in the rest of the country, where they are dependent on oil, we have seen the price jump in operating costs from $2 a barrel in no time at all to $14 a barrel. I was in New Haven, Conn., last Friday morning. A lady came up to me and said her electric bill was $25. But the surcharge for the increased price in oil was $25, total bill $50. How would you like to be the president of that utility? The utility catches it. It does not add to their earnings; the earnings of utilities are off.

They are getting clobbered. They are also getting clobbered from the public for those high rates. What we are doing here, I think, is an innovating thing. It is providing a new source of capital, which will actually aid the industry, both public and private in the Pacific Northwest.

I think it renders a great public service, and the timing could not be more important. Private utilities that are in growth areas are going to have to dig and dig to find capital.

I read these things every day, and it is the toughest job that a utility faces in the private sector. I know that they are worried. Even the great growth companies, just a few of them, they are in deep trouble now.

The price of their stock is way down. Of course, interest rates are so enjoyable these days—enjoyable in quotes—that the industry should welcome this. Because long-term interest rates are going up. They are not going to go down. Short-term rates are like a roller coaster, anybody's guess. But long-term interest rates are going steadily up.

Senator MAGNUSON. It is a bold, new program that meets the times, in my opinion. I have not talked to them all, but the private utilities in the area agree with this proposal. That is my understanding. I have not talked to them all.

But I do hope that this is something that everybody ought to applaud, because of the pressure on the Treasury, and we get out of this and take care of ourselves. That is the answer to it.

The CHAIRMAN. Senator Metzenbaum has a question.

Senator METZENBAUM. Senator, I was interested in your comments and I think the objective of the bill appears to be salutary. You talked about the fact of letting the Federal Government get out of the obligation of financing this kind of development.

However, the thing I find some difficulty with has to do with the obligations under section 13 of the bill, where it provides that the bonds, the revenue bonds, can be sold only to the Secretary of the Treasury and would then require the Secretary of the Treasury to purchase these bonds.

So I wonder whether or not, by a loan process, rather than a direct grant process, you are not accomplishing the same purpose of putting Federal funds into this project.

Senator MAGNUSON. The difference is involved in the timing of these things, because from year to year you do not know what you are doing. If the Treasury buys these bonds we know that that is done.

We do not have to depend upon appropriations hearings from year to year. The Treasury could dispose of these bonds and they probably could dispose of them at a profit, in my opinion, if they wanted to.

It will help them down there where they have to release a lot of bonds every week. These could be part of it. They could dispose of them or hold them. It seems to me it will give them some viability and relief down there.

The fact that every year they have to OK or not OK an appropriation which takes it right out of the Treasury. These bonds are there.

The CHAIRMAN. Senator Metzenbaum, what I think they are trying to do is avoid going into the market, with all of the other bonds. You have various Government-guaranteed bonds.

You open the Wall Street Journal and there is a whole list, from Fannie Mae on and on. I believe this provides for better control of the market. And the Treasury can dispose of them.

Senator MAGNUSON. This is the point I make. Only if they feel it will not disrupt some of their other bond issues. But they could. I doubt if they would, in the early stages of these bonds, but they can if they wish.

There may come a time when these bonds will be the best thing the Treasury has down there, I think.

The CHAIRMAN. Page 13 of the bill shows that, "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."

I am sure what they are saying they want to confine the marketplace looking ahead for the kind of capital requirements that the country will face.

Energy alone, Chase Manhattan——

Senator MAGNUSON. They are going to testify, so you will get their version.

The CHAIRMAN. Chase Manhattan Bank estimated that between now and 1985 in certain energy areas, we are talking about capital requirements of $1.3 trillion. That is by 1985 our total outlay for all capital equipment, plant equipment, last year was $105 billion.

For energy in all forms, including telephones and related it was about $40-odd billion. So when you see the tremendous jump here it is going to create some terrible capital pressures, as I see it.

Senator MCCLURE. Will Senator Metzenbaum yield?

Senator METZENBAUM. I yield.

Senator MCCLURE. Senator, you asked a good question which I think needs to be answered thoughtfully. With you, I do not understand how having the Treasury go into the bond market is any less pressure on the bond market than having BPA go into the bond market, or vice versa.

The CHAIRMAN. I think it makes a lot of difference.

Senator MCCLURE. It is the same pool of money, unless the Government turns on the printing press. Where does it come from, Senator?

The CHAIRMAN. It comes out of general revenues.

Senator MCCLURE. If the Government finances it by borrowing, as they do today, or if the BPA finances it by borrowing, it is the same pool of capital in the capital markets of this Government, whether the Government borrows it or BPA borrows it.

The CHAIRMAN. They can control the situation a lot better by not having the bond offering to go in right now; that is what is involved here. That is the innovation. They can later go in the market, but they can take advantage of the market situation, and not have it all go in at the wrong time. The Treasury has authority, under this bill, to dispose of these bonds. I think this is the advantageous situation, as compared with Farmers' Home Administration, Fannie Mae.

I have the Federal bond list here. There is a big, long list of them. I think this is innovative, helpful, looking ahead at a time when we will have an enormous, the greatest amount in history, of capital requirements.

Senator MCCLURE. Would the Senator yield?

The CHAIRMAN. Yes.

Senator MCCLURE. How does this create additional capital? It creates a different channel for the capital to flow into this capital expansion, but there is no more capital created by it.

The CHAIRMAN. The fact that they are able to go ahead and finance the project, I do not know what you would call that, but I call it capital.

Senator MCCLURE. They go into the bond market to get it.

The CHAIRMAN. No; this will be a security, and in the Government portfolio, Senator.

Senator MCCLURE. What is a security?

The CHAIRMAN. The difference is that the other federally guaranteed loans are offered in the market regularly, and without any restrictions. This bill involves the Treasury, taking the bonds as provided in the statute here at the average rate. Then if the Government later wants to put them on the market, they can. In the meantime they hold them.

Senator McCLURE. It must do one of two things, then. The Government must either go into the market to borrow the money to finance the expansion, which may be good. Or they create a security without any backing which expands the capital market, via the printing press route.

Whether they are printing the money or printing the bonds.

The CHAIRMAN. We would not be creating a security without any backing.

Senator McCLURE. I did not say without backing.

The CHAIRMAN. What did you say?

Senator McCLURE. I said without any capital flow into it.

The CHAIRMAN. I did not hear you say that.

Senator McCLURE. It is one of two ways. There is no other way to create something out of nothing.

The CHAIRMAN. I believe there will be a great market for these bonds, Senator.

Senator McCLURE. Mr. Chairman, I did not question that. I wanted to respond to what Senator Metzenbaum brought up about where does the financing come from. How does this change the flow of financing, unless the Government creates a security with no backing?

The CHAIRMAN. What do you mean no backing, Senator?

Senator McCLURE. I said unless it does, without it having gone into the currency market, the capital market to borrow the money. Or, it created a new security without the financing capacity to go into the market and get the money.

It makes no difference whether BPA does it or the Government does it.

The CHAIRMAN. The bond has the backing of the full faith and credit of the United States. Second, I would point out that the revenues annually, which Mr. Hodel and others can testify to, represent a very substantial cash flow. I am sure there would be no problem at all with the cash flow from the Bonneville revenues. What is the cash flow on Bonneville revenues?

Mr. HODEL. Projected revenues would be $200 million annually.

Senator McCLURE. Mr. Chairman, my point is not that it has no backing, or that they are not secure, or that they are not good. My point is that it takes cash to pay for the materials that go into the line, and cash comes from someplace.

The CHAIRMAN. No one disputes that.

Senator MAGNUSON. The only difference, Senator, is that we have been appropriating this cash and this is another way to pick up the cash.

Senator McCLURE. I grant that. But that is not the question that Senator Metzenbaum asked.

Senator MAGNUSON. We have been appropriating from year to year that amount of cash. I do not know a better way to get us out of that sort of thing which is cumbersome. It is difficult for them to plan.

All we are doing is substituting the revenues instead of putting them in the Treasury, as they do now, and then appropriating them out. We are saying—it is almost a revolving situation.

I think if you look, the problem is the date problems that we have. July 1 to July 1. You cannot plan a transmission line that way. This is a good way to relieve the Treasury and all the Treasury is doing now is taking them in and we are appropriating them out.

I would rather have it done this way. There must be a better way to do it than the way we are doing it now.

The CHAIRMAN. These would not be full faith and credit bonds. They are revenue bonds. The only difference here, and I emphasize this, the only difference that we are talking about is that the Government buys the bonds, instead of putting them out on the marketplace.

The Government later can put them out on the market, if that is the wise move to make at a given time, depending on what the financial situation is. But the only variation here from the other types of Government-guaranteed financing is that the Government buys the bonds.

Well, thank you, Senator Magnuson.

Senator MAGNUSON. I did not intend to be a member of the committee here this morning. I was a witness, so I will leave my statement.

Thank you very much.

The CHAIRMAN. Thank you very much. I also have a statement of Senator Packwood to be included in the record.

[The prepared statement of Senator Packwood follows:]

PREPARED STATEMENT OF HON. BOB PACKWOOD, A U.S. SENATOR FROM THE STATE OF OREGON

Mr. CHAIRMAN. I appreciate this opportunity to testify in behalf of the Federal Columbia River Transmission Act, legislation 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.

The legislation is practical and the need for it has been shown. During 1973 when the Northwest experienced power shortages, it was clearly demonstrated that some steps had to be taken to ensure that our power projects will come on line in a timely manner. The Northwest has had to contend with countless slippages in the schedule for construction of our additional power facilities. As a result of the delays, power shortages in increasing amounts have occurred and will continue to occur.

According to the June 5, 1974 General Accounting Office report on the Pacific Northwest Hydro-Thermal Program, delays in providing generating capacity for the region were attributed largely to the problems in obtaining funds for constructing the Federal hydroelectric projects to be provided under the program plan. According to the Bonneville Power Administration, prompt access to funds is necessary to continually supply Federal power to its customers and to construct and operate economic facilities added to the Federal transmission system. The GAO report points out that the estimated cost of these additions and related expenses will average $177 million annually over the next decade. The Bonneville Power Administration has concluded that continued reliance on Federal appropriations will not insure the availability of funds to coordinate the completion of transmission and powerplant facilities.

Through the legislation before us, the BPA would be authorized to finance operation and maintenance expenses and additions to its transmission system by using its revenues and by selling revenue bonds to the Secretary of the Treasury. The purpose of these bills is to shift the financing of the Interior's electric power transmission program in the pacific Northwest from the present arrangement of funding through Federal appropriations to a self-financing basis and thereby enable BPA to more effectively coordinate transmission completion with powerplant completion.

Resolving the electrical energy shortages in the Pacific Northwest will depend on continued cooperative efforts and on both Federal and non-Federal additions to regional power capabilities. The proposed measure is the result of extensive discussions among the Federal agencies and public and private utilities which serve the electric power needs of the Pacific Northwest. By authorizing the Secretary of the Interior to finance the operation and maintenance and future construction of the Federal Columbia River transmission system from revenues and from proceeds of revenue bonds, the measure would reduce the uncertainties

associated with the appropriations process and assure more timely construction of needed facilities.

Mr. Chairman, I heartily endorse the Federal Columbia River transmission System Act. It is essential if we are to deal effectively and without delay with the growing threat of power shortages. It is my hope that S. 3362 can be enacted at an early date.

The CHAIRMAN. Our next two witnesses are the Honorable C. King Mallory, Deputy Assistant Secretary, Energy and Minerals, Department of the Interior, Donald Paul Hodel, the Administrator of the Bonneville Power Administration.

Before they proceed, I will ask Senator Hatfield to chair the hearings this morning. I have another meeting going on. I deeply appreciate his courtesy in this regard.

Senator HATFIELD (presiding). At this time you may proceed as you wish, Mr. Mallory and Mr. Hodel, as a panel. Or, if you care to place your statement in the record, we will then hear you summarize it. However you wish to proceed.

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

Senator HATFIELD. Excuse me, one moment, Senator Hansen from Wyoming wishes to make a statement.

Senator HANSEN. Thank you, Mr. Chairman.

I do not know that I have any statement to make, except to observe that some of the earlier statements that were made, I do not think have any particular relevance to the legislation before us.

I must say that as one who has maintained some interest in the energy picture in the United States and all of its ramifications, or the extent of my ability of maintaining interest in all of the many ramifications of the energy business, I do not think it necessarily sheds more light without generating at least more heat on this issue to talk about the price of oil.

It is not a happy situation that America faces. We got through the winter far better than many people believed we would. We did not have rationing. We did not find factories shut down as some had predicted.

We did not find the widespread unemployment that many people feared could come about. So I will just say that I hoped we could work out some solution to the problem. I know that it affects different people, different interests differently.

The full faith and credit of the United States is not as much of an endorsement as it used to be. It used to be that we liked to speak of a person's health as being sound as a dollar. If the doctor tells you that today, these days you had better go to a specialist and find out what is wrong with you, because we are not too sound as far as the dollar is concerned.

I shared some of the concerns expressed by the distinguished Senator from Idaho, in that we ought not delude ourselves into believing that although the door through which we reach our hand into the Federal Treasury is one not used before, that it necessarily follows that we are getting the money from a different source.

It is the same source. And, to be honest, we just have to recognize that the ability of the Government to finance this program as well as others I think can best be judged in the context of the overall demands made on public funds, feeling some responsibility that the general or

economic health and well being of the United States in large measure may be determined by the attitudes of Members of the Congress.

I felt that instead of trying to find scapegoats to point the finger of blame at for inflation and for the declining value on the marketplace and our dollar, we first should examine our own activities here.

I think that primarily the responsibility for inflation rests right with the Congress of the United States. We have been appropriating over a period of years more money than we have been taking in.

Which means that without adding to the supply of goods as well as services we simply put more money into the hands of people to buy whatever the marketplace produced. As a consequence, with more money going in each year, which is what happens when Government appropriates more than it takes in through taxes, we simply add power to the demand pull.

We know what the answer is, obviously. People who saved throughout a lifetime, people who depend upon payments or whatever may be their particular contribution to their old age, find that the money they had does not buy as much.

I am concerned about that. I am concerned not only because the higher taxes are the onerous burden upon young families starting out, but even more saddening, the heavy weight of inflation falls most heavily on those least able to bear it, the old people.

Those whose earning days have come to an end. I say that without meaning to imply that I have my mind made up on this legislation, but rather to underscore the deep interest that I have in trying to work toward a position of fiscal responsibility that I think is long overdue in this country.

Thank you, Mr. Chairman.

Senator McClure. Mr. Chairman, I do not want to prolong the discussion at this stage of the proceedings. But I think for the record I ought to say a couple of things. One is that I have a counterpart of this subcommittee, the Subcommittee of the Public Works, meeting with General Kelly upstairs at this hour, on the Corps of Engineers projects.

That is of some importance to us, as well, so I am torn two ways and I will have to divide my time. I have not joined in full sponsorship of this legislation, not because I am opposed to the idea of trying to find a way out of BPA's financing dilemma, but because I think there is some substantial question about this proposal and the way it will be implemented, which ought to be answered, and I hope will be answered.

And that this legislation can have my support ultimately. So I do not want my cosponsorship to be shown as a sign of opposition but a sign of questioning on some of those areas where I think questions must be raised.

But I think we need to put the legislation in context. I hope the testimony will do that. I am certain that oil prices and energy prices generally are a matter of grave concern to a great many utilities and cause them almost an unlimited amount of headaches.

Fortunately for us in the Northwest, that is a little less serious a problem than it is somewhere else, but it is still a problem. But I do not think that the most ardent supporters of this legislation would suggest for 1 minute that this legislation has one thing to do with the cost of the basic energy resource.

I think that the fact that the Federal Government has found it difficult to provide financing on a reasonably predictable and reliable basis is the whole reason for the necessity of structuring something that has more predictability and reliability than the appropriations process of the Congress.

But to suggest that somehow we have created an additional source of financing, I think does a disservice to the Congress and the people of this country to suggest that simply because BPA sells the bonds to the Treasury and the Treasury can then turn around and sell them to the public creates any more money or any greater source of money, simply flies in the fact of reality.

The Treasury must do one of two things. It must borrow the money on the capital market to provide for these bonds, or it must float the bonds by selling bonds, turning around to sell them in the capital market.

If they do not do that they increase the size of the national debt, and we have short term securities again in the capital market. There is no magic to this route, except to get around the lack of predictability because of the appropriation process in the Congress.

My concerns are directed toward an understanding of this question. But beyond that, to the details of Bonneville Power Administration's responsibility for the transmission facilities in the Northwest.

To suggest that we solve all utility problems in this manner would suggest also to me that we may be laying the groundwork for a Federal takcover at Con Ed, with the same kind of financing, because that is easy.

There are no problems that Con Ed has today that were not created by Government in the first place. To suggest that Con Ed can be better by having the Government get more deeply into its affairs seems to me to fly in the face of all human rational experience.

It is overregulated. It is overcontrolled. The restrictions on its ability to generate additional income and to create additional capital investment, to create additional generating facilities is the source of its problems.

To suggest that we can somehow, by waving a magic wand, and having the Government finance it solve those problems seems to me to be a mischievous attempt to divert our attention away from some fundamental considerations.

If, indeed, the Federal Government does not provide the capital at the schedule that BPA and its members and affiliates and associates require, then you have to look for some other means. But that does not mean that the U.S. Government can create money out of whole cloth.

We have printing presses, but there is a price for running them. Certainly, if the Congress of the United States spends more money either directly or indirectly, and this is an indirect method of doing so, then we must match that spending by taxes.

If we do not have the courage or the integrity to vote the taxes here, the marketplace votes the taxes in the form of inflation. I am sorry, Mr. Chairman, for taking the time to do that. But it seems to me that my concerns about this legislation have to be put in the context of what the legislation is all about.

And some of the earlier conversations about other problems that have no relationship to the question that is before us on what is in this bill. Thank you very much, Mr. Chairman.

Senator HATFIELD. I would only like to say, as one of the chief sponsors of the bill, I think we have gone a bit afield from the intent of the bill or the purpose behind the bill.

I would not ascribe this to any individual or group of individuals, but so frequently as in the case of Senate colloquys, I think we miss the point here. We do not imply that we are creating a new source of revenue or a new source of capital. But rather we are attempting to save the taxpayer money by providing a new method of financing that would be required to build these transmission lines. We would be moving from an annual appropriation on which we cannot make long-term commitments and projections to one that is funded on the basis of a bonding system upon which we can make long-term projections and commitments.

In so doing we are able to buy more for less in terms of equipment, material, and facilities. That is, the only thing this bill attempts to do is to set forth a new method. We are not attempting to imply here that we are creating additional capital or new sources of capital. It does have some relation to the total energy picture. Since December of this year, because we have a grid system operating now into certain sections of the country of market demand, that would otherwise have to be provided with oil, we have saved 9 million barrels of oil.

By the end of the spring runoff we will have saved 15 million barrels of oil because we are now transmitting peaking power and other such power to areas of demand.

Getting back to the crux of the bill, I appreciate what the Senator from Idaho has brought up, and I would associate myself in the general philosophy expressed. But I do think the intent of the bill is to set forth a more efficient, economical system of financing the transmission lines.

I also appreciate the Senator from Idaho's dilemma in having to divide his time between two committees. If there are any questions at all that you would like submitted to any witnesses, we would be very happy to submit them on your behalf.

After reading the testimony, we will be submitting questions in writing as followup questions, at which time certainly we want to clarify any apprehensions or problems that may arise.

At this time if we could move to the witnesses——

Senator MCCLURE. Will the Senator yield on just one point? I want to make certain I understand this, I think I do. I think the Senator was very clear in his statement. I ask the question only to clarify.

When you speak of saving the taxpayers money, you are talking about the efficiency of operations because of predictability of cash flow or capital requirements, and not from any lower cost of financing.

Senator HATFIELD. No.

Senator MCCLURE. Or somehow that we can sell these bonds for less money than the various entities could do so.

Senator HATFIELD. Recognizing that we are averaging about a 1 percent per month increase in construction costs, 12 percent on an annual basis, of course normally the longer we have to delay——

Senator MCCLURE. I agree totally.

Senator HATFIELD. Now, Mr. Secretary, if you would like to proceed?

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

I would like to now ask Mr. Hodel to introduce the gentlemen from his staff from the Bonneville Power Administration that are here with him.

Then I will present a short summary of my statement.

Mr. HODEL. Sitting on Mr. Mallory's left, Mr. Chairman, is Bernard Goldhammer, Assistant Administrator for Power Management. Sitting beside me is the Regional Solicitor for the Pacific Northwest for Department of Interior, Robert E. Ratcliffe.

In the row behind Mr. Ratcliffe are William H. Clagett, who is our Washington, D.C. Assistant Administrator. Adjacent to Mr. Clagett is Douglas A. Hansen, Assistant Administrative Manager.

Behind Mr. Goldhammer is the Deputy Administrator of Bonneville, Ray Foleen. Next to Mr. Foleen is Jerome S. Katzin who is a general partner in Kuhn, Loeb & Co., a firm that has been retained by Bonneville since 1967 as a financial consultant.

STATEMENT OF C. KING MALLORY, DEPUTY ASSISTANT SECRETARY, ENERGY AND MINERALS, DEPARTMENT OF INTERIOR

Mr. MALLORY. Thank you Mr. Hodel.

Mr. Chairman, I am the official of the Department of the Interior, to whom the Bonneville Power Administration as well as the Alaska, Southeast, and Southwest Power Administrations report in the formal chain of command.

I have worked very closely with the Administrator and his associates in the formulation of a self-financing mechanism. I have a statement which I am summarizing and I would like to submit the statement for the record.

Senator HATFIELD. That will be accepted and placed in the record in full.

Mr. MALLORY. I am here to report to you that the proposed legislation has the enthusiastic support of the Department of Interior and the administration. I would like to give you a little background, before Mr. Hodel reports in detail on the terms of the legislation.

I think we can trace this effort back to your input, Senator Hatfield, to the Department. And the direction from the Department to Mr. Hodel to work with the utilities and Bonneville's customers in the region to come up with a financing plan that would allow them this flexibility that they are seeking.

I have to add at this point, echoing Senator Magnuson, I think that the example that has been set in the northwest region of cooperation between the public, private power, Federal Government, industrial entities is something that the rest of the Nation can look at and learn from.

The success realized as a result of this cooperation was well put by you in that the grid established out there—I think the figure is up from 9 million to 10 million barrels of oil that have gone down to other regions of the country—has enabled a saving of that amount through the cooperative efforts of the Northwest utilities. This is a record that is most enviable.

Senator Jackson hit on a problem that I think is of great concern to us. That is, utility financing problems that they are all facing. We

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do not contend that this is any answer to create new capital, and agree with your analysis that what we are seeking is a predictable method that will enable Bonneville to plan in advance and buy the equipment when they can get it at the best price, and build the lines when they need them to sell the electricity so it will not cost more for the consumer in the region.

We believe that this legislation will give a broad and diversified financing base to the whole region. Bonneville will be going to the Treasury for its financing. As an aside I am sorry Senator McClure is not here. When the question of financing first came up and the proposal was discussed in the administration, we presented several alternatives to the Department of the Treasury.

One of these alternatives was to go to the public markets with Bonneville's bonds which we thought would be very attractive debt securities, or revenue securities. The Treasury Department analyzed this and was very convincing in their discussion and analysis that this option would be most disruptive to the total Government financing process.

There are a multitude of Government corporations who are going to the market. They are not coordinated in their efforts. The Treasury felt that it could get a better price for its securities by coordinating these efforts.

And therefore the option, the alternative of direct market financing, was not included in the legislation after very lengthy discussions with the Treasury on this point. I think there is a lot of sense to this, when you look at the massive financing going there, and Bonneville is getting, in effect, the expertise of the Treasury Department in this financing, and they can schedule when they go to the market with the Government debt.

I would like to conclude quickly by saying that the enactment of this self-financing for Bonneville will give the Pacific Northwest a balanced access to the Nation's diffused primary capital markets.

Public agencies are going to the market through the municipal bond route and their own revenues, you have investor-owned utilities going into the market through the routes that they take, and you have the Federal Government going to the market through the Treasury Department.

We believe that the proposed legislation would be a step toward regional self-determination. Flexibility will enable Bonneville to move when it needs to do so, without constraints or the changes that may have occurred during the period of over a year required in the appropriation process.

With the kind of unified regional support that we have seen in this bill which came as a regional proposal, the Department of Interior urges enactment of this legislation. Thank you for your attention.

[The prepared statement of Mr. Mallory follows:]

PREPARED STATEMENT OF C. KING MALLORY, ACTING ASSISTANT SECRETARY, ENERGY AND MINERALS, 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 region-wide 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 it's 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-sulfur 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-agency 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 construction 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 Fedral 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 his 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.

Senator HATFIELD. Thank you, Mr. Secretary. We would like now to proceed with the testimony of Mr. Hodel and then refer questions to each of you.

Mr. Hodel?

STATEMENT OF DONALD P. HODEL, ADMINISTRATOR, BONNEVILLE POWER ADMINISTRATION

Mr. HODEL. Thank you, Mr. Chairman. I, too, have a prepared statement which I have submitted to the staff of the committee.

Senator HATFIELD. It will be placed in the record in full. You may summarize.

Mr. HODEL. The background of this legislation is like the background of many of the prior models which have come out of the Northwest. It is in the tradition of the Canadian Treaty on the Columbia River, the Pacific Northwest-Southwest intertie arrangements, the New Production Reactor and the hydro-thermal power program. This means that 108 utilities, public and private, in the Pacific Northwest, plus Bonneville's industrial customers, plus representatives of the major utilities in adjacent states participated in a process, which, as you indicated, has extended well over a year and a half.

Numerous meetings and numerous discussions about how this region and its utilities are going to meet their obligations for power supply were held. The result of those discussions among that very group of people, was agreement in principle on what is now called phase 2 of the hydrothermal power program, the details of which are still under consideration.

Along the way, the utilities recognize the desirability of a reliable Federal transmission system in the Pacific Northwest where, because of the fact that the existing Federal system is 80 percent of the high voltage transmission capacity, it is felt that the continuation of that grid, the maintenance of that grid—its reliability—is crucial to all utilities in the region.

The main problem that we have, which has already been touched on several times here today, has been the problem of the annual budget program, the result of delays and slippages there and the result of some major lines being postponed.

We found ourselves reducing the reliability below the standards we feel are appropriate.

Senator HATFIELD. Mr. Hodel, let me interrupt at this point. This is the crux of one of the questions that evidently exist in some Senators' minds. Would you give the committee, and for the record, the step-by-step process under the present appropriation procedure from the time that Bonneville considers building a new transmission line to the time that that new transmission line is actually placed under construction?

I think that would be very helpful, if you would indicate the time delays you have generally referred to, if you would do it on a step-by-step basis at this time.

Mr. HODEL. Would you like this now or for the record?

Senator HATFIELD. Now would be a very appropriate time.

Mr. HODEL. Let's talk about a new line. The line from point A to point B, where we do not have a transmission corridor——

Senator HATFIELD. Consider the point from Bonneville to Idaho, to service the people of Idaho, as an example.

Mr. HODEL. If I may be allowed to be facetious, Mr. Chairman, we would not consider building a line in that direction. [Laughter.]

Or if we needed one I am sure we would work with the utilities in the area to wheel the power as we now do. However, within the area of the main grid, if we needed a line from point A to point B, where we now do not have one, from the time our engineering people first discern that need our environmental impact statement becomes a part of the process. because at the earliest possible time we attempt to notify all interested parties that we are now looking at point A to point B with a wide range of alternatives.

At the same time the line becomes a part of the annual budget planning process. At the present time my staff in Portland is working on the fiscal year 1977 facilities. Those are the facilities that may, for the first time, be going to appear in our next environmental impact statement.

The staff in Washington, D.C., is working with the Department of the Interior on fiscal year 1976 budget allowances. The committees of Congress, the Appropriations Committees, as you well know, are working on the 1975 appropriations.

In that lengthy process we encounter, as do all Government agencies, numerous problems in clearing various budget ceilings along the way. The constraints that relate to the fiscal requirements of the Federal Government may not fit at all with the long-term planning obligations of the utility.

When we look at that line from point A to point B, we are not just talking about Bonneville Power Administration. We are also probably talking about major public utilities and major private utilities and their plants.

One of the considerations that I think we will hear more about today from other witnesses has been the fact that the utilities are called upon to invest over the next 20 years $25 billion in power facilities in the Northwest, largely in generator plants which the region must have. In order to finance those generator plants, the utilities have to have some assurance that when the plant is built and $600 million has been invested in that plant there will be a transmission line to transmit the power from it. The economic consequences to the group borrowing the funds or the group of utilities——

Senator HATFIELD. You are saying at this point it is not only a question of additional costs that can be imposed by these delays as it relates to the taxpayer, vis-a-vis the Bonneville Power financing appropriation procedure, but that delay can also increase the cost factor to the private utility as to their investors and stockholders because of delays beyond your control, which inhibit their ability to utilize their facility fully; is that correct?

Mr. HODEL. Yes, and to their customers and the customers of any public system which is relying on the output of such facility. As you know, in the Northwest, many public systems are building their own generation, frequently in a mixed ownership plant, public and private.

It is this combination of the requirements for a reliable transmission system and an assured transmission system which has precipitated the broad-base support which the utilities in the region are currently giving this proposed legislation.

Senator HATFIELD. Thank you.

Mr. HODEL. The objective in drafting this legislation, as would be predictable in a group of 108 utilities directly or indirectly represented, was to produce a bill that changed relationships to the absolute minimum among utilities and between the Federal Government and utilities. I think that was a very successful effort on their part. My prepared statement summarizes the bill in some detail.

I would like to highlight some of the things the bill does not do, as well as some of the things it does do. For instance, the bill does not change the relationship between Bonneville and the utilities in the region on the wheeling and marketing of power.

It does not change the payout requirements for the existing Federal investment. It does not change or affect the preference clause. It does

not change the methods by which our rates are to be set in the future for power.

I am aware that the bill, as proposed, will have a number of amendments suggested by the policy committee, which is the committee representing the utilities, public and private, and Bonneville's industrial customers. Some suggested amendments which I am aware of and acquainted with represent clarifications and furtherance of the intent of the bill and they present no problem to me or the Bonneville Power Administration.

Senator HATFIELD. You are saying what it does not do. Can you turn to section 9 a moment on this matter of rates and charges, are there are no changes there as it relates to the Federal Power Commission reviewing of wheeling charges?

Mr. HODEL. In the case of wheeling charges, the Federal Power Commission does not now review our wheeling rates, but it does take a look at our wheeling rates in order to be sure that in setting our wheeling rates and power rates we are properly allocating costs between them.

The Federal Power Commission now reviews our wheeling rates in a collateral manner. This bill will provide that they will look at those wheeling rates, to be sure that they are applying fair and nondiscriminatory——

Senator HATFIELD. It is merely a restatement of existing relationship between you and the Federal Power Commission in regard to wheeling rates?

Mr. HODEL. This extends the Federal Power Commission authority in regard to our wheeling rates, which it did not previously, officially have.

Senator HATFIELD. But you say they look at them now.

Mr. HODEL. Yes, they do.

Senator HATFIELD. I do not get the distinction between what they are doing now and what they would be doing under section 9.

Mr. HODEL. Presently, we submit our rate proposals for power rates to the Federal Power Commission. The rates are not effective until approved by FPC. Our wheeling rates are not so submitted. However, in reviewing our power rate the Federal Power Commission pays attention to and considers whether we are doing what they think is a proper job in wheeling.

They want to be sure we are not overloading power rates to the advantage of wheeling customers or vice versa. So the FPC already does make this review. But under this bill, the wheeling rates would not become effective until approved by the Federal Power Commission.

Senator HATFIELD. It does set up a little different authority in relation from the Federal Power Commission to the Bonneville.

Mr. HODEL. To the wheeling rates. yes, sir.

Senator HATFIELD. On the wheeling rate question. Thank you. Let me just ask one further question. Do you consider that the procedures set forth in section 9 concerning the relationship of the Federal Power Commission to review wheeling rates, are these procedures clearly identified here and is the wording proper to facilitate this?

Are there any problems you foresee at all?

Mr. HODEL. None, Senator. These words——

Senator HATFIELD. Why was that set up in that way?

Mr. HODEL. This is essentially the mechanism that now exists in the Bonneville act and the procedure we follow for our power rates, which, of course, is the bulk of our revenue source.

Senator HATFIELD. In effect, we are granting new authority to the FPC, or additional and expanded authority?

Mr. HODEL. Yes. To the extent of the wheeling rate addition.

Senator HATFIELD. Is that necessary?

Mr. HODEL. Mr. Chairman, I think it is appropriate.

Senator HATFIELD. Why?

Mr. HODEL. Because the Federal Power Commission approval, I think, has been beneficial to setting of rates by Bonneville Power Administration. As you are aware, we are in the middle of a rate review process.

I think it is beneficial that we be in a position to submit to the Federal Power Commission our proposed rates for review, in a public forum, if that is called for, to assure that what we are doing is consistent with the kinds of policies they apply to utilities.

Senator HATFIELD. The procedures are basically the same as exist now between you and the FPC as it relates to your rates. With this additional responsibility of FPC on wheeling rates; is that correct?

Mr. HODEL. Yes.

Senator HATFIELD. The procedure and the channels are essentially the same?

Mr. HODEL. Yes. In addition, the wheeling rates are now reviewed by the Federal Power Commission, although they do not have the authority to say you can't change your rates or do what you are proposing to do, but we try to stay in touch with them on those rates, too.

Senator HATFIELD. The criteria on which you set your transmission rates now will not be changed under the new procedure?

Mr. HODEL. No, sir.

Senator HATFIELD. How often do you review the transmission charges you now apply?

Mr. HODEL. Once every 3 years.

Senator HATFIELD. Would that change under this bill?

Mr. HODEL. No.

Senator HATFIELD. It would be the same as you are doing now?

Mr. HODEL. Yes, sir.

Senator HATFIELD. You will use the same criteria and the same basis for establishment of such transmission rates as you do now?

Mr. HODEL. Yes, I believe that is correct.

Senator MCCLURE. Would the Senator yield on that point?

Senator HATFIELD. Yes.

Senator MCCLURE. As I understand it, the bill will, in effect, formalize a two-charge system on transmission, the power which is produced by the Federal Government and transmitted over Federal lines to Federal preference customers, will, in essence, have one cost in it.

And all other power will have a transmission rate, somewhat different. Let me explain what I was getting at, and if I am wrong explain to me what is right. You have one power rate.

You sell that power at that rate to all Federal customers, regardless of where they are located. In other words, people in Idaho Falls, Idaho pay the same rate as people 5 miles from Coulee Dam.

Mr. HODEL. With the exception of the at-site rate, I believe that is correct. There is one exception in that rate. That is within 15 miles of the project.

Senator MCCLURE. I should have said 20 miles rather than 5 miles, so that the transmission facilities constructed by the Federal Government and necessary for the transmission of Federal power together with the wheeling payments to any other transmission line owner are spread systemwide, and all customers pay a Federal power marketing system, pay the same for the entire amount of transmission.

Mr. HODEL. Senator, I would like to ask Mr. Goldhammer to respond to that question.

Mr. GOLDHAMMER. We have a postage stamp rate. In that postage stamp rate are several components. One is the generation cost, another is the energy cost, and still others include the transmission on the grid and the cost of customer service facilities.

Our rates, up to the present time, have takent these four components and put them on a postage stamp basis, so the rate is the same regardless of the area and regardless of the delivery voltage.

We are proposing some changes in our new rates which would take out the customer service facility and make a special charge for it. For our wheeling customers, we divide the cost of each component by the load flows.

Then we charge for the various components on an average system basis. In other words, we take our entire transmission facilities. We take into account the power costs, and we calculate how much it costs us on the main grid to transmit power on a megawatt-mile basis.

We apply those charges to the handling of non-Federal power.

Senator MCCLURE. The handling of non-Federal power, but not for the handling of Federal power.

Mr. GOLDHAMMER. No. On Federal power, we use on the main grid, and in our new rates we propose to continue to use, a postage stamp basis. So there is an average cost to everyone purchasing Federal power.

They are paying the same average costs.

Senator MCCLURE. If I read what you are saying, my initial statement was absolutely correct, then?

Mr. GOLDHAMMER. Yes. I might mention one exception here. We do not separate out the transmission costs as part of our power rate. As our power rate includes delivery now, at the customers' voltage, our future power rate will include delivery on the main grid to the substation to provide service for the customer.

