

STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON WATER AND POWER
COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES
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EXAMINING THE PROPOSED FISCAL YEAR 2015 SPENDING, PRIORITIES AND THE MISSIONS OF THE BUREAU OF RECLAMATION, THE FOUR POWER MARKETING ADMINISTRATIONS AND THE U.S. GEOLOGICAL SURVEY'S WATER PROGRAM

Mr. Chairman, Mr. Ranking Member, and Members of the Subcommittee, I appreciate the opportunity to testify today. My name is Elliot Mainzer. It is my great honor and privilege to have been appointed Administrator of the Bonneville Power Administration (Bonneville). I am excited to work with our employees, customers and constituents, state, local and tribal governments, and Congress to position Bonneville to continue to deliver value to the Pacific Northwest well into the future. I am pleased to be here today to discuss the President's Fiscal Year (FY) 2015 Budget as it relates to Bonneville.

In my testimony today, I will share with the Committee Bonneville's significant successes over the past year, how we are addressing key challenges and opportunities, and I will provide an overview of the FY 2015 Budget.

BONNEVILLE'S RECENT SUCCESSES AND KEY CHALLENGES

Since its creation, Bonneville has been a major force in the Pacific Northwest, providing renewable power that is the cornerstone of the region's economy, helping to preserve and restore the environment and raising the standard of living for both urban and rural citizens. Bonneville's foundational commitment to being a wise steward of the region's valuable resources enabled us to meet the challenge of managing through difficult economic times while making important progress in areas that advance both regional and national energy goals.

Progress in Human Capital Management

I would like to begin by addressing our recent hiring issues and state that Bonneville leadership takes the findings by the Department of Energy's (DOE) Inspector General, DOE's Human Capital Management Office and the Office of Personnel Management (OPM) very seriously. I am pleased to say we have made progress in addressing the issues identified in those reviews, fixing flawed hiring practices and reassuring

employees that they may freely raise concerns without fear of retaliation. As part of this effort, Bonneville and DOE Headquarters have charted a path forward to address the compliance issues identified by the Inspector General and to assure that Bonneville's practices adhere to Federal law. Our leadership team is committed to ensuring we never find ourselves in this situation again.

I would like to provide several examples of the progress we have made in addressing the problems with our hiring practices. First of all, we hired a new Human Resources Director who has a background in Federal human resources practices and rules and has the skills and expertise we need to build a fully compliant human resources operation. He is also a military veteran with deep knowledge of veterans' preference and labor management relations, which has the added benefit of reinforcing Bonneville's longstanding labor relations program.

We have also made progress in the job reconstruction process as we have now completed nearly 50% of the 1,259 cases requiring reconstruction. We are very excited to welcome a new cadre of military service veterans to Bonneville and they will join the several hundred veterans who are already part of our workforce and have been making remarkable contributions to our success for many years.

BPA's Human Capital Management staff has completed the necessary training to regain their delegated examining credentials from the OPM and we are on track to restore our delegated hiring authorities by September 30, 2014. We also are maintaining regular communications with our customers and constituents on our progress in this matter. In addition, we have strengthened communication and coordination channels with DOE's Human Capital Management Office and OPM to help make certain that nothing like this ever happens again.

Safety and Succession Planning

As we complete our tasks to address the issues in our Human Capital Management performance, I have turned to two other areas concerning our people and culture: safety and succession planning. As an electric utility, the safety of our workforce continues to be an extremely important priority. There really is nothing more important to me than the health and well-being of every member of our workforce. One of my first acts as Administrator was to establish a new safety value emphasizing that our commitment to safety extends beyond the work environment to everything we do, including the time we spend with our families and to our own personal safety practices. We are also conducting a workforce-wide safety perception survey in April to solicit input into potential ways to further enhance our safety program.

Succession planning is another of my very high priorities as Administrator. We are beginning to make progress on the issue with a substantial piece of our senior team in place. Over the next six months, I am committed to making additional progress in filling critical leadership roles. With many of our fellow Bonneville employees' eligible to

retire in the next few years, we will also be working on longer-term succession planning to position Bonneville for continued success for many years to come.

