

Testimony of the Honorable Glenn English, CEO

National Rural Electric Cooperative Association

United States House of Representatives

Committee on Natural Resources

“Increased Electricity Costs for American Families and Small Businesses: The Potential Impacts of the Chu Memorandum”

April 26, 2012

Mr. Chairman and members of the Committee, thank you for holding this hearing and for providing me the opportunity to testify. We appreciate the committee’s work to ensure that our federal hydropower infrastructure and the Power Marketing Administrations remain a vital part of America’s energy backbone. It is most appropriate that this hearing’s focus will be mainly on the recent memo from Secretary of Energy Chu to the administrators of the four Power Marketing Administrations, or PMAs: Bonneville Power Administration headquartered in Portland, OR; Western Area Power Administration in Lakewood, CO; Southwestern Power Administration in Tulsa, OK; and Southeastern Power Administration in Elberton, GA. Co-ops were some of the first purchasers of federal hydropower, and today more than 600 rural electric cooperatives are PMA power customers.

In my testimony, I want to highlight the importance of the PMAs for both electric customers and taxpayers; discuss elements of Secretary Chu’s March 16 memo; and provide recommendations for how Congress and the Administration can work with customers to strengthen the federal hydropower resource and the PMAs

The Power Marketing Administrations are unique entities, spanning geographically diverse regions of the nation. They also have differing authorizing statutes, many of which have been layered over time as new projects were constructed. Since each of these regions is so complex and policies are developed in partnership with the federal power customers, PMAs have been statutorily headquartered in the geographic areas in which they serve, rather than in Washington, DC. Secretary Chu’s memo seems to bring an end to that practice, which is a big concern to our members. The federal power customers and the electric consumers they serve are not convinced that a “Washington-knows-best” approach will result in improved delivery of electricity.

The National Rural Electric Cooperative Association (NRECA) is the national service organization representing the interests of cooperative electric utilities and their consumers. Electric cooperatives are not-for-profit, private businesses governed by their consumers. These consumers are unique in the electric industry in that they are members of their cooperative and therefore own their utility. There are more than 900 electric cooperatives which serve more than 42 million consumers in 47 states.

NRECA estimates that cooperatives own and maintain 2.5 million miles or 42 percent of the nation's electric distribution lines covering three-quarters of the nation's landmass. Cooperatives serve approximately 18 million businesses, homes, farms, schools (and other establishments) in 2,500 of the nation's 3,141 counties. Our member cooperatives serve over 5.75 million member owners in Congressional Districts represented on this Committee.

Cooperatives still average just seven customers per mile of electrical distribution line, by far the lowest density in the industry. These low population densities, the challenge of traversing vast, remote stretches of often rugged topography, and the increasing uncertainty in the electric marketplace pose a daily challenge to our mission: to provide a stable, reliable supply of affordable power to our members, your constituents.

The Role of Federal Hydropower

Historically, one of the keys to providing affordable electricity by cooperatives across the country has been access to the electricity produced at federal dams and marketed by the four Power Marketing Administrations.

More than 600 electric cooperatives in 34 states purchase PMA-marketed hydroelectric power. Other federal power customers include municipal electric utilities, irrigation districts, tribes, and state and federal installations such as universities and military bases. According to statute, the price for the power is set at "...the lowest possible cost to consumers."

The business relationship between electric cooperatives and PMAs represents a longstanding partnership between electric cooperatives and the federal government. It is a model that works well for providing consumers across the country with reliable, affordable electricity. It is also a good deal for taxpayers, as it provides a mechanism through which federal investment is continually repaid by users of the federal power system.

Hydroelectric power is produced at 134 federal dams that are operated by the U.S. Army Corps of Engineers and the Bureau of Reclamation. Power Marketing Administrations market that electricity at a wholesale level at a price that pays for all of the taxpayers' original investment, plus interest, and ongoing costs. Specifically, the rates charged to federal power customers cover:

- the cost of repaying capital investments including renewals and replacements, with interest;
- power-related annual operating and maintenance costs of dam operations;
- transmission and marketing of federal power;
- and financial support of some non-power related authorized project purposes.

Considerations for PMAs' continued strength

Secretary Chu's memo to the Power Marketing Administration heads on March 16 proposed major changes to the way the PMAs do business. While specific direction will be provided to each of the PMAs in subsequent memos, there are guidelines which should be considered before issuing any directives or changing the primary focus of the PMAs. Changes to existing policy and direction should be made only after a full and open public process with opportunities for the PMA customers to provide input. We believe the Secretary should remember three simple principles: affordability; fairness; and upholding the PMAs' core mission.