Senator MCCLURE. What I am really trying to get at is the fact that the Federal power which is produced at Federal installations and transmitted over Federal grids all across the wheeling line under a wheeling agreement, is delivered to the ultimate customer, regardless of where the customer is, except for the locality, at the same rate.

So all the transmission costs are averaged to all Federal customers.

Mr. GOLDHAMMER. That is correct, Senator.

Senator MCCLURE. So people 16 miles away pay the same rate as somebody 600 miles away?

Mr. GOLDHAMMER. That is correct.

Senator MCCLURE. In essence, the person 16 miles away helps pay the transmission costs to the people some distance away.

Mr. GOLDHAMMER. That is right.

Senator MCCLURE. As you get into this bill, then, and begin to charge transmission costs, because you are beginning to not have Federal power to transmit but purchased power, non-Federal power, there will be a wheeling charge, dependent upon the nature of the customer.

As I understand it, it will be your intention to add to those costs the transmission costs. But again to average them systemwide.

Mr. GOLDHAMMER. We have under discussion now with the publicly owned systems as to how we handle the transmission from these new thermal plants that would be built to supply the loads.

We have the same problem with the investor-owned utilities under phase 1 of the hydrothermal program. We worked out with them a mutually satisfactory arrangement whereby the wheeling for the plants west of the Cascades, is handled on a postage stamp basis.

We are now looking with preference customers at handling the wheeling charges for a group of them on a postage stamp basis. The problem that comes in and why we are considering this is that each public system wants to be free to participate in any thermal plant, regardless of its location.

The public systems do not want a wheeling charge that will force them to look at only the plant located very close to their loads. How these discussions will finally end, I do not know. We are in the process of discussion.

But the tenor of the majority of the public systems seem to be in favor of a continuation, when we have non-Federal power, of charges similar to what we are making on our rates at the present time for plants west of the Cascades, because this will give them freedom of participation in plants.

Senator MCCLURE. If you continue. If I understand what you are saying, if you continue the same system, then you would again average transmission costs over the entire area to all of your Federal customers, or your preference customers.

Now, a non-Federal or a nonpreference customer would not have that averaging.

Mr. GOLDHAMMER. It may or may not. We may have it broken down between customers within the preference customer group. Part of the hydro-thermal program was that we would act as an agent, particularly for the smaller customers, but also for the larger ones if they so desire.

The current thinking is that in this agency group they pool all costs. As I mentioned earlier, for the investor-owned utilities, they are participating in plants. For example, Centralia. We charge the same wheeling charge for Centralia, whether the power goes into the Portland area or the Seattle area or where it goes, because this is the way we worked it out with the utilities, to have a postage stamp rate. We may work out with the investor-owned utilities in the area the same sort of arrangement, whereby we would take the costs, average them for all of the utilities, and charge the same wheeling rates for plants regardless of where their location might be.

Senator MCCLURE. The reason I asked this question is I have absolutely no quarrel with the idea that Federal power has a preference to a public agency. That they can buy. You have accomplished that, essentially, in your entire marketing area by this averaging of transmission costs.

But when we start talking about purchase power, then you begin to run into the question of whether their average costs as a matter of policy is an appropriate one, and whether or not it is pursuant to any act of Congress which has established that policy.

Then you add a third factor, as to whether or not the average costs ought to be different between the preference customer and the nonpreference customer. What we begin to see if we get to that point is a substantial discrimination against the people who use power on a nonpreference basis.

Mr. GOLDHAMMER. Let me comment on a couple of things. One, at the present time, we are wheeling for non-Federal customers, both preference and nonpreference. We have both types that have their own generation. They do not all depend on us.

To both a preference customer or a nonpreference customer, we charge on an identical wheeling formula for the transmission of non-Federal power. There is no distinction in the charge between preference customers and nonpreference customers for non-Federal power.

Under the proposed legislation here, our rates would have to be nondiscriminatory. They would have to be charged on a similar basis, whether they are prefence customers or nonpreference customers, in wheeling non-Federal power.

The question as to whether we do this on a postage stamp basis for a group of customers or out of a plant depends upon our customers.

Senator MCCLURE. Maybe I had better back up and understand what you mean on a postage stamp basis.

Mr. GOLDHAMMER. I mean averaging the costs. Let us take an illustration—

Senator MCCLURE. I really do not like that term anymore, because the cost of postage stamps has gone up.

[Laughter.]

Mr. GOLDHAMMER. Let us say average costs, then. We have eight participants in the Centralia coal-fired plant, four publicly owned systems and four investor-owned utilities. We worked out a wheeling arrangement with them.

They are located in different parts of the same area. We worked out arrangements with them whereby we took our wheeling formula, our average costs, averaged the cost of wheeling Centralia power to the various customers and are charging one average cost to each customer buying power from Centralia.

This is one way that it might be done on new plants. One of the reasons it was done this way and one of the reasons that some of the utilities are looking at some continuation of this policy is to give them the freedom to locate any plant regardless of where that plant might be located and not force them to participate in plants that are in their back yard so as to get a lower wheeling charge.

From the plants that were built, the hydroelectric dams on the mid-Columbia, the plants built by the PUD's, such as Priest Rapids, in those cases we took our average costs and instead of taking an average basis for the total, each utility is paying the average cost of bringing that power from the generator to its load centers.

That is using the formula we worked out on an average cost basis. But it does not mean that the utility in Portland, for example, Portland General Electric Co., which is getting some power from Priest

Rapids Dam, will be paying a different wheeling rate than the city of Seattle, which is also getting power from Priest Rapids Dam.

The differene in payment is not because there is a difference between a preference-customer and nonpreference customer, but because the distance of bringing that power from the dam to the load center is different in the two cases.

Senator McCLURE. Then there is not an averaging of delivered costs.

Mr. GOLDHAMMER. For some projects there is and for some projects there is not. It depends on how we have worked this out with the utilities in question in negotiating how the wheeling charges should be handled.

Mr. HODEL. Senator, that is with regard to non-Federal power. Section 6 of the act does provide that the Administrator shall make available to all utilities whether they are preference customers or nonpreference customers public systems or investor-owned systems on a fair and nondiscriminatory basis any capacity which is excess capacity to his needs for Federal power.

The discussion on that section, I think, among the utilities both public and private concluded that that was an appropriate mechanism. It is the mechanism utilized by utilities generally.

Each utility will use their own power in their system first. If there is excess capacity they will make it available to be utilized by other utilities on a fair-charge basis.

Senator McCLURE. I just wanted to make sure that I understood two things. One is, what your definition of fair and nondiscriminatory is. The second one was whether or not this bill with its expansion of transmission responsibility in the BPA would affect the future question of nondiscrimination, to the end consumer.

I have no quarrel, as I said originally, with the Federal power being marketed on a Federal grid, with the point of delivery at cost being identical essentially for all parties. I have no quarrel with extending that over whatever lines might be built here.

But as we get into more and more thermal production by non-Federal entities with a higher and higher proportion of that energy being transmitted over the grid, I become concerned as to whether or not that same policy is applied.

And if it is applied that it is applied equally to all parties.

Mr. HODEL. My understanding, Senator, of the language in section 6 that it be made available on a fair and nondiscriminatory basis together with the obligation of the Federal Power Commission to review and approve transmission charges as well as power rates would assure that that be done.

Another way to phrase that is that the discussions in the region concluded that there was not a preference on the Federal transmission grid. I think that might go to the basic issue here.

Senator McCLURE. There are two kinds of preferences that might be applied. One is the availability of transmission capacity. The other is the charge for it. I assume there is no preference on either side of that formula.

Mr. HODEL. That is my understanding.

Senator McCLURE. Except for the Federal power.

Mr. HODEL. That is correct.

Senator McCLURE. So the availability for transmission or the charge for transmission will be handled equally regardless of who the customer may be. Now that is not—that is a rate that may vary under different circumstances.

Mr. GOLDHAMMER. That is right.

Senator McCLURE. Is there an effort made to get a uniformity of treatment?

Mr. GOLDHAMMER. There is a uniformity in costs, but we pretty much have left this, whether we take this on a uniform basis as I mentioned in Centralia or take it from a point to point basis as we have in Priest Rapids, we have pretty much left this to the customer's choice.

BPA secures the same revenue either way. We are averaging the costs in one case and splitting it equally among eight participants. In the other case, we are charging a separate rate to each one. We come out with exactly the same revenue, whichever way that we do it.

We pretty much leave it to what the customer desires.

Senator McCLURE. Thank you, Mr. Chairman.

Senator HATFIELD. Mr. Hodel, let us go back to the transmission facilities and ask you about section 5, which would specifically prohibit the BPA from acquiring transmission facilities by condemnation.

I believe at the present time you have such authority; is that correct?

Mr. HODEL. Yes, Senator.

Senator HATFIELD. How do you explain the need for this particular change, then, as to your present authority?

Mr. HODEL. That authority has never been exercised in the history of Bonneville. Pursuant to this legislation, if it was deemed necessary by some future Administrator to do so, it would require legislative action of the Congress.

It seemed to us that it was appropriate in the atmosphere of coordination, cooperation in the region, to impose this restraint. I do not think it would be feasible to attempt to exercise that condemnation authority that now exists, without careful review by the Congress, because it would be such a controversial step.

Senator HATFIELD. Would you also explain the necessity for section 7, which deals with the authority to acquire and hold property?

Mr. HODEL. I believe section 7 simply codifies existing law. It is essentially a duplication of existing authority.

Senator HATFIELD. This does not constitute any new or reduced authority or change?

Mr. HODEL. That is correct. I think its insertion here is because it makes plain that under this bill it is subject to the provisions of section 5 of the act, so there would be no question about whether the prior existing authority was so subjected.

Senator HATFIELD. Mr. Hodel, as you know we were discussing earlier this morning the procedure set forth in the bill as one which differentiates the present annual appropriation and the uncertainties pertaining to such procedures.

Could you provide for the record—say for the last 10 years or perhaps 15 years—provide for the record a complete history of congressional action on Bonneville's appropriation requests, such as what you requested initially in the President's budget?

The amounts appropriated by the Congress, and any subsequent impoundments, or funds deleted or reduced by the OMB. Would you do that for the record, please?

Mr. HODEL. Yes, Senator.

[The information referred to follows:]

FIFTEEN-YEAR HISTORY OF BPA APPROPRIATION REQUESTS

The following tabulation summarizes the history of BPA's appropriation requests over the past 15 years. Listed are the amount of the preliminary budget request originally submitted by BPA to the Department of the Interior, the amount allowed by the Department for BPA's submission to the OMB, the amount allowed by the OMB for submission to Congress and the amount appropriated by Congress. Also listed are the funds impounded in some years by the OMB which remained in budgetary reserve at the end of the fiscal year. It should be noted that due to the length of time encompassed in the full budget cycle from the preparation of initial estimates of requirements by BPA through all of the subsequent reviews, the changes in allowances compared to the amount originally proposed were, in many cases, due to changed conditions which justified either an increase or decrease in the amount of the allowance. It should also be noted that the wide variations between the amounts requested, allowed and finally appropriated in fiscal years 1964 through 1967 were attributable to the status of plans for construction of the Pacific Northwest-Southwest interconnection and for service to southern Idaho. As these plans evolved substantial adjustments were made in the budget allowances.

[In thousands of dollars]

	Preliminary budget request by BPA	Departmental allowance	OMB allowance	Appropriated by Congress	Impounded by OMB
Fiscal year—					
1960	36,645	36,177	35,250	31,444	422
1961	31,765	31,415	31,195	29,520	----
1962	36,200	32,650	28,056	33,080	----
1963	65,050	58,350	47,650	42,513	----
1964	109,720	109,500	74,847	49,704	----
1965	105,000	109,625	58,800	102,400	----
1966	209,100	121,900	114,465	113,765	----
1967	168,900	128,465	126,175	126,010	2,200
1968	156,983	157,700	139,006	129,000	1,521
1969	177,982	189,000	137,100	123,500	----
1970	208,800	188,700	123,900	118,000	----
1971	148,000	138,700	117,122	115,200	----
1972	127,300	127,300	121,250	118,825	416
1973	144,200	128,400	120,513	125,520	----
1974	145,500	141,233	131,500	130,800	----
1975	157,000	156,003	152,667	----	----

Senator HATFIELD. Also, when we were talking about this matter of the Secretary of the Treasury purchasing these bonds and then selling them or disposing of them in a favorable market situation, the wording in the bill is that it shall be comparable to the rates prevailing in the market for similar bonds.

How do you construe the term "similar bonds?" What do you construe that to mean?

Mr. HODEL. I would like to ask Mr. Katzin, who is with me, to respond to that. As our financial consultant on this matter, I think he has looked at it in considerable detail.

Mr. KATZIN. Mr. Chairman, we, of course, have given this language some special study, because it is unusual in legislation and we have not come across it before. It is not unusual to impose an interest rate on an agency based upon the Government's own borrowing cost.

But here there is the added factor of the judgment of the Secretary of the Treasury based on similar securities. Of course, there is no identical security in the marketplace. Until the Secretary resells some

of these securities, we will never have an objective market evaluation of these securities.

So we have tried to analyze the various characteristics of these securities to find out what it resembles closest in the marketplace. As you know, there is a hierarchy of interest rate, with the top credit being the direct obligation of the Treasury.

The next best credit being those bearing the full faith and credit of the Treasury and an indirect obligation, such as a guarantee. But we do not have a guarantee here. The next best security is a Federal agency not bearing a guarantee, and that is what this is, which places it above the triple A bond market of the corporations or the utilities, and somewhere in the range between a quality Federal agency and the public bond market is where we think we will seek a similar interest rate.

Senator HATFIELD. Can you give some examples of the current interest rates for, similar bonds?

Mr. KATZIN. At the moment the inteerst market is in some disarray. The historic relationships are not exactly being reflected in the marketplace, but on May 31 we took some quotations from the press, and the 25-year bonds of the U.S. Government were selling at a yield basis of 8.12 percent.

The Washington Metro, which is a fully guaranteed Government obligation, theirs is a 40-year bond, so we have some interest differential for term, was selling on an 8.50 percent basis.

Fannie Mae's, for which 23 years was the longest term out, 8.40 percent. So with the Government bond market of 8.12 percent we find a range from 8.40 percent to 8.50 percent for Government agencies bearing guarantees.

Senator HATFIELD. What is the current interest rate of Bonneville repayment of appropriated funds?

Mr. HODEL. The current interest rate is 5⅝ percent. We anticipate that on July 1 pursuant to Secretarial Order 2929, it will go to 6⅛.

Mr. KATZIN. If I may continue, the closest market probably in the market today are the TVA bonds, which are set up pretty much the way Bonneville is being set up. It is a Government investment being repaid over the years that constitutes the equity, yet, the gross revenues, after system operating charges, can be used to service the public debt. For various reasons in the analysis of what the Bonneville security will look like, we think we should, over a period of time, be better quality than TVA because our ratio of debt equity will be better, our rate schedule is more attractive, and for a number of other reasons. TVA sells pretty much at the triple A utility rate today, more or less. Therefore, it is our conclusion that in looking for the similarity we will be somewhere in the neighborhood of good quality Government agency bonds.

Senator HATFIELD. Thank you very much.

Senator CHURCH. May I inject a question?

Can you translate the impact of this higher interest rate that will have to be paid by BPA as a result of the passage of your proposal into the rate charged by BPA for electricity? Are there some projections that you could give us?

Mr. HODEL. Only in a range, Senator. It appears that the differential between what we would now pay on investment and what we would pay pursuant to this bill would be in the range of 1 or 2 percent.

If that is true, the effect of the bill would be to have an upward pressure on our rates. On the other hand, just this year for lack of funds, we have postponed construction of what was initially a $76 million line.

I am now told it is an $83 million line. Postponing it a year would probably push it well over $100 million. So if we took all things with equal view, there would be direct pressure from the higher interest rate.

On the other hand, if we build the system as it ought to be built, we will get some offsets from it.

Senator CHURCH. Is that because inflation is endemic and will remain as rampant and catastrophic as it is today?

Mr. HODEL. Senator, I probably should not hazard a guess for the administration on that.

Senator HATFIELD. I would say the senior Senator from Idaho missed the earlier colloquy on interest rates.

Senator CHURCH. My problem this morning, Mr. Chairman, is that I have been presiding at another hearing. I may have to return to it, but I want to spend as much time as I can here.

Senator HATFIELD. Yes; and your statement has already been inserted in the record.

Mr. HODEL. May Mr. Katzin add to what I just answered, with regard to impact on our rates?

Mr. KATZIN. At the present time the Federal investment is on the order of $41/2 billion. It would take a lot of years for as much as $1 billion to be financed under this bill.

By that time the Federal system should be on the order of $9 billion. If the revenue bond financing is only $1 billion, out of $10 billion, then the impact on the total of repayment is only 10 percent.

If we are talking 1 percent or 2 percent of the interest rate, it is just a fractional difference overall that will result.

Senator HATFIELD. Mr. Hodel, I would like to go back and ask you what, if any, would be the effect of the repayment from Bonneville power revenues if this bill is passed on the Corps of Engineers or existing reclamation projects in the future?

Mr. HODEL. This does not change our obligation to make repayment of all previous Federal investment for power projects in the region. That will still have to be maintained, pursuant to this bill.

Senator HATFIELD. What about the irrigation rates for pumping power of the Bonneville system?

Mr. HODEL. The obligation to repay the irrigation investment will also remain a part of the obligation of the system. We would anticipate that this would be carried out overall pursuant to the payout policy over the same lifespan that is now utilized for those projects?

Senator HATFIELD. Under this measure, as proposed, Bonneville Power Administration will still submit an annual budget to the Congress. The Congress would not have to act affirmatively on that budget.

Mr. HODEL. Under the Government Corporation Control Act the submission is for review of the budget.

Senator HATFIELD. But it would be reviewed by the executive branch of Government, too?

Mr. HODEL. Yes, sir. We would still go through the same internal process we now go through. But I might say, and I am sure this

is something utilities in the region have looked at, the requirement that we consider alternative to construction under this bill would, I think, result in our doing an even better job.

I think we have done a good job, but I think we can do a better job in communicating with public systems and private systems about what we are proposing to do well in advance. We would have, in one way, a more coordinated engineering approach to the construction of the northwest transmission system.

Senator HATFIELD. What authority would the OMB or the Executive or the Secretary of the Interior have to require changes in that budget?

Mr. HODEL. We have some correspondence between the Office of Management and Budget and the Department of the Interior which relates to that issue. In my prepared statement I intended to quote from this, if I may.

Senator HATFIELD. Do you have the full document there that could be submitted for the record of that correspondence?

Mr. HODEL. Yes.

Senator HATFIELD. We would like to have that for the full record, but would you summarize the differences from the existing authority that would exist under this bill?

Mr. HODEL. We think an essential aspect is the manner in which our budget will be reviewed within Interior and the Office of Management and Budget to carry forward this objective and responsibility in the regional planning process.

In a letter to Mr. Zarb, who is Associate Director of the Office of Management and Budget, from Under Secretary Whitaker, the following statements are contained:

> 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 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 . . . will be on a multiyear basis in order to allow BPA necessary year to year program flexibility.

This has been concurred in by the Office of Management and Budget. It, read with the Government Corporation Control Act, suggests we would obtain the flexibility desired by the statement.

Senator HATFIELD. Let us go back to the example in the transmission line from point A to point B. Tell me what review you would have under this act with regard to authority of OMB and the Department of the Interior that you do not have now; or vice versa.

Mr. HODEL. At the present time our budget is a part of the budget of the Department of the Interior. We find ourselves in competition with human resource problems. It is difficult to show that a dollar-and-cents program like ours should have priority over some very serious human problems.

Under this new procedure we would be viewed separately as an entity within Interior. Looking at its requirements, I would say that under the Government Corporation Control Act, Congress did see fit to give the executive branch ultimate control over fiscal matters.

It is recognized there may be fiscal constraints required of any Federal agency. That would still obtain, but in all other circumstances

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this would provide greater flexibility in the planning and operation of the system.

Senator HATFIELD. Have you read the Senate passed a legislative budget act, the new congressional Office of the Budget?

Mr. HODEL. No, I have not, Senator.

Senator HATFIELD. I would like you to secure a copy of that and make an interpretation of how this would fit under that procedure, should it pass the House and be signed into law.

Would you do that and see what the implications would be under this proposed legislation?

Mr. HODEL. Yes, I will do that, Senator.

Senator HATFIELD. The question has been raised as to whether or not this is a first step toward self-financing of hydroelectric projects. Would you care to comment on why financing of hydroelectric power by revenue bonds was not included in this proposal?

Mr. HODEL. In the early discussions about what should be done for Federal responsibilities in the Northwest on power supply, it was thought by the utilities and Bonneville that perhaps we should take a look at including financing of Federal generation, that is hydrogeneration only.

Senator CHURCH. The reasons, to sum them up, are vested interests in the existing arrangement, both on the part of the private and governmental entities.

But if this approach has intrinsic merit, and I think that Senator Hatfield's interest in examining its further implications is well founded, this might become one step in the direction of self-financed hydroelectric installations.

Secretary MALLORY. That is certainly possible, Senator. We just felt that the study that would have gone into that would have turned us into another year on this legislation.

Senator CHURCH. Yes, I can appreciate the complications.

Senator HATFIELD. I think we are all aware of the profound implications of that kind of proposal. We are most anxious to take first steps based on priorities here. I must say that I am constantly faced with frustrations of seeing us get further and further behind in our schedule of completion of these hydro projects, to complete the Columbia Basin system in the Pacific Northwest generally.

I have seen these appropriation matters dribbled out over so long a period that not only the second powerhouse generation but Lower Granite Dam, we could enumerate many of them. I do think we are constantly threatened, even though we do have a commitment for the second powerhouse at Bonneville.

The transmission by itself is a very complicated matter. We found out that attempting to achieve a consensus of all utilities involved in this was probably more than we could handle especially if we tried, also, to include the multitude of relationships that relate to hydrogeneration, plus two additional Federal agencies, the Corps of Engineers and Bureau of Reclamation.

So it was felt that this was an appropriate piece of legislation. It was an important piece of legislation to the utilities who are building generation, and it needed to be accomplished.

If wiser heads than ours in the future see some better avenue to solve other problems on Federal generation, we felt we should leave that to them and not complicate life on this score.

Secretary MALLORY. I may be wrong in my recollection of the Senator's long-term interest in this, which has gone back quite a way, but I do believe you had an interest in financing the hydro as well.

I know that the directions that the Department gave to Mr. Hodel asked him to explore that. I think he set forth the reasons for it. But it is certainly something that we do not think is eternally foreclosed by such legislation.

And we do have $11 million in this fiscal 1975 budget and the House has added $400,000 over the President's request, and we hope to retain that on the Senate side. But even though we have that additional commitment of moneys for land acquisition we are far from construction, we are far from completion, we are far from power generation and far from solving the nitrogen supersaturation problems.

We have a multiplicity of problems here that have not been solved, not because of the lack of technology and such but because of a lack of funding.

I think at this time, unless the Senator from Idaho has further questions or unless the Secretary has further comments, or the Administrator or any of his staff, we will plan to recess this hearing until 2 o'clock this afternoon, at which time we will continue with the list of witnesses.

If you have any other comments, please feel free to make them.

Mr. HODEL. Mr. Chairman, there are two items that I think I should comment on, in addition to the budget process correspondence with the Office of Management and Budget that I have already submitted for the record. We also have correspondence with the Department of Treasury regarding the details of the operation between Bonneville Power Administration and the Secretary of the Treasury, which I would like to submit for the record.

Senator HATFIELD. We will include them in the record.

[The correspondence referred to above 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 Nofthwest 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 President 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.

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. WHITAKER,
Under Secretary of the Interior.

IMPLICATIONS OF CONGRESSIONAL BUDGET ACT OF 1974 ON S. 3362

A summary review of the provisions contained in the Senate passed version of S. 1541 (Congressional Budget Act of 1974) does not reveal any implications that might significantly affect the purpose and procedures envisioned under S. 3362 (Federal Columbia River Transmission System Act). BPA would still be required to present its budget program annually to the Appropriation Committees of the Congress. The Appropriation Committees would continue to discharge their responsibilities as in the past but, under S. 1541, would be guided by fiscal targets estabilshed by newly created budget committees which would provide a comprehensive overview of budgetary resource allowances for the implementation of national goals and priorities. However, under the provisions of S. 3362, BPA would no longer seek appropriations to carry out its program purposes, but would secure its financing from the use of power receipts and the proceeds of sales of revenue bonds. Such bonds are backed by BPA's power revenues; hence, the primary security for the bonds is the obligation of the rate-payers of the Pacific Northwest as distinguished from the tax-payers of the country.

S. 3362 permits the Treasury, if it so chooses, to act as our agent in selling the bonds in the private money markets. In these circumstances, the proceeds could "flow through" the Treasury to the BPA fund without actually creating a charge upon the Treasury and a demand for additional taxes.

In this context, we view the BPA program as similar to the power operations of the Tennessee Valley Authority and, as in the case of TVA, there would be no need to subject this program to new backdoor spending controls provided in S. 1541. This point appears to have been recognized in the Senate

Report of the Committee on Rules and Administration to accompany S. 1541 (pages 21 and 22 of Senate Report No. 93–688).

In summary, we see no fundamental incompatibility between S. 1541 and S. 3362. While S. 3362 does not exempt BPA's programs from Congressional control and the discipline of the budget process, we assume that the elimination of the need for appropriations made possible by the self-liquidating nature of BPA's operations will serve to lessen the degree of budgetary constraint imposed on BPA after S. 3362 is enacted into law.

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 BPA 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 unexpended trust funds which are in the Bonneville Power Administration Fund?

Question 13. 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?

Sincerely yours,

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

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,
Fiscal Assistant Seretary.

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. Long-term 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 or 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. HODEL. Also, I would be remiss if I did not compliment the whole host of people on a large committee representing all the rate payers of the Pacific Northwest, all of the consumers, for the hundreds of hours that they have spent working out very difficult conceptual problems, very difficult philosophical problems between public and private entities of the Federal Government attempting to head off concerns about the adverse long-term implications of this act.

Even though with some of the utilities from States adjacent to the region, we have not resolved all of our differences; the atmosphere has been one of cordiality and an interest in attempting to solve power supply problems in the best way possible.

In that regard, I feel that we have been served very well by all of our representatives from the Northwest in the Congress, and we thank all of you for that, as well.

Senator HATFIELD. Mr. Hodel, being aware of details and background leading up to this particular day, I want to certainly express my appreciation, not only for the comments you have made concerning the many people who have participated in this, but to you, personally, and your predecessor, Russ Richmond.

I think that had there not been this confidence on the part of the various proponents in the energy field toward the Bonneville Power Administration and its Administrator especially and his excellent staff, there would be less than the full desire and willingness to cooperate.

I feel that it shows an age of maturity that we have reached in the Pacific Northwest as compared to not too many years ago, when I recall it was a polarized position between public and private, between Bonneville and non-Bonneville.

I am delighted we have reached this age of maturity where we recognize the necessity of cooperation and the willingness to create together solutions to some of these problems that have been with us too long.

I want to commend you personally and, of course, Secretary Mallory, your participation in this in support of the Bonneville Administration has been deeply appreciated. I would like to suggest, too, that we will probably have followup written questions that we would like to have you respond to for the record.

Mr. HODEL. We will be happy to respond.

[Subsequent to the hearing the following information was received:]

U.S. SENATE,
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
Washington, D.C., June 20, 1974.

Hon. ROGERS C. B. MORTON,
Secretary of the Interior
Washington, D.C.

MY DEAR MR. SECRETARY: During the June 6th hearing on S. 3362, a bill to authorize new financial arrangements for the Bonneville Power Administration, Deputy Assistant Secretary Mallory agreed to respond to additional written questions submitted by the Committee. A list of such questions is attached.

In order to permit the response to be included in the printed hearing transcript, I would appreciate receiving the answers to these questions within two weeks.

Sincerely,

FRANK CHURCH,
Chairman, Water and Power Resources Subcommittee.

Enclosure.

QUESTIONS RELATING TO S. 3362

1. In the case of a new transmission line, would bonds be issued to cover the entire cost of the line prior to the initiation of construction or would costs be covered in successive issues on an annual basis?

2. Set forth in chronological terms the review and approval process for proposed new transmission lines as contemplated under the bill.

3. Provide a definition of a "new transmission line" suitable for inclusion in the bill or the committee report.

4. Under the procedures contemplated by the proposed legislation—

—would BPA's budget be submitted as part of the Department of the Interior's budget?

—would BPA continue to be subject to limitations imposed by the OMB and the Department of the Interior on such matters as employment levels, travel expenditures, average grade level, and the like?

—could BPA build a transmission line jointly with other utilities, either publicly or privately owned?

—if BPA experienced especially good water conditions and, therefore, had greater revenues than expected, could BPA pay off some of the bonds in advance of maturity?
—could BPA refinance bonds if the interest rate declines?
—could BPA use its revenues to finance preliminary engineering without reference to specific new facilities?

5. In selling bonds to the Treasury, would BPA have to earmark the proceeds from such bonds for a particular facility?

6. Could BPA use a portion of its revenues to finance the construction of new facilities or would BPA have to borrow all such funds through the sale of bonds?

7. Would the proposed legislation alter BPA's status as a Government bureau with respect to the applicability of the Civil Service regulations and other related matters?

8. Section 11(b)(6) of the bill authorizes expenditures from the Bonneville Power Administration Fund for the purchase of power if such purchase has been heretofore authorized by Congress. Would this phrase include expenditures from the Fund for power which has been acquired by net-billing agreements under Phase I of the Hydro-Thermal Program?

9. In Section 11(c) of the bill, specific reference is made to Sections 2(f), 10(b), and 12(a) of the Bonneville Project Act. Your statement asserts that only those portions of existing legislation which are in conflict with specific provisions of the bill are affected and that all other provisions of existing law remain unchanged. In view of your statement, why is it necessary to exempt these sections of the Bonneville Project Act specifically?

Senator CHURCH. While bouquets are being passed out, may I express my appreciation to you, Senator Hatfield, for presiding this morning?

As chairman of this subcommittee I have one question that I would like to put to you gentlemen before we recess for lunch. Since this has been a very complicated matter that you have put together, and it has taken a good deal of negotiation of various entities, public and private utility companies, government agencies, and you come to us finally with a bill that I take it represents the collective effort and the consensus that has been reached.

With respect to amendments that may be offered to this bill and considered by the subcommittee, what effect would amendments have on this package? That is to say, suppose the committee takes up and considers and adopts a series of amendments.

How will that tip the balance, or how will it affect this consensus that has finally been reached after prolonged and complicated negotiation among these various parties?

Mr. HODEL. To answer that, Senator, I should identify wherein the consensus is reached. It has been reached in the policy committee of the Pacific Northwest Utilities Conference Committee.

Mr. Culp will appear later today to present their testimony. That conference policy committee represents the public and private utilities in the west group area of the Pacific Northwest.

It includes all of the public system customers of Bonneville, all of the industrial customers of Bonneville and the private utility, investor-owned utilities in Oregon and Washington.

It does not include, as members, the investor-owned utilities in Idaho, Montana, and Utah. They did participate with the group. Not all questions with them are resolved. There are amendments which have been agreed to by the policy committee. They would have no adverse effect on the consensus.

If additional amendments of substance are presented, presumably they will tip the balance. If they are of substance they will tip the balance that has been processed here, over quite an extended period

of time, and could mean that some members of that committee, the policy committee, would have to take a different view of the bill.

Senator CHURCH. May I ask with respect to any amendments that may be proposed and considered by the committee, that you supply the committee with your commentary. In other words, in assessing the merits of those amendments we will want to take into consideration what impact that action may have upon the whole equilibrium here.

We would like to have a balanced view in this regard.

Mr. HODEL. Yes, sir, we will do that.

Senator MCCLURE. Thank you, Mr. Chairman.

I think if you can wait just a few minutes we can complete your appearance before the committee, otherwise we would have to ask you to come back at 2 o'clock; whichever way you would prefer is perfectly all right with me.

Mr. HODEL. At your pleasure, Senator.

Senator MCCLURE. Why don't we go ahead and see if we cannot finish. I think we probably can. On page 4 of your statement, Mr. Secretary, the first sentence says, "Enactment of self-financing for BPA will give the Pacific Northwest balanced access to the Nation's diffused primary capital markets."

I have the impression that of the 108 entities operating in the Pacific Northwest, public and private, they have quite an access to quite a diffused capital market in the United States now.

What additional access, other than the fact that they route the bonds through the Treasury, the Treasury itself then goes to the capital market, what further access is there to the capital market?

Secretary MALLORY. Senator, I spoke earlier, I believe it was just after you raised your earlier questions, to the point of access to the capital markets. I concurred in your view that there is no additional access, it is easier access.

We are not creating new capital in any way. This is a new method of getting the capital. I think my statement is directed toward the ability of Bonneville to get the capital when it needs it.

To repeat what I said before, we presented a number of alternatives when this matter was first discussed in the administration to the Treasury Department, one of which was the possibility of taking the bonds on the open market to the public markets.

The Treasury argued quite convincingly that this would be very disruptive of the Government-financing scheme. They were concerned over the increasing number of Government corporations who went to the market in an uncoordinated manner.

They felt that by selling the bonds to the Treasury who could, if they desired, turn around and sell them to the market, the Treasury would then be able to go in an orderly manner to the marketplace in selling Government securities, and manage the funds in a much more efficient way.

My remarks were directed toward Bonneville's ability now to go into the capital market through Treasury, in an orderly and balanced way. The public systems going into the municipal bond tax-exempt market is another like effort.

The investor-owned utilities going into a separate sector of the market is another aspect of that. This is the direction that my comments were aimed at.

Senator McCLURE. Really, then, it is not primarily a larger market, or better access for the Northwest, but better access for the BPA.

Secretary MALLORY. That is correct. But by giving Bonneville the ability to get money when it needs it, the Northwest would benefit as well, the consumer and everybody else concerned.

Senator McCLURE. I would certainly underscore that and agree. One of the great high marks of Federal, local, State, private cooperation and one of the best examples I can think of anywhere is the hydrothermal accord that has been reached in the Pacific Northwest.

It is a partnership of a lot of different entities and different kinds of entities. The least reliable partner in that whole partnership has been the Federal Government.

Secretary MALLORY. That is why this bill is before you today, sir.

Senator McCLURE. Yes, sir. I recognize that. We are trying to bail out a bad partner. Well, maybe that is not quite correct. Maybe that overstates it a little.

I have no quarrel at all with the attempt to create a more orderly and more predictable financial arrangement for BPA. But I think that the BPA's functions need to be carefully defined, both in terms of the old statutes and in terms of this present proposal.

Secretary MALLORY. I think the purpose of the present proposal was to change as little as possible the function that BPA has carried on historically. If we sought to change them we would have a very difficult time in this narrow objective of getting them a better means, a better method of financing.

The method has been to change their method of operation, other than the financial operations, as little as possible.

Senator McCLURE. As I commented earlier, I am torn between this committee and the other one, with General Kelly. One of the major elements of unreliability in the hydrothermal accord lies in the slippage of Federal projects, some of which are Corps of Engineers projects.

Reference has been made earlier to the possibility of extending this in a further step to financing other Federal projects. But I think there is one distinction that failed to be made.

That is that Bonneville Power is a marketing agency, not a producing agency. So the parallel is not exactly the same, unless we want to construct an entirely new kind of federal system in the Northwest.

Secretary MALLORY. The Federal Government is the owner of all the system, both the powerplants and the dams. Bonneville markets the electricity which has been generated at the dams, and in doing so repays the cost of the dams. They repay the cost incurred by the Bureau of Reclamation and the Department of the Interior and the Corps of Engineers. I think there is a nexus there that could be a basis for considering revenue financing of these other facilities costs of which BPA is repaying, although somebody else is building them.

Senator McCLURE. I do not want to belabor this, because this is not directly a point. I see the Bonneville Power floating a revenue bond, will loan some money to the Corps of Engineers, which seems to be a rather bizarre circumstance.

Secretary MALLORY. We think of it in terms of floating a revenue bond to have a facility built from which they will sell electricity.

Senator McCLURE. Then Bonneville Power suddenly becomes a different entity.

Secretary MALLORY. That possibly is one reason why we have not attacked the problem.

Senator MCCLURE. I mentioned it only because I think we need to understand that distinction.

Mr. HODEL. Senator, you have identified there a few of the basic problems that would be encountered in the region. I might say that the initial cut by the policy committee, when first discussions were held as to how we could approach this financing problem, attempted to consider the whole spectrum of possibilities.

