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Testimony on
Potential Impacts of the Department of Energy
Memorandum to Power Marketing Administrations

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Good morning, Chairman Hastings, Ranking Member Markey, and Members of the Committee. My name is Scott Corwin. I am the Executive Director of the Public Power Council (PPC). We are a trade association representing the consumer-owned electric utilities of the Pacific Northwest with statutory first rights (known as “preference”) to purchase power that is generated by the Federal Columbia River Power System and marketed by the Bonneville Power Administration (BPA).

Since the beginning of the federal power program in the West, not-for-profit rural electric cooperatives and public agencies have had the priority or preference right to purchase federal power on behalf of their consumers because they have a mandate to pass the benefits through to the citizens who are their owners. In the Columbia River Basin there are 130 of these utilities serving customers in seven western states. They have a close and symbiotic relationship with BPA and directly feel the brunt of increased costs passed through by BPA.

I thank you very much for the invitation today because it allows the opportunity to testify about the way we do business, and on the manner in which consumer-owned utilities work with Power Marketing Administrations (PMAs). At their best, the PMAs reflect the essence of the core customers they serve: utilities that are service-oriented, cost-conscious, and consumer-focused because they are created for and owned by the people they serve.

It is difficult to know exactly what to make of the Department of Energy Memorandum to the PMAs sent on March 16 of this year. On a very general level, one might view portions of the memo as posing questions around new industry challenges that face many utilities. We do not disagree that the PMAs can be, and are, leaders in the industry. Indeed, the PMAs already are stepping up to meet new directions in energy, as discussed below, including aggressive pursuit of new technologies, integration of renewable resources, and visionary achievements in energy efficiency. We note as well that the DOE Memo aptly recognizes, at least at one point, the need for a continuing commitment to cost-based rates.

However, the Secretary’s memo also steps beyond a general recognition of the PMAs direction and alludes to several ominous directives that could add additional costs. Today, I

would like to explain our concerns, and why we view the memo as implying new endeavors that could set the PMAs off-course from their core mission, could increase costs to customers without reciprocal benefit, and could do more harm than good by separating the PMAs from the important regional deliberations that have guided them throughout history in pursuit of their statutory goals.

The Regional Nature of PMAs

For generations people have gathered around the great waters of the Northwest for food, for transportation, for irrigation, for recreation, and then for power. As in other areas with great waterways, this uniquely public resource of navigable water creates a unique source of clean and renewable power to be shared among the citizens of the region from whence that power was derived. Thus were formed the Power Marketing Administrations to ensure the power value of these public resources was sent to those within the region best able to pass the benefits through to the end consumer.

The PMAs and the treasured assets with which they are entrusted, being funded regionally, are not just another tool for federal policy pursuit. These are statutory creatures with a rich history from which evolved specific missions, specific goals, and specific purposes. Because of the public and regional nature of the assets, the process around them is very public and regional. In a sense, the people were asked to take ownership and stewardship of the mission for these local assets, and their representatives in Congress likewise work to protect the assets and the needs of the citizens within the region.

BPA and its customers have worked and struggled together with the Army Corps of Engineers and the Bureau of Reclamation to keep this power supply reliable and affordable while fulfilling myriad statutory and regulatory mandates. We have nurtured this incredible renewable resource of hydropower, and it has helped enable new renewable resources. We have achieved staggering levels of energy conservation to make more efficient use of existing resources. And, we have become the world's foremost experts in anadromous fish passage.

In recent decades, we've been faced with a host of new challenges in the form of volatile energy markets, transmission constraints, new intermittent generation, environmental concerns including emissions and renewable portfolio standards, a renewed focus on system reliability, energy security concerns, and unstable economic conditions. The PMAs have met these challenges and are forging ahead into the new frontier as well as any large utility can in this setting.

It is the 75th Anniversary of BPA this year, and not coincidentally it is also the 75th Anniversary of many of PPC's member utilities. Over this time, the primary mission of BPA is and always has been to provide reliable electricity at affordable prices. Throughout their history they have accomplished this mission well, partnering with consumer-owned utilities to bring economic benefit to citizens of the region through cost-based power. Today, they continue to do so even as they evolve to meet new challenges.

