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Hearing on
The Future of the US-Canada Columbia River Treaty– Building on 60 years of Coordinated Power Generation and Flood Control

Committee on Natural Resources
United States House of Representatives
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Good morning, Chairman Hastings, Ranking Member DeFazio, and Members of the Committee. My name is Scott Corwin. I am the Executive Director of the Public Power Council (PPC), an association representing consumer-owned electric utilities of the Pacific Northwest that purchase power and transmission marketed by the Bonneville Power Administration (BPA). Our member utilities have service territories with consumers in portions of eight western states.

PPC is also a member of the Columbia River Treaty Power Group, consisting of over 80 electric utilities, industry associations and other entities that depend on power produced by the Columbia River hydropower generating plants. Together, we represent at least 6.4 million electric customers in the four Northwest states that are directly impacted by this Treaty. More information can be found at the group's website (www.crtpowergroup.org).

Our primary concern has been to ensure that the Treaty discussions prioritize the fundamental need to reestablish an equitable distribution of power benefits between the U.S. and Canada. If this inequity is not addressed, it will be an enormous lost opportunity and a disservice to the citizens of the Northwest United States. We share the goal of building the broadest agreement possible to build a base of better engagement with Canada next year. The Columbia River Treaty has provided benefits to both countries since its inception. It is our hope that a rebalancing of the Treaty in the future will ensure mutual benefit for decades to come.

The U.S. Entity for the Treaty (BPA and the U.S. Army Corps of Engineers) is about to release a final recommendation to the Department of State that will serve as a basis for possible negotiations with Canada to improve and modernize the Treaty. As this process moves into the hands of the Department of State in Washington, D.C., it is very important that the next phase of the review proceed expeditiously. As described below, every month that goes by is a substantial loss in value to U.S. residents.

We greatly appreciate the Committee's interest in the future of the Columbia River Treaty. Recently, we have appreciated being able to work with the U.S. Entity and others in the region regarding our strong concerns with prior drafts of the U.S. Entity's recommendation. Going forward, it is vital that members of the Treaty Power Group, along with Tribes, states, and other regional stakeholders, continue to be involved in the process. This hearing is an important step in ensuring that involvement.

The Canadian Entitlement Must be Rebalanced in Any Treaty Negotiation with Canada

The primary objective of engaging in any Treaty negotiations with Canada must be focused on correcting the current inequity of the U.S. obligation under the Canadian Entitlement, and providing a significant net benefit to the region's consumers. Regional consensus on a path forward hinges on this being the centerpiece issue in any Treaty negotiations. Reducing the financial burden to Northwest electric customers, caused by a Canadian Entitlement vastly out of sync with current conditions, and returning the use of clean, renewable hydroelectricity to the Northwest, is clearly in the best interest of the United States. This is the cornerstone of any negotiation with Canada, and should be openly recognized as such.

In sum, the U.S. obligation under the Entitlement far exceeds the actual power benefit received. If the Treaty continued using the current calculations for the Canadian Entitlement, by 2025 the U.S. would be returning to Canada about 450 average megawatts of clean hydropower and 1,300 megawatts of capacity each year, valued at approximately $250 to $350 million annually (not to mention its value for system operations and reliability). Northwest electric customers are likely to provide well over $2 billion in benefits to Canada over the next 10 years alone, despite the U.S. Entity's own estimate that the actual annual value of this benefit to the U.S. is only in the range of $25 to $30 million (i.e., only one-tenth of the current Canadian Entitlement obligation).[1]

This inequity is unsustainable. The focus should be on analyzing the problems in the current methodology for calculating the Canadian Entitlement, identifying possible solutions for correcting these problems, and implementing a recommendation for addressing these matters with Canada at the earliest possible time. By 2024, 60 years will have passed since the Treaty was ratified.