I hesitate to mention some of these that were suggested because of their possible impact on people here today. What we have ended up with is the narrowest possible way of obtaining the flexibility and reliability objectives of the regional utilities.

Senator MCCLURE. Senator Hatfield had reference earlier to the impact that this proposal might have on, say, irrigation rates or other operations of Federal entities in the Northwest.

Let me ask this question before I go further. That is, will the financing under this bill for transmission facilities be a common operation of Bonneville Power Administration? Or will it be a separate operation of Bonneville Power to be separted on the books from the other impacts of BPA?

Mr. HODEL. I would assume on the books it would be shown as a separate item. What its relationship will be to the other payback obligations will be dependent, partly, on the terms of the bonds, worked out with the Treasury.

However, as you know at the present time Bonneville can only review its power rates once every 5 years pursuant to contract.

We have a contract provision that within the next 5 year rate period will get us down to 1 year review. That is relevant to the answer because, let us assume the wort, if in some future year we do not obtain sufficient revenues to pay our opertaion and maintenance expense, our interest obligations on the Treasury obligations issued pursuant to this bill, any principal obligations which must be repaid to Treasury in a given year under this bill, interest expense on the previous Federal investment and full amortization owed in a given year, there may be terms in the bonds with Treasury that define what the priorities will be.

But we are obliged under the bill at the first opportunity to obtain a rate review and increase sufficient to permit us to get back on and remain on our payoff schedule.

I would say Bonneville throughout its history has done an excellent job of meeting its payback obligations. It has remained ahead of its obligation on payouts throughout its history.

I am confident that we will continue to do that.

Senator MCCLURE. It was greatly assisted in doing that by adopting rolling maturities, an opportunity that I do not have on my home mortgage.

Secretary MALLORY. Nor do they have under this revenue financing, with bonds.

Senator MCCLURE. I understand that.

Mr. HODEL. Some of these things we are agreeing to give up under this bill.

Senator MCCLURE. But in all your conversation about rates and O. & M. and interest obligations and reviews and events of deficiency,

all of that was referring only to the obligations under this bill for transmission facilities, or were you directing that to the entire operations of BPA as a total entity?

Mr. HODEL. Of the entire obligation on our books as far as I know, there is no distinction between the obligation to repay our investment in transmission and the corps' investment in power or the Bureau's investment in power.

Senator MCCLURE. So the transmission obligation is a merged obligation of the entire BPA?

Mr. HODEL. Of the Federal Columbia River power system; yes.

Senator MCCLURE. Then to the extent that you pledge the revenues of the entire system for the repayment of this bond, you have at least gone into the area of the security for the repayment of all obligations.

Perhaps this is no less secure than the other, but certainly it does affect their obligations.

Mr. HODEL. Only in a year where the revenues are not adequate to meet our obligations. In that regard, that is our present situation as well, except now we are faced with that problem on a 5-year rolling basis.

We could find ourselves at the end of a 5-year period with inadequate revenues to pay all of our obligations.

Senator MCCLURE. But there could be some transference from other revenues into meeting the obligation under this bill.

Mr. HODEL. I am sorry——

Senator MCCLURE. You have other revenues besides what you generate as a result of the facilities constructed by the floating of these bonds?

Mr. HODEL. Yes.

Senator MCCLURE. Your transmission rates for the facilities constructed pursuant to this bill should be sufficient to pay all of the debt service for those facilities. But if they are not, other revenues of BPA would be pledged, available for, and applied to those obligations.

Mr. HODEL. We do not now segregate our obligations in that fashion. We treat our obligation on a system basis.

Senator MCCLURE. That is precisely the point that I was getting to. You cannot say then that these facilities have absolutely no effect upon the other obligations of BPA or upon the Columbia Basin account.

A portion of the Columbia Basin account having been set aside as available for the incremental costs of upstream water development projects, and to the extent that the Columbia Basin account is impaired as a result of issuing obligations under this, then, indeed, upstream water facilities could be a factor.

I am not saying they would be. I am saying they could be.

Mr. HODEL. I believe when I was speaking earlier, I indicated that this did not change our payout obligation. That payout obligation is not affected. The bill does provide that we have an obligation to assure that our rates are adequate to meet all our obligatoins.

If I understand the Senator's question correctly, it is that there may be some relative effect in a given year, because of—it would only be in the event, I suppose, of a shortage of revenues—between the existing Federal payout obligation and the obligation that would arise as a result of borrowings under this bill, which was saying first pay interest under this bill before you pay the former Federal debt.

Senator McCLURE. This bill says you shall charge your transmission charges over facilities constructed by the capital which was raised in issuing these bonds.

It will be sufficient to service these bonds as well as the facilities constructed. Am I incorrect in that statement?

Mr. HODEL. I would like to ask Mr. Ratcliffe, the regional solicitor, to comment on that.

Senator McCLURE. I did not mean to have you bring in——

Mr. HODEL. I would like to get an accurate answer for you on the record, sir.

Mr. RATCLIFFE. Senator, I do not believe the bill recites that the income for the use of transmission facilities financed by the bonds would be the only revenues that would pay off the bonds; if that is what I understood you to ask.

Senator McCLURE. I did not say it would be the only revenues. I said the bill directs that those revenues should be sufficient to pay O. & M. on transmission lines, amortization of the debt and the interest on the transmission lines.

Mr. RATCLIFFE. Sir, I believe that is an error. I do not believe it is limited to that. I think it is the total revenues of the Bonneville system.

Senator McCLURE. Then, indeed, the other revenues of the Bonneville system could be pledged, and the transmission charges could be low enough so that other revenues of Bonneville would subsidize the transmission line.

Mr. RATCLIFFE. This is one of the reasons I think that the FPC was brought into this review process.

Senator McCLURE. I understand that. But the question I am getting at is whether the bill requires that the transmission lines bear their own weight, or whether Bonneville is going to subsidize transmission lines from other revenues.

Mr. RATCLIFFE. I do not think the bill expressly requires that the transmission system would bear its own weight. It expressly states that that must be the end result.

Senator McCLURE. Would there be an objection to having the bill so state? If the answer is yes, why?

Mr. RATCLIFFE. I believe the answer is yes. We have discussed this for quite some time, and have always maintained our accounts as a basin account, one total account.

Senator McCLURE. Would you please repeat that?

Mr. RATCLIFFE. I believe that it would be objectionable to endeavor to have the transmission system required year in, year out, to carry its own weight. First of all, this would have a very definite upward trend, it would appear to me, upon the rates that we would have to charge to the consumers in the region.

Senator McCLURE. Why?

Mr. RATCLIFFE. In the first place, if that was to be the case, we would be isolating one of our functions. It would have to stand completely on its own and have rates sufficiently high to do so. At the same time, the balance of our system would not be able to take some of the bumps that come——

Senator McCLURE. What you are saying then is it is your intention not to pay the full cost of transmission lines, lines from transmission

costs, but to use other revenues to help pay the cost of transmission?

Mr. KATZEN. May I comment on this? Section 10, the last sentence provides that the recovery of the costs to the Federal transmission system shall be equitably allocated between Federal and non-Federal power utilizing such system.

As near as I can see, if we are following this act, and we are doing this at the present time, to allocate between Federal and non-Federal power utilizing that system, there would not be any lower charge or higher charge than the actual costs, based on the wheeling charges.

The wheeling charges would be based on actual costs. It would not be above it or below it.

Senator MCCLURE. That was my understanding of what the bill said. Yet the answer I got was the contrary.

Mr. KATZIN. I feel that this is the only way we could apply these charges.

Mr. RATCLIFFE. What I was saying, Senator, if I may, it——

Senator MCCLURE. Let me clarify what I am getting at. I have no objection to pledging of the revenues for BPA in order that you get a favorable bond market and a favorable rate.

What I am trying to get at is whether your internal charging system structure is going to be geared and require to be geared by the act to separate the transmission costs and transmission facilities from the other revenue system.

Mr. RATCLIFFE. Senator, I think you have clarified the answer I was trying to give. That is, the bill does not specifically provide that the only source of security for the bonds issued would be the transmission revenue. That is the simple answer I was trying to state.

We certainly would indicate that the revenues from the utilization of the transmission system, or attributable to the transmission system, would be adequate to cover the costs of the transmission system.

Senator MCCLURE. Let me repeat my question, now that we are parallel. Does the bill require that the charges do that?

Mr. RATCLIFFE. I think section 10 requires that, not on a year-by-year basis. There has to be some latitude, I am thinking, in terms of security for the bonds. But I think the bill requires that the transmission charges be adequate to bear the cost of the transmission system.

Senator MCCLURE. And that is the full costs of O. & M. debt service and interest, amortization and interest?

Mr. RATCLIFFE. Yes.

Senator MCCLURE. I appreciate the fact that we finally got to the point of understanding what we were each talking about, because I think it is important for us to understand the legislative history whether or not Bonneville revenues are going to subsidize their transmission system constructed under this bill.

My understanding now is clearly it is not intended to so subsidize the transmission system.

Mr. MALLORY. I think this was, again, the reason that the wheeling charges were made subject to Federal Power Commission review, as a matter of requirement in the bill so that there would be an independent review of this.

Senator MCCLURE. I appreciate the fact that the review is there. But if the statute does not say what they are supposed to review, that does not give us much assurance.

Mr. MALLORY. I think section 10 does set that forth.

Senator MCCLURE. Thank you. If that were not the case that would have an effect upon the basin account, and an effect upon upstream water projects. That is something that I think would need to be clearly understood, and you assured me that is not the result.

What is the Federal responsibility under present statutes for the construction of transmission lines within the Bonneville power marketing area?

Mr. HODEL. Under the hydrothermal power program, under agreements made, the Federal Government agreed to be responsible for a number of items, including the construction of the main grid transmission system.

In addition, there were some power responsibilities along the lines of providing peaking and unanticipated load growth, reserves and so forth. From a transmission standpoint, construction of the main grid, which is essentially what has been done.

Senator MCCLURE. What is the main grid?

Mr. HODEL. It is not a precisely defined term, Senator. The main grid has turned out to be variously the transmission from the main hydroelectric projects to the main load centers. We are also, pursuant to the hydrothermal program, being encouraged by invester-owned utilities to construct transmission from part of the colstrip project, transmission from Hot Springs, Mont. to Spokane.

What happens, I think, is that the electrical engineers, I should emphasize my background as an attorney, the electrical engineers take a look at the system from an electrical standpoint.

If it appears that, electrically, a line should be added by one or another utility system, it is then usually agreed that that utility should build that line. This is why we are presently being urged to build this line I mentioned, because we have transmission in the area.

The power, I am told, does not flow as you direct it to flow. It flows along the path of least resistance. If we get into a situation, from an engineering standpoint, where there are parellel lines, we have to start computing whose power is on what line and attempt to charge each other in some appropriate fashion. It gets extremely complicated. Ordinarily, we have ended up with wheeling arrangements when appropriate.

For instance, we wheel with Idaho Power Co. Pursuant to this bill we see no need for any change in relationships that we have established. People wheel over our system.

If I had to give a definition of the main grid that we could generally work with, I think I would say that it was the 230-kilovolt and the 500-kilovolt transmission system that we now have in service.

Senator MCCLURE. This bill proposes some additions to that.

Mr. HODEL. This bill speaks in terms of additions. It does not propose any specific additions to the system as yet.

Senator MCCLURE. That is correct. What I was getting at is what is in mind. It seems to me we start out with no definition of what the Federal responsibility is. We are leaving it to a lot of entities outside of Government to sit down and make up their own minds on how they want it done.

Up until now that has been a perfectly satisfactory arrangement with me. I have absolutely no question at all, concerning the Federal Government's responsibility under existing statute or otherwise, to

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provide the transmission facilities where they do not exist for marketing of federally introduced power.

I begin to question when we start talking about additions to the grid for the purpose of marketing non-Federal power and non-Federal entities, the fact that we may have an investor-owned utility urging the Federal Government to build part of the grid does not really satisfy my concern.

That is simply transferring from their own financing capacity to the Federal Government's financing capacity an obligation which is essentially theirs, if it is their power for their purposes.

If we get started on this you are going to see quite a bit more, I suggest. That becomes a matter of concern, not only to the investor-owned utilities who may seek that kind of relief from meeting their own financial obligations, but it also becomes a matter of concern to the consumers who have a preference to the Federal system.

I think this bill tries to assure to them that they will continue to have that preference. It tries to assure that as the Federal responsibility in the area, as a matter of fact, becomes larger that they do not suffer financially as a result.

But is there not really under this proposal implicit, if not explicit, the expectation that the Federal Government will, through the Bonneville Power Administration, take over a larger share of responsibility in areas where the Federal Government has not had that responsibility prior to the staff?

Mr. HODEL. Senator, I think the whole thrust of the phase 2 of the hydrothermal program seeks to put the opposite direction on the utility business in the region for the reason that we foresee in the next 20 years over $30 million investment on the part of the utilities, public, and private, for generation, their transmission and distribution. And the Federal investment in the region, assuming that funds were available.

If we assume those funds were available, the Federal investment in that period of time would look like—we are using current dollars—something in the neighborhood of $6 billion.

That would be for completion of the Federal Columbia River Power System generation. It would be for continuation of the main grid responsibilities of the transmission system. That $6 billion over $30 billion of expenditures represents about a 20-percent share of the investment.

At the present time the Federal investment is well over one-third of the investment in the power systems in the region. Whether that is right or wrong, that is where we are today.

This bill leads away from the continued Federal dominance, production of more than half of the power in the region.

Senator MCCLURE. That is one way of looking at it. I guess that is proof of the argument that you can use figures to prove anything that you want to prove. You are looking at proportions.

But in terms of the areas and the responsibility of the Federal Government, the Federal Government will be undertaking the responsibility in areas that they do not have responsibility for. Hydrothermal accord requires the Federal Govrenment to market existing hydropower, and to complete the hydropower that is programed.

It does not call for the Federal Government to increase its production facilities. So as growth of the market in the area continues the

proportion of total production by the Federal Government naturally diminishes.

But that has nothing at all to do with the Federal Government's responsibility to provide the transmission facilities for non-Federal power. It may be well that the Federal Government do that.

But it seems to me if we are expanding the Federal Government's operations in an area of utility operation, we ought to know it. It seems to me that is what is happening here. Some investor-owned utilities for one reason or another find it convenient to lower their capital requirements by going to the Federal Treasury for money.

Is that not really what we are talking about? In addition to simply providing a market for those things which have been the Federal Government's responsibility.

Mr. MALLORY. Senator, the bill does not impose any significant additional responsibility on the Federal Government. The one thing I would like to point out is that there is a very definite commitment to maintain the departmental review of Bonneville's budget, the OMB review of Bonneville's budget, and the congressional review of Bonneville's budget.

Bonneville is not going to construct a transmission line without getting the acquiescence—at least—of the Congress, because you can certainly legislate.

Senator MCCLURE. How much interest is Congress going to have if they do not put up any of the money?

Mr. MALLORY. I can assure you the Department and administration will have an interest in it. The interest that Congress has——

Senator MCCLURE. I understand that one of the amendments that may be suggested later will be that the congressional committees have to take affirmative action, rather than simply acquiescent.

That, to my mind, is a slight improvement. It has constitutional questions with which we are all familiar, but nevertheless that aside how real is that, if the Appropriations Committee does not have to come up with any money?

Mr. MALLORY. As I said, I cannot speak for the Appropriations Committee. But I can assure you, it is very real as far as the Department is concerned.

Senator MCCLURE. That is this Department. Departments change; policies change. I do not want to belabor the point. But is it not true, as a matter of fact, that the Federal responsibility through BPA to build a portion of the grid will be an expanded responsibility, not in terms of proportions to the total utility responsibility but in terms of their present.

Mr. MALLORY. That depends on the requirements of the Federal system. The Federal Government has a tremendous investment in this area.

Senator MCCLURE. You put your finger on it precisely. That is that this goes beyond that portion which you just defined.

Mr. MALLORY. Is your point that it can go beyond?

Senator MCCLURE. How about the Hot Springs line? Is that hydropower generated by the Federal Government? Is that the reason for that line?

Mr. HODEL. Senator, in the case of that line, our projections indicate that we would be required to build that line for transmission of power

into Montana, or from Montana, with the Libby project, and with load growth anticipated.

The figure that sticks in my mind is in about 10 years with that requirement. It was——

Senator McCLURE. Why do you not wait 10 years to build it, then?

Mr. HODEL. One of our alternatives would be to do that. I might say we do not have now in our budget any money to build that line. I have not proposed that the line be built. But it is being urged upon us, and I think from a regional standpoint, it probably makes sense to do so.

Senator McCLURE. To build a line or to have BPA build it?

Mr. HODEL. To have BPA build that line.

Senator McCLURE. Why?

Mr. HODEL. Because eventually we will be building in that area.

Senator McCLURE. Eventually, but why is it a Federal responsibility at this time? And why, in a regional sense, is it good for the Federal Government to do it now? Does not the very fact that the Federal Government would do something now which it would not otherwise do indicate that it is to meet an obligation which is not the Federal Government's obligation?

Mr. HODEL. I suppose I have to answer, Senator, in terms of the regional approach, which has been taken. We have acquired power over the last several years from the Centralia plant.

It is a mixed-ownership plant, which was built ahead of schedule because of shortages that had been identified in the Federal need for power. The plant was built by the owners for their eventual use, but recognizing that they would build it, they speeded up the construction, made that power available on a purchase basis.

Perhaps this is why people constantly refer to the unique relationships that exist in the Northwest. We do have a grid there, a highway system for power that makes it extremely difficult always to sort out which ownerships ought to be constructing a given line.

We end up negotiating those items. We end up paying for wheeling, where just as strongly the argument could be made that we ought to be building a Federal line to transmit Federal power.

We do that now in Idaho. We wheel. They are mutually satisfactory arrangements. They have been negotiated. I expect those to continue to be negotiated in the future. Conversely, I am sure that a kilowatt-by-kilowatt analysis of our system, which has many kilowatts traveling on it, could have resulted in a different sequence of construction, and different ownership of portions of the lines from time to time.

The utilities, and the Government have tried to benefit the ratepayers and taxpayers by planning a system that any of us would have planned if we were the sole responsible entity.

Then we try to parcel out that responsibility in the most appropriate fashion from an engineering standpoint, from an economic standpoint, from an ownership standpoint and so on.

Senator McCLURE. Mr. Hodel, let me make very plain at this point, I think this is an appropriate point on which to make it, that I have a great deal of confidence in your administration of the Bonneville Power Administration.

I have equal confidence in Russ Richmond. In recent years, in my close association with BPA, BPA has done a tremendous and

responsible job in forging those agreements and in participating in those agreements which really are a unique accomplishment in the Pacific Northwest.

An accomplishment that I think you can be proud of and for which I am proud. But that is not always the case. If agencies have authority under statutes in which that authority is not spelled out.

From what I have seen of the bill, it does not spell out that relationship. That is why I say I hope in the course of these conversations and hearings that I can be satisfied that this bill does not raise some questions that could be solved by some modification of the language of the bill.

I look forward to the testimony later today with respect to some of those amendments. I think some of the questions will be solved by some of those amendments. I think that Senator Hatfield earlier suggested that you provide a list of your funding requests and the way in which that has been met by appropriations.

I assume that that would also include in it a statement of where you need to build transmission lines, that need be funded now. What is your present projected program that would demand appropriations if this bill is not passed?

Mr. HODEL. Senator, we can give projections over an extended period of time of the range or estimated amounts of expenditures anticipated.

We can identify what kinds of transmission lines would need to be built. Again, without necessarily identifying the ownerships, what kind of transmission lines would need to be built, assuming various locations for the generating plants to be built.

If the future plants in the Northwest were all constructed along the ocean, it would have one transmission consequence. If they were all constructed at Hanford, Wash., another consequence.

If they were all constructed outside the region, there would be a third. We all know it would be some combination of these. We do not know precisely, but what we can identify is some idea of the kinds of lines which in addition to the existing transmission system we think we would require.

Senator MCCLURE. I am not asking you to speculate into the future, only in terms of present plans, present locations, present loans projected so far as you can project those present loan factors.

Mr. HODEL. We will supply you with the best information we have, and hope that will be sufficient.

[Subsequent to the hearing the following information was received:]

I. Projection of BPA Facilities

In order to make the most efficient use of the existing system, realize economy of scale, avoid duplication of transmission facilities, maximize system reliability and minimize the environmental impact of transmission lines, BPA presently plans to continue to provide a major part of the bulk power transmission required for the Hydro-Thermal Power Program in the Pacific Northwest. Power generated at non-Federal thermal generating plants is integrated into the BPA grid, combined with Federal and non-Federal hydro power and delivered to public and private utilities at bulk power substations near load centers. The utilities deliver this power over their distribution systems to the ultimate consumers.

The Fiscal Year 1975 budget for new start main grid transmission additions amounts to $5,970,000. The total cost of these facilities has been estimated to be $149,275,000 and includes 475 circuit miles of EHV lines to be constructed at 500 kV. The total expenditures for main grid transmission construction in Fiscal Year 1975, including new starts and on-going construction of new transmission facilities, has been estimated to be $71,434,000.

The projected major transmission facilities for Fiscal Year 1976 to 1984 are estimated to cost in the order of $526,900,000 and include 1,570 circuit miles of lines of which 1,400 miles will be of 500-kV construction. Table II provides a summary of the major BPA facilities projected between Fiscal Year 1975 and 1984.

II. Effect on Transmission of Future Thermal Development

Between 1977 and 1990, 13,200 MW of new thermal generation and 12,000 MW of new hydro generation will be added to meet forecasted loads. The location of future thermal plants can have a considerable effect upon transmission requirements. Three alternatives of thermal plant locations have been studied to determine the impact on transmission requirements:

Case 1: Load Bus (Adjacent to west coast load centers)

Case 2: Coastal Site (Along Oregon and Washington coast)

Case 3: Eastern (East of the Cascades in the mid-Columbia area)

Figures I through III show the transmission requirements for each of the three cases studied. The Seattle and Portland area each require two high-capacity lines for the hydro generation added to the system. However, if all thermal plants are located east of the Cascades, three additional transmountain lines are required. The future transmission requirements depend on the location of future thermal plants. This uncertainty can also have a big impact on funding requirements. For

example, the additional transmission facilities required in Case 3, as compared to Case 1, will require an average yearly expenditure of at least $30,000,000 for a 10-year period.

III. Transmission Line Construction by Others

The utilities in the northwest also plan to add transmission facilities. Table III lists the major transmission facilities as disclosed to the Western Systems Coordinating Council (WSCC). Included are over 2,500 miles of proposed transmission lines with over 2,000 miles at 345 kV and above. The attached Figure IV is a map showing these major transmission facilities. In addition to these major facilities, the utilities will be building lower voltage transmission facilities to serve their specific load areas. It is estimated that the 2,500 miles of proposed transmission will result in an expenditure in the order of $300,000,000 to $500,000,000, not including lower voltage and other support facilities.

TABLE I

ESTIMATED FUTURE BPA APPROPRIATION REQUIREMENTS
BASED ON PRESENT PROGRAM PLANS

FY	$ (000)
1975	172,667[1/]
1976	195,300
1977	222,250
1978	168,100
1979	174,100
1980	175,000
1981	209,500
1982	184,000
1983	182,500
1984	155,000
Total	1,838,417

1/ Includes Proposed Budget Amendment of $20,000,000 for construction

TABLE II

MAJOR BPA TRANSMISSION ADDITIONS

FY 1975(Budgeted)	Miles
Ashe-Willamette Valley	387
Lower Snake Reinforcement	88
Shelton-Kitsap	31
FY 1976 to 1984 (Projected)*	
Hot Springs-Bell	165
Fairmount-Port Angeles	27
WPPSS No. 3 Integrating Transmission	38
Raver-Snoqualmie-Monroe	42
Bonneville Integration, double circuit	36
Libby Integration	75
Coulee-Snoqualmie, double circuit	174
Ostrander-Troutdale-Harris, double circuit	35
Allston-Harris-Ross	70
Pebble Springs-John Day	25
Ostrander-Oregon City-Keeler	38
Ashe-Harris, double circuit	170
Coulee-Bell	83
Snoqualmie-Snoking	30
Marion-Lane-Alvey	134

*Includes 1,570 circuit miles of which 1,400 miles will be 500-kV construction

TABLE III

MAJOR NON-FEDERAL TRANSMISSION ADDITIONS

Major non-Federal transmission facilities being proposed in the Northwest area for the next ten years as reported to the Western Systems Coordinating Council (WSCC) include the following:

COMPANY		MILES
Idaho Power Company		
345 kV -	Jim Bridger, Wyoming - Goshen, Idaho	226
	Borah, Idaho - Midpoint, Idaho (2)	158
230 kV -	Brownlee, Idaho - Quartz, Oregon	52
	Kinport, Idaho - Brady, Idaho (2)	38
Montana Power Company		
500 kV -	2 circuits, from Colstrip, Montana to Hot Springs, Montana.	860
Pacific Power & Light Company		
500 kV -	Midpoint, Idaho - Malin, Oregon	365
	Malin, Oregon - Table Rock, Oregon	121
345 kV -	Jim Bridger, Wyoming - Borah, Idaho	237
	Jim Bridger, Wyoming - Kinport, Idaho	231
230 kV -	Swift-Yale-Troutdale	45
Portland General Electric Company		
230 kV -	Troutdale-Inverness	8
	Bethel-Battle Creek	9
	Gresham-Sellwood	11
	Gresham-McLoughlin (2)	24
Puget Sound Power and Light Company		
230 kV -	Talbot-O'Brien (2)	16
	O'Brien-White River	14
	Talbot-Berrydale-Covington	12
	Olympia-St. Clair	14
	Sedro Wolley-Bellingham	28
	Sedro Wolley-Whidbey Island	24

In addition to the above facilities, the utilities in the Northwest will be building lower voltage transmission facilities to serve their specific load areas.

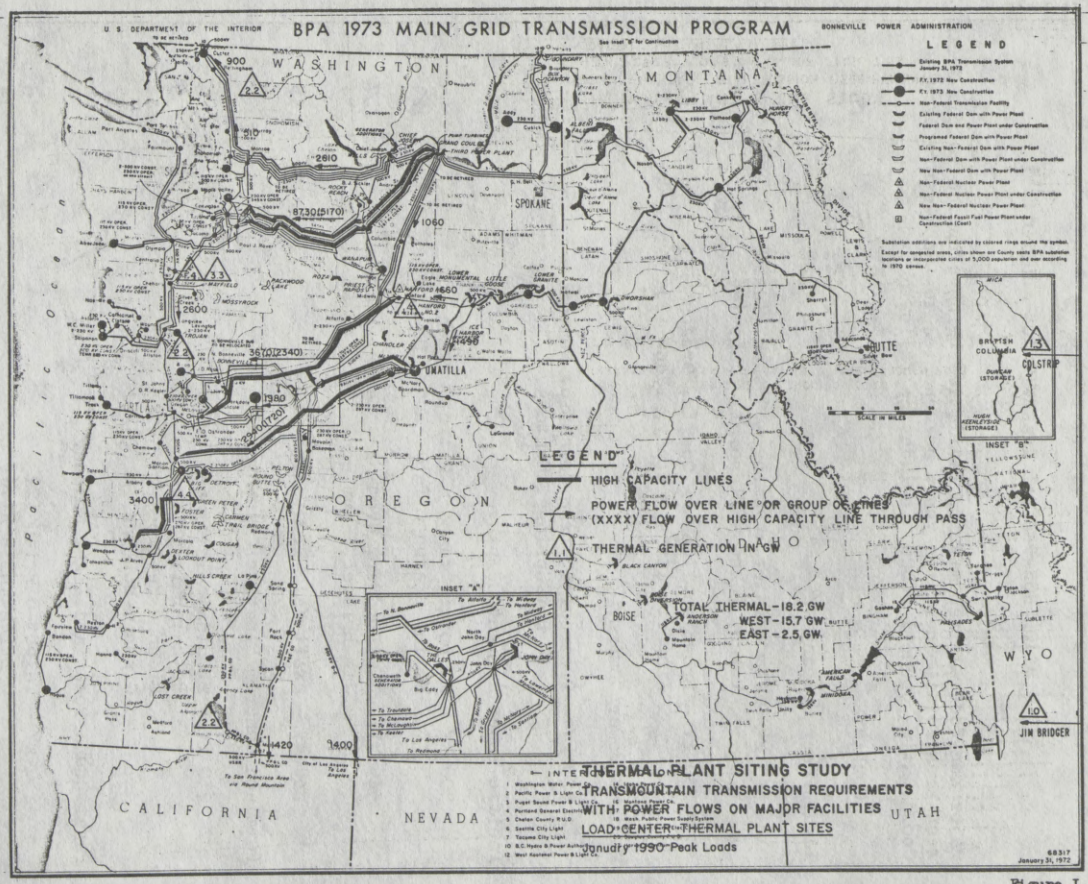
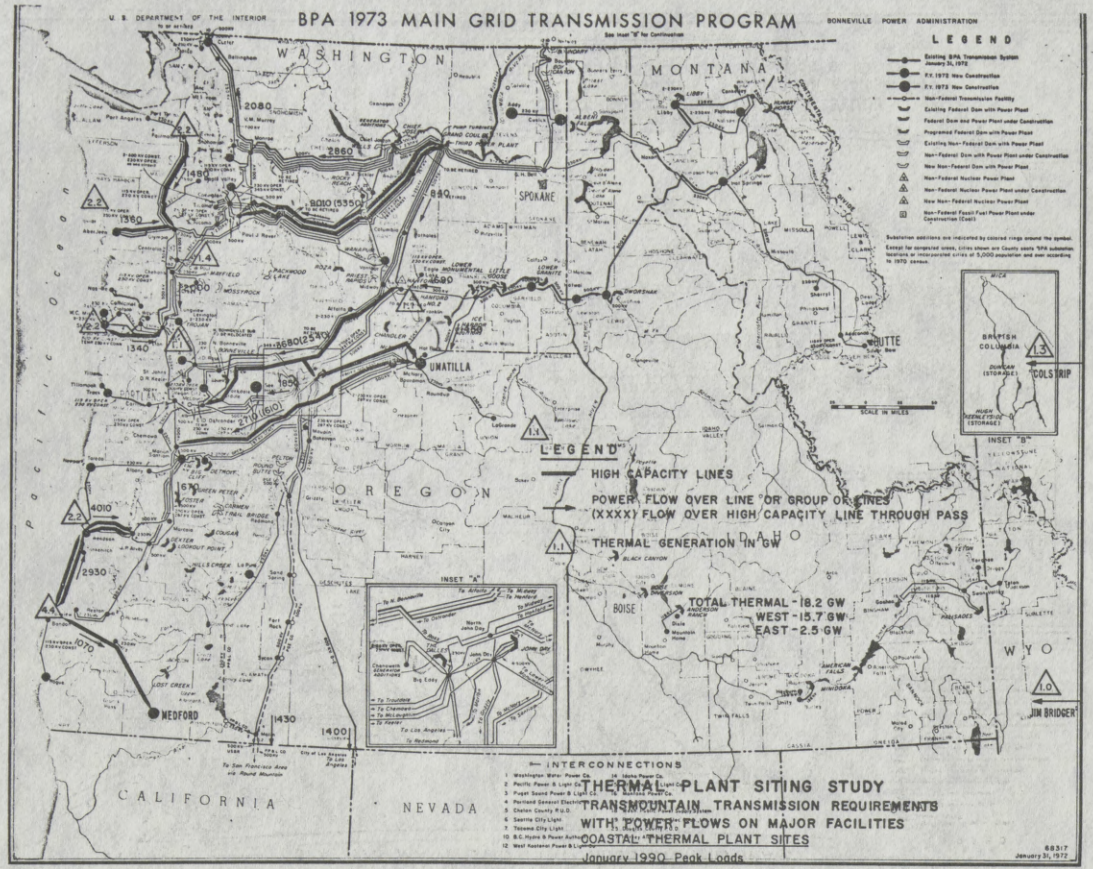

U. S. DEPARTMENT OF THE INTERIOR
BPA 1973 MAIN GRID TRANSMISSION PROGRAM
BONNEVILLE POWER ADMINISTRATION
LEGEND
WASHINGTON
MONTANA
OREGON
CALIFORNIA
NEVADA
UTAH
WYO
SPOKANE
UMATILLA
BUTTE
BOISE
COLSTRIP
JIM BRIDGER
INSET "A"
INSET "B"
LEGEND
HIGH CAPACITY LINES
POWER FLOW OVER LINE OR GROUP OF LINES
(XXXX) FLOW OVER HIGH CAPACITY LINE THROUGH PASS
THERMAL GENERATION IN GW
TOTAL THERMAL - 18.2 GW
WEST - 15.7 GW
EAST - 2.5 GW.
THERMAL PLANT SITING STUDY
TRANSMOUNTAIN TRANSMISSION REQUIREMENTS
WITH POWER FLOWS ON MAJOR FACILITIES
LOAD-CENTER-THERMAL PLANT SITES
January 1990 Peak Loads
68317
January 31, 1972

Figure I


U. S. DEPARTMENT OF THE INTERIOR
BPA 1973 MAIN GRID TRANSMISSION PROGRAM
BONNEVILLE POWER ADMINISTRATION
LEGEND
WASHINGTON
MONTANA
OREGON
IDAHO
WYO
CALIFORNIA
NEVADA
PACIFIC OCEAN
SPOKANE
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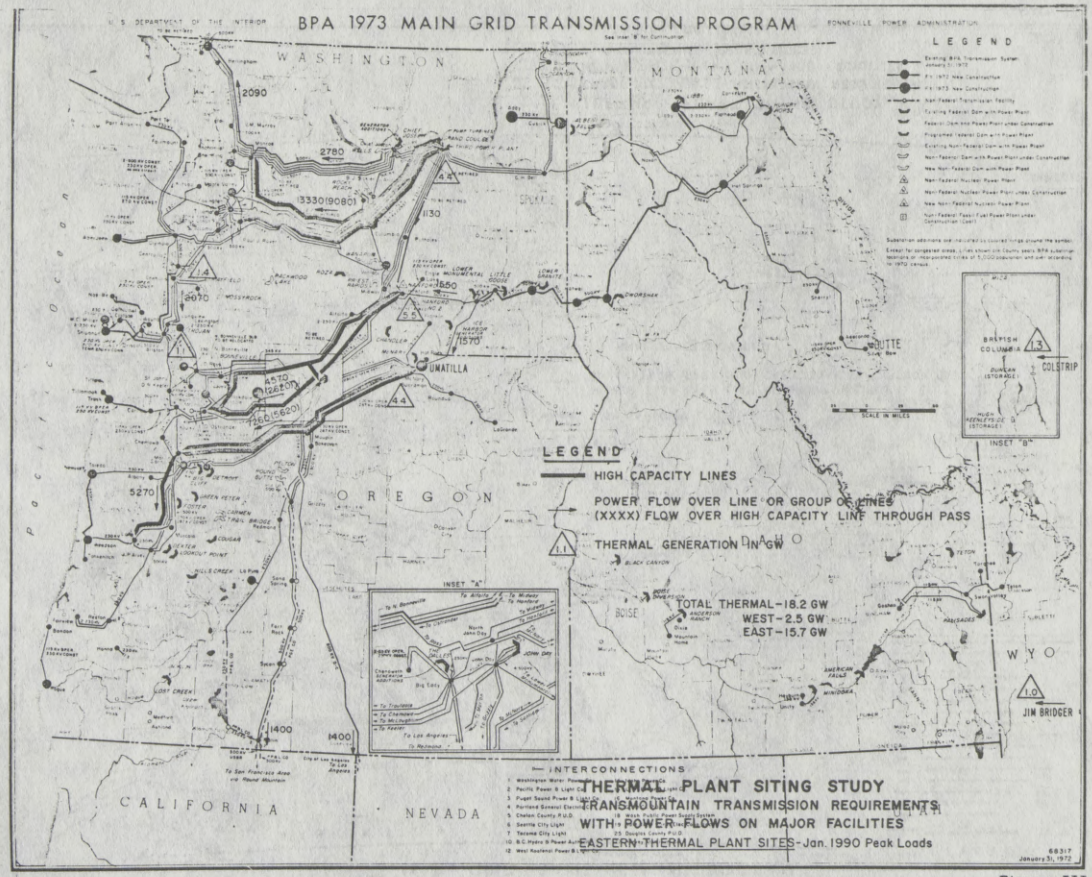
TRANSMOUNTAIN TRANSMISSION REQUIREMENTS
WITH POWER FLOWS ON MAJOR FACILITIES
COASTAL THERMAL PLANT SITES
January 1990 Peak Loads
68317
January 31, 1972

Figure II


BPA 1973 MAIN GRID TRANSMISSION PROGRAM
U.S. DEPARTMENT OF THE INTERIOR
BONNEVILLE POWER ADMINISTRATION
LEGEND
WASHINGTON
MONTANA
OREGON
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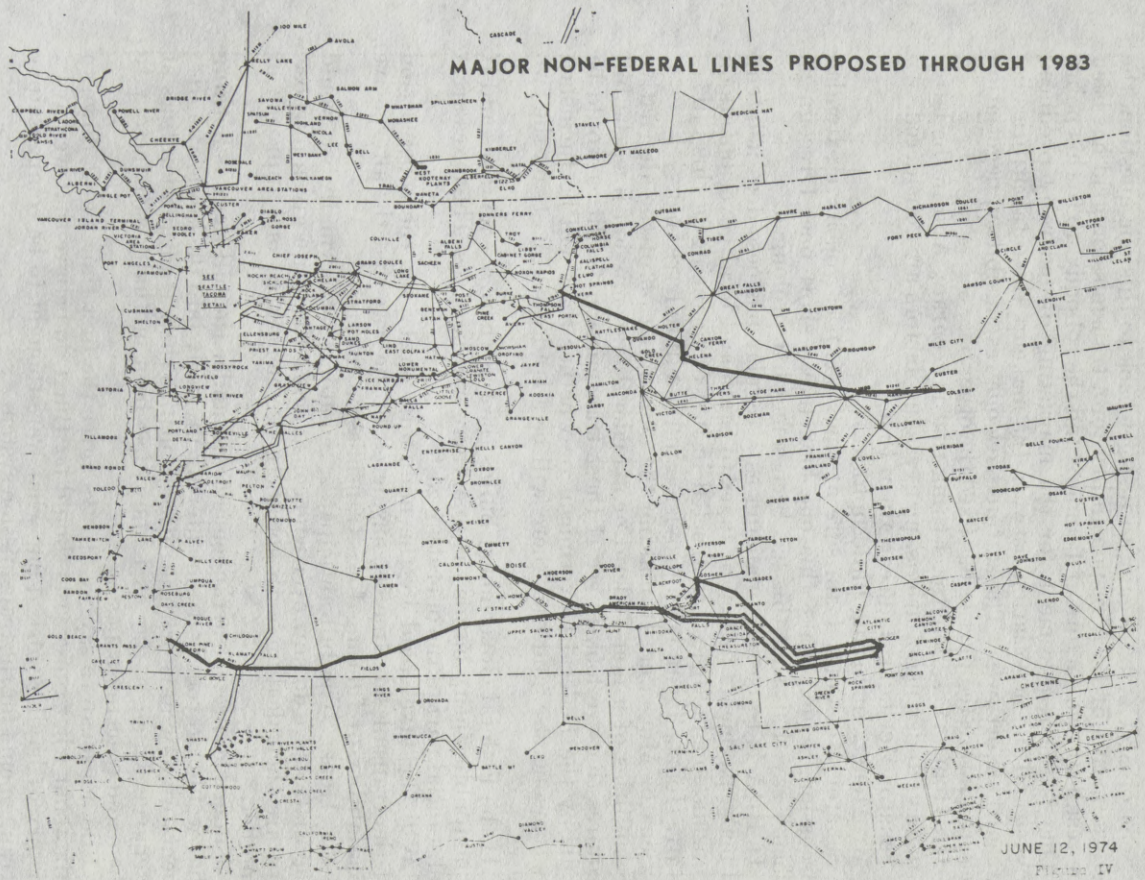
WITH POWER FLOWS ON MAJOR FACILITIES
EASTERN THERMAL PLANT SITES-Jan. 1990 Peak Loads
January 31, 1972

Figure III


MAJOR NON-FEDERAL LINES PROPOSED THROUGH 1983
JUNE 12, 1974

Senator McCLURE. Again, to just get back to this one question, the determination of BPA responsibility for a transmission grid has been the result of two factors, if I understand the colloquy up to this point.