The Memo and BPA as a Pass-Through Entity

This impressive record of the PMAs, and their continued progress, makes it difficult to know how to view a memo that seeks a new vision for them. One could imagine a vision document with broad goals and a process laid out in which to engage in further discussion. However, the March 16 memo from Secretary Chu moved into fairly specific action items, and alluded to future directives that did not appear to fully recognize the regional dynamic of these entities or their current activities. It seems in part to be a solution in search of a problem, and is a threat of top-down approaches and more involvement from Washington, D.C.

To fully understand why consumers are very concerned about potential changes to the mission or function of PMAs, one must truly understand how PMAs work with their customers. While federal in nature, BPA is not supported by taxpayer dollars. Rather, customers pay for all of the power costs incurred by BPA. The agency is a pass-through entity with respect to its costs and obligations. And, consumer-owned utilities likewise must pass costs on to their consumers. Because of this, extensive *regional* processes have grown up around budget and rate setting, and any major policy that the agency pursues.

Power costs borne by PMAs are borne by the region, so the regional view weighs heavily in the decision-making. Along with this regional consideration is a close relationship with the region's representatives in Washington, D.C.—the Northwest Congressional delegation. In a simplified analogy, if the power customers who have paid for the Federal Columbia River Power System are the shareholders, the region's Congressional delegation is viewed as the Board of Directors. These directors have a long history of working in a bipartisan way for the good of the region. The Northwest Congressional delegation has responded time and again to defend the value of the Columbia River system. We very much appreciate the letter that they sent on April 11, 2012 expressing concerns about the DOE Memorandum.

We have found that directives from outside the region rarely work as well as solutions crafted by regional parties with knowledge of the unique nature of each power system. Lending context to ratepayer concerns about the DOE memo is the long history of proposals to shift the mission of the PMAs, and shift the value from these regionally funded entities. Over the years this has taken the form of federal deficit reduction proposals that would have the effect of imposing a regional tax to benefit the federal budget. It has also taken the form of pressure from FERC and others to create new forms of standardized markets or bureaucratic institutions that threatened to add higher costs to customers in exchange for worse access to power from the federal system.

Specific Concerns with the Department of Energy Memorandum

The March 16, 2012 memorandum released by Department of Energy Secretary Chu outlines a vision and policy direction for the federal Power Marketing Administrations (PMAs). While short on specific policy prescriptions, the document raises significant concerns in a number of areas with its promise of “subsequent memoranda” and “directives.”

Cost Concerns in the Northwest

While the Northwest has been hit hard during the last few years (Oregon and Washington unemployment stayed above the national average at the end of March), BPA, with its relatively lower-cost power supply and legally mandated cost-based rates, has been an important economic engine. Any additional costs on BPA customers without corresponding benefits risks sacrificing the power rates that have been a lifeline for the Northwest economy. After recovering some from the enormous increase following the West Coast energy crisis in the last decade, BPA power rates have started to go up again with an almost eight percent increase last year, and potential for a double digit increase next year.

Under statute, BPA has an imperative to focus on the least-cost means of achieving policy objectives that fall within its authority. Redesigning rates to achieve various policy goals has the potential to threaten the important rate design principle of “cost causation” in which costs are paid by the parties that cause the action. Direction to pursue policy objectives that would impose costs on BPA ratepayers without offsetting benefits is a dangerous threat to the region.

Scope, Legal Authority, and Regulatory Oversight

The core mission of each of the PMAs is to market power generated at federal multi-purpose dams to public power systems. BPA is to do this at “the lowest possible rates to consumers consistent with sound business principles.” 16 U.S.C. Section 838g. Over the years, the authority of BPA has been refined and expanded. But, in each case Congress has given specific authority and direction to BPA.

