

Representatives of Northwest Consumer-Owned Utilities

February 26, 2018

Re: President's Budget Proposals Regarding Power Marketing Administrations

Dear Members of the Northwest Congressional Delegation:

As organizations representing consumer-owned utilities who are customers of the Bonneville Power Administration (BPA), we greatly appreciate your work to ensure that Northwest residents and businesses continue to receive the benefit of their nearly eight decades of investment in the Federal Columbia River Power and Transmission System. Maintaining BPA's cost-based rates is one of the pillars of our Northwest economy. So, we take seriously any threat to increase costs without commensurate benefit to consumers.

The President's Fiscal Year 2019 Budget Request contains two proposals regarding BPA that should be rejected by Congress. These proposals to privatize the transmission system and to impose a new rate structure on BPA would not only harm consumers in the Northwest, but would not meet the budget objectives outlined in the request.

Before discussing the budget proposals, it is important to note that we are supportive of real change at BPA that will bring additional efficiency, stability, and value for its customers. In fact, we are working extensively with the agency on multiple fronts toward that end. This involves significant changes to the approach to budgeting for operations, maintenance, and capital not only at BPA, but also at the Army Corps of Engineers, the Bureau of Reclamation, and Energy Northwest. This will demand a new emphasis on prioritization among limited resources even while these agencies make needed investments to maintain and modernize the system.

The Administration's budget proposals would take us in the wrong direction. The proposal to divest the BPA electricity transmission system would create a loss of regional value and control, have harmful impacts to more remote areas, and would increase costs to consumers and businesses impacting the Northwest economy. It is estimated that transmission rates would need to increase over 40 percent in order for a new owner to recover the costs of purchasing a system that has been largely paid for already by citizens of the region. It is difficult to see this as anything other than a transfer of value from the people of the Northwest to the U.S. Treasury or to private third-party interests.

The proposal to artificially raise BPA's power rates would be similarly harmful. As you know, ratepayers in the Northwest already pay all of the costs associated with generating and delivering the power from federal generation. By law, BPA power rates are set to fully recover the government's investment (principal and interest) and to provide the region with reliable, renewable electricity. For most consumer-owned utilities served by BPA, the amounts paid to the agency for power and transmission constitute a majority of the cost of operating their local utilities. Increases in BPA rates directly and significantly affect the pocketbooks of residents and the vitality of businesses.

In addition, Northwest businesses operate in highly competitive global markets; any increase in major inputs, such as power costs, directly pressures profitability and employment. Raising energy costs for business and industry is not the path to economic prosperity. And, raising electricity rates on families simply reduces disposable income and stifles consumer spending, savings, and investment. Increasing BPA rates is essentially a selective tax imposed unfairly on one region of the nation.

The Federal Columbia River Power and Transmission System has also been a good investment for U.S. taxpayers. BPA has made 34 consecutive annual payments of principal and interest to the U.S. Treasury on time and in full amounting to more than \$28.9 billion. BPA's payment for fiscal year 2017 alone was \$1.3 billion of which \$271 million was in interest. BPA's success in making these payments is due, in part, to its consistent use of cost-based rates. Given the dynamic changes to the electric industry underway in the West, it would be unwise to assume that BPA could maintain the same year after year success repaying the U.S. Treasury under the Administration's proposals.

Finally, both budget proposals have legal and contractual issues that raise large implementation questions that bring into question whether they would raise the intended revenue or just lead to endless time and money spent on litigation. The 15,000 miles of transmission lines and various facilities of the federal system form a complex engine that is the backbone of the electricity system. The Urgent Supplemental Appropriations Act of 1986 specifically forbid spending federal dollars to explore divestiture of this system. And, any change in the rate-setting standard for BPA requires a change in law and would still be subject to legal challenge since the current contracts expressly provide for cost-based rates through 2028.

Please let us know how we can be of further assistance during the budget process this year to make sure that these harmful proposals do not proceed. If you have questions or would like additional information, please contact Scott Corwin at the Public Power Council at scorwin@ppcpdx.org or 503-595-9775. Again, thank you for your leadership and for your work for the citizens of the Northwest.

Sincerely,

Public Power Council

Northwest Public Power Association

Oregon People's Utility District Association

Oregon Rural Electric Cooperative Association

Washington Public Utility Districts Association

Oregon Municipal Electric Utilities Association

Idaho Consumer-Owned Utilities Association

Western Montana Electric Generating and Transmission Cooperative

PNGC Power

Western Public Agencies Group

Washington Rural Electric Cooperative Association

Northwest Requirements Utilities

Public Generating Pool