One is the requirement for the marketing of federally produced power, and the negotiation between the makeup, the total utilities between the Northwest. The statute fixes one responsibility, negotiation between interested parties has fixed the other.

Mr. HODEL. Yes, Senator. I think that is accurate. And in the latter category, under negotiations, many, many factors are considered.

Senator McCLURE. I am certain of that.

Mr. HODEL. Including philosophical.

Senator McCLURE. I am sure of that. I expect you have extended discussions which make this one look like a short one. I recognize, when I say that, that this has been somewhat prolonged.

If BPA is to be self-financing as a regular business does it intend to make payments in lieu of taxes to State and local governments on transmission facilities constructed in lieu of financing in this bill?

Mr. HODEL. There is no provision in the bill to have that.

Senator McCLURE. In making the determination of the alternative feasibilities of a non-Federal or a Federal transmission line, the bill requires that we look to see if those transmission facilities would be built by the Federal Government or whether they will be furnished by someone else, and that there will be a tradeoff in costs on the two bases.

If the Federal Government builds the line there are no taxes and if a nonpublic entity builds the line, there will be taxes. The taxes are a substantial part of the operating cost.

Will the taxes paid by the nonpublic entity for the construction of the transmission line be considered in the way that the alternative availability of funding for a transmission line is?

Mr. HODEL. The bill anticipates, Senator, that normally we would negotiate as we do now over who constructs a line for a given purpose. We are then dealing with specific consequences, of one approach or another.

Under the present arrangement and under the bill there is nothing that would prevent us from entering precisely into the kinds of agreements we now have with utilities to utilize their transmission lines at a charge which, as far as I know, has been mutually satisfactory to them and to us in the past.

I do not mean to say we always agree the first time we sit down to talk about what those costs should be. But I do believe that we have a history of having worked out what were thought to be compensatory arrangements for the transmission system.

The bill does not change that. What it does provide, as I understand it, is in the event we reach a point of dispute with a utility over whether we should build a line or they should build a line, the phrase that is applicable says that "The arrangements shall be no less favorable to the Government for the use of the non-Federal system.

My understanding of that language would be you would take a cost-comparison look. In addition, I assumed you would also have to take a look at some of these other factors, such as environmental or ecological considerations.

We have situations now where we would be called upon, if we tried to build a Federal line we would be called upon to condemn rights-of-way in urban areas where there already exists adequate transmission.

I think that in negotiations, under this bill, those factors can be taken into account.

Senator McCLURE. Would you have any objection to an amendment which said that a comparison of whether to use a nonpublic line or a Federal line to determine whether you should seek financing or to build it, that you would discount the costs of wheeling the line, or using a nonpublic line, a tax-exempt line; let us put it in those terms.

Mr. HODEL. I think, Senator, probably our view or my personal view of that would be considerably less important than the view taken by the policy committee, through which this bill was developed.

I would anticipate that, if I might prognosticate, such a change would be one that would cause some disruption in the consensus that has been achieved. This is an important portion of the bill to everyone.

From my standpoint, I do appreciate the bill as it stands from the standards that it sets. We can live within those and do the job that I think is expected of us.

If that standard were rewritten and no less clear, we could do the same. I think the implications of it might have greater impact on those utilities who have attempted to forge the consensus on what ought to be in the bill.

Senator McCLURE. As a simple analysis, supposing the investor-owned utility has the option of raising the capital on its own in building the facility, or asking you to build it. He gets a better interest rate if you do it.

Second, they pay no taxes on it. Third, they do not have to take any "guff" from anybody; they just "pass the buck" to you. So why would they not go to you? Why would they build their own?

Mr. HODEL. Senator, the same impasses I think would have existed or have existed since the founding of Bonneville and have been adequately resisted by local utilities when they felt that it was within their overall interests, not always their short-term economic interests, to construct their own lines. I think those considerations would still exist and can be accounted for under this bill, and I would expect them to be.

Secretary MALLORY. If I might ask the Senator, as a matter of understanding, is your point with relationship to the taxes whether in weighing the costs and benefits to the Government the loss of tax revenues is a factor which is part of the equation in determining what is more or less favorable to the Government?

Senator McCLURE. Two sides of it. One is the loss of tax revenues to State and local government. And the other is that if you compare one line which has a tax burden with another line which does not have a tax burden, you are comparing apples and oranges.

Secretary MALLORY. Unless you write in a factor that compares as a cost to the Government the fact that tax revenues are not being enjoyed by governmental entities.

Senator McCLURE. That is right, unless you in some way reflect the fact that otherwise the comparison is unequal and in determining which line ought to be built, they should be a factor that equalizes that portion of the cost of construction and operation and maintenance of the line.

Secretary MALLORY. Thank you, sir.

Senator McCLURE. I have no further questions.

[The prepared statement of Mr. Hodel follows:]

Statement of Donald Paul Hodel, Administrator
Bonneville Power Administration
before the
Committee on Interior and Insular Affairs
June 6 and 7, 1974
on S. 3362 and H.R. 14168

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 legislation 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.

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REVENUES AND RATES

By June 30, 1974, BPA cumulative revenues are expected to reach approximately $2-1/2 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 cuts 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 otherwords, transmission capacity sometimes falls behind generation capacity and power demands.

Second, by deferring construction of proposed transmission system additions and stretching out construction work programed 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 hydro-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 BPA 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 88-852 (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 those 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 Administrator 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 or 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 interregional 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 occurence 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 purposes 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 base-load 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 very 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.

Senator McCLURE. Let me conclude by saying that you have been very patient, very helpful, as always. I appreciate the fact that it is difficult to forge an agreement among so many diverse interests.

I think the fact that you are here testifying is a real monument to your ingenuity and your perseverance. I appreciate not only that, but your willingness to sit here through all this time and patiently answer questions.

Thank you very, very much.

[Whereupon, at 12:45 p.m., the committee recessed, to reconvene at 2 p.m.]

AFTERNOON SESSION

Senator HATFIELD [presiding]. The hearing will be resumed. We will now call Mr. Gordon Culp. Mr. Culp, are you going to be accompanied by some colleagues?

Mr. CULP. Yes, Senator, I am.

Senator HATFIELD. That will include Mr. Jones and Mr. George Beard and Mr. Lyman Harris; is that correct?

Mr. CULP. That is correct, sir.

Senator HATFIELD. Mr. Culp, I wonder, for the record, if you will present each person so that the reporter may know who she is reporting?

STATEMENT OF GORDON C. CULP, REPRESENTING POLICY COMMITTEE, PACIFIC NORTHWEST UTILITIES CONFERENCE COMMITTEE

Mr. CULP. I am Gordon Culp, of Seattle, representing the policy committee of the Pacific Northwest Utilities Conference Committee. I am accompanied by three gentlemen, Mr. Lyman Harris of Aluminum Co. of America, who represents Bonneville direct service industrial customers.

On my immediate left is Mr. George Beard, vice president of Pacific Power & Light Co., representing investor-owned utilities. On my right, Mr. Alan Jones, of McMinnville, Oregon Water & Light, and also chairman of the Public Power Council, representing public agencies and electric cooperatives.

If possible, Mr. Chairman, I would like to submit the entire statement on behalf of the policy committee, and to summarize it briefiy, in order to save time.

Senator HATFIELD. Please do, Mr. Culp. The entire statement will be placed in the record.

Mr. CULP. With the committee's permission, after this statement, each of my colleagues would like to add brief remarks on behalf of the segment of the industry which they represent. The policy committee of the Pacific Northwest Utilities Conference Committee represents over 100 public agencies and electric cooperatives, 4 investor-owned utilities that serve in what we call the west group of the Northwest Power Pool area, and 19 industrial companies that are direct service Bonneville customers.

A complete list of the represented organizations is attached to our written statement following page 13. As a number of witnesses have mentioned already today, Mr. Chairman, and as I am sure you know

from your long experience with it, the power system in the Northwest is truly unique in that we have all kinds of electric utilities and industries that maintain their own identities, but operate a very large and complicated regional power system.

That system characteristic has given us the opportunity and created the necessity that every segment of the industry work together on important matters and work together closely on a daily basis. Not only are the operating responsibilities divided up among many organizations, but the financial responsibilities are, also.

The utilities, both public agencies and private power companies, have undertaken massive financial commitments, as you know, in order to carry out their part of the ongoing hydrothermal program involving billions of dollars of investment in thermal plants, none of them oil-fired, I might add, with the exception of some peaking units.

They also provide some major transmission, though nowhere near the amount that is provided the Bonneville grid. The Federal Columbia Power System particularly, including the BPA backbone transmission grid, provides the very important Federal participation in the program.

Without a properly planned and operated regional transmission grid, this whole cooperative program will not work. Recognition that the developing program required greater confidence in the ability to finance and build the backbone transmission system when needed led to the drafting of this bill, as you have heard from other witnesses.

The participants in the policy committee worked on the concepts of this bill for approximately 1 year, and arrived at the first drafts on which a consensus of all of these participants could be reached.

It is just that. It is a consensus. Within the bill as it was originally drafted, there are many compromises and accommodations between one and another interested group.

After considering many alternatives on various points we arrived at a document that everyone could support, though each one would have written it slightly differently.

Thereafter, it was presented by the Department of Interior to the executive departments where they made only one major change in the real basics of the bill.

As it had been drafted in the Northwest, with the non-Federal people working closely with Bonneville and the other regional Federal agencies, the original bill provided that the Bonneville bonds could be sold on the open money market. It was changed during the departmental review so that these bonds could be sold only to the Treasury and resold by Treasury later on the open market.

Senator HATFIELD. You have no real, philosophical other objection to that procedure; do you?

Mr. CULP. No. We discussed it in the whole committee. The whole group decided that it was livable. We thought for other reasons that we preferred it the other way. But on balance it was acceptable, and they did not register any objection to it.

Senator HATFIELD. You are not any less enthusiastic in support of the bill?

Mr. CULP. None whatever; no.

Senator HATFIELD. Just wanted to get you on record.

Mr. CULP. That major change required a number of detailed changes in language, of course. But they were all connected with that point.

After the bill was introduced, the Policy Committee further reviewed it in depth. As a result, they came to the conclusion that a number of amendments were appropriate. Some of them are minor changes in wording.

Others are of greater moment. None of the changes proposed by the Policy Committee would change the intent of the bill as we have always understood it, but some are important in terms of clarifying that intent. All of those amendments have been set out in our written statement, both individually and by use of a marked-up copy of the bill, which is attached.

I will not take the committee's time to go through all of them. I would like, however, to select two for some comment.

Senator HATFIELD. Before you do that, let me ask you this question. Other than the technical amendments, you understand we have categories of amendments, some may be called technical, some we call substantive. Were the nontechnical amendments which you have presented here in your testimony discussed at the time of your committee's sessions, and unresolved? Or where did they come up in this sequence of this evolution of this particular activity which you have just described.

Mr. CULP. All of the amendments which are covered in this testimony were brought up and discussed after the bill was introduced by executive request, and they were approved.

Senator HATFIELD. Tell me how they happened to come up after, rather than before, when you were in the process of developing this concept.

Mr. CULP. Senator, without review, I cannot answer your next question, which will probably be "which ones," but some of them request additional changes in some language that was changed during the administrative review.

Others were ones that were overlooked in the original drafting, but a more careful look brought them to view.

Senator HATFIELD. These were not backbone issues which you had not been able to resolve in your original conferences, in other words?

Mr. CULP. I think the answer to that is they are not. There were many other possible additions and deletions from this bill that were brought up but were not approved by the Policy Committee.

Senator HATFIELD. I just wanted to make sure that I understood in what context these amendments are offered at this time.

Mr. CULP. Each of them was worked out by the Drafting Committee of the Policy Committee, and specifically submitted to the whole Policy Committee.

I wanted to call attention, if you will turn, please, to your written statement, to our suggestion to add on page 4 following line 2, a second proviso to section 4.

That proposed amendment reads 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." This proposed amendment was referred to briefly in some of the testimony this morning.

A very important part of this balancing-of-interests process that we went through was an attempt to devise a procedure where the develop-

ment of plans would involve a proper amount of control by the Congress, by the Administration, and by the local utilities.

In short, all of the interested factions should have a properly balanced voice in what was going to occur.

Senator HATFIELD. Mr. Culp, let me interrupt you if you do not mind at this point. Before you go further into this point, would you go back, and in your mind give us a step-by-step procedure by which Bonneville, after the enactment of this legislation, would proceed for developing a transmission line—the kind of review, the kind of approval, and all these other things that I asked Mr. Hodel earlier this morning.

Give us your understanding of the steps and then how this amendment would add or subtract to the present outline of the bill.

Mr. CULP. As I see it, the first step is the regional planning conferences in which the need for, say, a transmission line from point A to B, or alternative from B to C, appears necessary, from an engineering standpoint.

During that regional review, negotiation and planning process, which now goes on and which would continue to go on, probably it would be agreed who should build that line and what its general capabilities would be.

It might be agreed that some non-Federal entity would build it for some reason, and the Government should not. This happens from time to time. Or they might decide that this should be a line added to the Bonneville grid by Bonneville.

At that point, if that could all be resolved, we would have a regional agreement. That is the way it happens 99 percent of the time. Then Bonneville would include a request in their budget, which would be submitted under the remaining portions of this bill, to start construction of the line. If there were no objections to this from anybody else in the region—if nobody thought that Bonneville was unduly expanding into an area which they thought would threaten their autonomy, let us say——

Senator HATFIELD. This is under your second alternative. This is where Bonneville is going to build the project itself?

Mr. CULP. Right. Bonneville is going to do it itself. Alternatively, let us assume somebody objects during this process. They object to Bonneville going ahead with this line. Then Bonneville, as I see it, would be precluded from going ahead unless the appropriate committees of Congress, however informally, said "It is all right for you to go ahead." That is what this amendment language would require, that the committees of Congress would have to affirmatively approve the start of a new project.

Senator HATFIELD. Why put the initiative in Congress, rather than leave it with Bonneville?

Mr. CULP. The purpose of suggesting this method is to reach a balance in the region whereby everybody feels they have their proper chance to be heard—that requiring an affirmative action by committee of Congress after the opoprtunity to hear the views of interested parties provides a better assurance that programs would be developed in an agreeable fashion, rather than merely laying plans before a committee and having them approved by acquiescence.

This was included in the balancing among many things in this bill to try to design the type and amount of control that each of the interested parties might exercise. Another part of it——

Senator HATFIELD. That really doubles the hearing process, or the hearing procedure. You have already had this regional opportunity for input in decision-making as to who should build the particular project. As I understand your procedure; correct?

Mr. CULP. That is true.

Senator HATFIELD. At the time you are reaching a decision as to whether Bonneville should do it or somebody else should do it, as you say in 99 percent of the cases; did I hear you correctly?

Mr. CULP. Yes; you did.

Senator HATFIELD. Ninety-nine percent of the time this is the way it happens now.

Mr. CULP. Right. But 100 percent of the time now Bonneville must get appropriations anyway.

Senator HATFIELD. That is correct. And the appropriation is more than just a matter of appropriating money. It is reviewing the project, in a sense, so you are getting that opoprtunity for intervenors, if one wants to make an intervention at that point.

Mr. CULP. Yes. And it was thought that that opportunity for an intervention should be saved in some fashion.

Senator HATFIELD. You are not really divesting yourself of that opportunity, because the Congress can always at any time intervene under evidence, or under requests, in any procedure, method or purpose for which they wish to intervene; can they not?

Mr. CULP. Yes.

Senator HATFIELD. So it is almost as if you are saying it is a question of where you put the burden of responsibility at that point, whether you put it on Congress or whether you leave it with Bonneville.

Mr. CULP. But in agreeing on the one hand that BPA's self-financing authority was needed for some reasons, but that self-financing might increase the dangers to continued utility independence on the other hand, the Policy Committee concurred in the necessity for an affirmative action to help balance that scale.

Senator HATFIELD. This is a tradeoff.

Mr. CULP. This, among many others.

Senator HATFIELD. Thank you.

Mr. CULP. Did you have any further questions on that part of it, Senator Hatfield?

Senator HATFIELD. Oh, I have, but I shall wait for a while.

Mr. CULP. There has already been quite a lot of testimony about points that many of these amendments are concerned with. I would only pick out in addition——

Senator HATFIELD. Excuse me, let me go back. Did this matter come in your initial drafting councils, did this matter come up at that time?

Tell me a little more of the background. If it did, why you did not include it initially, but are coming in at this time to suggest it.

Mr. CULP. I will give you a complete answer on that, although it will embarrass me and a lot of the lawyers around here in the process of doing it.

Senator HATFIELD. Oh, I enjoy that. [Laughter.]

Mr. CULP. In the original drafting, it was the common understanding of everyone that affirmative approval by the committees of Congress would be required for new starts.

But conversely it was considered important that authorization to continue projects which once had been approved should be achieved

by acquiescence in order to reduce the chance of delay. That was the understanding of everyone, the necessity for affirmative approval before new starts.

Senator HATFIELD. New starts only?

Mr. CULP. Right, new starts only. We believed at that time——

Senator HAFTIELD. How do you distinguish between a new project and the extension of an existing one?

Mr. CULP. We discussed that at some length, too. It can be a very difficult, technical decision, particularly with transmission lines. It is harder to do than with a hydro project. Moreover, the engineers think it can be described appropriately, and as a matter of fact have authorized me to say that we would be happy to try to draw up a written statement which would describe some guidelines at least for what would constitute new starts.

For instance, a new transmission line to serve a particular purpose would be a new start. Then if, in later years, one terminus of it were moved a few miles because it better accomplished the same electrical purposes that it had before, that would not constitute a new start.

There are difficult technical questions involved. We would be glad, if you would like, to try to expand on that subject, but we would like to be able to do it in writing so that it can be handled carefully.

Senator HATFIELD. Are these engineers sort of a composite of all the member groups here?

Mr. CULP. Yes.

Senator HATFIELD. Could we get a single engineering decision on this, or would it be like in the case of fishery problems? We get different answers from the fish biologists working with this Commission and those working for the Game Commission.

Mr. CULP. By the time it would get here we would try to arrive at a single agreed opinion.

Senator HATFIELD. My staff assistant here assures me engineering is a very precise science.

[Laughter.]

Senator HATFIELD. I thought biology was a most precise science until I began to deal with fish biologists.

Mr. CULP. To finish that last response, it was intended at all times that an affirmative decision would be required. We mistakenly believed for some time that present parctices under the Government Corporation Control Act would require affirmative action.

But that is incorrect. The Government Corporation Control Act requires only a review. Budgets can be approved by acquiescence. Therefore, we found it necessary to add the suggested proviso in order to make the bill conform to our original intention.

I will just briefly touch on one more and then I will be finished, Mr. Chairman. We suggest an amendment to add a provision to section 11(b)(6) which would show on page 10, line 9 of the bill, and is described on page 12 of the written statement.

The proposed addition would read as follows: "Or (iii) if to be paid for with funds provided by other entities for such purpose under a trust or agency arrangement". I mention this to emphasize that a very important part of the evolving phase 2 program is trust and agency arrangements by which Bonneville will be able to purchase power for the benefit of entities that so desire.

Most of the trust funds included in the Bonneville fund will be funds presented to them for the purchase of power. Therefore, we think it important that this language be added to make it crystal clear that BPA can use those funds for their intended purpose.

Again I say that only to emphasize the importance of the trust or agency arrangements to the overall program. In conclusion, Mr. Chairman, speaking on behalf of all of the participants in the Policy Committee, we believe this legislation is important to an orderely evolution of the Pacific Northwest hydrothermal program.

It is necessary and desirable in the public interest that the Government continue its great and traditional role of improvement of the Columbia River system and particularly improvement of the Bonneville grid.

This bill will further those purposes in a way 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 S. 3362 and our proposed amendments be approved and enacted. I would ask, Mr. Chairman, if possible, that my colleagues have an opportunity to say a few words.

Senator HATFIELD. Let us go back a minute and review the agency status for Bonneville. You are recommending a new status for Bonneville to act as an agent?

Mr. CULP. We are recommending a status for them to act as an agent. Whether it is new or not, I would prefer not to give an opinion. I understand it is being studied carefully now.

Senator HATFIELD. In other words, if I were to ask you the question whether Bonneville can at this time, under the Generic Act creating the Bonneville Power Administration, to act as an agent, you would tell me it is still being studied, or it is not clear?

Mr. CULP. I would say that it does now have that power, but I would hasten to add that that very question, I believe, has been referred to GAO. And they are awaiting an opinion on it now.

Senator HATFIELD. Mr. Goldhammer, do you have a rendition on that question as to whether or not you believe that Bonneville has the status as an agent at this time for the purchase of power?

Mr. GOLDHAMMER. Senator, I am not an attorney, but we are working on the phase 2 hydrothermal program on the basis that Bonneville would act as an agent for whatever public systems want us to act, in order to acquire power.

We do not see any other way that they can get together and buy power, small amounts for a number of distributors, from a number of thermal plants that will be built unless we could act as an agent. Our solicitor here answers that we have such authority.

Mr. RATCLIFFE. That is correct.

Senator HATFIELD. Would you like to comment?

Mr. RATCLIFFE. Thank you, Senator. We do believe that Bonneville presently has the authority. We have been in contact with the Office of the Comptroller General. We have had discussions there. We are hopeful of getting an opinion from the Comptroller General confirming the opinion of our office that that is the case.

We presently act in an agency capacity for a number of our customers in the acquisition of power and in conjunction with construction of certain facilities within our substations.

We are acting in that capacity in a somewhat limited extent at the present time, under phase 1 of the hydrothermal program. We anticipate that those activities will be much more extensive under phase 2.

Senator HATFIELD. How did this question evolve to the point where you are seeking this kind of confirmation? Is it that unclear in the present act?

Mr. RATCLIFFE. In the minds of some people, I am sure that it is unclear.

Senator HATFIELD. Is this language that would, in effect, clarify that as proposed in this amendment?

Mr. RATCLIFFE. Certainly, it would clarify that, although I do not know if it would resolve it. The effect of the language, in the bill as introduced is that we would put trust funds into the account.

This amendatory language authorizes us to take them out. So it sort of completes that circle. But it does not establish the substantive right of Bonneville to act as an agent in the capacity contemplated under phase 2.

So it is helpful but not conclusive, I think is the proper answer.

Senator HATFIELD. Do you have language to propose that would not only make it more clear but would resolve it? Or do you have to wait until you get the report——

Mr. RATCLIFFE. Our feeling, Senator, is that rather than burden this act with that type of language—I would be pleased to prepare it—but rather than burden this act with that type of language we can make it abundantly clear through our own opinion and the opinion of the Comp roller General, which would put the matter to rest.

Senator HATFIELD. Thank you. Mr. Culp?

Mr. CULP. I might add to that, Mr. Chairman. These trust arrangements to which this indirectly refers are an important part of this progam, and again are in the nature of a tradeoff.

This all got involved in whether Bonneville should purchase power or whether they should purchase it on behalf of others, or whether others would have to purchase their own. If it turns out, because of an opinion of the Comptroller General, let us say, that there is a weakness in Bonneville's ability to act as an agent or trustee under these cricumstances, the policy committee would support an amendment that would remove any doubt.

[The prepared statement of Mr. Culp follows:]

STATEMENT ON BEHALF OF THE POLICY COMMITTEE --
PACIFIC NORTHWEST UTILITIES CONFERENCE COMMITTEE

In Support of S. 3362

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 especiallly 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 ownership and participation in generating plants are possible, and construction efforts by all participants will continue to

coordinated 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 S. 3362. 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 S. 3362 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 S. 3362

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, though 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 revenue 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 S. 3362 attached to this statement shows the proposed amendments in detail. In the order of the bill, they are as follows:

1. Page 1, lines 7 and 8, 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 25 -- 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 above.

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 facility to meet those needs, though there may be some differences in the 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 alternative 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 S. 3362 and our proposed amendments be approved and enacted.

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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.
Blachly-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
Prarie 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 Electrification 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

93D CONGRESS
2D SESSION

S. 3362

IN THE SENATE OF THE UNITED STATES

APRIL 22, 1974

Mr. JACKSON (for himself, Mr. CHURCH, Mr. HATFIELD, Mr. MAGNUSON, Mr. MANSFIELD, and Mr. PACKWOOD) (by request) introduced the following bill; which was read twice and 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.

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

SHORT TITLE

SECTION 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~~ duties of the Secretary of the Interior relating to the Federal Columbia River Power System shall not be affected by this Act. ~~Powers~~ Authority 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~~ peaking capacity 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~~ 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) unless specifically authorized by Congress;

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.

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, at or prior to the time the Administrator's budget is submitted to Congress for the use of revenue or the issuance or 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. "Equivalent in electrical capability" means that facilities will provide equivalent service to the anticipated needs, and "arrangements no less favorable to the Government" includes responsibility for prospective unused capacity.

(b) At least sixty 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 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.

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, or 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 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 Administra-

tor, 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 payments provided for in Section 11(b)(9), 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 equi-

tably 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 Numbered 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 hereunder 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, or (iii) if to be paid for with funds provided by other entities for such purpose under a trust or agency arrangement;

(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 or other fund as are required by or pursuant to law to be made into ~~that fund~~ such funds in connection with reclamation projects in the Pacific Northwest: *Provided*, That this clause shall not be construed as permitting the use of revenues for repayment of costs allocated to irrigation at any project except 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 marketed 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 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 section 850 of title 31, United States Code, 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 trust funds and 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 purposes 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.

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Mr. JONES. I would like to note that there are several other people from the consumer-owned utilities in the room.

Senator HATFIELD. Would you please introduce them?

Mr. JONES. Mr. Ed Fischer, Commission of the Clark County PUD, and chairman of the Washington Public Power Supply System Executive Committee.

Mr. Ken Billington, executive director of the Washington PUD Association; Mr. Henry Curtis, general manager of the Northwest Public Power Association; and Mr. Bill Cook, manager of the Coos-Curry Electric Cooperative.

He did not yet get back from lunch.

Senator HATFIELD. I saw him earlier this morning. The record should show he was in attendance.

Mr. JONES. All I would like to do, Senator, is get something on the record to show our regionality and our approach. The 104 public entities that I represent are in the States of Oregon, Washington, Idaho, a few in Montana and Wyoming.

We have organized as a power supply planning arm in our power supply council. These people elect the representatives to the public power council's executive committee. There are six cooperative members, six PUD members and six municipal members.

It was this group that acted on the policy committee in interfacing with the investor-owned utility industry and Bonneville in working out this honest, genuine consensus approach to what we think is something that is needed in the region.

We appreciate the opportunity to present this bill to you. We urge that you consider the bill.

Senator HATFIELD. Mr. Jones, I appreciate your coming today to represent the groups you have enumerated and for the contribution that you have made in bringing this about. As Mr. Hodel earlier indicated in his comments, all of you have put in a great number of hours and showed great tenacity to come up with this.

So we are all grateful to you, too.

Mr. JONES. Thank you very much.

[The prepared statement of Mr. Jones follows:]

PREPARED STATEMENT OF ALAN H. JONES, CHAIRMAN, PUBLIC POWER COUNCIL

Mr. Chairman and members of the committee, 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 cooperatives which are preference customers of the Bonneville Power Administration. I am here to express on behalf of these members our support for S. 3362, the federal Columbia River Transmission System Act.

The Public Power Council has participated fully in conception of Phase II of the Hydro-Thermal Program and in development of the BPA self-financing plan which is the basis for S. 3362. 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 S. 3362 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 S. 3362 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 S. 3362 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 S. 3362 other Treasury funds.

We have participated in the conception of S. 3362 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 budge 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 S. 3362 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 S. 3362 with the necessary amendments we have presented to you.

Thank you for this opportunity to appear before your committee.

STATEMENT OF LYMAN J. HARRIS, NORTHWEST AREA POWER MANAGER, ALUMINUM CO. OF AMERICA, VANCOUVER, WASH., REPRESENTING DIRECT SERVICE INDUSTRIAL CUSTOMERS OF BPA

Mr. HARRIS. My name is Lyman Harris. I am northwest area power manager for the Aluminum Co. of America in Vancouver, Wash. I am appearing today in support of S. 3362.

I represent Bonneville's 19 direct-service customers. I, too, have a prepared statement.

Senator HATFIELD. It will be placed in the record, Mr. Harris.

Mr. HARRIS. I am also accompanied by some other representatives of industry in the Northwest. Richard Bidwell, regional power manager for the Reynolds Metal Co.; Mr. Ward—did Mr. Ward get back?

VOICE. He was here this morning.

Senator HATFIELD. The record will show that he was here.

Mr. HARRIS. Gerry Grinstein, an attorney from Seattle. 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 SPA customers, including public and private utilities as well as industrial customers.

Our 19 member companies have a major economic stake in the Pacific Northwest. Investment in plants in this area exceeds $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.

It may interest the committee to know that in the United States the aluminum industry in the Northwest has one-third of the capacity. This is equal to that of Russia, the second largest producer in the world.

As industrial customers of Bonneville and industrial citizens of the Northwest we are firmly committed to maintaining the growing economy of the Pacific Northwest region. We, therefore, support the hydrothermal program as the most economical and environmentally desirable program to supply power to our region.

An integral part and logical extension of this program is system reliability. The proposed legislation would allow BPA to use its revenues and revenue bonds to finance and construct, operate and maintain transmission system capabilities that would not only keep pace with the growing Northwest and its power requirements that provide a higher degree of transmission reliability which is needed by continuous process customers, like ourselves.

The statement that I have inserted in the record contains a number of illustrations that highlight the cost and losses that some of our member companies sustained with unreliable transmission which causes power line interruption.

We believe this legislation, if enacted, will help attain a much higher degree of system reliability, and will provide an essential part of the hydrothermal program. It will enable Bonneville to provide and

maintain a transmission system needed to reliably serve the regions' demands for electrical energy.

On behalf of the industrial customers of the Bonneville Power Administration, we respectfully urge the committee and Congress to favorably recommend and pass this legislation. Thank you very much.

Senator HATFIELD. Thank you, Mr. Harris.

[The prepared statement of Mr. Harris follows:]

Statement of
Lyman J. Harris
in Support of S. 3362
Before the Subcommittee on Water and Power Resources
of the
Committee on Interior and Insular Affairs
United States Senate
June 6, 1974

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 S. 3362 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.

STATEMENT OF GEORGE L. BEARD, SENIOR VICE PRESIDENT, PACIFIC POWER & LIGHT CO., PORTLAND, OREG., REPRESENTING INVESTOR-OWNED UTILITIES

Mr. BEARD. Senator, there are others with us from the investor-owned utilities whom I would like to present to the committee. Mr. George O'Connor, president, and Mr. Colin Raff, vice president of the Montana Power Co.

From the Idaho Power Co. Mr. James Bruce, Mr. Logan Lanham, and Mr. Ronald Poole, vice president of that company. Mr. Larry Hall, vice president of Puget Sound Power & Light; from the Utah Power Co. Mr. William Reese and Mr. Verl Topham.

Senator HATFIELD. Thank you very much, gentlemen, for being here today.

Mr. BEARD. In addition to myself, Mr. Harold Nett and Mr. Hugh Smith, our counsel. We have handed in to the committee a short, prepared statement, on behalf of the Pacific, Portland General Electric, Puget Sound Co. and Washington Water Power Co., who are the four companies on the policy committee, as described by Mr. Culp.

Senator HATFIELD. Your full statement will be placed in the record.

Mr. BEARD. These companies have all participated throughout the entire procedure, as has been described in detail by Mr. Hodel and Mr. Culp. We strongly support this legislation and the amendments that have been presented by Mr. Culp.

Thank you.

Senator HATFIELD. Thank you very much, Mr. Beard.

[The prepared statement of Mr. Beard follows:]

STATEMENT
ON BEHALF OF
PACIFIC POWER & LIGHT COMPANY
PORTLAND GENERAL ELECTRIC COMPANY
PUGET SOUND POWER & LIGHT COMPANY
AND
THE WASHINGTON WATER POWER COMPANY

by
GEORGE L. BEARD
Senior Vice-President
Pacific Power & Light Company

Before the Senate Committee on Interior and Insular Affairs
June 6, 1974
On S. 3362, the Federal Columbia River Transmission System Act

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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 S. 3362, 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.

Senator HATFIELD. Mr. Culp, you have been very helpful here today and all of your colleagues as well. We appreciate the way you so eloquently state your points along with the supporting data of your statement.

It is evidence of very careful work that has gone into drafting the committee's project and what is involved. I am very grateful to all of you.

Mr. CULP. Thank you very much.

Senator HATFIELD. Just a moment, Senator McClure has a question he would like to propound.

Senator MCCLURE. Thank you, Mr. Chairman.

