PUBLIC POWER COUNCIL
Bringing public power together

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Competitiveness for the Bonneville Power Administration: Looking Ahead

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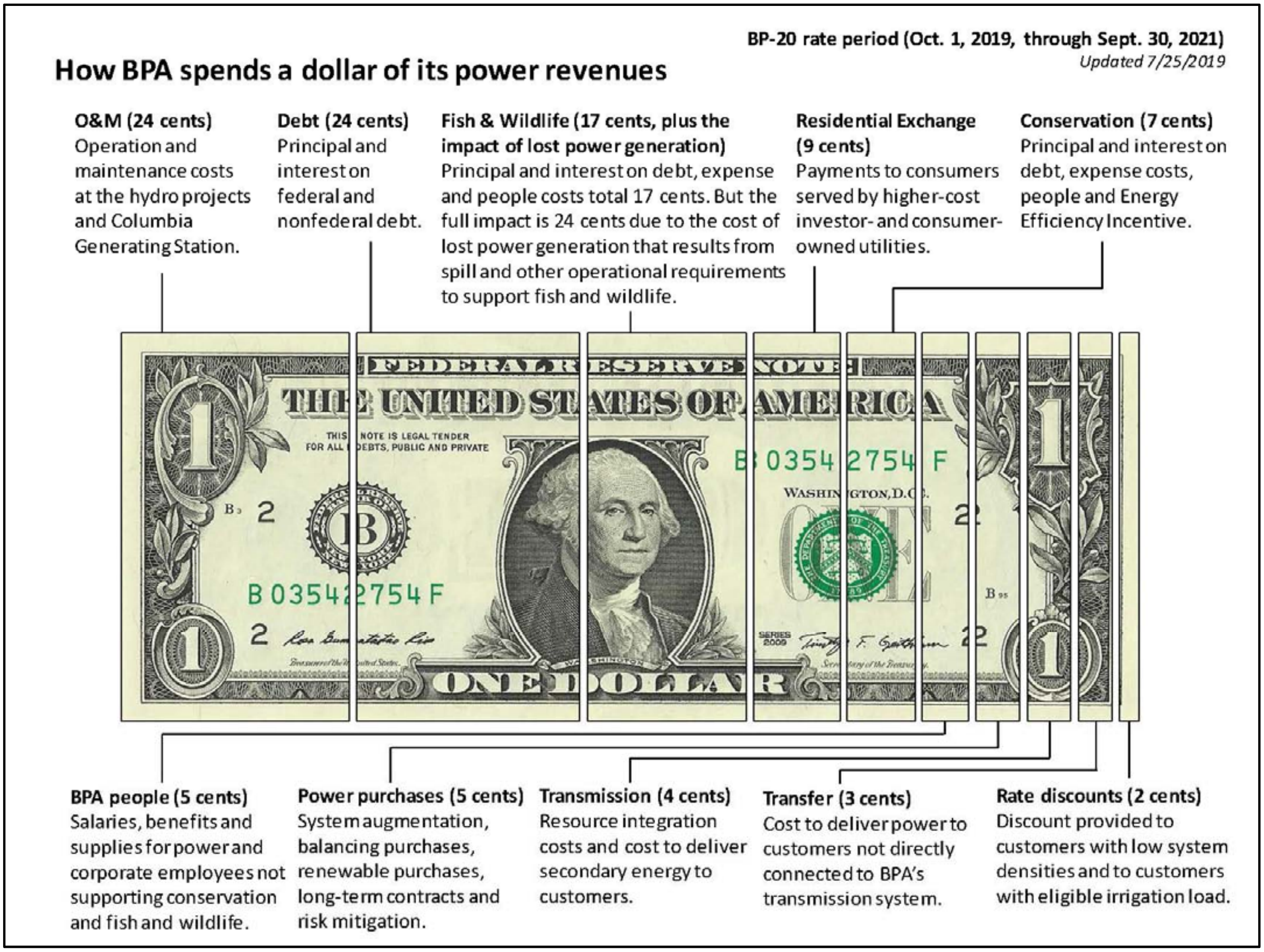
The Challenge of BPA Competitiveness

As nonprofit consumer-owned utilities with preference to federal power, Public Power Council (PPC) members buy much or all their power and transmission from the Bonneville Power Administration (BPA). Serving as an economic engine of the Northwest, BPA and its rates visibly affect pocketbooks of residents and the vitality of businesses and job creation in the region.

BPA's rate trajectory and nimbleness in providing customers with the products and services they need raise serious concerns about the long-term competitiveness of BPA – and activities and programs that depend on BPA revenues. With low natural gas prices and a surge of renewable energy suppressing short-term market prices, BPA's position as the supplier of choice is less secure, and public power customers may consider other supply options when their BPA contracts expire in 2028. While BPA has taken positive steps to improve its outlook, more is needed to control and prioritize BPA costs, increase revenues, and improve the agency's operations.