Debt Repayment

As the Committee knows, Bonneville ratepayers repay, with interest, the debt on the Federal investment in the Federal Columbia River Power System (FCRPS). In FY 2013, Bonneville made its full scheduled payment of \$692 million to the U.S. Treasury. This payment marks the 30th year in a row that Bonneville has made a full, on-time payment to the Treasury. We expect to make the 31st consecutive payment this year on-time and in full. Bonneville finances its approximately \$4.4 billion annual cost of operations and investments primarily through power and transmission revenues and borrowing from the U.S. Treasury at interest rates comparable to the rates prevailing in the market for similar bonds issued by Government corporations.

Rates – Managing for Short and Long-Term

Keeping rates as low as possible while addressing the demands on the power and transmission system and achieving key public purpose objectives remains challenging given declining wholesale electricity prices. Bonneville's rate setting begins with an invitation for customers and the public to participate in a review of our programs and costs, called the Integrated Program Review. Bonneville's Integrated Program Review process is getting underway for proposed spending levels for FY 2016 and FY 2017. The results from this process will establish cost levels for the rate setting process that begins in the fall of 2014 and culminates with a final proposal in the summer of 2015 for FY 2016 and FY 2017 rates.

Capital Strategy

Bonneville's most important strategic priority is to maintain and enhance the value of the Federal Columbia River Power System (FCRPS). The FCRPS power and transmission assets are aging and require significant capital investment to allow them to provide reliable and low-cost service well into the future. Bonneville and its utility customers have successfully maintained and enhanced an extremely reliable transmission system despite aging facilities.

As this critical infrastructure ages, replacements and upgrades will continue to increase operational efficiency and provide needed capacity and capabilities, ensuring that the region has an adequate, reliable and low-cost power system. BPA also invests to fulfill regional commitments for energy efficiency and fish and wildlife restoration.

I intend to work closely with our customers and other stakeholders to optimize use of capital across our various asset classes in a way that is sustainable in terms of customer rate impacts.

Innovative Financing Tools

To supplement the traditional use of borrowing authority from the U.S. Treasury to finance investments, Bonneville is implementing other funding sources to meet future needs of the power and transmission systems.

One innovative tool we implemented in FY 2013 was the power customer prepayment program, which allows customers to prepay their power bill in the form of block purchases. As a result of the FY 2013 prepayment solicitation, Bonneville received \$340 million in prepayments, which will be used to fund needed FCRPS hydroelectric investments. In addition, the Lease Financing Program enables Bonneville to continue to invest in infrastructure to support safe and reliable transmission. Bonneville has signed just over \$1 billion in leases under this program.

Increasing Demands on the Power and Transmission System

To honor our statutory obligations to our preference customers and meet our obligations as an open access transmission provider, we must bring non-federal sources of balancing capacity and flexibility into our operations, including both supply side and demand side resources. We must also address growing reliability compliance requirements and do so as efficiently and cost-effectively as possible.

Transmission Planning and Development

Bonneville will continue to develop innovative approaches to planning transmission development in the region. To support the load growth and marketing needs of transmission customers, we are collaborating with stakeholders to revise and enhance policies and procedures with the objectives of: promoting more efficient and effective regional transmission planning processes and timelines; clarifying rights and responsibilities for Bonneville and its customers; ensuring equitable cost allocation; reducing financial risks to Bonneville and its ratepayers, and mitigating stranded investment exposure.

In 2013, Bonneville advanced regional projects ranging from substation upgrades to new high-voltage lines. Most prominently, Bonneville continued to move ahead on planning and review for several major 500-kilovolt (kV) transmission projects. On the I-5 Corridor Reinforcement, we announced the selection of a preferred route and released a draft environmental impact statement. This project would be the first north-south transmission line built in the I-5 corridor in southwestern Washington since the 1970s, a period in which the population of the area has more than doubled. We are collaborating with the public, stakeholders and elected officials on a final environmental impact statement expected in 2014.