I am sorry I was late coming in. I have been upstairs trying to get the Corps of Engineers to speed up escalation of some stalled capacity with which you are all so familiar. What is your view of the responsibility of the Federal Government, the limits of responsibility of the Federal Government in terms of power transmission within the area?

Does it have total authority or partial authority? Is it defined by statute or by agreement, or is it still ill-defined? I might start at the end and just sweep down the table.

Mr. JONES. I am Alan Jones, McMinnville Water & Light, the largest municipal system in Yamhill County, by the way. We feel that it needs better definition, and that is why we have presented this bill to you. In the evolution of our hydrothermal accords it became apparent we needed to define Bonneville as our transmission line agency, to give them, then, a tool that they could use to bring these transmission lines on schedule, where needed, as agreed by all of the utilities in the region.

We feel that this is an efficient way and will result in greater reliability and lower power costs to our consumers all over the region.

Mr. CULP. I am Gordon Culp. I would agree with most of what Mr. Jones said. I would add this. I think that their authority is defined partially by statute and partially by contract and add that one of the main purposes of the hydrothermal program, particularly in its evolving phase 2, is to more carefully define how that authority will be carried out with the recognition that the backbone transmission system is a complicated organism in itself.

It is 12,000 miles of interconnected lines that is probably no longer easily able to be bisected into a particular line to accomplish a particular purpose.

It is an overall, integrated system. It seems to us most logical that the continued development of that by the Government is a proper and valuable function of the Government in the overall regional plan.

Mr. BEARD. I would answer your question, Senator, that the primary purpose of the Bonneville transmission system started out to be the marketing of Federal power. Over the years through the legislation, appropriations, and practices as well as contracts, that has also embraced the primary responsibility for the regional integration amongst all the system.

This is largely the result of the fact that the Federal power system has been the dominant factor. So, over the years, this matter of integration has become a very important function of the Federal transmission grid.

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We all use it for that purpose. We all pay the charges that are properly attributed to our use. There are a number of other advantages of that, in addition to these just strictly electrical advantages which are very important.

It has made it possible to make the most efficient use of the technical facilities. It has made it possible to make the best use of the land resources, the rights-of-way, and it has made it possible, also, to have the least environmental impact, bearing in mind the tremendous amounts of power transmitted over very long distances.

So all of this comes into the picture of regional transmission among all of the utilities.

Senator McCLURE. Mr. Harris, do you have anything you would like to add?

Mr. HARRIS. No. I would just second what these gentlemen have said, although I would like to add that I think this bill will help strengthen the system and make it more reliable. There are certain areas where we need some of this.

Some of our customers have suffered losses because of it, and I think this bill will help prevent some of that in the future.

Senator HATFIELD. Thank you again, gentlemen——

Senator McCLURE. I have a few more questions.

Senator HATFIELD. I am going to have to ask to be excused at this point and move to another meeting where I have dual responsibility, and turn the gavel over to Senator McClure to finish the hearing this afternoon.

Before I do leave I want to thank all of you again for your participation.

Senator McCLURE [presiding]. Thank you very much. I think the fact that I just arrived and he is just leaving illustrates the fact that all of us operate in more than one direction at the same time.

The response I got from each of you leads me to conclude that you believe the Federal Government has primary responsibility now, within the entire Columbia Basin; is that correct? Primary responsibility for transmission of electrical energy within the entire Columbia Basin.

Mr. CULP. No, that is not entirely correct, Senator. As has been mentioned before, in southern Idaho, which is in the Columbia River Basin, it is handled with a wheeling arrangement with the Idaho Power Co. and Utah Power and Light.

There are other instances where it is handled through wheeling agreements. But certainly it is true that the Federal system is the dominant part of the backbone transmission system.

There is more of it.

Senator McCLURE. The buzzer just rang that says there is a vote on the floor. I think we can go for about 10 minutes and then we will recess until we have an opportunity to vote.

Do you have any further comments you would like to add? I gathered the impression, Mr. Harris, that your concern is not primarily who builds it, but the reliability of the system, so that you do not have interruptions in service?

Mr. HARRIS. This is right.

Senator McCLURE. I also understand that the agreement which has been forged, which is in the form of legislation proposed here, preserves to the industrial consumer of the Federal Government the preferential position which they now occupy; is that correct?

Mr. HARRIS. That is correct.

Senator MCCLURE. Further, persons who would otherwise be entitled to the preference will not have access to that preference as a result of the alliance built under this agreement. They will not have improved access to that preference at your expense?

Mr. HARRIS. That is right.

Senator MCCLURE. That is one of the balances that went into the agreements that was resultant in this legislation?

Mr. HARRIS. Yes.

Senator MCCLURE. For instance, if my REA's in Idaho need more power, they cannot necessarily get more power as a result of this bill, if it subtracts from your capacity to consume power?

And if Idaho Falls Municipal Power System wants more power, they cannot, as a result of this bill, have greater access to the power than they now have, if it subtracts from your ability to consume Federal power?

Mr. HARRIS. I am not quite following you, sir.

Senator MCCLURE. My understanding of the legislation is it freezes marketing patterns pretty largely where they are.

Mr. HARRIS. No.

Senator MCCLURE. What are the shifts that take place in the market under this bill?

Mr. HARRIS. I do not see there are any shifts, really, because of the bill.

Senator MCCLURE. Does the bill enhance or prevent shifts in marketing?

Mr. HARRIS. It could shift thus, but it is not necessarily for that reason. Our interest is in the reliability of getting more lines to different areas.

Senator MCCLURE. You have another interest here, and I do not quarrel with it. That is maintaining the availability of the low-cost power.

Mr. HARRIS. Right. But there could be a shift, if somebody wanted to build a plant at some location where there was not a line. This would help get that line built sooner than under present conditions.

But it would not help that customer get power any easier, because the industries are not preference customers. They could not get power from BPA, for example, because of the act.

Mr. JONES. Possibly Mr. Goldhammer could answer the question as it pertains to the industry, but as it pertains to the cooperatives and municipals and PUD's that I represent, our whole hydrothermal accord No. 2 does spell out some things in a very definite way, that assures the small agencies, no matter what their load is now, of receiving 25,000 average kilowatts, no matter when they get there, they will have that much Bonneville power.

This bill will help to assure there is a transmission line to get it to them, either that or the bill will assure that Bonneville could have negotiated with the utilities in that area to wheel the power to the small preference customers.

Senator MCCLURE. And Bonneville can now enter into wheeling agreements, and Bonneville can now build power lines if they are in their appropriations?

Mr. JONES. That is correct, sir.

Senator McCLURE. So, aside from financing, it makes no difference in the marketing pattern?

Mr. JONES. That is correct.

Senator McCLURE. Aside from the availability of financing.

Mr. JONES. In this hydrothermal accord, Senator, we as utilities, public and investor-owned, have said that we are going to build the large thermal plants to meet the load growth of the region.

This, then, allows Bonneville to bring us the reliability and allows Bonneville to work up the unanticipated load growth reserves, and things like that, that are needed by the regions to say that it could truly operate as one utility, even though we are very pluralistic.

Senator McCLURE. I think that last statement is certainly true. You are very pluralistic. You have a very unique status, and a unique entity.

Mr. JONES. I would like to ask Mr. Goldhammer to answer the one about the industrial customer.

Senator McCLURE. Surely. I would welcome any comments you have, Mr. Goldhammer.

Mr. GOLDHAMMER. Thank you, Senator.

In reply to the question, the marketing arrangements of Bonneville are not altered by this bill, with preference and priority to publicly owned systems and cooperatives are not altered by this bill.

In Phase 2 of the hydrothermal program we are offering industry new 20-year contracts, but based on a lower grade of power, a grade of power that preference customers or investor-owned utilities could not use for meeting their own load.

It is a grade of power that can be interrupted because of water conditions, or because of transmission outages. It is a grade of power that can be interrupted because of delays in plants upon which we or the region are relying to meet requirements.

Senator McCLURE. I will have to run. We will stand in recess, subject to the call of the Chair.

[Whereupon, a short recess was taken.]

Senator McCLURE. The subcommittee will come to order. Will the witnesses please resume their seats? I am informed that there will be another vote in no less than 5 minutes nor more than 2 hours from now.

I am sure you gentlemen heard the comments earlier today with respect to the questions that have been raised about the purposes of this legislation. I, and others, have wondered why or whether would be a better way of determining it, whether there is an attempt to substitute a Federal system where the investor owned or other public entities can and should otherwise build transmission facilities.

I am not certain that you gentlemen would agree that that is either the purpose or the effect of this legislation, but since I and others have raised the question, perhaps I should give you the opportunity to comment upon that question.

Perhaps it would be easiest just to go down the line Mr. Jones?

Mr. JONES. Oh, boy. Here again the region has been pointing out a regional transmission grid system is a highly technical thing. Our feeling in the region is that we need it to do this with one entity, to formulize it, if you will.

We still have the right of building pieces and segments. But from the standpoint of reliability, most of the public power would like to

see the Bonneville Power Administration doing their thing, that is described in this bill.

That is, providing the consumers, providing the small electric systems with reliable source of power.

Senator McCLURE. Now, I will get to meddling a little bit. Wouldn't most of public power rather see the Federal Government take over the whole system?

Mr. JONES. No, sir.

Senator McCLURE. How about the production faciilties?

Mr. JONES. No, sir.

Senator McCLURE. How about expansion of production facilities?

Mr. JONES. Not necessarily.

Senator McCLURE. That is different, what you just said. What do you mean, not necessarily.

Mr. JONES. If you are talking about expansion of production facilities at federally owned hydroprojects, yes. The Government should do that.

Senator McCLURE. How about thermal?

Mr. JONES. Thermal, under our agreement, we, as utilities, either public or private, will construct the termal requirements for the Northwest.

Senator McCLURE. But not the transmission line requirements?

Mr. JONES. Not the transmission line requirements.

Mr. CULP. Senator, I think I should say this. This has been alluded to a little bit, but I do not think anyone has said it clearly, although you have asked the question and are entitled to an answer to it. The central purpose of this bill is solely to provide a different mechanism for financing as far as Bonneville grid is concerned.

It is not intended to change anything else. That is the only purpose of the bill. From that standpoint, I think, in answer to your question, this bill at least is not in the direction of the Government taking over things that the utilities should be doing, in the view of the policy committee, I am sure.

It is, instead, a more dependable way for Bonneville to do that part of the overall system, regional system development that everyone believes they can do best, and the best contribution they can make to the overall problems of developing the regional system.

Senate McCLURE. I will get back to that in a moment. Mr. Beard?

Mr. BEARD. The investor-owned companies do not expect or desire Bonneville to build all of the backbone transmission. We do not expect or desire that the Government will build all of the backbone transmission. We recognize that as the hydroprojects are enlarged and additional units put into existing projects, that there will have to be a lot of transmission added by the Federal Government as part of the Columbia River System.

Those transmission lines will be planned and constructed so that they become part of what we are calling an integrated system to minimize the investment and these other factors, and those lines will have, in many instances, excess capacity, over the capacity that might be the minimum.

We want to have an opportunity to use those lines under wheeling payments to the Government so that the power that is generated at our projects can get into the system and be distributed, where the

power flow is, without adding any more lines than are absolutely necessary.

As was brought out this morning, the power does not go down a highway, as a freight car or truck would. The power flows wherever it happens to flow in the path of least resistance.

You cannot, therefore, say that the power from a given project is going to go directly to that load center. It is going to go into the system, which is a pluralistic system, and then the power at that load center will come out of that system.

So at any given time as the planners are working on this there may be a piece of line that is needed hundreds of miles away from the newly added steam powerplant, in order to keep the system in balance.

It is the opportunity to have access to this broad system of which we all own parts. I could use, perhaps, as an example, the Jim Bridger project that Pacific and Idaho are building in Wyoming. We are bringing power into the Idaho Power Co. system, and Idaho and Pacific are making provisions for that power to get over into eastern Oregon, where it will then go into the Bonneville system and be distributed.

We will take our power out in Portland and other places. To accommodate that project there is no additional transmission needed on the Bonneville system.

Senator McCLURE. This bill is not essential for that?

Mr. BEARD. No; it is not essential for that. But as time goes on and additional Federal transmission is needed, we want to have an opportunity to have access to that on this common carrier.

It is not quite that, but on this wheeling basis.

Senator McCLURE. You have introduced a new term, and I think the terminology may be difficult to define. I attempted earlier to get a definition of the grid.

We went around it several times. I am not sure that I understand that the definition is any more precise than it was before. Now you said backbone transmission. What is the difference between the backbone and the grid?

Mr. BEARD. Those words are synonymous as we use them. We call the grid or the backbone the high-voltage transmission system, and generally we are talking about lines of voltage, of 230,000 volts or higher.

A few years ago, 230,000 was the maximum. Then, as more power was generated and transmitted, it has gone to 500,000 volts. Now the direct current line is going to the Southwest and is 750,000 volts. Those are the backbone lines.

Senator McCLURE. The backbone line or the grid line I think you said earlier, it would be your expectation that the BPA would build those?

Mr. BEARD. Not all of them, no. The part that is needed in connection with the Federal activity of their peaking plants, the additional units that they are putting in their hydro projects, and the additions to the Federal system that are needed to integrate all of the Federal system, including their customers, into the whole regional setup.

Senator McCLURE. And a new plant, presumably thermal, put on the system by a non-Federal entity must be connected to the system. Is that a Federal responsibility or a private responsibility?

Or is it something that will depend upon negotiation in each individual circumstance?

Mr. BEARD. I would say that primarily it is the last of those three. There would be instances where, because of the contractual arrangements for disposal of the power, it might be a Federal responsibility.

There are many instances where in the first instance the owners, the project, it is the project owners' responsibility. There are other instances which are the third of your three points, where it is best worked out on an individual case, for that project to get the best transmission system with the least expenditure.

Senator MCCLURE. If you get the best transmission system with the least expenditure, you get right back to the question I have been asking all along. That is, is it not always going to be, if that is the test, the Federal line?

Mr. BEARD. No, sir.

Senator MCCLURE. If they have the advantage of lower financing charges, the advantage of tax exemptions, maybe not always, maybe not universally, but is it not substantially going to transfer the requirement of the raising of the capital costs and construction of the line transferred to that from the non-Federal entity to the Federal entity?

Mr. BEARD. There are other factors than strict dollar costs involved in here. More and more the plain difficulty, difficulty and problems, in getting rights-of-way, are a big factor.

Senator MCCLURE. You think the Federal Government has less difficulty getting rights-of-way than non-Federal?

Mr. BEARD. I did not mean to imply that. The incentive here, the tendency will be to go to a higher and higher voltage, so you can get more power going through any given transmission corridor.

That, in itself, means that the group together want to support that high-voltage transmission line. At this point, because the Federal Government built Bonneville's system, and the way it will expand and grow with additional units and so on, the Government will, for a long time, be the dominant, not the only big factor, but the dominant influence.

So, for these very high voltage lines, in many of them, the tendency will be, I am sure, to have the Government take them on. But that does not mean that we, the companies, are going to go for that solely for the purpose of getting the advantages of Federal financing.

You have heard us talk, I presume, Idaho Power and Pacific, of the 500,000-volt line we are planning to build from central Idaho over into southeastern Oregon. That line we intend to have privately owned, private company line.

Senator MCCLURE. Would you expect that the evaluation of the alternatives between a Federal line or a non-Federal line would take into consideration the question of the taxes paid by the nonpublic line, as compared to one constructed by a public entity?

Mr. BEARD. Senator, my answer to that question is very similar to Mr. Hodel's this morning. This matter of equivalency has a lot of different factors in it other than economics. From a strictly economic standpoint, having the taxes as a factor on economic balance makes a lot of sense.

But there are other reasons and other costs that come into it which cannot be balanced in that manner. So I think that we have to take

each one on its own and balance among the factors this question of taxes, but not as a sole factor.

Senator McCLURE. I do not disagree at all with what you are saying. Are you willing to have a provision in the bill that says, in effect, that the question of payment of taxes or the burden of taxes shall be considered in determining which of the two ways to go, where there are alternatives?

Mr. BEARD. I would have no objection if it said that that may be considered. I do not know that I would go so far as to say that it shall be.

Senator McCLURE. If it is only one of several factors, why should it not be considered?

Mr. BEARD. I am merely expressing what, to me, at the moment, sounded like the prudent thing to do. I cannot say that to make it mandatory is wrong. I cannot say that. Amongst the group this matter was discussed at considerable length.

Again, among the give-and-take, it was decided we would endorse the language as it is now in the bill, or as it is in the amended bill.

Senator McCLURE. Mr. Harris, do you have anything further you would like to add on this question?

Mr. HARRIS. No thank you.

Senator McCLURE. Mr. Beard, I will ask a question that comes to me only because I do not know whether it is well founded. I will ask it. That is an assumption on the part of some that the private utilities in Washington and Oregon are seeking to transfer the financial burden of major lines from themselves to the Federal Government.

Is there any compulsion to do this because of financial difficulties of the private utilities in Oregon and Washington?

Mr. BEARD. Not to my knowledge, and I will certainly say from the standpoint of Pacific Power the answer is a flat negative.

Senator McCLURE. I see some people, and, again, we got diverted from the major question earlier this morning, I see people who think that Federal Government financing is the answer to almost any problem we have, whether it is a Lockheed loan, a Penn Central bailout, or the proposal that Con Ed is in trouble and we have to do something about that.

I have never found that anything is in so bad a shape that it requires a bailout is much improved by having the Federal Government do it.

Mr. BEARD. We are not contemplating that kind of bailout in the Northwest, sir.

Senator McCLURE. I am grateful that that is probably true, and I have no inkling that it is true. Nevertheless, there is the suspicion on the part of some people, not only in the Pacific Northwest, but elsewhere in the country, that some people are not only ready and willing but anxious to effectuate that change.

Mr. BEARD. Senator, we would face that possibility as disastrous.

Senator McCLURE. I would agree with that statement. There is no disagreement at all. Again, the question of postage stamp rates, I think that is a very good parallel of what would probably happen.

What happened in the Post Office Department might, indeed, be paralleled in the Federal takeover of the utility business which I think

you do not want and I do not want. I do not raise that issue casually here.

I just want to know that that is not what we are involved in if we go ahead with this legislation. I think that each of us ought to be candid about it. Lay our questions on the table and dispose of those questions before we move forward.

Mr. BEARD. If you want further solid statements from me on that I will be glad to make a speech on it.

Senator MCCLURE. Thank you very much. I have no further questions. You have been very patient. I am going to depart from the order of the printed witnesses for a moment. I think I have an understanding of a request from Senator Metcalf to be here at the time certain witnesses appear. We are checking by telephone now to make certain that that is correct.

But my understanding of his desire would be that I depart from the order and call at this time the next witness on the list, Mr. James Bruce, vice president, Idaho Power Co.

STATEMENT OF JAMES BRUCE, VICE PRESIDENT, IDAHO POWER CO.

Mr. BRUCE. Thank you, Mr. Chairman.

As previously indicated, Mr. Robert Holden of the Idaho Power Co. is in the audience.

Senator MCCLURE. Would you like to have him join you at the witness table?

Mr. BRUCE. Would you like to come up, Bob?

Senator MCCLURE. Not to prejudice your hearing before this committee at all, let me express a welcome and say you are always welcome here, and I welcome the opportunity to have you before this committee, and to see you again, Mr. Holden.

Mr. BRUCE. Thanks very much, Senator.

My name is James Bruce. I am vice president, secretary, and general counsel of Idaho Power Co. Mr. Chairman, we have presented a prepared statement which we would like to have placed in the record at this time.

Senator MCCLURE. Without objection, your statement will appear in full.

Mr. BRUCE. I am appearing here to present Idaho Power Co.'s position of Senate bill 3362, and to review briefly some of the background and history of southern Idaho. I should preface my remarks by pointing out that Idaho Power Co. was invited to participate with the PNUCC with discussions with respect to this bill.

We appreciate the courtesy, since we are not a member, and we were present at various discussions and I had the privilege of serving on the lawyers' committee. We also discussed it with Mr. Don Hodel of Bonneville Power Administration, and members of his staff.

We appreciate that courtesy, also. I should say that Idaho Power Co. did not view the bill with any great—we were less than delighted with the bill when it was presented, for two reasons.

No. 1, because of the fact that for the first time it included southern Idaho in this transmission system and in the revenue bond provision provided. Our position has been in southern Idaho that there is no Federal transmission grid or backbone existing in southern Idaho.

In southern Idaho the Idaho Power Co. and Utah Power & Light Co. have historically provided transmission lines across southern Idaho aud will continue to do so. The BPA load in southern Idaho served under a long-term wheeling agreement.

I can go into the background of it, but neverthless it was determined after long arguments and discussions between Idaho Power Co. and Bonneville Power Administration. Under this agreement, the Idaho Power Co. agreed to deliver up to 720 megawatts of maximum load.

Maximum load to date has been 256 megawatts. Idaho Power Co. has constructed a transmission line network to a service area, which network consists of over 4,300 miles of 69 to 435 kilowatt lines.

This transmission line has been expanded at various times in order to include and provide for these wheeling commitments that we have made on contracts. We are desirous to continue and intend to continue to meet our contractual requirements to wheel power for the Bonneville Power Administration, and will continue to do so.

As far as Idaho Power Co is concerned, we will continue to furnish necessary transmission to southern Idaho to provide the necessary service provided by Idaho Power Co.'s customers and preference customers in southern Idaho.

Pacific Northwest Utilities Conference Committee has studied this legislation. They have prepared a number of amendments. They have also prepared an analysis which has been referred to as legislative history.

This analysis notes that the customers of the administration in southern Idaho are currently served under long-term wheeling contracts on terms satisfactory to BPA. Furthermore, there is no intention of the administrator, under this bill, to construct transmission facilities which would replace facilities provided by the company.

This statement was also confirmed by Mr. Don Hodel, the administrator. We believe this understanding is of the utmost importance in any consideration of this bill. It is necessary in order to preserve the existing wheeling contract between Idaho Power Co. and the BPA and to preserve the investment that we have made in order to serve this contractual commitment.

With this understanding, as far as southern Idaho, as I say, we do not look on it—we do not grab ahold of it with any glee, but nevertheless, we feel that as long as it is completely understood that we have this kind of wheeling contract and that we are prepared to construct transmission facilities, that we can live with it.

The second portion of the bill, what we have problems with, is contained in section 5 of the bill. Section 5 purports to allow construction by non-Federal utilities of transmission facilities for wheeling Federal power in order to avoid duplication of facilities.

We feel that as it is written it does not provide a realistic opportunity for the non-Federal utility, because a substantial portion of private utilities' costs is made up of Federal, State and local taxes. Unless it is understood and agree that payment of these taxes should be considered as a part of the Federal costs, the comparison of costs is meaningless.

And a private utility could only provide this line at a cost that would have to be borne by its other customers. For this reason, we have proposed an amendment set forth in the prepared text which we have presented at this time.

In effect, it would provide that the non-Federal utility in constructing a line, that the reimbursement it would receive would be sufficient to reimburse it for the costs of constructing, maintaining and operating such facilities, transmission facilities.

We believe that unless so amended the intent of section 5 and intention of the bill and all the discussions we have heard with respect to it to allow construction of a line by non-Federal utilities would be meaningless insofar as private companies are concerned.

We think it is only fair that if we are given the alternative of constructing a line that we should receive our costs, that would include taxes, private, Federal, State. That is part of our cost of doing business.

It is the only way we can build a line and feel that we have to make provision for it. So somebody has to pay for it. As I say, this is an alternative that has been suggested. We think what is fair is fair and we should have a fair alternative. We agree, in conclusion, we agree with the many amendments recommended on behalf of the policy committee.

But we believe section 5 needs to be amended in line with what I have set forth in the statement that we presented. Unless this was changed, we will have to state our opposition on that portion of the bill.

Thank you very much.

Senator McCLURE. Thank you for your statement. I think Mr. Beard responded to a question I asked earlier with respect to the question of payment of taxes or the consideration of the cost of payment of local taxes.

You have referred to it in terms of a recovery of that as a cost of doing business in the event that your company should build the line and wheel somebody else's power over that line.

Is there not also another end to that? That is the question of the consideration of who ought to build the line, as to what the costs of construction and costs of operation would be to determine initially who would undertake the responsibility for building the line.

Mr. BRUCE. I think that is correct. That is why we feel you need to put that in in order to have an alternative. We think it has to be all considered. Otherwise we have no alternative except to take a loss.

Senator McCLURE. I want to be sure I understand what your position is. As I understand it, you only put a provision in that allows you to recover that as part of the cost. Then the cost of wheeling on that line constructed by you would be greater than the cost of wheeling on the line constructed by BPA.

Mr. BRUCE. I think the cost of wheeling on a line constructed by Idaho Power Co., where we have to cover the costs of the State, local, property taxes that it would be. There is no question about it.

Senator McCLURE. You are not only looking to the recovery of that cost, but you are also looking to the evaluation of who ought to build the line. Otherwise, the discussion would be always weighted in favor of Federal construction.

Mr. BRUCE. That is right. That is why we put in cost of construction, maintaining and operating the line. We think all those components are necessary.

Senator McCLURE. Mr. Beard pointed out in response to a similar question that cost was only one of the factors, that direct operating

costs of which taxes would be a part are only one of the factors in consideration of whether the line should be built and who should build it.

Do you agree with that statement?

Mr. BRUCE. I think that is correct. I think a lot of background would go into it at any time, but when you are giving those considerations, and I am sure with Don Hodel all the present members of Bonneville Power Administration, we would have very little problem.

But you mention that there can be changes, and changes can occur. We have had a lot of past history we can think about. We think that you need to tie down, with just a little bit more of a definition, as to what will be considered in the event that you are not able to agree on all those other factors.

We realize that a lot of factors go into it. These things come out at the end of a long and involved negotiation. But in 1963 when we had the BPA negotiations with respect to the—before we entered into the wheeling contract, there were a lot of things that went into it.

Probably the fact that you are subject to an appropriation and the appropriation and congressional authorization was one of the factors that made the element of determination. We think you need to tie it down somewhere.

Senator MCCLURE. Thank you very much, Mr. Bruce. I have no further questions.

Mr. BRUCE. Thank you very much for the opportunity to appear, Senator.

[The prepared statement of Mr. Bruce follows:]

STATEMENT OF IDAHO POWER COMPANY
BEFORE THE SENATE INTERIOR AND INSULAR AFFAIRS COMMITTEE
SUBCOMMITTEE ON WATER AND POWER RESOURCES
93RD CONGRESS, SECOND SESSION

I am James E Bruce, of Boise, Idaho, Vice President, Secretary and General Counsel of Idaho Power Company. I am appearing to present Idaho Power Company's position on Senate Bill 3362, 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 averate 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.

Senate Bill 3362 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

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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 Senate Bill 3362 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 be amended by striking 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.

Senator McCLURE. The next witness is Mr. Charles Robinson, Jr., corporate counsel, National Rural Electric Cooperative Association. It is nice to have you before us again, Mr. Robinson.

STATEMENT OF CHARLES ROBINSON, JR., CORPORATE COUNSEL, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Mr. ROBINSON. Thank you, Mr. Chairman.

We appreciate the opportunity to testify in support of the bill. My name is Charles A. Robinson. I am corporate counsel for the National Rural Electric Cooperative Association.

I have accompanying me at the witness table Mr. Bill Cook, general manager of Coos-Curry Electric Cooperative at Coquille, Oreg., which is on the coast of Oregon. Mr. Cook is a member of our national legislative committee.

Mr. Chairman, we have a prepared statement which we ask be made a part of the record in full. We will try to highlight it orally.

Senator McCLURE. It will be made a part of the record.

Mr. ROBINSON. We would also like made part of the record, if we may, a statement by Mr. Robert B. Smith, manager of the Washington Rural Electric Association of the State of Washington concerning this piece of legislation, and a statement by Mr. Cook, both of which have been submitted for the record.

Senator McCLURE. Those statements will appear in the record immediately following your statement.

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

I have been associated with the Rural Electric Cooperative Association for about 24 years as you well know. The NRECA is a national service organization of electric cooperatives throughout the United States.

We operate in about 46 States, or some 26 million rural consumers. There are 45 of these rural electric cooperatives in the six States of the Pacific Northwest, which are wholly dependent upon the Bonneville Power Administration for wholesale power supply.

These are generally small systems. They do not have any generation of their own, in the classical sense, and are not in a position to build generation of their own in most cases. Therefore, they are wholly dependent on the Bonneville system for their energy, and on systems which Bonneville has the right to use.

Therefore, we would, of course, support any legislation which strengthens the Bonneville system. We do strongly support the concept of bond financing for Bonneville, as that principle is embodied in the legislation before this committee.

Properly applied, this concept would avoid conforming Bonneville system planning with the vagaries of Federal budgeting. It would save Congress some annual appropriation procedures which are sometimes controversial, and would permit a saving or reduction or redirection of Federal appropriations.

In other words, the appropriations for Bonneville would be substantially reduced. We point out where the bond financing was mentioned this morning it will carry with it a higher cost of capital for the Bonneville system, which will create, in turn, a higher rate for its consumers.

There will be some upward pressure on rates. Exactly what magnitude that pressure will assume and how high the rates will have to go is conjectural at this point. But it seems to us that the advent of bond financing will apparently bring into the system capital about 2 percent above what is currently being charged for Federal capital.

That will be reflected, of course, in higher rates to the consumer. I think we have to keep in mind during our consideration of this legislation that there are consumers that are the ultimate beneficiaries of the power supply systems in the Pacific Northwest, whether they be Federal, State, local or privately owned.

It is these consumers, I think, that we have to be mindful of in making decisions on this bill. Our membership and NRECA itself, membership in the Northwest and our national organization, believes there are several sections of the bill which should be amended.

If Bonneville is to obtain in exchange for this higher cost of financing the breadth of authority it needs and we feel it should have to properly serve its loads, from the Bonneville transmission system.

We think Bonneville transmission system should have the authority and wherewithal and the physical facilities to deliver power from the Federal projects to the preference customers to interconnect these projects, and, generally, to maintain a continuing responsibility to service those loads which the existence of the Bonneville system has brought into being.

That would, of course, include the rural electric cooperatives, because without the Bonneville system and without that capability in the system these cooperatives have no source of power supply.

Our first suggestion, Mr. Chairman, goes to section 11(b) a section mentioned earlier in the testimony today. That is assurance that Bonneville will have the trust agency authority, the authority which it will require to serve the electric cooperatives with firm, wholesale power after the exhaustion of the Federal hydro facilities, as they now exist.

And after the exhaustion of the present net billing concept capability. In other words, when the existing resources are gone. These consumers are going to have to be served. The only way our people can get energy to serve them is through the Bonneville system.

We are not urging that Bonneville be empowered to construct generation. We are not asking that the Federal Government be authorized to build generating facilities.

But what we are asking is that Bonneville have crystal clear authority to meet the needs and the loads of these cooperatives in the future as they have in the past. That would require, we feel, a change in section 11(b) of the proposed legislation.

We also feel, Mr. Chairman, as suggestion No. 2, that Bonneville should be allowed to issue its bonds in the open market at whatever the interest rate, whatever interest rate may be required subject to some maximum set by the Secretary of the Treasury.

That is the authority which has been given to TVA. We see no reason for limiting the issuance of these bonds to the Secretary of the Treasury. We should also point out the surcharge language of section 13, which sets as a standard for the interest rate applicable to these bonds the yield on long-term marketable securities of the United States.

Plus a surcharge established by the Secretary of the Treasury. What the purpose of the surcharge is we do not know. As Mr. Katzen

pointed out today, this morning, it is not novel language and it is not found in the Federal statutes anywhere that I know of.

It is certainly not applicable to TVA bonding authority. It seems to us, therefore, that the Treasury or whoever buys these bonds as secondary purchasers will be making a profit at the expense of the electric consumers in the Northwest.

If Bonneville is required to sell these bonds to the Secretary of the Treasury at, perhaps, a higher rate than it would have to sell them on the open market, the Secretary will obviously borrow money on the open market to refund his coffers and presumably be able to make a profit in the transaction.

For the Secretary of the Treasury or, conceivably, the scondary purchasers of the bond. As our third suggestion, Mr. Chairman, we feel that sections 5(a)(2) and 5(b) of the proposed legislation contain some very severe limitations on the authority of the Bonneville Power Administrator to build facilities with the bonds, once he has sold them.

As you well know, and as has been discussed here all day long, the Administrator must first negotiate with the utilities in the Northwest concerning what facilities he is going to build, and prior to the time that he submits a budget to the Congress containing any new facility, he must issue notice of his intention to so submit such a budget, well in advance.

Sixty days in advance of submitting it, and he may not begin construction on any new facility for 150 days after such submission and until 30 days after notice of his intention to construct.

Within that period, any utility in the area which disagrees with the Administrator is granted standing by the statute to file a suit in Federal court to determine whether or not the Administrator has negotiated in good faith. We recognize that the time in which this suit may be filed is limited to the 150 days and/or 30-day period.

But Federal suits and appeals from judgment and appeals from the appeals can consume a considerable amount of time. Meanwhile, the law suit filed would, in our judgment, impair the ability of the Administrator to sell his bonds, and would certainly make it impossible for him to construct that facility.

This, it seems to us, is a rather strong impediment placed on the shoulders of the Administrator in building a new facility. There are a lot of systems in the Northwest which depend on Bonneville for the wholesale power supply.

There are a lot of consumers that depend on these distributors for their power. Why, we ask, is the Bonneville Administrator placed as such a disadvantage in building a new facility to supply his consumers when, presumably, that same disadvantage is not imposed on any of the other utilities who might want to construct that facility?

It seems to us a rather severe burden for the Administrator to carry. We feel this part of the bill should be amended. If Bonneville is going to go to a higher cost bonding program, it seems to us that it should also carry with that burden, there ought to go with that burden a higher degree of freedom to construct facilities than is available under the appropriations process.

I might point out, Mr. Chairman, that as far as we can determine each and every element of the budget review procedure under which Bonneville operates pursuant to the appropriation process will still be in effect by this legislation under the bond financing process.

As I understand it, the Bonneville proposals for new construction must clear the Department of the Interior. They must clear the Office of Management and Budget. They must then be transmitted to Congress by the express terms of the bill.

In addition to this kind of review the Administrator will be open to a law suit to prevent construction of the facilities. So he is getting reviewed by all the existing processes, and in addition will be subject to judicial review.

Standing being granted, apparently, by this statute. I would like to point out, Mr. Chairman, of somewhat lesser significance, that in terms of the tenor of the bill to us significant is the removal from the Bonneville Power Administrator of his condemnation authority which has held since 1937.

Senator McCLURE. Mr. Robinson, I have to interrupt because we have a vote on the floor. As soon as we can get back I will get back.

[Whereupon, a short recess was taken.]

Senator McCLURE. The subcommittee will be in order. Mr. Robinson, I think you were cut off at the roll call. Do you have further comments you would like to make? Please go ahead.

Mr. ROBINSON. Mr. Chairman, I had virtually concluded. I have only one more point to cover. That was our main point which in terms of the tenor of the bill is significant, although in terms of actual execution of the power involved, probably not significant.

That is the fact that legislation would take from Bonneville the condemnation authority held under the Bonneville Project Act since 1937, which is 35 years or so. It seems to me that whereas Bonneville will probably never exercise this authority, the fact that the bill takes away that authority seems to indicate to us some desire to pull the teeth of the Bonneville Power Administrator.

Some desire to impair his authority to operate. We feel that that portion of his authority should remain. We think that part of the bill should be deleted. These are the four changes we suggest in the legislation, Mr. Chairman.

We would point out that this is not the kind of bond financing that has been given to the Tennessee Valley Authority which has made it virtually independent of Federal appropriation since 1959. It has worked well there.

The TVA fixes the type of security itself. It sells notes and bonds. It fixes the maturity. It sells them on the open market, subject only to a maximum established by the Secretary of the Treasury.

Although the Secretary may delay for a few months the issuance of TVA bonds he must absorb notes in the meantime for the amount of money involved. We feel that if you are going to switch a Federal power system from appropriation financing to independent bond financing, there ought to be an additional measure of freedom to operate given to that power administration, that Federal power administration.

This bill seems to go in the other direction and restrict the Bonneville Power Administrator more, under bond financing, then he had been restricted under appropriational financing.

That completes my remarks, Mr. Chairman.

