PUBLIC POWER COUNCIL
Bringing public power together

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# Proposal to Privatize Power Marketing Administrations

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The Public Power Council (PPC) opposes the expected proposal in the Administration's FY2019 Budget that would divest the electricity transmission system of the Bonneville Power Administration (BPA) and two other power marketing agencies (PMAs). PPC also opposes any broader effort to privatize the PMAs ("asset sales" has been discussed as a possible funding option for the Administration's infrastructure initiative). PPC extends its thanks to the Northwest Congressional delegation for expressing bipartisan opposition to last year's proposal to privatize BPA's transmission assets, and for the continued unified support for the electricity consumers and economic health of the region.

We are already working with BPA toward the strategic evolution of the transmission system to make it more efficient and responsive to customers. This privatization push raises several concerns and many questions about how it would impact Northwest residents and businesses, including:

## Loss of Regional Control and Value

BPA is a regional asset, supporting coordinated utility operations, regional economic development, and fish and wildlife programs. The Northwest Congressional delegation serves as the "board of directors" of BPA, ensuring that the region's interests are served and advanced.

By law, priority is placed on providing benefits from BPA to the Northwest. The effect of these privatization proposals would be a transfer of value from the people of the Northwest to the U.S. Treasury—or to distant private interests. Electricity consumers in the West have paid to construct and maintain a system that would be sold off to fund the federal government and generate profits for the new owners.

## Risk of Increased Costs to Consumers

BPA and its customers are working diligently to ensure the agency's cost competitiveness versus other long-term power supply options. Divesting the transmission needed to deliver electricity from the Columbia River power system could add more uncertainty and likely higher costs as new rates are imposed. This could necessitate a rate increase since BPA currently sets transmission rates to recover the initial investment plus interest to the Treasury. Similarly, privatizing the entire BPA would raise consumer costs because any new owner will expect to not only recover its investment, but also receive a return on that investment.

**Impact to Remote Areas**

With new ownership wishing to maximize profit, there is a question of whether more remote areas of the system would receive adequate maintenance or stable rates. This has the potential of harming rural communities across the Northwest.

**Meeting Other BPA Obligations**

Besides marketing and delivering power generated on the Federal Columbia River System, BPA has a number of other statutory obligations, including: assisting in the payment of irrigation projects, prioritizing and funding energy conservation, and restoring fish and wildlife resources. These obligations would be put at risk if any portion of BPA is privatized, since the new owners will prioritize their economic investment objectives. An attempt to saddle the new owners with these other obligations would be difficult, creating legal challenges and drastically diminishing the sale price.

**Legal and Contractual Concerns**

Current BPA long-term contracts, and numerous statutory provisions, include language bringing into question whether the privatization proposal could be implemented in a viable manner, even with legislation, or would set the stage for lengthy litigation.

**Historic Relationship and Equity**

BPA's customers have paid for the construction and upkeep of the BPA system. If sold to a private party, these payments, along with the presumed equity, could be lost. At a minimum, there are many questions and challenges to how this could be done in an equitable manner.

**CATO Institute Pushing Privatization and Higher Tax and Rate Hit**

A recent CATO Institute paper proposes to "dust off" proposals from the 1980s and 1990s to privatize the PMAs. A few notes:

- From a consumer perspective it is concerning, and ironic, that the report argues for privatization because it would: increase tax revenues, raise rates to the level of other utilities, and align us with trends in other countries.
- The paper also repeats old arguments (and 25 year-old studies) that are simply wrong and unfounded regarding PMAs being subsidized (they aren't, the customers pay the costs).