Affordability

As not-for-profits, electric cooperatives provide the most affordable and reliable electricity possible to their consumer-members. Simply put, every time the input costs increase for a co-op, electric bills must also increase to make up the difference. If changes are made that increase the costs of PMA-marketed electricity, it stands to reason that customers' cost-based rates would also increase.

There is no question that rising electric bills hurt American families and businesses. Since the incomes of co-op customers lag 14% below the national average, cooperatives work to keep rates affordable for our consumermembers at all times. Since we are finally starting to see signs of economic optimism after years of recession, this is no time to be driving up the cost of electricity.

The March 16 memo recognizes that the so-called modernization effort will likely be costly, and that costs will be "phased in" to minimize disruption. Phasing in expenses does not address the issue of increasing costs to consumers with no associated benefits.

Any changes to the PMAs' strategic planning processes should be considered carefully, and new capital expenditures planned should be specifically discussed with the customers who will pay those expenses.

While I am concerned about the rate-raising impacts of this memo and its vague but expensive-sounding policies, the costs to the American taxpayer are also unknown. It seems that Congress should give this memo and future policies a good hard look before giving DOE and the PMAs the go-ahead to proceed.

Fairness

Throughout Secretary Chu's memo, there are examples of how the PMAs could be restructured to be more efficient. It is not clear from the memo which parties will benefit from the changes proposed, or who will pay for them.

The entire federal transmission system the PMAs use to market power is paid for through rates charged to users and beneficiaries. We support the construction of new transmission infrastructure – including poles, wires, computers, people, and other components -- where it makes sense. These investments should be made to improve system performance and reliability, not to give one type of generator or customer an advantage. Further, the cost of those improvements should continue to be borne by the beneficiaries. This long standing practice of assigning costs based on benefits received should be maintained.

Uphold the PMAs' Core Mission

In his memo, Secretary Chu outlines that PMAs will become involved in a wide range of businesses including test beds for cyber security, advancing electric car deployment, and energy efficiency. These are valid policy goals, and in fact they are ones that many of our member co-ops are pursuing. But to ask existing consumers, and taxpayers, to foot the bill for these pursuits is well outside the PMAs' mission. It would be bad public policy to use the PMAs as technology laboratories, forgetting their primary mission of marketing federal power.

Electric cooperatives are a good example of how the electric utility industry is changing. We have members across the country that are leading smart grid technology efforts; incorporating demand response; and reducing load by incorporating energy efficiency programs. We have cooperatives both developing renewable energy projects and purchasing renewable energy of all kinds including wind, solar, geothermal, biomass, and clean renewable hydropower. Electric co-ops have either installed or contracted for more than 4,000 MW of renewable capacity.

Improving PMAs and the federal hydropower resource

We need to take a step back, and identify how we could all collectively work together to improve the PMAs and the federal hydropower investment overall. Congress and this administration could make a significant impact on the energy security of our country by investing in the federal hydropower resource. Congress and the Administration should:

- Use existing authorities to prudently integrate newly developed resources into the existing federal transmission systems, while improving reliability and alleviating transmission shortfalls;
- Improve access to federal lands to speed construction of transmission and distribution lines;
- Recognize the importance of clean, renewable, affordable hydropower as an important part of our nation's energy policy; and
- Make a greater federal commitment to our hydropower resource. The President's Budget Request and appropriations by Congress must prioritize the safety and efficiency of federal dams and power-related resources as a priority.

The federal power program pays its own way. Unlike most other federal programs, appropriations for the federal power program are repaid to the U.S. Treasury by federal power customers. Historically, deficit reduction measures have curtailed appropriations for the federal power program, despite the fact that all of the costs of the federal power program are repaid. These curtailments threaten the reliability and efficiency of federal hydropower assets. However, the federal power customers, in partnership with the PMAs and generating agencies, have contributed funds to reduce this threat. Continued federal appropriations must remain the primary support for sustaining the federal power program, but should not preclude alternative funding methods to complement these appropriations.

By working together, Congress, the Administration, and the federal power customers can address the multiple goals of the federal hydropower resource and the PMAs, and maximize the benefit of the system for all.