[The prepared statement of Messrs. Robinson, Smith, and Cook follow:]

STATEMENT OF NATIONAL RURAL ELECTRIC
COOPERATIVE ASSOCIATION ON LEGISLATION
TO GRANT BOND FINANCING AUTHORITY TO
THE BONNEVILLE POWER ADMINISTRATION
(S. 3362)
June 6, 1974

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 pruchases as agent or "trustee" for the account of its non-generating 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" (underlining 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 ROBERT B. SMITH, MANAGER OF THE WASHINGTON RURAL ELECTRIC COOPERATIVE ASSOCIATION, REGARDING S.3362 - H.R.14168, THE FEDERAL COLUMBIA RIVER TRANSMISSION SYSTEM ACT.

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 business-like 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.

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STATEMENT OF WILLIAM A. COOK, MANAGER OF THE COOS-CURRY ELECTRIC COOPERATIVE, INC., COQUILLE, OREGON, REGARDING S.3362 - H.R.14168, THE FEDERAL COLUMBIA RIVER TRANSMISSION SYSTEM ACT.

Coos-Curry Electric Cooperative, Inc. is one of the 14 rural electric cooperatives 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 power 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. I believe Mr. Cook might have a few words that he would like to add.

Senator MCCLURE. Certainly, Mr. Cook.

STATEMENT OF WILLIAM A. COOK, MANAGER, COOS-CURRY ELECTRIC COOPERATIVE, INC., COQUILLE, OREG.

Mr. COOK. Thank you, Mr. Chairman, for this opportunity to appear before you. Senator McClure, I note that you have cooperatives in your area. We are completely dependent upon Bonneville. Any erosion of the role that Bonneville has been playing we feel is not in good stead, as far as we are concerned.

Mr. Robinson has pointed out the salient points where we have the doubts, the fears. It would be redundant to repeat them. Coos-Curry Electric is 1 of 14, as my prepared statement will indicate, in the State of Oregon cooperatives.

We do have these fears. We do support the bill. We feel it is a great step. But we feel there is some modification necessary to make it a really great bill.

Thank you.

Senator MCCLURE. Thank you for your statement. Your complete statement has already been made part of the record. Do either of you have comments with respect to the proposed amendments which were referred to earlier this afternoon by the earlier panel presented by Mr. Culp?

Mr. ROBINSON. Mr. Chairman, I have not seen those amendments. I would only comment to the effect that if they include some of the points that I have mentioned, we would support them.

Senator MCCLURE. Rather than ask you to comment without having seen, would you like to have the opportunity to comment in writing after you have looked at——

Mr. ROBINSON. We would be happy to do that, Mr. Chairman.

Senator MCCLURE. We will keep the record open for 10 days so that you can do that, if you desire to do so.

Mr. ROBINSON. Thank you very much.

Senator MCCLURE. Thank you very much for your testimony.

Mr. ROBINSON. We appreciate the opportunity to be here.

[Subsequent to the hearing the following information was received:]

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION,
Washington, D.C., June 14, 1974.

Hon. FRANK CHURCH,
Chairman, Subcommittee on Water and Power Resources, Senate Committee on Interior and Insular Affairs, Washington, D.C.

DEAR SENATOR CHURCH: During the June 6 hearings before your Subcommittee on S. 3362 (Bonneville Power Administration bond financing), Senator McClure asked me whether the reservations which NRECA has expressed on the legislation would be cured by any of the amendments proposed to the Subcommittee by Mr. Gordon C. Culp who appeared on behalf of Pacific Northwest Utilities Conference Committee.

In response to Senator McClure's question, we express strong opposition to amendments No. 6 and No. 7 proposed to the Subcommittee by Mr. Culp. Each of these would substantially further curtail use of Bonneville bond proceeds and would, it seems to us, make it even more difficult for BPA to build a controversial transmission line with bond proceeds than is the case at present using appropriated funds. This problem would be further aggravated by Mr. Culp's

amendment No. 7 which proposes the following language at the end of Section 4 of S. 3362:

"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."

Our view is that BPA should have greater freedom in using bond funds than in using appropriated money. This amendment #7 goes in the opposite direction.

We do feel that Mr. Culp's amendment #11 would be of some help in assuring the Bonneville Administrator of authority to deliver the future power supply of the small non-generating distributors which he serves throughout the Northwest. This amendment would add the following language at the end of line 9 of page 10 of the bill:

"Or (iii) if to be paid for with funds provided by other entities for such purpose under a trust or agency arrangement;".

We appreciate this opportunity to express further our views on the legislation.

Very sincerely yours,

CHARLES A. ROBINSON, JR.,
Corporate Counsel.

Senator MCCLURE. Mr. Verl Topham, assistant secretary, Utah Power & Light Co.

STATEMENT OF VERL TOPHAM, ASSISTANT SECRETARY, UTAH POWER & LIGHT CO.

Mr. TOPHAM. I have a brief summary that I will read, if that is satisfactory. I am Verl R. Topham, assistant secretary of Utah Power and Light Co. 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 S. 3362, entitled, "Federal Columbia River Transmission System Act." Utah Power and Light Co. 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 kilowatts.

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 7 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 appropirate 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 Public Law 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 th 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 Public Law 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, one, 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, two, any—contiguous areas, not in excess of 75 airline miles from said region, which are a part of the service area of a distribution cooperative which has, one, no generating facilities, and, two, 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 defined in Public Law 88–552 which do not so dictate its use here.

Prior to enactment of Public Law 88–552, several municipalities and cooperatives located in Utah and southern Idaho had been purchasing power from the U.S. Bureau of Reclamation.

Since these customers were to be preserved as preference customers under the marketing 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 Co. 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 Co. 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 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.

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 expenditure 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 in this section.

Present ad valorem taxes in Idaho average about 1.76 percent 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 Co. desires to state firmly its position in opposition to the bill now before the Congress.

Thank you, Mr. Chairman.

Senator McClure. Thank you very much, Mr. Topham.

[The map follows:]

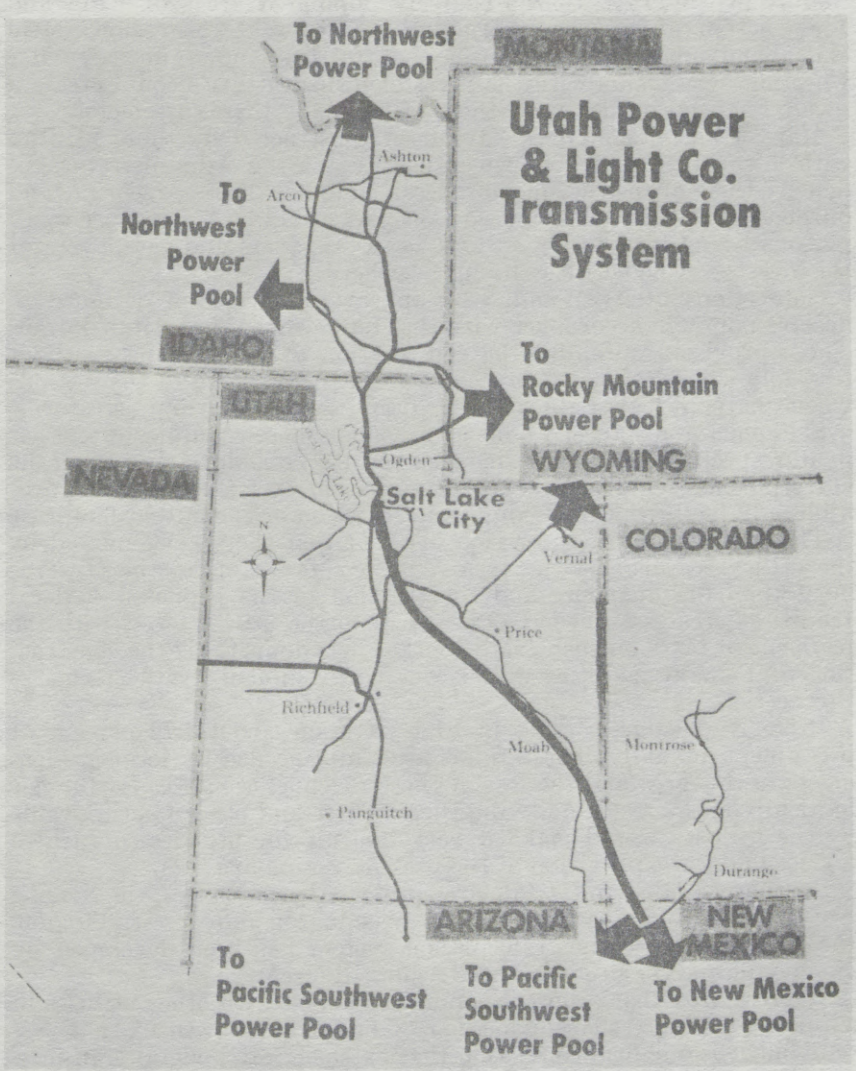

Figure 1

Senator McClure. I have no questions. I think the statement clearly sets forth your concern and it bears on one concern that I have. That is, the tax base for some of our smaller, local taxing units, and whether or not we are going to impair that.

I think earlier testimony would indicate that that is probably not going to happen. I hope that is true.

Mr. TOPHAM. We hope so, too.

Senator MCCLURE. Thank you very much, Mr. Topham.

Mr. George W. O'Connor, president of the Montana Power Co., and Mr. Rod Hanson, manager of the Central Montana Electric G & T have indicated that they were unable to remain.

Their statements will be inserted in the record in full at this point.

[The prepared statements of Messrs. O'Connor and Hanson follow:]

STATEMENT OF GEORGE W. O'CONNOR
PRESENTED ON BEHALF OF THE MONTANA POWER COMPANY
IN QUALIFIED SUPPORT OF S.3362 BEFORE THE
SENATE INTERIOR COMMITTEE

June 6, 1974

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 S.3362.

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 changed 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 <u>cost</u> 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.

35-931 O - 74 - 17

TESTIMONY OF ROD HANSON
REGARDING S. 3362 IN THE SENATE
June 6, 1974

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. G. 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 Assistand 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 be 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 ~~not~~ 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.

Attached is a copy of a letter that we have sent to Assista nt Secretary Jack Horton, Commissioner of Reclamatinn Gilbert Stamm, and BPA Administrator Don Hodel.

Attachments:

Letter from J. G. Watt, March 8, 1971
Agreement between BPA and Montana Power Company, dated March 17, 1967, re: wheeling rights over Company's 230-kV transmission system
Letter from R. W. Beck and Associates, May 28, 1974 with attachments
Letter to Assistant Secretary Jack Horton, June 3, 1974

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

MAR 8 1971

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,

Deputy Assistant Secretary of the Interior

Mr. N. H. Mermyr, Manager
Glacier Electric Cooperative, Inc.
P. O. Box 358
Cut Bank, Montana 59427

(AUTHENTICATED COPY)

Supplemental agreement No. 1 to
Contract No. 14-03-40534

March 17, 1967

Mr. J. E. Corette, President
The Montana Power Company
P. O. Box 1338
Butte, Montana 59701

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 Ovando, 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 supplement 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.

(SEAL)

Sincerely yours,

S/ DAVID S. BLACK

Administrator

ACCEPTED:

THE MONTANA POWER COMPANY

S/ COLIN W. RAFF
Vice President

(SEAL)

CENTRAL MONTANA ELECTRIC GENERATION AND TRANSMISSION
COOPERATIVE, INCORPORATED

Box 217

Fairfield, Montana
June 3, 1974

Mr. Jack Horton
Assistant Secretary of the Interior
U. S. Department of the Interior
C Street Between 18th & 19th Streets, N.W.
Washington, D. C. 20240

Dear Secretary Horton:

This letter is written on behalf of Central Montana G&T of Fairfield, Montana and Upper Missouri G&T of Sidney, Montana as a joint effort in another attempt to secure for Montana rural electric cooperatives, the power that was reserved for them under the Hungry Horse Authorization Act (Public Law 329, 78th Congress) but has not yet been made available to them.

Our most recent effort can best be summarized by reference to a March 8, 1971 letter from Deputy Assistant Secretary J. G. Watt to Glacier Electric Cooperative, a member of Central Montana G&T (copy enclosed). Physical delivery arrangements are now available through the Montana Power Company and the Bureau of Reclamation which we presume can be implemented if necessary to permit Glacier to receive Bonneville power in 1977. Furthermore, such wheeling arrangements are available for the delivery of the Hungry Horse power reservation for preference customers, through BPA and the Bureau of Reclamation, to the other members of Central Montana G&T and Upper Missouri G&T (for its Montana-based cooperatives only).

We believe that a renewed effort on the part of the Department of the Interior, the Bureau of Reclamation, and the Bonneville Power Administration on this power supply matter would now be most timely for as you know our Montana cooperatives are faced with the prospects of your imposing a five times demand and energy penalty charge for all overruns on Bureau contract demands after October 1977. You have afforded us some relief on this matter while your staff gives further study as to the need for imposing such a penalty on the Missouri Basin preference customers. In any event, it does not seem right that the Bureau would, at any time, impose any penalty charges on rural electric cooperatives in Montana while a 40-50 MW Hungry Horse power reservation for preference customers in Montana is being sold to the Montana Power Company--a nonpreference customer.

We respectfully suggest that you make a careful review of the situation that exists in Montana with respect to the Hungry Horse reservation. Perhaps you will give consideration to a modification of the policy established by your predecessor in office and permit the Commissioner of Reclamation and the Bonneville Administrator to promptly develop a power marketing and delivery plan so that Central Montana and Upper Missouri G&T's can rightfully and legally share in an enlarged supply of firm power from the Hungry Horse Project. Our cooperatives need an expanded power supply at a reasonable cost level so that we can carry out our responsibilities to serve the sparse rural areas of our State. We firmly believe that the Congress intended that we be so treated when they approved the Hungry Horse power reservation for the cooperatives in Montana way back in the 78th Congress.

If you desire, officials of our two organizations, along with technical consultants, would meet with you at your earliest convience.

Yours very truly,

Rod Hanson, Secretary
Central Montana G&T

CC: Mr. Don Hodel, Administrator
Bonneville Power Administration
Portland, Oregon 97208

Mr. Gilbert Stamm
Commissioner of Reclamation
Washington, D. C. 20240

R. W. BECK AND ASSOCIATES

ANALYTICAL AND CONSULTING ENGINEERS

PLANNING
DESIGN
RATES
ANALYSES
EVALUATIONS
MANAGEMENT

400 PRUDENTIAL PLAZA
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ORLANDO, FLORIDA
COLUMBUS, NEBRASKA
WELLESLEY, MASSACHUSETTS
INDIANAPOLIS, INDIANA

FILE NO. DD-2120-EG.-MX
DD-2130-ES1-MX

May 29, 1974

Mr. Bert Gibson, President
Central Montana G&T Cooperative
P. O. Box 908
Livingston, Montana 59047

Mr. George Rait, President
Upper Missouri G&T Electric Co.
P. O. Box 1069
Sidney, Montana 59270

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 kilowatt-hours of firm hydro power at the very low rate of 2.5 mills per kilowatt-hour. 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 aribtrary 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,

R. W. BECK AND ASSOCIATES

By W. E. Trommershausen
W. E. Trommershausen
Chief Consulting Engineer

WET:lm
Attachments
cc: Senator Mansfield
Senator Metcalf
Congressman Melcher
Congressman Shoup
Mr. Rod Hanson
Mr. William Heit

EXHIBIT 1 - Page 1 of 3
Contract No. 14-03-51702

12-23-66

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 COMPANY

Index to Sections

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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

EXHIBIT 2
Page 1 of 1

UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

APR 13 1967

Dear Mr. Hanson:

Thank you for your letter of March 2 concerning our granting right-of-way across Federal land for Montana Power Company's proposed 230-kv transmission line between Anaconda and Great Falls, Montana. You request that one of the conditions for granting the right-of-way be an agreement for the Company to wheel Hungry Horse power to Montana rural electric cooperatives east of the Continental Divide.

The Bonneville Power Administration is presently negotiating an agreement with the Company which will give the Government a right to use surplus capacity in the Company's proposed Ovando-Great Falls line and facilities in the vicinity of Great Falls that will connect to the Reclamation system. The agreement will include assurance that the surplus capacity may be used not only for the transfer of power and energy among all Federal agencies but for service to preference customers and to other loads as agreed upon. We consider this agreement, together with existing contracts between our marketing agencies and the Company, as adequate assurance that Federal power may be wheeled using surplus capacity in the proposed transmission facilities at reasonable rates. It is on this basis that we are granting the right-of-way for the line.

Bonneville and Reclamation will continue to study how best to serve preference customer needs in all of Montana.

Sincerely yours,

ASSISTANT
Secretary of the Interior

Mr. Rod Hanson, Executive Secretary
Central Montana Electric Generation
and Transmission Cooperative, Inc.
Box 217
Fairfield, Montana 59436

EXHIBIT 3
Page 1 of 1

UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

Dear Senator Metcalf:

APR 18 1967

Your letter of March 9 requested comments on the letter of March 2 addressed to me from Mr. Rod Hanson, Executive Secretary of Eastern Montana Electric Generation and Transmission Cooperative, Inc. Mr. Hanson is concerned that we might grant right-of-way across Federal land to Montana Power Company for its proposed 230-kv Anaconda-Great Falls transmission line without first obtaining suitable agreements from the Company to wheel Hungry Horse power to cooperatives located east of the Continental Divide.

Enclosed is a copy of our reply to Mr. Hanson which indicates that the grant of right-of-way is conditioned on a separate agreement between Bonneville Power Administration and the Company and that the agreement will provide assurance that Federal power may be wheeled for a reasonable charge using surplus capacity in the proposed line.

In regard to possible east-west interties, our studies are continuing. The possible utilization of Montana coal in connection with EHV transmission will receive full consideration in these studies.

Your interest in our power program and in additional regional interties is appreciated.

Sincerely yours,

Stewart L. Udall

Secretary of the Interior

Honorable Lee Metcalf
United States Senate
Washington, D.C. 20510

Enclosure

Senator McCLURE. Are there any other witnesses to testify on this matter?

If not, the subcommittee is adjourned.

[Whereupon, at 4:30 p.m. the subcommittee was adjourned, to reconvene subject to the call of the Chair.]

APPENDIX

Under Authority Previously Granted, the Following Statements and Communications Were Ordered Printed

EDISON ELECTRIC INSTITUTE
90 PARK AVENUE • NEW YORK 10016 • (212) 986-4100

RECEIVED
JUN 14 1974
SENATE

June 13, 1974

The Honorable Frank Church
Chairman, Subcommittee on
Water and Power Resources
Committee on Interior and
Insular Affairs
4202 D S O B - U S Senate
Washington, D C. 20510

Dear Mr Chairman

Att: Mr Daniel A Dreyfus

The Edison Electric Institute submits the enclosed statement and requests it be made part of the record on S 3362, legislation related to the issuing of revenue bonds by the Bonneville Power Administration.

Sincerely yours

W Donham Crawford
President

Enclosures (5)

STATEMENT OF

EDISON ELECTRIC INSTITUTE

submitted to

COMMITTEE ON INTERIOR AND INSULAR AFFAIRS
Subcommittee on Water and Power Resources
U. S. Senate

on

S.3362. 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 revenues of the Federal Columbia River Power System and the proceeds of revenue bonds, and for other purposes.

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 service in the United States.

SUMMARY OF STATEMENT

1. The Institute supports the general objective of S.3362 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 S.3362 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 S.3362 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 the 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 S.3362.

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.

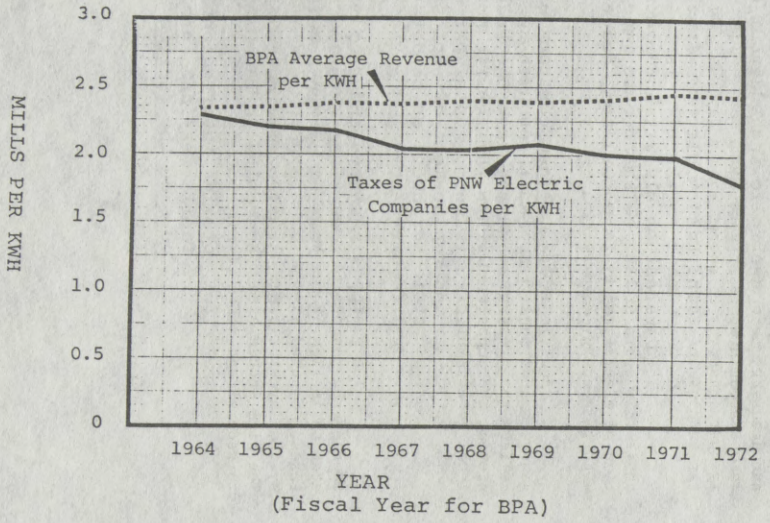
The laws which permit certain consumers of electric service to avoid their fair share of necessary tax burdens are, in effect, subsidizing the consumption of electricity by these consumers. Such a result is clearly incompatible with this energy conservation policy.

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 S.3362 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
90 PARK AVENUE • NEW YORK 10016 • (212) 986-4100

June 21, 1974

The Honorable Frank Church
Chairman, Subcommittee on
Water and Power Resources
Committee on Interior and Insular Affairs
4202 D S O B - U S Senate
Washington, D C 20510

Dear Mr Chairman

Att: Mr Daniel A Dreyfus

On June 13 the Edison Electric Institute submitted a statement for the record on S.3362, 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 S.3362 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 electrical reliability of the Federal system in the Pacific Northwest."

Sincerely yours

W Donham Crawford
President

Your Seattle City Light

Gordon Vickery, Superintendent

May 13, 1974

Honorable Warren G. Magnuson
United States Senate
Washington, D. C. 20510

My dear Senator Magnuson:

U. S. Senate Bill No. 3362

Seattle City Light appreciates receiving your letter dated May 1, 1974 regarding Senate Bill 3362 which outlines a revenue bond method of providing funds for the Bonneville Power Administration. The opportunity for use of federal revenues for self financing will allow necessary project funding that would otherwise be delayed by the present appropriations process.

There are now existing federal project delays that seriously affect electric reliability in the Puget Sound area. We, therefore, support adoption of legislation which will provide additional options for the necessary financing of the federal northwest transmission system.

We will notify you further should we, either separately or in concert with other utilities, desire to comment further on specific section of the proposed bill at scheduled hearings.

Yours truly,

GORDON VICKERY
Superintendent

LKA:db

COLUMBIA RURAL ELECTRIC ASSOCIATION INC.

"OWNED BY THOSE IT SERVES"

115 EAST MAIN STREET
P.O. BOX 46
DAYTON, WASHINGTON 99328

TELEPHONE (509) 382-2578

May 15, 1974

Honorable Warren G. Magnuson
United States Senate
Washington, D.C.

Dear Senator Magnuson,

Thank you for allowing us to comment on Senate Bill 3362, the Bonneville Power Administration Self Financing Bill.

At the regular meeting of our Board of Trustees, held May 14, 1974, the following resolution was unanimously adopted:

RESOLUTION

BE IT RESOLVED, Columbia Rural Electric Association, Inc. favors and supports the general objectives and principles of Senate Bill 3362, and House of Representatives Bill H.R. 14168. However, the Cooperative has serious reservations about allowing the Secretary of the Treasury to add an undesignated interest amount to the BPA Bonds above the market yield value; we believe it should be a fixed rate to cover servicing the Bonds. The Cooperative also questions the need for the numerous inflexible restrictions placed on BPA. The Cooperative opposes the provision that takes away the Administrator's right to acquire a transmission facility by condemnation.

BE IT FURTHER RESOLVED, that Columbia Rural Electric Association, Inc., Board of Trustees commends our Congressional Delegation for their past and present efforts to secure for the Northwest, the most economical and environmentally clean power supply in the United States.

We do not, at this time, plan to testify at the bill's hearing.

Thank you.

Very truly yours,

COLUMBIA RURAL ELECTRIC ASSN. INC.

Clark A. Brewington

CAB:vb

Clark A. Brewington, Manager



THE WASHINGTON WATER POWER COMPANY

Electric and Natural Gas Service

P.O. BOX 3727 • SPOKANE, WASHINGTON 99220 • (509) 489-0500

WENDELL J. SATRE
PRESIDENT

May 21, 1974

Honorable Warren G. Magnuson
United States Senate
127 Old Senate Office Building
Washington, D. C. 20510

Dear Senator Magnuson:

Thank you for your letter of May 1, 1974, relating to S. 3362.

As you indicated, we did participate in drafting the bill and it appears to be acceptable to the Pacific Northwest and is needed as soon as possible. Therefore, it is unfortunate that it extends to areas not presently included in the Bonneville grid and will inevitably run into opposition from these areas.

We presently assume that the Pacific Northwest utilities will be represented as a group at the hearings. If it develops that this is not the case, we will advise you.

Thank you for the invitation to comment.

Respectfully,

W. J. Satre

S. bw

PUBLIC UTILITY DISTRICT NO. 1
PHONE 206/532-4220 Grays Harbor County
P.O. BOX 480 ABERDEEN, WASHINGTON 98520

May 21, 1974

Honorable Warren G. Magnuson
United States Senate
Washington, D. C. 20510

Dear Senator Magnuson:

Thank you for your letter of May 1, 1974, offering us an opportunity to comment on S. 3362. As you know, this proposed legislation was the subject of a great deal of discussion here in the Northwest and, as a result, represents a compromise among many varied interests.

We believe that providing the Bonneville Power Administration the authority to finance its construction program is very important to the Northwest and to the program being carried on here involving joint planning and financing by the utilities of needed thermal generation; therefore, we urge your support of this legislation.

Yours very truly,

Ferris G. Gilkey
General Manager

FGG/ep

35-931 O - 74 - 19

May 13, 1974

INLAND POWER & LIGHT COMPANY
VINCENT P SLATT, MANAGER

The Honorable Warren G. Magnuson
New Senate Office Building
Washington, D. C. 20510

Dear Senator Magnuson:

Thank you very much for your letter of May 1, 1974, requesting comments on Senate Bill 3362, which you and other Senators of the Northwest have introduced.

We are certainly in accord with the general intent of the bill which would permit the Bonneville Power Administration to use their revenues for purposes stated in the bill. We would even go farther by saying it would be nice if the bill would permit Bonneville not only to build transmission lines in this fashion, but also to purchase power.

We do not agree, however, with the provision that bond interest rates should be increased in order to make them comparable to rates prevailing in the open money market. We believe this would cause an additional financial burden on the customers eventually purchasing power.

We also are concerned because of the many restrictive provisions that could result in Bonneville building very few of the future transmission lines in the Northwest. As a result the transmission grid would be divided among too many owner-operators resulting in an uneconomical operation.

Because of the tremendous amount of hydraulic power generated in the Federal Projects along with the importance this power will play in our hydro-steam future, Bonneville's ability to transmit should not be subject to other entities who could gain control by owning certain important sections of the transmission grid.

Hopefully these comments will be of some assistance to you in seeking the bill's passage.

Very truly yours,

INLAND POWER & LIGHT COMPANY

Vincent P. Slatt, Manager

Mary 16 [illegible]

LEO THAMS *President* E.A. BURGESS *Vice President* DONALD LENHARD *Secretary* GALE BOY *Treasurer*
EAST 320 SECOND AVENUE SPOKANE, WASHINGTON 99202 PHONE (509) 747-7151



COMMISSIONERS

J. A. COLE
H. W. PARKER
E. W. TAYLOR

PUBLIC UTILITY DISTRICT No. 3

OFFICERS

E. W. TAYLOR – President
J. A. COLE – Secretary
G. D. SAMPLES – Manager
R. D. HOLLAND – Auditor

MASON COUNTY, WASHINGTON
THIRD and COTA STREET
POST OFFICE BOX 490
SHELTON, WASH. 98584
TELEPHONE 426-8255

May 14, 1974

Senator Warren G. Magnuson
United States Senate
Committee on Commerce
Washington, D. C. 20510

Dear Senator Magnuson:

I am in receipt of your letter regarding the introduction of S3362 which is for the purpose of enabling Bonneville Power Administration to finance the future construction of the Federal Transmission System in the Pacific Northwest.

On behalf of the Board of Commissioners of Public Utility District No. 3 of Mason County we wholeheartedly concur with this concept and appreciate you and your colleagues support in this legislation.

Sincerely,

G. D. Samples

G. D. Samples, Manager

GDS:bel

"PUD's - Utility Service Of ...By ...and For the People"

[illegible] VALLEY ELECTRIC CO-OP INC.

POST OFFICE BOX 31 • NESPELEM, WASHINGTON 99155 PHONE 509/634-4571

May 10, 1974

Senator Warren G. Magnuson
Senate Office Building
Washington D.C. 20510

Dear Senator Magnuson:

This is in answer to your letter of May 1, regarding S. 3362, (H.R. 14168), the Bonneville self financing bill which you are co-sponsoring.

I believe the bill is a step in the right direction. I am in favor of giving BPA the authority to sell revenue bonds to finance new transmission lines and to use their revenues to pay operation and maintenance costs.

I feel that BPA should be allowed to retain the right of condemnation. It is possible that at some future time this could be desirable.

There is also a provision which gives the Secretary of the Treasury the authority to add to the bond interest rate an amount to increase the interest to compare with similar bonds on the market. I believe this would unnecessarily increase the cost to BPA and ultimately increase the cost of wholesale power.

I am not in favor of duplication of transmission facilities but I do believe that BPA should have the authority to construct new transmission and condemn if necessary to best serve the interest of the people in supplying a reliable source of power in the future. The Bonneville transmission system has proven itself to the people of the Northwest and I believe there should be as few restrictions as possible.

Sincerely,

Leland A. Williams

Leland A. Williams
Manager

VERNE BLOUGH, PRESIDENT
RAY R. GREEN, VICE PRESIDENT
J. D. HUDSON, SECRETARY-TREASURER
LELAND A. WILLIAMS, MANAGER

May 31, 1974

SENATE INTERIOR COMMITTEE
RECEIVED
JUN 5 1974
WASHINGTON, D. C. 20510

The Honorable Henry M. Jackson
Chairman, Committee on
Interior Insular Affairs
United States Senate
Washington, D. C. 20510

Dear Senator Jackson:

The Tacoma, Washington Local 7945 of the United Steelworkers of America supports early passage of the Federal Columbia River Transmission Systems Act, S.3362.

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

W. A. Thode, Vice President
Local 7945
United Steelworkers of America
Tacoma, Washington

WAT:ct

HENRY R. RICHMOND
12640 ABRA DRIVE
SAN DIEGO, CALIFORNIA 92128

June 3, 1974

Senator Mark O. Hatfield
United States Senate
Washington D.C.

Dear Mark:

Replying to your letter of May 28, 1974 I endorse S. 3362 and H. R. 14168 (Federal Columbia River Transmission Act). However, I regard this proposal as only a small and timid step in the right direction as it may affect the region's short and long term power supply problems.

The region needs something more than a new method to finance the capitol and operation-maintainence costs of Bonneville Power Administration.

The minimum requirement, it seems to me, is legislation authorising BPA to purchase steam power in regular increments in future years so that it may continue to serve its preference and industrial customer loads as they continue to increase.

Absent such legislation BPA will not be able to renew its industrial customer contracts as they expire, with the preference customers exercising rights to these blocks of power as they become available.

In these circumstances it would appear the industrial customers of BPA will have to move out of the Northwest, perhaps out of the U.S.

In the meantime the private companies will be forced to build high cost new generation facilities to serve their loads and, assuming the State regulatory agencies grant rate increases to the Companies adequate to finance their construction programs, the rate disparities between the public systems and the private systems may become untenable. Oregon will become a high power cost state while Washington costs will remain relatively low. This is because Washington is a predominently public power state and Oregon is vice versa.

HENRY R. RICHMOND
12640 ABRA DRIVE
SAN DIEGO, CALIFORNIA 92128

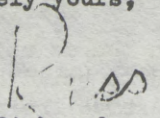
It is ironic that, while in the early days of federal power in the Northwest public systems were given preference to federal power to permit them to get into business, it might be argued today that that it would now be appropriate to give the private companies preference or at least parity treatment in the interest of rate equity among all the consumers of the region.

What is needed, I feel, is some kind of regional entity — public, private, federal what have you — with an overall responsibility and direction to plan and build major generation and transmission facilities as needed to meet the future loads of the region. Sales would be made on the same terms and conditions to all regional wholesale power purchasors. For the purpose of rate making the higher cost new plants would be blended with the low cost plants now in service. New facilities would be financed on the basis of power sales contracts.

Under this approach the Northwest would have, I believe, power at the lowest costs and the most environmentally acceptable power system attainable.

This letter may be incorporated in the hearings record if you desire.

Sincerely yours,



Henry R. Richmond
(former BPA Administrator)

Charles F. Luce
Chairman of the Board

Consolidated Edison Company of New York, Inc.
4 Irving Place, New York, N Y 10003
Telephone (212) 460-2003

May 31, 1974

Honorable Mark O. Hatfield
United States Senate
Washington, D. C. 20510

Dear Senator Hatfield:

In response to your letter of May 28, 1974, I have read and briefly discussed with Mr. Don Hodel, the Bonneville Power Administrator, the Columbia River Transmission System Act, S. 3362, concerning which you have requested my views.

The bill seems to me a sensible approach to a demonstrable regional need. It is based upon two long-accepted principles: that the Bonneville Power Administration's grid system should be financially self-supporting, and that it should be available to all public utilities for the economical transmission of energy. Enactment of the bill should not disturb the existing pattern of mixed private and public ownership of electric generation, transmission and distribution facilities which has served the region so effectively. On the contrary, it should strengthen this pattern of diversity. As I understand the language of the bill, it is, in fact, the result of careful consultation among all sectors of the utility industry in the Pacific Northwest.

It should be recognized that the interest formula in the bill will have the effect of raising the capital charges for new transmission facilities construction by the Bonneville Power Administration. But in the present

capital markets, such an increase does not seem out of line. And, as an offset to this additional cost, the bill would permit a more orderly scheduling of new construction which should produce important economies, as well as strengthening the reliability of the regional grid.

I have no objection to your offering this letter for the hearing record.

Sincerely,

Charles F. Luce

Charles F. Luce

CANBY UTILITY BOARD
P.O. BOX U • 465 S.E. 1ST AVE.
CANBY, OREGON 97013
PHONE 266-1156

BOARD MEMBERS
GENE NEWTON • CHAIRMAN
CHARLES SANDSNESS • MEMBER
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SHIRLEY SARTY • SECRETARY
JUDITH HOFMANN • BOOKKEEPER

June 3, 1974

The Honorable Mark O. Hatfield
United States Senate
Washington, D.C. 20510

Dear Mark:

Subject: S-3362 and HR-14168

I wish to thank you for your inquiry for our opinion regarding the two subject bills which will come up for a hearing in your Committee on Interior and Insular Affairs.

As you probably well know, there are approximately one hundred-four public and private utilities serving the Northwest area, all of which are members of the Northwest Public Power Association. We all work together very well and are in complete accord with the local Bonneville Power Administration offices and officials. We think this is a very important aspect of the power situation in the Pacific Northwest. The industry seems to provide high quality service and certainly is the cheapest or most economical power obtainable in the United States.

Today, I have checked with the Public Power Office in Vancouver, Washington and Mr. Alan Jones of McMinnville Light and Water Department and it seems that all of us here as far as I know are one hundred percent in favor of the passing of the subject measure. I am sure there will be several members of our organization, both from public and private utilities, present to testify before your committee when you meet.

Thank you very much for your support.

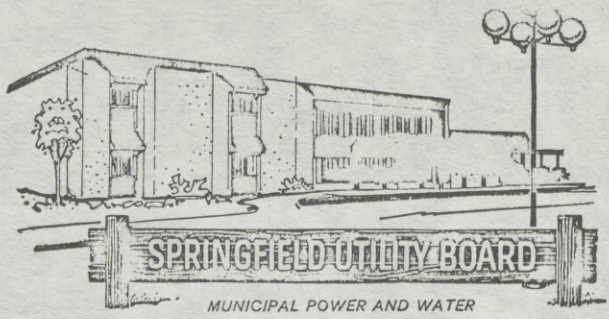
Yours very truly,

CANBY UTILITY BOARD

Lee Cox

Lee Cox
Manager

LC:sss



P. O. Box 300 · 250 North "A" Street · Springfield, Oregon 97477 · Telephone 746-8451

Air Mail - Special Delivery

June 3, 1974

The Honorable Mark O. Hatfield
United States Senator
United States Senate
Washington, D.C. 20510

Dear Sir:

Thank you for your letter of May 28 - your invitation to submit my views on the Federal Columbia River Transmission System Act (S. 3362 and H.R. 14168) is greatly appreciated.