The U.S. has a duty on behalf of its citizens, and Northwest electricity customers in particular, to rebalance the Canadian Entitlement in a manner that ensures that the U.S. obligation under the Treaty is commensurate with the power benefits actually received. Amounts provided to Canada

[1] *See* U.S. Entity Studies, Iteration #2 Alternatives & Components: General Summary of Results at 34 (Apr. 10, 2013).

for downstream power benefits should not exceed one-half of the actual, incremental power benefit achieved through a coordinated U.S./Canada operation (as compared to the non-coordinated operation).

From the perspective of those trying to make ends meet or create jobs in the region, it is untenable that we would continue to shift this level of generation and wealth to another country. The appropriate level of value returning to Canada after the initial 60-year agreement must be based on the benefits of ongoing coordinated operations between the U.S. and Canada—not on an inaccurate and outdated comparison of conditions pre-and-post dam construction.

Correcting the Canadian Entitlement also is consistent with the Administration's clean energy policy objectives. From that perspective, it is counterproductive to export between $2 billion and $3 billion in clean, renewable, domestically produced energy over the next decade and beyond. Correcting that inequity should be the highest priority of the State Department when pursuing any Treaty negotiations with Canada. Each year after 2024 in which the Canadian Entitlement remains unchanged is a significant loss of resources and value for the U.S.

<u>The Inequity of the Current Treaty</u>

The U.S. has compensated Canada for the construction of Canadian storage projects that improved flood control and increased hydropower generation in both countries. This compensation took the form of lump sum payments and the provision of the Canadian Entitlement, which represents Canada's share of the difference in hydroelectric power capable of being generated in the U.S. with and without the use of Canadian storage. Over the last 50 years of implementing this arrangement, actual U.S. benefits of coordinated operations with Canada have reduced precipitously while the Canadian Entitlement calculations in the Treaty are tied to theoretical, 50 year-old assumptions.

When the Treaty was ratified, both the U.S. and Canada anticipated that the Treaty calculation of U.S. power benefits would result in a much smaller energy benefit by 2024. The U.S. and Canada acknowledged that the real power benefits could be much less than the Treaty calculation due to additional U.S. storage reservoirs and transmission interconnections that are not included in the Treaty calculation. These assumptions and forecasts, together with the provisions for a 10-year notice of intent to terminate at the end of the initial Treaty term,[2] demonstrate an intention that the two nations would update these assumptions and reevaluate the benefits and obligations over time.

History has shown that no matter how sincere the effort to appropriately calculate the Canadian Entitlement might have been, a static formula based upon extrapolations of then-current conditions into the future was not an optimal approach to ensuring fair and equitable outcomes. The original methodology was not developed to capture the actual realized downstream power

[2] Treaty, Art. XIX(2).

benefits created by the Treaty so much as it was a compromise method that was based upon then-current expectations about the future. It was focused on the outdated attempt to estimate benefits of construction of the Canadian storage projects compared to the operation of a U.S. power system, as it stood prior to 1965.

During original Treaty negotiations, there clearly was an expectation by both countries that the Canadian Entitlement would end well before 2024. The current methodology was a choice, based upon expert judgment in the early 1960s, that it would be a reasonable approximation to the actual power benefits created by Canadian storage based upon certain expectations as to how the future would unfold. However, the future unfolded much differently than expected.

Several factors have greatly undermined the reasonableness of the current Treaty methods as an approximation of the actual downstream power benefits resulting from the original Treaty, and thus the accuracy of the calculated Canadian Entitlement. These factors include significantly lower than expected regional electric load growth, greatly expanded opportunities to market non-firm hydropower outside the region, a much wider slate of power supply resource types than existed at the time of Treaty signing, and changing societal preferences regarding environmental and cultural issues. The result is the severe imbalance in benefits received relative to costs paid by U.S. power consumers.

Now, as the 60th anniversary of ratification approaches, is the time to reevaluate these benefits and begin steps to rebalance Treaty obligations to match the actual benefits received.