Moreover, each refinement of BPA’s mission has carefully respected the core tenets of preference and cost-based rates, as well as BPA’s core role as a the key wholesale power supplier for vast areas of the Northwest. In several respects, the DOE Memorandum suggests new missions for BPA that would raise questions as to whether they are appropriate to the region, are outside the agency’s existing statutory authority, or pose undue business risk to consumers. For example:

- **Technology** -- On page three of the memo, BPA and the other PMAs are directed to serve as “test beds” for innovative cyber security technologies. While BPA is certainly feeling the brunt of new NERC reliability and security standards, testing and proving technologies is a better role for DOE labs, not an agency that has 100% of its costs recovered from ratepayers.
- **Rates** – On page four of the memo there is a particularly concerning heading of “Improving the PMA’s Rate Designs”. This calls for rates to “incentivize” several policy objectives. This has the look of artificial rate increases, and one wonders how this would not conflict with BPA’s statutory mandate for cost-based rates. Moreover, initiatives in the memo, such as electric-vehicle deployment, are being pursued by retail utilities in the Northwest, and are not necessary new roles for this wholesale power supplier.

- EIM – On page five, DOE discusses PMA participation in a West-wide market to address energy imbalances resulting from intermittent renewable generation. The value to BPA customers of a west-wide, FERC jurisdictional market of this kind has not been shown, and the concept raises multiple questions around governance and legality of BPA participation. Instead, parties within the footprint of the Northwest Power Pool are pursuing capture of additional flexibility and capacity across their systems to address energy imbalance. Part of that work includes further coordination on a host of initiatives already underway to create efficiencies among utilities.
- FERC – The cumulative effect of statements throughout the memo directing PMAs to centralize functions, implement new rate designs, address “rate pancaking”, and pursue broad regional planning and coordination on operations of the grid all hint at an unnecessary and costly expansion of regulatory oversight and direction by both the Department of Energy and the Federal Energy Regulatory Commission (FERC).
- RTOs — Indeed, the above combination of elements in the memo undermines its assurance in a footnote that it is not proposing a move toward a Regional Transmission Organization (RTO) in these regions. The RTO concept has been carefully vetted and rejected over many years in the Northwest because of cost and jurisdictional concerns.
- Regional Process — Throughout the document, there are conclusions reached as to policy direction that appear to skip the usual regional analysis and collaboration in policy development, and overlook the statutory limitations for PMAs on cost recovery, mission, and geographic scope.

BPA and Customer Achievements to Date

The specter of BPA and the other PMAs being told to take steps to support new directions that may or may not have value to regional customers is all the more troubling given that BPA continues to achieve so much in this arena without new statutes or directives.

- BPA has achieved the highest rate of wind penetration of any balancing authority in the country (42 percent by generation to peak load). In March, BPA’s system passed the mark of 4,400 megawatts of wind generation, and expects to have 5,000 megawatts of this variable resource connected to its system by 2013, several years ahead of estimates. This is a ten-fold (1000 percent) increase over the amount of wind on the BPA system in August of 2006 (Figure 1).
- BPA and its customer utilities achieved 130 average megawatts of energy efficiency last year, exceeding targets and adding to the nearly 5000 average megawatts of efficiency achieved by the Northwest region since passage of the Northwest Power Act in 1980. In addition, BPA now has a tiered rate structure that effects efficiency, and there are dozens of demand response projects underway in the Northwest.
- BPA owns and operates over 15,000 circuit miles of high voltage transmission lines. The agency responds to new needs and requests through extensive regional processes that analyze many considerations such as environmental impact, system operational

impact and reliability, cost, risk, potential for recovery of cost, feasibility, and alternative options. As of the start of the fiscal year, BPA had underway 217 miles of new 500 kilovolt lines, 82 miles of rebuilding for 230 kilovolt lines, and 3 new substations.