This threat is not in the distant future. Decisions today will set the course for customer decisions as new contracts are negotiated ahead of the 2028 cliff. Today, BPA depends on public power to fund almost 80% of its power operation, and the contract decisions of public power will have profound impacts throughout the region. Indeed, as depicted below, a myriad of BPA programs, including energy conservation and the world's largest environmental mitigation program, depend on that funding. Overall, including power and transmission, Northwest public power pays for nearly 70% of the agency's overall costs. Without that stable funding, BPA could cease to be the reliable funding source for many essential Northwest programs.

In light of BPA's recent rate trajectory, customers are weighing their options and will need to see sustained commitment to top-down budget prioritization, performance management and a customer-focused culture. They will also need to see firm cost control at BPA, the Army Corps of Engineers, and the Bureau of Reclamation, plus a more equitable distribution of escalating fish expenditures. 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 decades-old analysis, approximately 75% of the "joint costs" of the Columbia and Snake River dams were assigned to power customers for repayment – and an equivalent percentage of operations and maintenance expenses. Over the ensuing decades, the amount of federal hydropower production has been substantially reduced and the operational flexibility and value of the remaining power output has been constrained. 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 – and a statutory assumption that the costs would be reviewed and realigned – the cost allocation for these projects remained static.

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 took an important step in directing the Corps of Engineers, Bureau of Reclamation and BPA to develop a plan for redressing project cost allocation as part of the FY 2020 Energy and Water Appropriations Act. This action begins the process of aligning costs and benefits – but more is still needed. ***PPC urges expansion of this directive as part of congressional action on the next Water Resources Development Act (WRDA) legislation, with legislation that ensures cost reallocation efforts are prioritized, completed in a timely fashion, and utilize most appropriate methodologies and accurate inputs in the analysis. PPC also supports congressional efforts to deauthorize power as a purpose at certain Willamette projects in order to avoid adding crippling costs to an insignificant and uneconomic resource and unnecessarily limiting fish mitigation options.***

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. As depicted above, fish and wildlife costs are roughly 25% of the total BPA bill to customers, including operations costs and reduced operational flexibility from increased spill at the dams. Although funded by BPA rate payers, the mitigation program is largely implemented by Northwest tribes and state agencies.

Even with some success in other areas of BPA cost management, ever-escalating fish and wildlife costs could threaten economic sustainability. Columbia River system operations are expected to change with the release of a new Biological Opinion in 2020. To date, fish efforts on the Columbia and Snake River system have been predominantly funded by BPA ratepayers. The benefits of these ratepayer-funded efforts are felt throughout the Northwest and the nation. PPC believes it is time to take targeted steps to properly align cost responsibility for fish programs and recognize the region's shared stake in the financial health of BPA.

Under existing law (Section 4(h)(10)(C) of the Northwest Power Act), BPA receives a credit against its Treasury repayment obligation for those fish and wildlife expenditures it makes on behalf of other project purposes (such as flood control and navigation). First used in the 1990s, this credit provision helps align some of the costs and benefits. However, the cost inputs for this credit have not been updated in decades – and fail to include many of the ways that BPA ratepayers fund fish mitigation efforts. For instance, the direct and indirect costs of fish-mandated spill operations are not included in the current credit calculations. If full crediting for fish expenses made on behalf of other project purposes is not addressed, BPA power could become uneconomic and threaten the viability of current fish program funding.

BPA power customers remain committed to fulfilling our fish and wildlife obligations, and PPC is not seeking changes in any current or future fish measure. Rather, we seek partners in our shared interest in assuring BPA's financial success and are focused on the costs of fish mitigation and the proper sharing of those costs. ***PPC believes that the time***

is right for a bipartisan effort to update the Treasury repayment provision to properly capture all relevant fish expenditures and align these costs with program responsibilities.

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 rebalancing the Columbia River Treaty with Canada. Although the Treaty had served both countries well in the past, studies now 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. Flood control provisions of 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.

The process for renegotiating the Treaty and reestablishing equity has dragged on for years, with little to show for it. ***PPC urges delegation action to ensure that flood control costs are not borne by BPA customers and to advance a timely and equitable resolution of the power provisions of the Treaty.***

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 and for PPC member utilities to continue our decades-long partnership with the agency. Ensuring BPA's competitiveness is essential for meeting the Northwest's economic, environmental and social goals. We urge the delegation to work together on changes to address BPA costs and protect ratepayers and the economy.