

## Bush wants market rates for BPA

By Jeff Kosseff and Jim Barnett

WASHINGTON -- President Bush's proposal Monday that the Bonneville Power Administration charge market rates for its electricity ran into immediate fire from Republicans and Democrats in the Northwest delegation.

The move, contained in the president's 2006 budget, could add hundreds of millions of dollars in annual energy costs to the Northwest economy.

The budget, released Monday, says that the administration will propose legislation to require the BPA and the nation's three other power marketing administrations to gradually bring their electricity rates closer to market averages.

Portland-based BPA, an Energy Department branch, sells power generated at federal dams and a nuclear plant to regional utilities at cost-based rates, significantly lower than market prices.

But the proposal faces an uphill battle in Congress, as Republicans and Democrats in the House and Senate quickly attacked it.

"I spoke with (Energy Secretary Samuel Bodman) this morning and informed him that I would oppose this proposal with all my remedies and rights as a U.S. senator," Sen. Gordon Smith, R-Ore., said Monday.

The BPA, which provides nearly half the Northwest's electricity, has long been the target of Northeast and Midwest members of Congress. They say that the cost-based rates amount to a huge subsidy for the Northwest. The BPA holds billions of dollars in low-interest Treasury debt, which it uses to finance capital projects.

Defenders of the BPA say the agency covers all its operating expenses, so it isn't subsidized.

Bush's plan would require the BPA and the other power marketing administrations to gradually increase their rates to market levels.

Currently, the BPA's wholesale rates are about \$31 a megawatt hour. Wholesale power prices range from \$40 to \$50 a megawatt hour on the open market. The Public Power Council estimates that for every dollar-per-megawatt hour increase, the Northwest would pay an additional \$80 million a year.

Opponents of the plan say it would drive up rates for households and businesses.

"That would kill the economy of Oregon," Rep. Darlene Hooley, D-Ore., said .

### Precise impact uncertain

The precise impact BPA increases would have on consumer rates is unclear, because the power agency sells energy to utilities.

The annual increases would be capped at 20 percent, said Bruce Carnes, associate deputy secretary of Energy.

"That is an absolute cap, but I would expect that the rates wouldn't go to the absolute cap every year," Carnes said.

The increases would not be immediate. Many BPA contracts with its customers extend to 2011, so the rate changes would come during renegotiation.

"We're not going to abrogate any contracts," Carnes said.

Carnes said the increases would be negotiated so gradually that he doesn't think they would negatively affect the Northwest economy.

Ray Adams, chief financial officer of Oregon Steel Mills Inc., said the idea "might be OK if BPA would then act like it was a profit-making entity and become efficient instead of just a source of jobs. . . . If you're going to go to market-based pricing, you need to go to market-based costs."

In 2003, Oregon Steel idled its electric-arc, steel melting furnace in Portland, partly because its power costs had jumped fourfold, Adams said. The 3,000-degree furnace used enough electricity to power a city of 20,000.

### **Northwest delegation speaks up**

Within hours of the budget's release, the Northwest congressional delegation attacked the plan.

"I will oppose this nonsensical proposal with every fiber of my legislative being," said Rep. Peter DeFazio, D-Ore.

DeFazio said that because the plan applies to all four power marketing administrations and not just the BPA, the opposition in Congress would be more widespread.

"We're starting with a substantial nationwide coalition in opposition," DeFazio said.

Sen. Pete Domenici, R-N.M., chairman of the Energy and Natural Resources Committee, also opposes the plan.

"Every once in a while administrations of either party come up with this idea, and I won't support it," Domenici said in a written statement.

Much of the debate comes down to whether the low-interest debt held by the BPA is a subsidy.

Carnes cited government reports that likened the power marketing administrations' reduced interest rates to subsidies.

"I know there are people who will argue against it, but you will find people on the Hill who will say, 'yes, they are subsidized.'" Carnes said.

The proposal delighted taxpayer advocates who contend that the BPA's ability to offer below-market rates amounts to a federal subsidy to the region.

Steve Ellis of Taxpayers for Common Sense said the proposal would help the BPA and the region channel investments in future generation and conservation projects.

"If you don't have market rates, then you don't have an economic indicator as far as conservation or utilizing power, the real cost of power," Ellis said.

Jerry Leone, manager of the Public Power Council based in Portland, said the BPA is not subsidized. "Rates cover costs, and the Treasury is repaid," Leone said. "Everything is done according to the business model set up in Bonneville's statute."

DeFazio questioned how the plan could help the federal government's budget.

"This is absurd," DeFazio said. "You could maybe assume that if you force BPA to increase the rates that then they could force the administrator to repay federal debt earlier than scheduled, but other than that, raising the rates in the Pacific Northwest does nothing to address the federal deficit question except in some illusory bookkeeping manner."

### **This proposal is different**

The BPA has faced similar threats many times. But the latest proposal from the Bush administration could signal a long-term effort to move the agency toward privatization, a veteran energy lobbyist said.

"A couple of us think this is really different than in past years and will have impacts we can discern at the moment," said Gary Barbour, a former aide to former Sen. Mark Hatfield, R-Ore. "Time will tell."

In his confirmation hearings last month, Bodman said he opposes privatizing the BPA after being asked by Sen. Ron Wyden, D-Ore. Wyden said Bodman called him on Friday.

"He made the case about how this really wasn't privatization," Wyden said. "I basically said, 'Come on, if it looks like a pig and acts like a pig, it's a pig.' It's pretty clear that this is code for privatization."