This proposed legislation is the result of more than one year of concerted effort by consumer-owned utilities, private utilities and the Bonneville Power Administration, and we believe this legislation will provide a workable frame work within which public and private utilities, BPA and major industries in the Northwest can continue to plan and develop power resources and transmission facilities in the most economical and efficient manner.

The Springfield Utility Board fully supports the proposed legislation, and we endorse the testimony that will be presented on behalf of the Northwest Public Power Association, the Public Power Council and the Pacific Northwest Utilities Conference Committee.

If it will be helpful, we will be pleased to have you submit our views for the hearing record.

Sincerely,

Jack R. Criswell
Superintendent

f

PORTLAND
CHAMBER OF COMMERCE

824 S. W. FIFTH AVENUE • PORTLAND, OREGON 97204
AREA CODE 503 228-9411

May 31, 1974

The Honorable Mark Hatfield
Senator, United States Senate
Committee on Interior &
Insular Affairs
Washington, DC 20510

Dear Senator Hatfield:

We understand a proposal to help insure the availability of electrical power in the Northwest, sponsored by you and Senator Jackson, is scheduled for hearings in early June.

The bill, the Federal Columbia Transmission System Act, is a significant step in dealing with our growing energy problems and needs, It appears essential that the Bonneville Power Administration have the latitude to plan for and be assured of adequate appropriations for transmission facilities on a long-term basis.

Current annual appropriations methods, which require the planning of transmission facilities on the same annual basis, cannot economically or reasonably serve the needs of the Northwest.

The Portland Chamber of Commerce Energy Committee would like to join with the local power companies in urging the Committee on Interior and Insular Affairs to expedite favorable action on this bill. We certainly support and commend your efforts in developing and supporting action on this bill.

Sincerely,

Dean Schamp

Dean Schamp
Chairman, Energy Committee
The Portland Chamber of Commerce

DS:mmf

PUBLISHED EVERY MORNING OF THE YEAR

The Oregon Statesman

FOUNDED 1651

MEMBER ASSOCIATED PRESS

SALEM, OREGON

J. WESLEY SULLIVAN
Associate Editor

June 3, 1974

Sen. Mark O. Hatfield
463 Old Senate Office Bldg.
Washington, D.C. 20510

Dear Sen. Hatfield:

Wendell Webb has asked me to reply to your letter asking for our response to the Columbia River Transmission System Act.

I don't pretend to understand all the implications of the act, but its basic purpose seems valid. It would be far preferable to let BPA issue bonds for its transmission facilities than to have to rely upon Congressional appropriations.

The more that the Pacific Northwest can become independent financially from the vagaries of Congressional funding, the better.

The measure apparently doesn't speak to some of the more basic problems of the electric energy situation in the Northwest, however.

When BPA was created, it was understandable that Congress established a public power preference clause. In the 1930s, when no one was using much power, the private utilities were not expansion-minded. If BPA was to invest so much public money in big dams, there had to be incentives to get the PUDs started and begin using the great supply of power which would be available, and spread it around the unserved areas.

The opposite kind of situation prevails today, however. No matter how much power we produce or how we distribute it, there won't be enough to go around. In this situation, Oregon citizens are unhappy to find the vast majority of federally-produced power going to Washington state because of the federal preference clause.

Oregon people have just as much of an investment in the power dams as do our neighbors to the north, and just because we happen to have more private utilities instead of public in this state, we shouldn't become second-class citizens in the energy crisis.

I know how difficult it would be politically to upset or disturb the preference clause, but that doesn't mean it fits the needs of the times.

Thanks for listening. Use these remarks as you wish.

Sincerely,

JWS

J. Wesley Sullivan
Associate Editor

western union Telegram

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PMS SENATOR MARK HATFIELD
SENATE OFFICE BLDG
WASHINGTON DC 20510
STATEMENT OF WILLIAM A COOK MANAGER OF THE COOS-CURRY ELECTRIC COOPERATIVE INC COQUILLE OREGON REGARDING S3362-HR14168, THE FEDERAL COLUMBIA RIVER TRANSMISSION SYSTEM ACT.
COOS-CURRY ELECTRIC COOPERATIVE INC IS ONE OF THE FOURTEEN RURAL ELECTRIC COOPERATIVES SERVING THE STATE OF OREGON. I, AS MANAGER OF COOS-CURRY ELECTRIC COOPERATIVE, INC, AND SPEAK FOR OUR BOARD OF DIRECTORS, SUPPORT THE BILL BUT THINK CERTAIN SECTIONS PUT RESTRAINTS UPON THE BONNEVILLE TOWER ADMINSTRATOR, WHICH HOPEFULLY COULD BE MODIFIED IN IT.S FINAL DRAFT.
WHILE I HAVE QUESTIONS ABOUT SECTION 5, IF THE INTENT OF THE
SF-1201 (R5-69)

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 JUDGEMENT 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 ADMINISTATOR 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 POWER 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
SF-1201 (R5-69)

ASSOCIATION AND THE PUBLIC POWER COUNCIL, OF WHICH THEY ARE A MEMBER, I FEEL THIS BASICALLY REFLECTS THEIR THINKING.
WILLIAM A COOK GENERAL MANAGER PO BOX 460 COQUILLE OR 97423
NNNN

western union Telegram

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PMS SENATOR MARK HATFIELD

CAPITOLHILL DC

I AM DEFINATELY IN FAVOR OF BILLS S3362 AND HR14168 REGARDING COLUMBIA RIVER TRANSMISSION ACT. I ENCOURAGE THE PASSAGE OF THESE TWO BILLS

O W KORTGE MANAGER NORTHERN WASCO COUNTY

PEOPLES UTILITY DIST 308 COURT ST THE DALLES OREGON

NNNN

PACIFIC NORTHWEST WATERWAYS ASSOCIATION

TELEPHONE—AREA CODE 509 - 525-5620 P. O. BOX 1098 310-312 JONES BUILDING
WALLA WALLA, WASHINGTON 99362

GEORGE M. DYNES
President

ARTHUR W. REIDER
Senior Vice President

KEITH L. HANSEN
Treasurer

H. CALVERT ANDERSON
Executive Vice President

June 3, 1974

Honorable Mark O. Hatfield
United States Senator
Senate Office Building
Washington, D.C. 20510

Dear Senator,

I regret that your letter of May 28 concerning the Federal Columbia River Transmission System Act did not arrive on my desk until June 3 which makes it doubtful if you will have this reply prior to the June 6 and 7 hearings.

The Pacific Northwest Waterways Association has always been a strong supporter of the Pacific Northwest Hydro-Thermal program as an essential to our continued development. The full realization of Phase II of that program is even more important now than before not only to enable this region to have its needed energy supplies but to permit exportation of power to other regions in periods of generation capacity beyond local needs. As you well know, where the rest of the nation is 4% dependent on hydro power, we, in the Pacific Northwest are 90% dependent on this source.

The continued development of the Bonneville Power Administration transmission grid is essential to the full utilization of our hydro and thermal generated power.

The Pacific Northwest Waterways Association contains it its membership private power companies, public utility districts, municipal systems and industrial power users. The Association has not yet taken a definite position on S. 3362 and HR 141 68 pending full study and agreement among all of our members. Such action will probably be on the agenda for discussion at the next meeting of our Board of Directors in Coeur d'Alene, Idaho on June 12, 1974.

I appreciate your courtesy in contacting us and will keep you closely advised of any action or position taken.

Sincerely,

H. Calvert Anderson

H. CALVERT ANDERSON
Executive Vice President

HCA:pr



THE IZAAK WALTON LEAGUE OF AMERICA
INCORPORATED

PACIFIC WEST REGION
P. O. Box 1003,
Roseburg, OR 97470
June 4, 1974

The Honorable Mark O. Hatfield
United States Senate
Russell Senate Office Building,
Washington, D. C. 20510

Dear Senator Mark:

Thanks for the review copy of S.3362, the "Federal Columbia River Transmission System Act."

It seems to me the bill would help to resolve many of the problems associated with present and projected delivery of electrical energy.

Although not often realized as such, efficient power transmission systems are a very significent factor in the overall conservation of electrical energy. Good, reliable distribution can and does reduce the amount of emergency and surplus generating capacity required by each producing component of the system. There is also a net saving through reduction of line losses.

I can find only one sentence in the Act where you might wish to consider a change in verbage. Sec. 9, the sentence numbered "(1)" appears to have been taken from the original BPA Act, which was written at a time when "encouragement" of electrical energy use was the name of the game. Today, this part of the BPA functions might better be expressed something like: "(1) with a view to meeting present and future needs for widely diversified electric power uses at the lowest possible rates consistant with sound business principles...."

It seems to me that this Act is needed for the good of both the consumer and the industry. As I have indicated, there should also be some conservation gains.

Best personal regards.

Sincerely,

Charles S. Collins

Charles S. Collins
Regional Governor

cc - Maitland Sharp, Nat. Conservation Dir.

ROY F. BESSEY
606 SOUTHWEST EVANS STREET
PORTLAND, OREGON 97219

June 3, 1974

Honorable Mark O. Hatfield
United States Senator
Senate Office Building
Washington, D.C. 20510

Dear Senator:

Your letter of May 28 with text of Bill S. 3362 for a "Federal Columbia River Transmission System Act" is acknowledged.

In response, I am pleased to submit my views on the proposed Act, particularly as to its provisions for self-financing in the Bonneville Power Administration program and operations and as to potentials for more effective long-range planning, research and development.

These views are based on some involvements in and observations of regional power and related matters extending from pre-Bonneville Project Act power system and organizational planning in the middle-1930's down to the present time.

In general, the Bill is seen as an exceedingly desirable step in a clarification and strengthening of the Bonneville Project Act in the interest of increasingly effective management of this very large and vital public service utility and function.

The provision for establishing a significant degree of autonomy and flexibility, consistent with the agency's responsibility for well-directed, timely, and efficient development, maintenance, operation, and betterment of this federal regional power system is urgently needed and long overdue. The new legislation would accord financing powers that would be in harmony with the system's self-sustaining character, with desirable corporate-type responsibilities, and with an essential ready adaptability to needs in meeting evolving and urgent power service demands. At the same time, this semi-autonomy in financial management would be exercised without any essential loss of general policy and financial control by the Congressand Executive Branch.

The corporate-type management and financial authority now proposed have been seen as fundamentally sound and desirable for a very long time. For example: they were suggested in the 1936 report of the National Resources Committee and Pacific Northwest Regional Planning Commission (Regional Planning, Part I--Pacific Northwest, pp. xvi-xvii, 10-11), which recommended establishment of the Pacific Northwest power agency, and in the proposed Bonneville Project Act Amendments of 1958 (Hear-

ings, Subcommittee of Committee on Public Works, U.S. Senate, 1958). Such powere have been accorded TVA under the Tennessee Valley Act and amendments in connection with the similar power system operations of that Authority.

With respect to research and development needs and provisions, it is to be trusted that under the original and amended Bonneville Acts, the Administration will have the authority and means to engage in and to participate and cooperate with other agencies and institutions in broad energy- and environment-oriented research and development. Such comprehensive R and D should deal with the sources, conservation, and uses of energy, as well as with the construction, operation, and maintenance of transmission systems. By virtue of organization, personnel, facilities, and experience in power technology and management, BPA is well qualified to make very significant contributions to the energy investigations and programs essential in fairly meeting the prevailing and continuing national and world energy crisis.

The need and role of long-range planning, research and development has been dwelt upon in the course of earlier considerations of power development and management and enabling legislation in the Pacific Northwest.

Your own comprehensive statement on the energy crisis delivered to the Northwest Regional Conference on the Energy Crisis in Portlandthis March is, in my opinion, very relevant in this connection.

The proposed Act's requirement for "lowest possible rates"(Sec 9) should be broadly interpreted, it is believed. The policy of power in abundance, wide use, and lowest cost that has prevailed since the 1930's needs modification in the light of the growing recognition of resource depletions and environmental impacts over the past decade. Under emerging conditions, for example, environmental costs may be directly involved and allocable in power project and program costs. Under the circumstances such policy considerations, as well as "sound business principles," may well enter into rate determinations.

A brief paper on this power policy aspect, as well as that of R and D, is attached as of possible interest.

With good wishes for enactment of the needed legislation.

Sincerely,

Roy F. Bessey

Roy F. Bessey
Planning Consultant

Encl.

9690 MAY 1973 PO1

JOURNAL OF
THE POWER DIVISION

PROCEEDINGS OF THE AMERICAN SOCIETY OF CIVIL ENGINEERS

DISCUSSION

Proc. Paper 9690

LOGICAL APPROACHES TO POWER SUPPLY AND ENVIRONMENT[a]

Discussion by Roy F. Bessey,[2] F. ASCE

The Woodson paper is a very timely, substantial, and relevant contribution in view of the parallel and intermeshed crises of energy and environment. Good light is thrown on desirable directions and methodical procedures for planning and controlling plant location and development in harmony with environmental requirements.

The comment offered herein is of an amplifying and emphasizing nature relating to broad and long-range policy and planning aspects of the situation and need. It would support a view that the impacts of power development are of major proportions and call for more than ordinary, engineering-type management. With continued exponential expansion of power production and use, the cumulative degrading impacts upon the biosphere of air, water, and land (locally, regionally, and globally), upon limited resources and upon the quality and security of life and environemnt will reach devastating proportions (1-5).

Forrester states (3): "Man throughout history has focused on growth-growth in population, standard of living, and geographical boundaries. But in the fixed space of the world, growth must in time give way to equilibrium . . . exponential growth cannot continue indefinitely." An article, "Blueprint for Survival" states (1) "The principal defect of the industrial way of life with its ethos of expansion is that it is not sustainable . . . It should go without saying that the world cannot accommodate this continued increase in ecological demand . . . Exponential growth is treacherous and misleading. A system variable can continue through

[a]October, 1972, by Riley D. Woodson (Proc. Paper 9257).

[2]Planning Consultant, Portland, Ore.

many doubling intervals without seeming to reach significant size. But then in one or more doubling periods, still following the same law of exponential growth, it suddenly seems to become overwhelming."

A thorough overhauling of energy goals, policies, and planning is needed (and is engaging attention in and out of government). Behind any ad hoc power plant location and siting process should be a system of basic principles, standards, and plans for safeguarding environmental quality—for meeting the dangers before a location becomes fait accompli. Power plans must be fully integrated in area and regional plans—especially those for the use of land, water, and related resources and for community and industrial areas and transport, energy, and other utility corridors. Primary attention should be given to resolution of underlying and hampering dichotomies or conflicts of interest—as between an earth-responsibility ethic and one of exploitation, or between economy and ecology, industrial and service-oriented society, development and conservation, or short-run and long-run advantage, for example. Research and development in energy and environmental fields jointly, must be sharpened and expanded as essential means to the ends of a livable environment.

The indicated theme of a broadened approach is exceedingly complex, and some elaboration seems desirable herein.

With the heightening of the environmental crisis, the problems of energy resources development and use loom larger in scope and difficulty. Energy industries, from extraction to usage, have mounting effects on environmental quality. Fossil and nuclear fuel production contribute materially to pollution through their particulate, liquid, gaseous, and thermal wastes, emissions, and spills. Atomic energy brings its own environmental inputs and risks—radioactivity, meltdown threat, and waste handling and disposal. Other sources, including the geothermal, have their special waste disposal effects to be checked out.

The wide-ranging issue of readjustment in energy policy, research, plans and programs in harmony with those of environmental conservation should be noted.

We have reached—probably passed—the end of an era in electric power policy, planning, and development. The era that began in the 1930's brought a public policy that called, in shorthand terms, for abundance, low cost, and wide distribution of electric energy. That policy served well for a period of relative material scarcity and helped to energize a depressed economy, expand material production, strengthen resource base, provide employment and other economic opportunity, and raise living levels. Now, the situation has changed materially. The ongoing crisis is characterized by a general material affluence and a widely endangered environment. Physical production, accompanied and stimulated by a power development still expanding in geometric progression, is adding to wastes—mineral and organic substances, particulates, gasses, radioactivity, heat—imposed on already overloaded ecological and environmental systems. Much of the new power use goes beyond necessities and into the realm of luxuries—at least in the developed world and from human welfare points of view.

Thus, abundance in power policy aims should be reexamined—abundance where, to what end, and at what cost? Similarly, low cost concepts must be expanded to encompass social and environmental costs in power usage. Wide distribution must also have added meanings relating to the needs of today and tomorrow—as for deconcentrations of people, industries, communities, and for

establishment of more habitable patterns of occupance, conservation, and use of the land and its resources. Utility responsibilities in these connections need definition and establishment.

A broad question may be posed: What are the anticipated impacts and relationships between the development of energy sources and the location, design, construction, and operation of power generation and transmission capacities and facilities on one hand, and the conservation of resources and environment on the other?

Expanded, directed, intensive, and coordinated—and well supported—research and development is a major key to the answer. Illustratively, significant items in such a needed research and development program would include:

1. New, expanded, and sustainable sources of energy, regional and global.
2. New and improved processes of conversion of energy.
3. Conservation and economies in energy use; reduction in load growth rates.
4. Technology of beneficial energy use, in materials conservation and reclamation, waste disposal, etc.
5. Technology of energy transmission and distribution, in relation to land use and other factors.
6. Strengthened, longer-range, well coordinated planning for power development, plant and transmission location, etc., in harmony with requirements of land use, conservation, ecological balance, and security, etc.
7. Advanced technology in power plants, reactors, cooling systems, fuel handling and transportation, waste disposal, etc., in relation to public health and safety, environmental protection, etc.
8. Effective use of energy in activities relating to environmental protection, as in treatment and disposal of wastes, maintenance of quality in water, air, and land, etc.
9. Effective use of energy in economic, social, community, and environmental facilities and services such as housing, urban and rural improvement, transportation and transit, health, education, welfare, esthetics, etc.
10. Administrative and fiscal research in fields of coordinated research, planning, administration, management, etc.

The magnitude and complexity of comprehensive, integrated planning—including the burgeoning environmental impact review process—necessitates modernization and beefing up of planning systems. Essential arrangements include centers of planning coordination at local, regional, and national levels, designed for governmental, intergovernmental, utility, institutional, and citizen participation.

Appendix.—References

1. "Blueprint for Survival," *Ecology*, London, England, Jan., 1972; also published *Print for Survival*, by Houghton Mifflin, Boston, Mass., 1972.
2. Donella Meadows, *Limits of Growth, Report for Club of Rome Project on the Predicament of Mankind*, Universe Books, Cambridge, Mass., 1972.
3. Forrester, J. W., *World Dynamics*, Houghton Mifflin, Boston, Mass., 1972.
4. Ward, B., and Dubos, R., *Only One Earth*, Norton Press, New York, N.Y., 1972.
5. "U.S. Energy Growth: Can It Grow Forever?" *Civil Engineering*, ASCE, Vol. 42, No. 1, Jan., 1972, pp. 87-88.

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Tri-City Herald

The Voice of The Mid-Columbia Empire
Pasco • Kennewick • Richland
P. O. Box 2608, Pasco, Washington 99302 Area Code 509 586-2121

June 4, 1974

Senator Mark O. Hatfield
463 Old Senate Office Building
Washington, D. C. 20510

Dear Mark:

Your letter of May 28th was just received concerning your hearings scheduled for June 6th and 7th in the House and Senate on the Columbia River Transmission System Act.

I was unable to reach you on the phone today, so I visited with Jerry Frank, and asked him to express to you in my behalf that I think this is good proposed legislation.

We here in the Pacific Northwest should not be dependent on annual government appropriations to plan for our long term future. We should have legislation like this passed so we can do our own planning, have long range plans for the future of the benefit of the Pacific Northwest utilities and availability of power and transmission.

We have currently, harmony and agreement amongst the utilities of the Pacific Northwest both public and private, and they also support this proposed legislation.

You certainly may quote me on the record. The Tri-City Herald is a daily newspaper serving eight counties in Southeastern Washington and Northeastern Oregon and we follow all matters concerning power, irrigation and reclamation very closely.

On another matter, the possibility of moving the Navy off the Boardman bombing range, enclosed are copies of letters May 22, 1974 that I wrote to Irwin Mann, Bob Short, and Stafford Hansell with a practical suggestion. Also a letter of May 1, 1974 on the same subject.

Between the Tri-City Nuclear Industrial Council, of which I am the secretary, and the Tri-City Herald, we continue to stand ready and willing to be of assistance to move the Navy off the Boardman range.

Thank you for contacting me on S. 3362.

Warm personal good wishes.

Sincerely yours,

TRI-CITY HERALD

Glenn C. Lee
Publisher

UMATILLA ELECTRIC COOPERATIVE ASSOCIATION

HERMISTON, OREGON 97838 TELEPHONE 567-6414

June 4, 1974

The Honorable Mark O. Hatfield
U. S. Senate
Washington, D. C. 20510

Dear Senator Hatfield:

I am replying to your letter of May 28, 1974, relative to our views on the Federal Columbia River Transmission System Act (S. 3362 - H. R. 14168).

We have been involved in many discussions in the region relative to the posture and possible changes in Bonneville Power Administration's existing authority and its role in meeting the region's power needs in the future. BPA has been our sole source of wholesale power until recently when we have become involved in participating in the development of thermal plants in the region under phase two of the hydro-thermal program. It has become apparent, in order for BPA to be a viable source of wholesale power and the transmission of power for our association in the future, that authorities are necessary to establish BPA's future on a self-financing program; therefore, we support the proposed legislation with some reservations.

These reservations include the restrictions on taking away the right of the Administrator to acquire transmission facilities by condemnation. This authority may never be used but there might be a situation where the Administrator could not act in the best interest of the public if he did not have this authority.

Another item of concern is Section 13 of the bill relative to the sale of revenue bonds dealing with interest rates. Adding on interest above that which the government is paying for bonds seems to me to be an unnecessary interest expense.

The final item that bothers us somewhat is the authority for the BPA Administrator to act as an agent to obtain additional power supply for our association. We have been assured by the Administrator that he has this authority and thus it is not included in the legislation; however, if for any reason, the Administrator could not act in the capacity of agent as contemplated, we feel he should then be given the authority to make direct purchases to meet the long-term needs of BPA customers.

During the course of these hearings, it is my understanding that you will be receiving further input from our National Rural Electric Cooperative Association relative to this proposed legislation.

Thank you for soliciting our views on this matter.

Very truly yours,

Russell N. Dorran
Manager

RND:dbm

PORT OF VANCOUVER

COMMISSIONERS
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Richard Fauble
Otto Neth

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One Columbia River
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Charles E. Gallup, Counsel

June 3, 1974

Honorable Mark O. Hatfield
United States Senator
Washington, D. C. 20510

Dear Mark:

Thanks for inviting me to give you my opinion on Federal Columbia River Transmission System Act (S. 3362 and H.R. 14168 -- the so-called Bonneville Power Administration self-financing bill). It is always good to hear from you and I appreciate your seeking my opinion on this bill. It is my opinion that it is a desirable one and preferable to the existing method of financing construction through the appropriations process

Senator Warren G. Magnuson also asked for my opinion on this bill and after giving it to him, I concluded my letter with the following paragraph:

> *"It is also my opinion that a majority of the voters in this area feel as I do about this bill, but as you know, we are encountering resistance from a growing section of our population on many expansion programs based on environmental and allied considerations. This is making it increasingly difficult to 'make progress' but hopefully the opposition to extending the Transmission System in the Pacific Northwest will not prevail."*

Just for old time's sake - you probably will remember our efforts when you were Governor of Oregon to set up a bi-state agency - so far this has not been accomplished. This is another good example of how difficult it is to "make progress" these days.

With best personal regards.

Cordially,

Don Tilson

Donald H. Tilson
Consultant

DHT:bmd

ROBERT WELTY ENGINEERS, INC.

1501 BARGEWAY ROAD
P. O. BOX 377
THE DALLES, OREGON 97058
503 296-6109

June 3, 1974

The Honorable Mark O. Hatfield
United States Senate
Washington, D.C. 20510

Dear Senator Hatfield:

The following comments apply to the Federal Columbia River Transmission System Act (S. 3372 and H.R. 14168 -- the so-called Bonneville Power Administration self-financing bill). I would appreciate entry of my views in the record of the Committee on Interior and Insular Affairs.

As a consulting engineer, I have been engaged for 29 years in the long range planning, design, and construction supervision of Rural Electric Cooperatives, P.U.D.'s and Small Municipal Systems in the Pacific Northwest. A substantially large part of these power distributors look to the Bonneville Administration, either as their only source, or as the transmission agency for group-owned generation facilities. I have long advocated restructuring the financial arrangement of the Bonneville Power Administration to allow added flexibility in long range planning and in commitment to long range utility transmission responsibility.

I believe Senate Bill S. 3362 and House Bill H.R. 14168 constitute a major step in the right direction. It is possible that minor changes may need to be made to accommodate localized problems; however, I wholeheartedly support the program outlined and developed by the Transmission Act.

Very truly yours,

ROBERT WELTY ENGINEERS, INC.

Robert Welty

Robert Welty

RW/mlh



NORTH SANTIAM PUBLISHING COMPANY, INC.
PUBLISHERS OF THE STAYTON MAIL
PHONE 769-2921
P. O. BOX 400 STAYTON, ORE. 97383
FRANK T. CROW, JR., PUBLISHER

June 4, 1974

Senator Mark O. Hatfield
United States Senator
Senate Office Building
Washington, D. C. 20510

Dear Senator Hatfield -

In recent years the construction and improvement of hydroelectric projects in the Pacific Northwest has nearly reached its optimum saturation point.

The Pacific Northwest pool of approximately 108 utilities, of which Pacific Power and Light is an intergal member, has been highly concerned about the increasing demand for energy during the next 25 years.

Since the construction and development of hydroelectric projects in this region is approaching optimum saturation, the Pacific Northwest pool of utilities has all ready turned to the construction of large thermal generating plants to meet the anticipated demand for electric power in years ahead.

Just in the lower Columbia river region, as you well aware, Pacific Power along with other utilities constructed the Centralia steam plant, a coal fired thermal electric project, and other private and public utilities are in the process of constructing the Trojan plant at Rainer, Oregon, which is a nuclear-fired thermal power plant. These kinds of efforts have resulted in the Pacific Northwest Hydro-Thermal Power Program.

Phase I of the program, adopted four years ago, 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.

However, as new hydro-thermal plants are planned and constructed and the existing hydro-electric and hydro-thermal plants are expanded and brought on line to meet demand use, additional transmission lines are going to be required.

I feel the continuation of the Federal Columbia River transmission grid under the Bonneville Power Administration is the most logical one to undertake the project of interconnecting the new generating and expanded units with the rest of the system and for transmitting their output throughout the region.

The sale of bonds to finance the required project makes real sense, rather than waiting for Congress to appropriate the monies. I am in agreement with the proposed Senate and House Bill. And you have my permission to submitt my views for the hearing record.

My best regards,

Frank

Frank T. Crow Jr.,
Publisher
THE STAYTON MAIL

OREGON Journal

DONALD J. STERLING, JR.
EDITOR

June 4, 1974

PORTLAND, OREGON 97201

The Honorable Mark O. Hatfield
United States Senate
Washington, D. C. 20510

Dear Mark:

This is in response to your invitation to me to comment on the Federal Columbia River Transmission System Act (S. 3362 and H. R. 14168).

Speaking for The Journal, we have supported the principle of the bill. I enclose a copy of our most recent editorial on the subject.

Speaking strictly for myself, I am struck by two phrases in the bill which it seems to me deserve further thought:

1. Section 9 seems to reaffirm that it is federal policy "to encourage the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles."

I realize that this probably restates federal policy going back at least as far as the original Bonneville Act. However, in this day of energy shortage, I wonder whether we should not now be emphasizing conservation and wise use of electric energy rather than "widest possible" use.

Last Friday at the City Club of Portland, I heard Governor McCall's energy policy man, Joel Schatz, argue that the production of energy itself is consuming a larger and larger proportion of our energy sources, to the point where in round figures I believe he said that to produce 1000 BTUs in a nuclear fission reactor requires about 560 BTUs of energy from other sources.

I do not know whether Mr. Schatz is correct, but I do sincerely wonder whether we have not reached the point where it is against good public policy to encourage expanded use of energy, especially in view of the obligations it may place us under to the oil producing nations abroad.

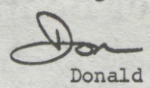
2. In Section 13 there is reference to the terms under which the bonds for the Bonneville system could be issued. Here I am far outside my field, but I know that the electric utility bond market is highly volatile these days and I simply wonder whether the rather vague language of this section is sufficiently well understood. If utility bond interest rates rise above 10% as it appears they might, would the revenue bonds contemplated under this bill also carry comparable interest?

I recognize that the demand for electrical energy in the Pacific Northwest is bound to increase regardless of any conservation measures that may be taken, and it seems to me that the bill would provide a highly desirable flexibility to Bonneville in meeting that demand.

I guess my only point is that in today's energy picture we probably ought to be reexamining our most basic assumptions.

Thank you for inviting these comments.

Regards,



Donald J. Sterling, Jr.

DJS:m
Enclosure

35-931 O - 74 - 21

4-15-74 Power

OREGON JOURNAL
April 15, 1974

Bonds For Bonneville

Agreement last winter on a joint long-range power supply program for this region implies a willingness by all the partners to meet their share of responsibility in trying to see that power needs through 1986 are met.

The partners include the Bonneville Power Administration (BPA), public and investor-owned utilities and BPA industrial customers.

BPA's dependence on year-to-year appropriations by Congress for expansion of existing hydro projects and construction of new transmission facilities leaves uncertainty about the agency's capacity to meet its commitments.

One answer to this problem is a revenue bonding proposal advocated for some time by Don Hodel, BPA administrator, and now embodied in legislation which has been submitted to both houses of Congress, with sponsorship generally of the Oregon and Washington delegations.

Enactment would authorize Bonneville to build transmission facilities on a self-financing basis through bonds. This would permit more orderly planning, since the agency would have an assured source of funds.

Not all of Bonneville's uncertainties would be removed, however, for the bonding measure does not apply to construction of added generating capacity at existing hydro projects. Much of this has long been authorized, but congressional appropriations have not kept pace with BPA's energy load growth projections. In some cases the administration has held back appropriated funds.

However, both Congress and the administration are much more acutely aware of the whole energy shortage picture, and the need for stepping up construction schedules is better understood. If the transmission aspect of BPA's growth can be self-financed instead of depending on appropriations, Congress might be all the more willing to provide funding at a faster rate for development of the yet untapped hydro generating potential which remains at existing facilities in the Columbia Basin.

The proposed legislation has the united support of the non-federal public utilities and the investor-owned utilities. No public versus private power issue is involved.

The power supply goals for 1986 and beyond demand that all the partners, public and private, do their utmost to help meet them. The BPA bond proposal is in line with that objective.

MARTIN MARIETTA ALUMINUM

JACK P. DOAN
Vice President & General Manager
REDUCTION DIVISION

POST OFFICE BOX 711
THE DALLES, OREGON 97058
TELEPHONE (503) 296-6161

5 June 1974

The Honorable Mark O. Hatfield
Suite #463
Russell Senate Office Bldg.
U. S. Senate
Washington D.C. 20510

Dear Senator Hatfield:

Confirming my telephone conversations with Steve Hickock of your office, I wish to state Martin Marietta's support for the Federal Columbia River Transmission Act (S.3362 and H.14168).

As one of the Bonneville Power Administrations direct service customers, Martin Marietta Aluminum participated in the evolution of this bill. In spite of certain compromises necessary to satisfy all of the varied interests in the Pacific Northwest, we feel that this legislation is a vital and constructive step enabling the Bonneville Power Administration to meet its proper and logical responsibilities in the regions program to meet its overall electric power requirements over the next 20 years.

The Bonneville Power Administrations direct service industrial customers organization will support this bill by statements at the Senate and House hearings. Martin Marietta Aluminum endorses these statements. However, we wanted you to be aware of our additional and direct individual company support of the legislation.

We strongly urge and request your support for the passage of this legislation.

Yours truly,

Jack P. Doan

Jack P. Doan
Vice President
Reduction Division

JPD:kl
cc: file

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OFFICE OF
CITY MANAGER

June 5, 1974

Mark O. Hatfield
United States Senator
Washington, D. C. 20510

Re: Federal Columbia River Transmission System Act (S-3362 and HR-14168)

Dear Senator Hatfield:

I wish to apologize for this belated response and hope that this reaches you in time to be of some value for the June Congressional hearings on the so called Bonneville Power Administration Self-Financing Bill. First of all, let me express my appreciation and thanks for your solicitation of our opinion and comments, and also your regard for the problems which affect the well-being of our region.

Our utility, has, on several occasions, reviewed and discussed the proposed Bonneville Power Administration Self-Financing Bill. It is our opinion that this proposed legislation is necessary to "streamline" the B.P.A. operations and also to meet the elctrical needs of the Pacific Northwest region. I should explain that our utility has the greatest degree of confidence in the management and personnel of the Bonneville Power Administration. The provisions contained in S-3362 will allow for sensible and logical regulations which should lead to a more effective and efficient operation of the electrical energy transmission and marketing in the Pacific Northwest.

Certainly from a fiscal and technical standpoint the merits of this legislation cannot be debated or challenged. By placing the Bonneville Power Administration on a self-sustaining, self-financed basis, a more business-like organization would result.

The only conceivable arguments against this legislation would evidently come from philosophical arguments from proponents of private industry. However, in this era of grave concern regarding the energy needs, and energy self-sufficiency of the United States, we cannot afford to compromise to ideologies which would serve the purposes of special interest groups at the expense and detriment of an entire region.

I have no objections if you wish to use any part of these comments in the presentations at hearings on this matter. If we may be of any further help to you, please don't hesitate to call on the undersigned.

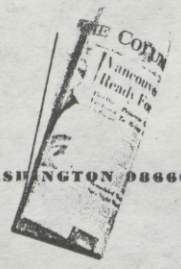
Sincerely,

Steve L. Loveland
City Manager

SLL:pb

The COLUMBIAN

WEST 8TH AT GRANT Telephone (206) 694-3391 VANCOUVER, WASHINGTON 98660



KENNETH RYSTROM
Managing Editor

6 June 1974

Honorable Mark O. Hatfield
United States Senate
Washington, D.C. 20510

Dear Senator Hatfield:

In response to your request for expressions of opinion on the Federal Columbia River Transmission System Act (your letter of May 28), I enclose a copy of a recent Columbian editorial of the subject of that act.

I think this editorial expresses not only the opinion of The Columbian but a good many individuals familiar with the proposed legislation, including myself.

This act represents a minimum step toward freeing the Pacific Northwest from the appropriations process of Congress and toward making the region a self-financing entity.

Best wishes in securing passage of this legislation.

Sincerely yours,

Kenneth Rystrom

Kenneth Rystrom

Funding electric power projects

Even though federal power projects in the Pacific Northwest are basically self-financing, the amount of funds available for spending each year depends on the whims of Congress and the Office of Management and Budget. Much needed projects which require steady, long-range financing sometimes are delayed because of short-term budgetary considerations.

As a result, the region may face substantial power shortages in the future.

Early next month Congress will hold hearings on a modest proposal that should partly free the Bonneville Power Administration from this unpredictable appropriation process.

BPA Administrator Don Hodel originally had hoped that Bonneville could be authorized to do its own financing for power dams, transmission facilities and regular maintenance and operation. That authority almost would have guaranteed that federal power projects would be completed on schedule.

The inclusion of dams proved too big a step for private utilities of the region. But they were willing to agree to self-financing of transmission facilities and maintenance and operation — with strings attached.

The bill that Congress will look at in June still will require Bonneville to obtain congressional authorization for all projects, including power lines. Congressional committees still will examine Bonneville's proposed expenditures. But, once projects have been authorized, Bonneville will be able to issue bonds to finance transmission projects and to spend the authorized funds as it wishes.

In the past all of Bonneville's revenues have gone into the federal Treasury, and all of its spending money has come out of the federal Treasury after appropriation by Congress (and approval by OMB). If the new bill is approved, Bonneville's current receipts and bond revenue will go into a special fund controlled by the BPA administrator.

This method of financing probably will bring somewhat higher electric rates for Bonneville customers, which include major industries and the public utility districts. Bonneville will have to pay the going interest rate on the bonds it sells instead of benefiting from a subsidized federal rate. But the subsidized rate, justified when Bonneville was a struggling infant, is more difficult to defend today.

More important than the interest rate is having power available to the region where it is needed. Somewhat higher rates may be the price of guaranteed transmission facilities.