Bonneville also ramped up pre-construction activities for another project identified in our 2008 Network Open Season process, the Central Ferry-Lower Monumental line in Washington. The 38-mile 500-kV line will connect a new Bonneville substation at Central Ferry in Garfield County with the existing Lower Monumental Substation in

Walla Walla County. The project will add critical grid capacity and support new transmission requests from wind generators, delivering energy from the lower Snake River area to population centers west of the Cascades. Construction is expected to begin in spring 2014 and energization is scheduled in December 2015.

We are constructively engaged with our neighboring service providers in Oregon and Idaho to find creative solutions to provide load service to our southern Idaho customer utilities as part of a cost-effective way for the region as a whole. We are very appreciative that we received expenditure approval from Congress in January to proceed with options that may include construction of the Boardman-to-Hemingway 500-kV line.

Northwest Power Pool Members' Market Assessment

Let me turn now to the issue of coordinated system operations. Through the 1940s, 50s, 60s and all the way to the present, the Pacific Northwest's utilities have worked together through the Northwest Power Pool to address many new and emerging operational challenges and have done so with a focus on pooling resources, improving reliability, lowering costs, and ensuring local control. This approach resulted in such achievements as the pooling of electricity generation to increase aluminum production during World War II, the establishment of the Pacific Northwest Coordination Agreement, and the sharing of contingency reserves that currently saves the Pacific Northwest roughly \$300 million per year in reduced capacity costs.

Given this track record of success, I am very excited about the work currently underway through the Power Pool to further enhance coordinated system operations. Through a continued focus on situational awareness, capacity adequacy and economic optimization of resources, we can lay the foundation for an even more reliable, flexible, low-cost and environmentally sustainable power system. To me, this does not require a radical remaking of the system, but rather a continued evolution that builds on the Northwest's longstanding tradition of developing cost-effective, pragmatic solutions and doing so in a way that preserves local control and decision making autonomy.

2014 Oversupply Rate Case

On February 13th, we released the Draft Record of Decision (ROD) for the 2014 Oversupply rate case, in which Bonneville is setting a rate to recover costs incurred under the Oversupply Management Protocol. The Final Record of Decision is scheduled to be issued later this month.

Bonneville adopted and filed with FERC its Oversupply Management Protocol, under which Bonneville displaces wind generation in certain oversupply conditions and compensates generators for lost production tax credits, renewable energy credits, and losses under certain power sales agreements. FERC conditioned its acceptance of the protocol on a compliance filing that includes a cost allocation methodology that results in comparable service. The current rate case focuses on the allocation methodology for costs attributable to the protocol. In the draft decision, we have proposed to allocate

oversupply costs to generators in Bonneville's balancing authority area, proportional to their scheduled use of the transmission system during oversupply events.

This is a complex and difficult issue for the region and Bonneville understands and appreciates the many perspectives on the issue of who should pay the costs of oversupply. We believe the proposed allocation is consistent with our multiple statutory responsibilities, is rooted in the basic principles of cost causation and fairness that underlie Bonneville's rate directives, and reflects the guidance we have received from FERC. The Pacific Northwest has a promising future of sustainable energy and economic development. I look forward to working with regional interests to identify a long-term solution to the oversupply issue that harmonizes our zero-carbon hydro and wind energy resources.

Columbia River Treaty

An important and pressing strategic initiative concerns the future of the Columbia River Treaty.

On December 13, 2013, the U.S. Entity, consisting of the U.S. Army Corps of Engineers and Bonneville, delivered the final regional recommendation concerning the post-2024 future of the Columbia River Treaty to the U.S. Department of State. The U.S. Entity believes it is important to achieve a modernization framework for the Treaty that balances power production, flood risk management, and eco-system based function as the primary purposes, while also recognizing and implementing all authorized purposes. The U.S. Government is currently evaluating the recommendation and considering next steps in reviewing the future of the Columbia River Treaty.