Flood Risk Management

It is critical that there be a common understanding between the U.S. and Canada regarding the methods and procedures for post-2024 "called upon" flood control. We believe that the financial responsibility for funding "called upon" or any other flood risk management strategy within the Columbia River Basin should be a responsibility borne equitably by all taxpayers, since the benefit from these efforts and investments accrue to the general public. Electricity customers in the Northwest should not be required to shoulder responsibilities that would otherwise be paid for from the general federal, state, and local funding base.

Treaty Scope and the Ecosystem

As national leaders in both energy efficiency and fish and wildlife mitigation, electric utilities in the Northwest are firmly committed to environmental stewardship. It is notable that, under the existing Treaty and non-Treaty agreements, electricity customers in the Northwest have made significant investments, totaling tens of billions of dollars, resulting in ecosystem improvements through Habitat Conservation Plans (HCPs), Federal Energy Regulatory Commission (FERC) licenses, Bonneville Power Administration's fish and wildlife program, and other investments associated with the FCRPS Biological Opinion and Columbia Basin Fish Accords. We have a large stake in the seeing the success of these programs.

PPC and other members of the Treaty Power Group have stated that, to the extent a modernized Treaty is to address ecosystem matters, adequate recognition of and accounting for efforts already underway is critical. We have also noted the risk of lack of clarity and specificity in Treaty recommendations. And, we have emphasized the importance of ensuring that any provisions not adversely affect ongoing programs for aquatic species, that they have a strong basis in the best available science, and that the costs and benefits are clearly established and compelling. In addition, provisions must not compromise the integrity of electric system reliability, must not negatively impact navigational needs, must not impede long-standing water supply obligations, and must not interfere with ongoing ecosystem management under existing federal and state regulatory programs, including FERC licenses.

Power and Jobs

The Federal Columbia River Power System creates clean electricity for millions of residents. Its array of benefits reach all corners of the Northwest in the form of economically priced emission-free power, navigation, irrigation, recreation, and of course, fish and wildlife habitat.

It is important to remember the foundations of this Treaty. From the beginning, the focus of the Columbia River Treaty was upon power production and flood control. In a message to the United States Senate transmitting the Columbia River Basin Treaty with Canada on January 17, 1961, President Dwight D. Eisenhower said:

"The treaty is an important step toward achieving optimum development of the water resources of the Columbia River basin as a whole from which the United States and Canada will each receive benefits materially larger than either could obtain independently.

The United States will secure a large block of power at low cost, substantial flood control benefits, and additional incidental benefits for irrigation, navigation, pollution abatement, and other uses resulting from controlled storage. Canada will also receive a large block of power at a low cost, as well as flood control and other benefits resulting from the control of water flow."

And, in his remarks with Prime Minister Pearson upon proclaiming the ratified Treaty on September 16, 1964, President Lyndon B. Johnson talked of the cooperation between the two countries. His only comment on the substance of the Treaty is on the power provisions, noting among other things that, "It will supply new electric power to millions of my countrymen."

These leaders understood very well the critical role of hydropower in the Northwest as one of the main economic drivers in an area that has other geographic challenges to economic growth. Today, Northwest residents depend on hydropower for almost 60% of the generating capacity in the region. Industries rely on economically priced power because they operate in highly competitive global markets. Any increase in major cost inputs, especially energy costs, directly pressures the sustainability of employment levels. In addition, increases to power rates directly threaten the cost effectiveness of essential irrigation services and many other power dependent sectors.

Conclusion

The Columbia River is a magnificent asset that plays a central role in the Northwest's economy and cultural identity. It generates clean electricity to millions of people, avoids carbon emissions, provides habitat for fish and wildlife, offers recreational opportunities, provides water for navigation, and now also plays an important role in integrating wind into the electric grid.

The Columbia River Treaty helped create mutual benefit from this system for many years. A modernized approach that rebalances the sharing of power benefits is crucial to having a sustainable Treaty moving forward.

Thank you for holding this hearing today on an important topic to electricity consumers. And, thank you for the opportunity to testify. I look forward to answering any questions.