PPC | PUBLIC POWER COUNCIL
Bringing public power together

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Competitiveness for the Bonneville Power Administration: Looking Ahead

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Public Power, BPA, and Jobs: As consumer-owned utilities with preference to federal power, most members of the Public Power Council (PPC) buy much or all of their power and transmission from the Bonneville Power Administration (BPA). Power costs usually constitute a majority of the rates charged to public power consumers. As an economic engine of the Northwest, BPA and its rates visibly affect pocketbooks of residents and the vitality of businesses and job creation.

- Northwest public power utilities serve over 3,000 average megawatts (27 million MWh) of industrial loads for over 34,000 business accounts -- 36% of NW public power loads.
- Northwest businesses operate in highly competitive global markets; any increase in major inputs, such as power costs, directly pressures profitability and employment.
- Manufacturing jobs create a high "multiplier effect", with $1 spent in manufacturing generating $1.33 in additional economic activity throughout local communities.

The Challenge of BPA Competitiveness versus Other Suppliers

BPA's upward rate trajectory over several years raises serious concerns about the long-term competitiveness of BPA and the economic health of the region and the programs that depend on BPA revenues. With low natural gas prices and a surge of renewable energy suppressing market prices, *BPA's recent rate trajectory* is *not sustainable*; power customers will have other supply options when their BPA contracts expire in 2028.

This threat is not in the distant future. Decisions today will set the course for whether the cost trend line can bend enough by the time new contracts are negotiated well-ahead of the 2028 cliff. Customers are weighing their options and will need to see sustained commitment to top-down budget prioritization, performance management and culture, and firm cost control at BPA, the Army Corps of Engineers, and the Bureau of Reclamation. Everything must be on the table; some areas of focus for PPC are described below.

Reconsider Project Cost Allocations

When the federal hydropower projects were authorized, certain assumptions were made about the costs and benefits of each project purpose. As part of that analysis, approximately 75 percent of the “joint cost” of the Columbia and Snake River dams is assigned to power customers for repayment – and an equivalent percentage of operations and maintenance expenses. Over the ensuing decades the amount of federal hydropower has been reduced by one-third and the operational flexibility and value of the remaining power output has been reduced. By contrast, the value of other authorized purposes has increased significantly. For instance, with increased construction and development and rising property prices, the value of flood control is much higher than when the projects were built. Despite these shifts in benefits, there has been little attention given to aligning costs and benefits assigned to the various project purposes.

Revisiting the underlying cost allocation is a lengthy and difficult process – but an essential step in promoting equity and addressing the competitive challenges of BPA. Congress needs to ensure the Crops of Engineers and Bureau of Reclamation review the project cost allocations and expeditiously move forward with an equitable allocation.

Fish and Wildlife Costs

PPC and its members have a strong interest in both the effectiveness and cost of programs funded through rates BPA charges its customers; this includes support for science-based, cost-effective programs that help BPA meet its obligations for fish and wildlife mitigation. Fish and wildlife costs are currently one-third of the total BPA bill to customers, including operations costs and less operational flexibility from increased spill at the dams.

Even with some success in other areas of BPA cost management, uncontrolled fish and wildlife costs could threaten economic sustainability. How seriously BPA (and the Army Corps of Engineers and Bureau of Reclamation) can turn the corner on power costs will impact the extent to which PPC members make future purchases of BPA power. And, those future power purchases from BPA provide the revenue stream that would fund fish mitigation efforts and all other BPA programs.

Under existing law, BPA receives a credit against its Treasury repayment obligation for those fish and wildlife expenditures it makes on behalf of other project purposes. First used in the 1990s, this credit provision helps aligns costs and benefits. However, the cost inputs for this credit have not been updated in decades. Moreover, PPC believes that the time is right for a serious bipartisan discussion within the delegation about updating this provision to meet fish and wildlife objectives while controlling ratepayers’ cost exposure.

Columbia River Treaty

One of the few areas where there is an opportunity to assist with BPA future competitiveness by gaining access to more federal generation is through modernization of the Columbia River Treaty with Canada. For decades, the Columbia River Treaty between the United States and Canada worked very well to enhance the flood control and power needs of both nations. But, studies continue to show that the current implementation of the Treaty has created a large inequity with the electricity consumers in the U.S. losing approximately $1 million every three days, as the U.S. overpays Canada 70-90% for the presumed downstream power benefits.

PPC appreciates that the Northwest members of the House and Senate have pushed to get discussions underway between the two countries. We are looking *this year* to see an agreement to fix the power inequity in a way that does not threaten the operational flexibility of hydropower projects (the largest sources of clean, renewable power in the region), and does not threaten river navigation that is so critical to our local economy. Some Treaty provisions, and several agreements associated with the Treaty, expire in 2024, underscoring the need for expeditious action now to get ahead of needed funding requests or legislation that could take additional time to complete.

We continue to support the Regional Recommendation for the Treaty which stated that, "Any payments for Columbia River flood risk management should be consistent with the national flood risk funding policy of federal funding with applicable local beneficiaries sharing those costs as appropriate." Congress has the lead role in flood control funding.

Secondary Revenues and Markets

Another factor in the rising BPA power rates in recent years has been the loss of revenue from "secondary" sales. This involves amounts of power in excess to BPA's base commitments that can be sold on the market either inside or outside the Northwest. Lately, prices are lower than historic levels and sales, used as a credit against BPA rates, are down about $200 million from several years ago (over a 10 percent rate impact).

Today's markets in the West are becoming more technologically advanced and complicated. We support steps BPA has taken to modernize its systems for better knowledge and management of its grid for reliability and for identifying market opportunities. BPA is currently considering participation in an Energy Imbalance Market, and we will be analyzing the costs and benefits of that step. In addition, there may be other opportunities for BPA to enhance revenue from sales outside the region. This will require careful balancing, and there may be some ways in which Congress can play a role, including authorizing BPA to pay carbon fees on sales to states requiring it.

Conclusions and Outlook

Prompt action is needed if BPA and its partner generating agencies are going to turn the corner and ensure a future power supply that is economic. We urge the delegation to work together on changes to address BPA costs and protect ratepayers and the economy.