I look forward to continued collaboration within the region to achieve a modernized and equitable Columbia River Treaty.

2014 Supplemental Biological Opinion

As stewards of the FCRPS, Bonneville has a mandate to mitigate the impacts on fish and wildlife of Federal hydropower development and operations on the Columbia River and its tributaries. Bonneville is guided by the Northwest Power and Conservation Council's Fish and Wildlife Program and the biological opinions (BiOp) issued by the National Oceanic and Atmospheric Administration (NOAA) Fisheries and the U.S. Fish and Wildlife Service under the Endangered Species Act for the operation of the FCRPS.

On January 17th, NOAA released its 2014 Supplemental Biological Opinion, updating the FCRPS Biological Opinion issued in 2008. On February 27, 2014, I signed Bonneville's Record of Decision to implement the Supplemental Biological Opinion. The Supplemental BiOp confirms the positive results from our collaborative efforts with the U.S. Army Corps of Engineers and Bureau of Reclamation. Juvenile fish passage is now at its highest level since the dams were built, and tests show we are on track to meet

BiOp performance standards of 93 to 96 percent survival of juvenile salmon and steelhead past each dam. In recent years fish have returned to rivers and streams where they have been absent for decades. In addition, in the past five years, we have opened more than 2,000 miles of habitat to salmon and steelhead for spawning and rearing. That is nearly twice the length of the Columbia River. Also, of the wild salmon and steelhead populations in the interior Columbia Basin measured recently, almost all have increased in abundance since the first endangered species listings in the 1990s and their risk of extinction has declined. Steelhead populations increased, on average, 170 percent. Chinook salmon populations increased 253 percent.

The amount of work and regional collaboration that has contributed to this progress is truly monumental. NOAA and the Action Agencies collaborated for years with states and tribes to develop a comprehensive program based on science that protects listed salmon and steelhead while also maintaining the environmental and economic benefits of the FCRPS. We carry out that program in close partnership with states and tribes, with the tribes planning and completing many of the habitat improvement projects that resurrect the natural conditions of rivers and streams and, in turn, promote salmon and steelhead survival. The collaborative relationship developed through the Fish Accords is working and we will continue collaboration as a cornerstone of this BiOp.

Part of Bonneville's commitment to help facilitate its obligations for fish and wildlife mitigation includes beginning construction, possibly as early as FY 2015, on a significant fish project called the Black Canyon Trout Hatchery to be constructed near Pocatello, Idaho. This project requires Congressional expenditure authority and is listed in the Proposed Appropriations (Expenditure Authority) Language of Bonneville's FY 2015 Congressional Budget submission pursuant to Public Laws 93-454 and 96-501. The project is consistent with the Biological Opinions and the Fish Accords.

Energy Efficiency

Energy efficiency has held a prominent place in Bonneville's mission since passage of the Pacific Northwest Electric Power Planning and Conservation Act in 1980. The region's 5,300 megawatt (MW) conservation power plant continues to produce value for regional consumers and energy efficiency remains the lowest cost and least risk resource in the Pacific Northwest. As the region begins a robust dialogue about the future of our energy efficiency activities, I am looking forward to working with our customer utilities, the North West Power and Conservation Council, the North West Energy Efficiency Alliance, the Northwest Energy Coalition, Northwest Governors, and other energy efficiency advocates across the region to craft a strategy that maintains the region's valuable focus on energy efficiency while examining ways to meet our objectives as efficiently as possible, leveraging the local actions and investments of our customers and recognizing that not all of our customers are similarly situated.

Peter T. Johnson

Finally, in closing, I'd like to note that all of us in the Northwest energy community were deeply saddened to learn of the passing of Peter T. Johnson, the eighth administrator of Bonneville who served from 1981 to 1986. He was a man of great character with incredible business acumen who guided Bonneville through difficult times with great skill and patience. He put Bonneville on a sound financial footing, stabilized rates, and encouraged better use of existing resources in lieu of just building more of them. He was an iconic figure whose influence is still present at BPA today. I will look to his many examples of extraordinary leadership to guide me through the many challenges that face our ever changing energy industry.