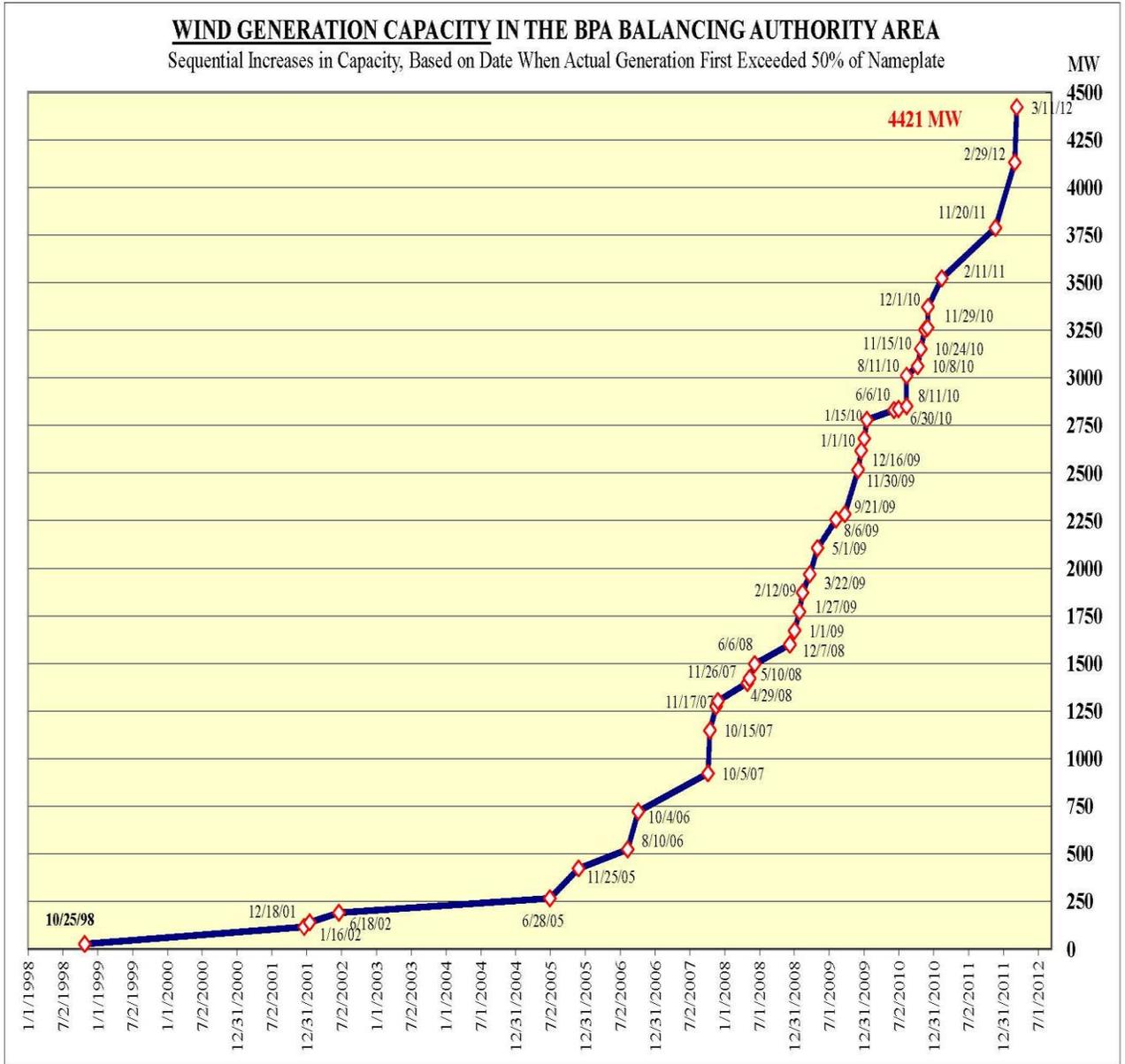
Conclusion

The Power Marketing Administrations and their utility customers have worked well together for 75 years in a regionally focused process of policy development. These processes are reflective of a collaborative spirit, and of the many operational, economic, and political dynamics unique to each region. Together, the PMAs and their customers have created an impressive record in addressing the many new challenges facing the energy industry, with more progress being made each day.

While it is unclear how the Department of Energy memo on PMAs may be implemented, it raises significant concerns about potential costs and regulatory burdens. Future initiatives must continue to be consistent with each PMA's statutes and responsibilities, and must not create costs to ratepayers without reciprocal benefits. With so much progress already underway, it would be a shame to override regional solutions in favor of one-size-fits-all proposals from D.C. that may, in the end, not fit anyone.

Thank you very much for the opportunity to testify today. I look forward to answering any questions.

Figure 1



WIND_InstalledCapacity_current.xls 3/12/2012