In spite of the hurdle of annual appropriations, the Northwest has done well for itself in obtaining public works funds over the years. We have been blessed with congressmen with seniority placed in important positions in the appropriations process. But, with the retirement of Rep. Julia Butler Hansen, D-Wash., and Rep. Wendell Wyatt, R-Ore., we lose two members of the House Appropriations Committee. Washington can't count on always having two of the most senior members of the Senate.

If we can establish a more predictable method for funding our electric power projects while we still have political power, we will be providing ourselves with insurance for the days when it may be more difficult to be heard in Congress.

Vancouver, Wash.
Sunday, May 19, 1974 The COLUMBIAN 31

The Hanna Mining Company
Riddle, Oregon 97469

June 7, 1974

Senator Mark Hatfield
463 Russell Building
Washington, D. C. 20510

Dear Mark:

I am somewhat late in answering your letter of May 28, 1974 and for this I apologize. However, I feel an answer is necessary.

I am certainly not an expert on the electrical power problems of the Northwest; however, as General Manager of Hanna operating a nickel smelter in Oregon and a ferroalloy smelter in Wenatchee, Washington, it has been necessary for me to be as well informed as possible on the problem. Both plants are major consumers of electrical energy which originates with the federal system and is delivered through Bonneville. I think it is realistic to say that neither plant could exist without this source of electrical energy.

My understanding of the Federal Columbia River Transmission System Act (S3362 and HR14168) is that it is an essential part of the overall Northwest hydro-thermal power program. This program is a cooperative effort between the federal government and the public and private utilities to provide sufficient electrical energy to the region over the next ten years at least. An integral part of this program is a system of transmission to deliver the energy to the ultimate consumers and any transmission system must be safe and reliable. Without a reliable transmission system, substantial damage could be incurred by the ultimate consumer in various ways which I will not try to detail here. I can say, however, that in the Hanna plants unscheduled power interruptions can cause substantial production losses as well as damage to electrical equipment.

I have discussed this Bill with knowledgeable people in the region and have come to the conclusion that this legislation is essential as it is an integral part of the hydro-thermal program. Great strides have been made in this cooperative effort for improving the power supply in the Northwest and the federal government must be a part of this effort. Basically, this Bill reflects an agreement between diverse and sometimes conflicting interests in the region which reflects an overall understanding of the much broader and long-range needs of all interests. Therefore, in recognition of these needs, I would respectfully urge you to support this legislation strongly.

I appreciate your giving me the opportunity to express my views which I transmit to you with thanks.

Very best personal regards.

Sincerely,

THE HANNA MINING COMPANY

R. J. Maney
General Manager

pb

CALIFORNIA-PACIFIC UTILITIES COMPANY
P. O. BOX 786 2003 FIRST STREET
BAKER, OREGON 97814

(503) 523-3616

June 5, 1974

The Honorable Mark O. Hatfield
United States Senate
Washington, D. C. 20510

Dear Mark:

I appreciate your letter on the Federal Columbia River Transmission System Act and your interest in soliciting my views on this legislation. Your letter was received on June 3rd and I have taken the time to study the bill. I hope you have had better time to study the review than I have but I would like to make some general comments regarding the future of Bonneville Power Administration.

I believe the interest of the country and the power industry can best be served by using Bonneville Power Administration to assist private capital in developing a comprehensive grid system for the Pacific Northwest. This bill, in my opinion, does recognize the intention of the privately owned utilities and the Bonneville Power Administration to enter into contractual agreements. It has, in past times, been discouraging to see the Federal Government,through Bonneville Power Administration, in direct competition with private investors who must borrow their money on the open market.

At a time when the money was not available to build the extensive flood control dams on the Columbia River it was understandable that the Federal Government came to the aid of the area and financed some worthwhile power projects. The Federal Columbia River Transmission System Act would limit Bonneville Power Administration to that goal. The administration would still have an opportunity to finance transmission lines to intertie with private systems and to adequately serve their present customers.

I am in favor of the self finance portion of the bill as I believe it is in the best interest of all taxpayers that those that receive their service from Bonneville Power Administration pay for that service at its actual cost rather than having it subsidized by the general tax paying public.

By putting rates and charges under the approval of the Federal Power Commission, Bonneville Power Administration will be in the same catagory with private utilities that sell to independent utilities. The Federal Power Commission can, and will, see that all rates are adequate to meet the needs of the investing generating companies. This is the only method by which we can meet the future growth needs of the Pacific Northwest and have adequate generating capacity for the load that will ultimately come.

It should be pointed out that one of the greatest problems of the energy crisis was the low rate at which Bonneville Power Administration was selling their energy which ultimately would not finance construction of new facilities. Because of this low rate, private utilities were denied the business. The private utilities could not meet the rates as they were forced to obtain their money by borrowing at high interest rates and thereby needing higher rates of return.

I am sure you have heard from many utilities in the Northwest on this particular bill so I do not need to deal on the various features at length. In summary let me say that I believe the Federal Columbia River Transmission System Act calling for the so-called Bonneville Power Administration self financing bill is a worthwhile piece of legislation and deserves your support.

Again, I apologize for the lateness of this letter and want to thank you for contacting me.

We always look forward to your visits to our area and we remember that among the other great things you did as Governor you gave Baker and Union counties a chance to develop our wonderful ski resort at Anthony Lakes. Many generations to come will profit from the Anthony Lakes development and its fine recreational potential.

Your fellow senator, Bob Packwood, is in town today and I will pass on my comments regarding this bill to him.

Best regards to you and your family.

Sincerely,

C. S. Rasmussen
Vice President & Division Manager

CSR:lc



Central Electric Cooperative, Inc.

P. O. BOX 846 • REDMOND, OREGON 97756
PHONE 548-2144. AREA CODE 503

HIGHLAND AVENUE
AT
FIFTEENTH STREET

June 6, 1974

Hon. Mark O. Hatfield
United States Senator
Senate Office Building
Washington, D.C. 20510

Dear Senator:

This letter is in answer to your letter of May 28, in which you ask my views on Senate Bill 3362.

In reply, I wish to say that in my opinion the benefits of this legislation would be as follows:

1. Bill would free B.P.A. from the restraints of appropriation compliance.
2. Would alleviate the demand on federal appropriations.
3. Would eliminate the delays caused by budgeting considerations.
4. B.P.A. would be able to construct additions to its system on a timely schedule.

The disadvantages which may be associated with this bill could be the possibility of excessively high interest rates that could result, and in turn result in higher O. and M., and construction costs. The portion setting the rates on the revenue bonds is a little vague.

B.P.A. would be allowed to use the revenue bonds for transmission construction only, and then only if other utilities are not committed.

B.P.A. also would not be able to make long term power purchases from the funds. This could harm the small preference customer who hasn't any generating facilities.

I hope that my statements will be of some help to you.

With best wishes, I remain

Very truly yours,

John Norlin
Manager

JN:mj

CORNELL, HOWLAND, HAYES & MERRYFIELD
1600 S. W. Western Blvd., P.O. Box 428, Corvallis, Oregon 97330, Telephone: 503/752-4271 Corvallis Regional Office
Cable: CH2M CVO

12 June 1974

The Honorable Mark O. Hatfield
United States Senate
Washington, D.C. 20510

Dear Mark:

As I was travelling, your letter dated 28 May 1974 concerning the Bonneville Power Administration self-financing bill reached me too late to reply in time for the Senate hearing scheduled for June 6.

I have discussed your letter and the copy of the Senate bill, which you enclosed, with Burke Hayes, who heads up our power and energy activities. Our conclusion is that it is needed legislation and should be enacted. In our opinion it would put the operation of the Bonneville system on a much more business-like basis; it would allow for much better planning, although there are uncertainties in the financing market, as well as in the actions of Congress. Opponents of the bill will pick on the various paragraphs and some of the provisions, however, in our opinion it is satisfactorily conceived, and would be beneficial to the Federal Government as well as to the Pacific Northwest.

Sincerely,

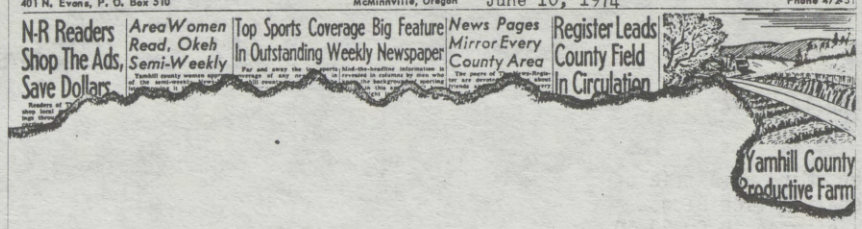
James C. Howland

JCH:cgw

The News-Register

Published Wednesday & Saturday by the News-Register Publishing Co.

401 N. Evans, P. O. Box 510 McMinnville, Oregon June 10, 1974 Phone 472-51



Hon. Mark O. Hatfield
United States Senator
Senate Office Building
Washington, D.C. 20510

Dear Mark:

I want to apologize for not getting back to you with information in time to help in the hearings on the Transmission System Act.

Your letter arrived during thw week following the primary election and I was trying to get back on my feed after two and a half months of campaigning.

I had talked with Don Hodell about the Act while garnering information for campaign talks and fully support the concept. Further, I think we must, eventually, move into similar area on construction of additional hydro facilities if the Federal government is not going to meet its commitment schedule.

Sorry I didn't get support data to you in time for the hearings.

Sincerely,

Philip N. Bladine

Battelle
Memorial Institute
Battelle Boulevard
P.O. Box 999
Richland, Washington 99352
Telephone (509) 946-2575

June 12, 1974

Hon. Mark O. Hatfield
Senate Office Bldg.
Washington, D.C. 20510

Subject: Federal Columbia River Transmission System Act

Dear Senator Hatfield:

This letter is in response to your letter of May 28 on the subject legislation now pending before the Congress. Due to an extended absence from my office I did not see your letter in time to proffer comments prior to the Senate hearing date of June 6. However, I will comment briefly anyhow.

The bill as written is, I think, a good compromise among the several interests which it must serve. It leaves to private industry the principal responsibilities for power generation and distribution with some built-in protection against Government encroachment. On the other hand it recognizes that there is no reasonable alternative to BPA in a role of providing transmission and peaking services. Although I generally object to Government involvement in operating functions, I do regard BPA as one of the better Government bureaus.

Thank you for inviting my comments.

Sincerely,

Fred Albaugh

Fred W. Albaugh
Corporate Staff Consultant, Energy
(Member, Bonneville Regional Advisory Committee)

FWA:nb

City of Corvallis

CORVALLIS CITY HALL
501 S.W. MADISON AVENUE
CORVALLIS, OREGON 97330

OFFICE OF THE MAYOR

(503) 752-4292

June 4, 1974

The Honorable Mark O. Hatfield
United States Senator
463 Old Senate Office Building
Washington, D. C. 20501

Dear Senator Hatfield:

I appreciate being asked for my opinion on the Columbia River Transmission System Act.

It appears to me this proposal is a beneficial and necessary part of a joint system for generating and transmitting power to our area. I urge your active endorsement and would add my support of the Act to the hearing record.

Sincerely,

Cecil Barker

Cecil Barker
Mayor

CB:bdb

Graduate School Oregon State University Corvallis, Oregon 97331 (503) 754-1881

June 5, 1974

The Honorable Mark O. Hatfield
United States Senator
Senate Office Building
Washington, D. C. 20510

Dear Senator Hatfield:

Your letter of May 28 was not received in this office until June 3. It is uncertain whether this reply will reach you prior to June 6. In any event, we are pleased to respond to your request for comment.

We have read the bill carefully and believe it is worthy of support. It is my belief that the principal benefit of the proposed legislation would be to permit BPA much greater fexibility in the development of energy resources. I believe this is much needed and would be a significant step forward.

I have no objection to your using this letter in any way you may see fit. Of course, the above opinion is derived more from my experience as a resource economist than as a graduate school dean.

Cordially yours,

Emery N. Castle
Dean

ENC:df

western union Telegram

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5032861635 TDRN PORTLAND OR 35 06-07 0115P EDT
PMS SENATOR MARK O HATFIELD
CAPTIOL TWO DC 20510
RECEIVED YOUR INQUIRY TODAY WE STRONGLY SUPPORT BONNEVILLES
PROPOSAL REGARDING FINANCING OF THE TRANSMISSION SYSTEM REQUIREMENTS
WILL BE MET ON A TIMELY EFFICIENT AND CONTROLLED BASIS YOUR
SUPPORT IS URGED BEST REGARDS
R D FORGENG, UNION CARBIDE CORP, FERRO ALLOYS DIVISION
NNNN

SF-1201 (R5-69)

TILLAMOOK PEOPLE'S UTILITY DISTRICT
P. O. BOX 433
TILLAMOOK, OREGON 97141
AREA CODE 503
PHONE 842-2535

JACK H. MADISON, MANAGER

A CUSTOMER-OWNED PUBLIC SERVICE

DIRECTORS
JAMES COON
RICHARD DENTEL
WM. LEE DILLARD
CARL L. RAWE
JAMES WHARTON

June 3, 1974

The Hon. Mark O. Hatfield
Senator from Oregon
Senate Office Building
Washington, D. C. 20510

Dear Senator Hatfield:

Senate 3362 was basically developed by a cooperative effort of the public and private utilities working with the Bonneville Administration here in the Pacific Northwest.

Certain restrictions within this legislation could possibly be improved, however, we recognize the possibility of promoting a public - private power fight which would not do well for any of us. This appears to be a practical piece of legislation which will accomplish the purpose of relieving the Federal Treasury of some of its heavy burdens.

I trust as a sponsor of this piece of legislation, you can see it guided through the legislative process.

We appreciate the opportunity to comment.

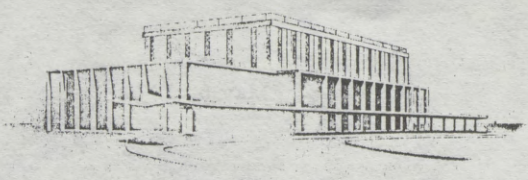
Yours very truly,

TILLAMOOK PEOPLES UTILITY DISTRICT

Jack H Madison

Jack H. Madison, Manager

JHM:jb



PUBLIC UTILITY DISTRICT OF CLARK COUNTY
1200 FORT VANCOUVER WAY • P. O. BOX 1626 • VANCOUVER, WASHINGTON 98663 • PHONE 699-3000

June 4, 1974

The Honorable Mark O. Hatfield
United States Senator
Senate Office Building
Washington, D. C. 20510

Dear Senator Hatfield:

I appreciate your requesting our opinion on S. 3362 involving revenue bond financing of Bonneville Power Administration transmission construction.

I am enclosing a copy of a letter dated May 6, 1974 addressed to Senator Warren G. Magnuson on the subject. Your interest in S. 3362 is appreciated.

Sincerely,

G. W. WATTERS
MANAGER

j

Encl.

699-3000
xxxxxxx

May 6, 1974

The Honorable Warren G. Magnuson, U. S. S.
Committee on Commerce
Senate Office Building
Washington, D. C. 20510

Re: S. 3362

Dear Senator Magnuson:

I appreciate your requesting our opinion relative to S. 3362 involving revenue bond financing of Bonneville Power Administration transmission construction.

We have worked with public power committees discussing this legislation, and also with the PNUCC group in arriving at a regional consensus on the proposed bill. It is our opinion that the bill in its present form provides an adequate financing mechanism for Bonneville Power Administration's transmission program in the Northwest.

I appreciate your interest in S. 3362 and hope it progresses through the Senate hearings in a manner satisfactory to BPA and the concerned utilities in the Northwest.

Sincerely,

G. W. WATTERS
MANAGER

VALLEY HERALD "The Voice Of The Valley"

205 North Main • Post Office Box 288 • Milton-Freewater, Oregon 97862 • Telephone (503) 938-3361

June 3

Sen. Mark Hatfield
463 Old Senate Office Bldg.
Washington, D.C. 20510

Good Morning, Mark:

Thanks for your letter concerning the Columbia River Transmission System Act, and thanks for thinking of me.

Here are my feelings: If it will streamline BPA's activities, knock a hole in a Federal bureaucracy, reduce the cost to the taxpayers, fight inflation, make the government free of graft and corruption, promote a lasting peace in the Middle East and Southeast Asia, and bring sunny weather to the coast when I'm there later this month, then I'm for it.

Seriously, I understand BPA now has to wait months and years for a federal appropriation for anything more than coffee money. A bonding authority would let them get their hands on the cash when it is needed. But, on the other hand, BPA would have to pay interest on bonds, which it doesn't have to do on a Congressional appropriation. Conversely, if BPA can build what it needs at today's prices rather than next year's, the interest cost might be saved through expediency.

Simply, if this bill will get us more electricity in an efficient manner at a cheaper cost, then I'm for it.

Cordially,

Dan

Mr. and Mrs. Dan Zimmerman, Publishers

WASHINGTON COUNTY

ADMINISTRATION BUILDING — 150 N. FIRST AVENUE
HILLSBORO, OREGON 97123
(503) 648-8681

BOARD OF COMMISSIONERS
BILL MASTERS, Chairman
VIRGINIA DAGG
RAY MILLER
ROD ROTH
BURTON C. WILSON, JR.

Room 418

June 4, 1974

The Honorable Mark O. Hatfield
United States Senate
Washington, D. C. 20510

Dear Mark:

Relative to your letter about the Federal Columbia River Transmission System Act, which is the so-called Bonneville Power Administration self-financing bill, I appreciate the letter you sent asking for local information.

Just one short comment, which I think probably is the basis of the whole thing, and that is that I am very much in favor of the Act that makes the Bonneville Power Administration a self-sustaining organization. Only in this way can proper planning be done for the growth that is needed here in the northwest of this power organization. Waiting for a Congressional allotment in order to plan in the future for something that is as important to the region as the Bonneville system does not appeal to me as a sound way of operation. It would be my personal hope that you would support the ideas contained in this new Act.

Sincerely,

Ray Miller
Washington County
Board of Commissioners

RM:jl

western union Telegram

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PMS SENATOR MARK O HATFIELD
CAPITOL TWO DC 20510

REFERENCE YOUR LETTER OF MAY 28. SECTION 13A WE WONDER WHAT EFFECT BPA BORROWINGS WILL HAVE ON MONEY AVAILABLE TO ALL OTHER UTILITIES ON THE MONEY MARKET. WOULD WE BE BETTER OFF WITH CONGRESSIONAL APPROPRIATION? WE DO NOT THINK THE PLUS AND AMOUNT TO PROVIDE A COMPARABLE RATE FOR SIMILAR BONDS SHOULD EXCEED MUNICAPLE BONDING. IF THIS WERE TO GO THROUGH WE DO NOT FEEL THAT 1.25 BILLION IS ADAQUATE WHEN A SINGLE POWER PLANT REQUIRES HALF OF THAT AMOUNT. HOW DOES THIS COMPARE WITH TVA FINANCING. IS IT SUPERIOR OR MORE RESTRICTIVE? SHOULD IT PROVIDE FOR GENERATION PLANTS TOO?
DALE C SWANCUTT MANAGER BLACHLY LANE ELECTRIC COOPERATIVE
ROUTE 1 BOX 645 EUGENE OREGON

13:04 EDT

IPMWBWT HSB

PACIFIC NORTHWEST RIVER BASINS COMMISSION

1 Columbia River
P. O. Box 908 Vancouver, Washington 98660 Telephone (206) 694-2581 (503) 285-0467
OFFICE OF THE CHAIRMAN

June 4, 1974

Honorable Mark O. Hatfield
United States Senate
463 Old Senate Office Building
Washington, D. C. 20510

Dear Senator Hatfield:

Thank you very much for your letter of May 28 and the attached copy of S. 3362.

I personally have no adverse comment on the bill, but, as you know, I am a Federal employee and, as such, the Administration's views on this proposal will be presented to your committee by appropriate representatives.

I have had the opportunity of discussing this proposal with a number of interested persons here in the Northwest.

Sincerely yours,

Donel J. Lane
Chairman

DJL:jr

Columbia Basin Electric Co-op. Inc.
SERVING MORROW, WHEELER and GILLIAM COUNTIES
BOX 398 · HEPPNER, OREGON 97836
Phone 676-9146

June 3, 1974

Senator Mark O. Hatfield
United States Senate
Senate Office Bldg.
Washington, D. C. 20510

Dear Senator:

Thanks for writing us concerning SB 3362.

We strongly support the act as it is written.

The legislation should give the Northwest additional flexibility in BPA operations.

We would be happy to answer questions on any specific portion of the legislation as we see it.

Yours truly,

Dave Harrison

Dave Harrison,
Manager

DH/kp

MEI—
CHARLTON,
INC.

2340 S.W. CANYON ROAD
P.O. BOX 1048
PORTLAND, OREGON 97207
503/228-9663

ENGINEERING AND APPLIED SCIENCES working with MATERIALS ECOLOGY INDUSTRIAL PRODUCTS AND PROCESSES

June 4, 1974

Senator Mark O. Hatfield
463 Russell Office Building
Washington, D.C. 20510

Dear Mark:

I am pleased to reply to your letter of May 28 relative to S.3362, the Federal Columbia River Transmission System Act.

I have received some information and comment on the bill through the Bonneville Regional Advisory Committee, but I have not taken time to study it.

I would support this approach to funding the Federal transmission system. After authorization in the normal manner and with income resources available to finance the operations, the planning and construction could proceed in an orderly and efficient manner. The starts and stops that often occur under present budgetary procedures would be avoided.

There appears to be no public versus private enterprise controversy with respect to transmission lines and there is no provision for Federal construction of steam plants as in the TVA.

These brief comments are hardly worth submitting for the Hearing record but I would be quite agreeable to my name being listed as one of those favoring the legislation.

Very sincerely yours,

David B. Charlton, Ph.D.

DBC:lr

western union Telegram

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PMS SENATOR MARK O HATFIELD
SENATE OFFICE BLDG
WASHINGTON DC 20515
RECEIVED YOURS OF MAY 28 RE S3362 AND HR14168. OREMET IS IN FAVOR OF BILL AND WILL BE REPRESENTED AT HEARING BY LYMAN HARRIS ALCOA CHAIRMAN OF EXECUTIVE COMMITTEE OF BPA INDUSTRIAL CUSTOMERS GROUP. THANKS FOR YOUR INQUIRY
BOB CAMPBELL OREGON METALLURGICAL CORP PO BOX 580 ALBANY OR 97321
NNNN

SF-1201 (R5-69)

CENTRAL LINCOLN
PEOPLE'S UTILITY DISTRICT

GENERAL OFFICE 255 S.W. COAST HWY. NEWPORT, OREGON 97365 TEL. 503 265-5335

June 3, 1974

Honorable Mark O. Hatfield
United States Senator
Senate Office Building
Washington, D. C. 20510

Dear Senator Hatfield:

This letter is a follow-up on my telegram of June 3rd regarding S. 3362. Your letter did not arrive in time for a reply prior to hearings scheduled for June 6 and 7.

We urge support of S. 3362 to provide the Bonneville Power Administration a means of self-financing. Timely planning and construction of necessary transmission grid is a vital and integral part of meeting the electrical load requirements of the Pacific Northwest.

The one hundred plus electric utilities of our region, whether publicly or privately owned, are dependent on the BPA grid -- the only major link to generation sources. Having one main grid has benefited the region economically, environmentally, and operationally. It is imperative that the transmission grid be expanded in a timely manner. S. 3362 will provide the means to accomplish this.

Thank you for inviting our views. I trust our response will be of some value to you.

Very truly yours,

H. P. Sudduth

H. P. Sudduth
General Manager

HPS:af

Albany Democrat-Herald

June 3, 1974

Senator Mark O. Hatfield
Senate Office Building
Washington,D.C. 20510

Dear Mark:

Unless I am mistaken the BPA self-financing bill you have sent would allow BPA to set up its own development plans. This certainly looks like a better arrangement for the Pacific Northwest.

Delays in appropriations, whether by Congress or by impounding by the Office of Management and Budget, could put the Northwest in the bind of being without additional generating capacity during peak power loads.

I know you have worked hard for expanded generating capacity at Bonneville. This bill should help speed decisions that affect the Northwest; and if that is the case, then I certainly support it.

You can use this for either your confidential information, or for the hearing record.

With kindest personal regards,

Glenn Cushman
Publisher

GC/d

MIDSTATE ELECTRIC COOPERATIVE, INC.

Post Office Box 127
LaPine, Oregon 97739
Phone 536-2126

June 3, 1974

The Honorable Mark O. Hatfield
United States Senate
Washington, DC 20510

Dear Senator Hatfield:

Thank you for the opportunity to comment on the Federal Columbia River Transmission System Act (S. 3362 and H. R. 14168). I regret that I did not receive your letter sooner, but due to the poor mail service in the rural areas it was received this date. I would like to spend more time preparing my reply, but am afraid that even if mailed today, you probably will not receive it in time for the hearings. Suffice it to say then, that we do heartily support this Act, since it is the only way we smaller cooperatives will ever be able to obtain the necessary transmission facilities to provide greater electrical capacity to the far-flung areas of rural Oregon.

I assure you that we will appreciate your support of this bill.

Yours very truly,

Robert C. Patrick

Robert C. Patrick
Manager

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ZIP 20510

western union Mailgram

UNITED S U.S.MAIL SERVICE

SENATOR MARK O HATFIELD
US SENATE
WASHINGTON DC 20510

DEAR SENATOR HATFIELD,
THANK YOU FOR YOUR LETTER OF MAY 28TH REQUESTING OUR VIEWS REGARDING THE BPA SELF FINANCING LEGISLATION. WE SUPPORT THE LEGISLATION AND BELIEVE IT TO BE A NECESSARY STEP IN ASSURING THE PACIFIC NORTHWEST OF AN ADEQUATE POWER SUPPLY AT REASONABLE RATES IN THE YEARS AHEAD, HOWEVER WE QUESTION WHETHER THE BUDGET CONTROL BILL PRESENTLY IN CONFERENCE COMMITTEE WOULD PERMIT THIS LEGISLATION TO FUNCTION AS INTENDED WITHOUT THE ANTI IMPOUNDMENT PROVISIONS ARE RE-INSERTED. THIS LETTER NOT INTENDED AS TESTIMONY BUT AS INFORMATION FOR YOU.
BEST WISHES,
HOWARD CRINKLAW JR, MANAGER, DOUGLAS ELECTRIC COOPERATIVE INC, POBOX 1327, ROSEBURG, OR 97470

1315 EDT

MGMWSHT HSB



REYNOLDS ALUMINUM

PRIMARY METALS DIVISION

June 1, 1974

The Honorable Mark O. Hatfield
United States Senate
Washington, D.C. 20510

Dear Senator Hatfield:

Your letter of May 28, 1974 concerning S3362 and HR 14168, the Bonneville Power Administration self financing bill is appreciated.

The proposed bill has been reviewed and although it is recognized that some compromises have been made that make the bill less appealing than earlier versions, it is basically a good bill. I do support the bill and do not object to my views being made a part of the Hearing record.

Sincerely,

Harry V. Helton
Plant Manager

HVH:pp

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ZIP 20510

western union Mailgram

UNITED S. SERVICE U.S.MAIL

SENATOR MARK O HATFIELD
CAPITOL HILL
WASHINGTON DC 20510

WE ARE IN SUPPORT OF S.B. 3362-BPA SELF-FINANCING BILL, AS DRAFTED.
WE BELIEVE THE BILL IS VERY DEFINITELY IN LONG RANGE INTERESTS
OF OUR REGION.
PLEASE SUPPORT.
WALTER JAEGER PRESIDENT COLUMBIA BASIN ELEC. COOP HEPPNER

19:14 EDT

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ZIP 20510

western union Mailgram

HONORABLE MARK O HATFIELD
CAPITOL HILL DC 20510

URGE YOU STRONGLY SUPPORT S3362 FEDERAL COLUMBIA TRANSMISSION SYSTEMS ACT, A VIABLE FEDERAL TRANSMISSION GRID IS ESSENTIAL TO THE POWER SUPPLY FOR OUR SMALL ELECTRIC DISTRIBUTION SYSTEMS IN OREGON, ACCESS TO BONNEVILLE REVENUES AND REVENUE BOND FINANCING WILL ASSURE THE CONTINUING OPERATION AND EXPANSION OF THE FEDERAL GRID TO MEET OUR POWER TRANSMISSION NEEDS OF THE FUTURE
L J STUBKJAER GENERAL MGR CONSUMERS POWER INC PO BOX 1108
CORVALLIS OR 97330

1458 EDT

MGMWSHT HSB

(Cr. D. 241,654)

JUN 6 1974

Oregonian

Allen's P. C. B. Est. 1888

Self-financing for BPA

Legislation to put the Bonneville Power Administration on a self-financing basis—through use of its revenues from power sales instead of appropriations from Congress—has reached the hearing stage in both houses and strongly merits early adoption.

S. 3362 and H. R. 14168, entitled the Federal Columbia River Transmission Act, would authorize BPA to use its revenues and sell revenue bonds to the Treasury to finance expansion and operation of its regional, high-voltage transmission system. BPA expenditures still would have to be approved by the Office of Management and Budget and congressional committees. Surplus revenues would go to the Treasury. But BPA would no longer have to compete for its resource development needs with the human resources, health, education, military and other demands on the appropriation process.

This federal agency in the Department of the Interior, the Bonneville Power Administration, was established to build transmission lines and substations and to sell at wholesale rates the power generated by dams built by the Army Engineers and the Bureau of Reclamation. In addition to repaying the reimbursable costs of the dams, generating units and transmission system, revenues are pledged to help repay costs of irrigation projects too expensive for farmers to repay in entirety. BPA also wheels power from nonfederal utilities over its lines, is the controlling management factor in the regional power pool, exchanges power with other utilities, markets surplus power in the Southwest via intertie lines and could buy power in emergencies under terms of the new legislation.

The identical Senate and House bills, which have the support of regional nonfederal utilities as well as leading Northwest members of Congress, would give BPA no more construction powers than it has now. They would not, as proposed in a Senate bill in the 1950s, permit BPA to finance construction of hydroelectric dams and generating units, thermal power stations including nuclear and other generating facilities through sale of revenue bonds. Nonfederal utilities fought that proposal to extinction.

Part of the price of agreement among utilities on the present proposal was the section requiring the Treasury to buy BPA's bonds for transmission and operation. The utilities were apprehensive that if BPA bonds were sold on the open market their own requirements for massive financing would be inhibited.

The bills now being considered would authorize the Bonneville administrator to have not more than $1.25 billion in bonds outstanding at any one time—a borrowing capacity thought adequate for the next 10 years. BPA's present investment in more than 12,000 circuit miles of high-voltage transmission lines and more than 330 substations is about $1.3 billion and provides about 70 per cent of the bulk power transmission grid in the Pacific Northwest. The addition of two dozen federal hydroelectric dams and plants which must be paid for out of BPA revenues brings the federal investment in regional hydro to $3.5 billion. It is anticipated that BPA will spend $3.1 billion for transmission and related facilities in the next 20 years.

If projections of load growth are accurate, and these take into account conservation of energy, nonfederal utilities will have to spend $16 billion for nuclear-fueled, coal-fueled and geothermal generation in the next 20 years. And the federal government, through the traditional appropriation process, hopes to complete its Columbia Basin hydroelectric generating system in the same period at a cost of $3 billion.

Nongovernment engineers have noted through the years that many millions of dollars could have been saved in the federal electric system had not appropriations come in fits and starts. S. 3362 and H. R. 14168, permitting revenue financing, will provide more economy and efficiency in that part of the system assigned to the Bonneville Power Administration. Sens. Jackson and Magnuson of Washington, Hatfield and Packwood of Oregon and the two House delegations are principal sponsors of the measures.

What should occur after the BPA self-financing bill is adopted is that OMB and Congress will find it easier to assign money to complete federal hydro-generation in the Columbia system—a program that has lagged behind nonfederal generation and has contributed to the threat of power brownouts and blackouts. This is essential legislation on which there is regional agreement and it should be adopted as quickly as possible.

Oregon Journal

Good Case For BPA Bonds

Proposed legislation which would authorize the Bonneville Power Administration (BPA) to issue revenue bonds for the construction of transmission facilities fits hand-in-glove with the long-range power supply program for this region.

The case for it is made all the stronger by the unique partnership arrangement between Bonneville and public and privately owned utilities and BPA industrial customers.

Together they have laid out a construction timetable designed to meet power demands through 1986. The whole burden of building new thermal generation facilities, either coal-fired or nuclear, will fall on non-federal utilities.

Expansion of existing federal hydro projects will continue to depend on congressional appropriations either to the Corps of Engineers or the Bureau of Reclamation.

The Bonneville transmission grid carries the major part of the power load moved around the region, whether it is generated by publicly or privately owned facilities. Expansion of the grid at a rate fast enough to keep up with growing power loads and the construction of new generation will be an essential component of the over-all power supply program.

The building of BPA transmission facilities has been and is dependent on year-to-year appropriations from Congress, which breeds uncertainty and hinders good long-range planning.

The authorization of BPA revenue bonding would overcome this handicap and permit Bonneville to keep its part of the commitment made in the partnership setting.

The proposal is free of public versus private power controversy. It is supported unanimously by all Northwest utilities of whatever stripe. The bonds would not be used to duplicate any line owned by individual utilities.

There is disagreement in the region as to how much expanded use of electrical power should be encouraged. But the best evidence is that the demand will grow without encouragement and that the region's power partners will be hard put to meet demands. At the present time, utilities are advertising conservation more than they are development.

Since the construction of new storage dams in Canada and Montana, the potential for added hydro generation on federal installations in the Columbia Basin has been greatly expanded. Such expansion projects have been authorized by Congress, and their rate of development depends on yearly appropriations.

If Congress is relieved of providing funds for transmission facilities, it may look with favor on speeding appropriations for unfinished hydro projects.

Enactment of the revenue bonding authority for BPA makes good sense all the way around.

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

TO THE

SENATE INTERIOR COMMITTEE

REGARDING S. 3362, JUNE 6, 1974

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 S. 3362 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 S. 3362. 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.

35-931 O - 74 - 24

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 ~~Interior~~ 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 S. 3362 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 evolvement of this bill, I know that the private power companies, too, would have liked some things different from S. 3362, 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.

Statement on S 3362 and HR 14168, Legislation Introduced in Congress to Provide a Revenue Supported Self-Financing Procedure for the Bonneville Power Administration; to be heard Before the Respective Senate and House Committees on Interior and Insular Affairs; and being a

Statement on Behalf of the
Washington Public Utility Districts' Association
Seattle, Washington.

Mr. Chairman, this statement has been prepared in joint form because S 3362 and HR 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 hydroelectric plants including five large installations on the main stem of the Columbia River. The hydroelectric plants, distribution facilities and the nuclear generating plants, involve current

and anticipated financial investments by these non-Federal consumer owned utilities in excess of $3-3/4 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

Ken Billington,
Executive Director
Washington Public Utility
Districts' Association

STATEMENT ON S. 3262
SUBMITTED BY AMERICAN PUBLIC POWER ASSOCIATION
TO SENATE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS
June 6, 1974

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 it support for the principle of S. 3262.

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 porportion 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 S. 3362 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 penalities on the region's consumers because of continuing cost escalation.

APPA believes that features of S. 3362 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 of S. 3362 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 S. 3362 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 S. 3362.

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 S. 3362 be 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 S. 3362 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 S. 3362 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 Administration*

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 and 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

WHEREAS, legislation has now 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.

* Resolution adopted at Annual Conference, American Public Power Association, in Phoenix, Arizona, April 23, 1974.

MARTIN MARIETTA ALUMINUM

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5 June 1974

Don
Phil came to me
Denny

The Honorable Henry Jackson
Suite #137
Russell Senate Office Bldg.
U. S. Senate
Washington D.C. 20510

Dear Senator Jackson:

Confirming my telephone conversation with Denny Miller of your office, I wish to state Martin Marietta's support for the Federal Columbia River Transmission Act (S.3362 and H.14168).

As one of the Bonneville Power Administrations direct service customers, Martin Marietta Aluminum participated in the evolution of this bill. In spite of certain compromises necessary to satisfy all of the varied interests in the Pacific Northwest, we feel that this legislation is a vital and constructive step enabling the Bonneville Power Administration to meet its proper and logical responsibilities in the regions program to meet its overall electric power requirements over the next 20 years.

The Bonneville Power Administrations direct service industrial customers organization will support this bill by statements at the Senate and House hearings. Martin Marietta Aluminum endorses these statements. However, we wanted you to be aware of our additional and direct individual company support of the legislation.

We strongly urge and request your support for the passage of this legislation.

Yours truly,

Jack P. Doan
Vice President
Reduction Division

JPD:kl
cc: file