FY 2015 BUDGET OVERVIEW

Bonneville is in sound financial condition and is well positioned for the future. Bonneville's FY 2015 Budget proposes estimated accrued expenditures of \$2,996 million for operating expenses, \$46 million for Projects Funded in Advance, and \$1,055 million for capital investments.

Bonneville's commitment to fish and wildlife mitigation and enhancement is exemplified in its substantial direct program budget of \$311 million, capital and expense.

Bonneville's FY 2015 Budget is a business-based budget that aligns well with Department of Energy priorities and goals.

Table BP-5 in Bonneville's FY 2015 Congressional Budget submission provides increased transparency regarding potential Bonneville third-party financing activity and projects funded in advance, which is estimated at about \$2,220 million during the FY 2014 through the FY 2019 period.

Please see Attachment A for budget data based on current services for FY's 2013 through 2015.

CONCLUSION

Mr. Chairman, this concludes my prepared remarks. I am excited by the role Bonneville is playing and will continue to play to achieve regional goals for clean, low-cost, and reliable electricity supplies while operating in a fiscally prudent manner. I would be happy to respond to any questions from the Committee.

Attachment A

Bonneville Power Administration

Funding Profile by Subprogram ^{1/}

(Accrued Expenditures in Thousands of Dollars)

	Fiscal Year			
	2013 Actuals	2014 Original ^{2/}	2014 Revised ^{2/}	2015 Proposed
Capital Investment Obligations				
Associated Project Costs ^{3/}	186,425	N/A	240,802	239,082
Fish & Wildlife	52,120	N/A	60,275	51,284
Conservation & Energy Efficiency ^{3/}	78,376	N/A	75,200	92,000
Subtotal, Power Services	316,921	N/A	376,278	382,367
Transmission Services	267,542		648,780	624,730
Capital Equipment & Bond Premium	47,840	N/A	46,897	47,982
Total, Capital Obligations ^{3/}	632,303	1,178,605	1,071,954	1,055,079
Expensed and Other Obligations				
Expensed	3,364,331	3,046,259	2,940,219	2,996,419
Projects Funded in Advance	230,783	60,511	58,014	46,491
Total, Obligations	4,227,417	4,285,375	4,070,187	4,097,988
Capital Transfers (cash)	223,374	132,442	183,562	209,270
BPA Total	4,450,791	4,417,816	4,253,749	4,307,258
Bonneville Net Outlays	203,000		(10,000)	(10,000)
Full-time Equivalents (FTEs)	2,998	3,100	3,200	3,200

Public Law Authorizations include:

Bonneville Project Act of 1937, Public Law No. 75-329

Federal Columbia River Transmission System Act of 1974, Public Law No. 93-454

Regional Preference Act of 1964, Public Law No. 88-552

Flood Control Act of 1944, Public Law No. 78-543

Pacific Northwest Electric Power Planning and Conservation Act of 1980 (Northwest Power Act), Public Law No. 96-501

These notes are an integral part of this table.

- ^{1/} This budget has been prepared in accordance with PAYGO. Under PAYGO all Bonneville budget estimates are treated as mandatory and are not subject to the discretionary caps included in the Budget Control Act of 2011. These estimates support activities which are legally separate from discretionary activities and accounts. Thus, any changes to Bonneville estimates cannot be used to affect any other budget categories which have their own legal dollar caps. Because Bonneville operates within existing legislative authority, Bonneville is not subject to a "pay-as-you-go" test regarding its revision of current-law funding estimates.
- ^{2/} Original estimates reflect Bonneville's FY 2014 Congressional Budget Submission. Revised estimates, consistent with Bonneville's annual near-term funding review process, provide notification to the Administration and Congress of updated capital and expense funding levels for FY 2014.
- ^{3/} Includes infrastructure investments designed to address the long-term needs of the Northwest and to reflect significant changes affecting Bonneville's power and transmission markets.