

STATEMENT OF  
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U.S. DEPARTMENT OF ENERGY

BEFORE THE

SUBCOMMITTEE ON WATER AND POWER  
COMMITTEE ON NATURAL RESOURCES  
U.S. HOUSE OF REPRESENTATIVES

MARCH 20, 2012

EXAMINING THE PROPOSED FISCAL YEAR 2013 SPENDING, PRIORITIES AND  
THE MISSIONS OF THE BONNEVILLE POWER ADMINISTRATION, THE  
WESTERN AREA POWER ADMINISTRATION, THE SOUTHWESTERN POWER  
ADMINISTRATION AND THE SOUTHEASTERN POWER ADMINISTRATION

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to testify here today. My name is Steve Wright. I am the Administrator of the Bonneville Power Administration (Bonneville). I am pleased to be here today to discuss the President's Fiscal Year (FY) 2013 Budget as it relates to Bonneville.

In my testimony today, I will share with the Subcommittee Bonneville's significant successes over the past year, how we are addressing the considerable challenges we are facing, and an overview of the FY 2013 budget.

**BONNEVILLE'S RECENT SUCCESSES**

This year Bonneville celebrates its 75<sup>th</sup> anniversary. Since the agency was created 75 years ago, it has been a major force in the Pacific Northwest providing renewable power that is the cornerstone of the region's economy, helping to preserve the environment and raising the standard of living for both urban and rural citizens. The hydro system and the transmission system that delivers it are the crown jewels of the Pacific Northwest. The hydro system's low-cost, abundant, reliable power has served as the backbone of the region's economy. Today the power continues to support new businesses in the region, generating high-wage jobs in tomorrow's industries.

FY 2011 was challenging, yet productive for Bonneville. Bonneville has not escaped the economic realities facing our region and this nation. Throughout its 75 years, Bonneville has met the many challenges it has faced, and today it is well positioned to manage through these difficult economic times while making important progress in areas that advance both national and regional energy goals.

Successive years of low snowpack in the Pacific Northwest, which resulted in Bonneville missing its revenue goals in FY 2010, ended in FY 2011 with snowpack 133 percent above normal. This exceptional precipitation brought mixed blessings. In FY 2011, extraordinarily high water and low natural gas prices created unique market conditions, including periods of negative power pricing in the region during much of the spring and summer. Outages at some of Bonneville's primary generating facilities further complicated the financial picture.

Despite these challenges, Bonneville was still able to exceed its net revenue forecasts through sound cost management and financial discipline. While Bonneville did not achieve its start of year revenue target, we realized costs savings across the board from all parts of the agency, and operating costs for FY 2011 came in at 95 percent of start-of-year forecasts. This same financial discipline and cost management enabled us to recover from the West Coast energy crisis of 2000-2001 and ensures that we can manage the new challenges we face in the current environment, while continuing to make substantial investments in the region's transmission, generation, energy efficiency, and fish and wildlife restoration efforts.

As the Subcommittee knows, Bonneville ratepayers repay the debt on the federal investment in the Federal Columbia River Power System (FCRPS). In FY 2011, Bonneville made its full scheduled payment of \$830 million to the U.S. Treasury, including \$70 million in advanced amortization. This payment marks the 28<sup>th</sup> year in a row that Bonneville has made a full, on-time payment to the Treasury. Bonneville finances its approximate \$4.5 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.

As stewards of the FCRPS, Bonneville has a mandate to mitigate the impacts of federal hydropower development and operations on the Columbia River and its tributaries on fish and wildlife. It has been a very successful year for fish and wildlife. Throughout the Northwest, local communities, state governments, tribes and federal agencies are working together to help save Columbia River salmon and other natural resources. We are particularly pleased to be working with our state and tribal partners under the Columbia Basin Fish Accords. More fish are surviving at the dams. Creeks are being reopened, habitat protected and restored, and fish are returning to streams where they've been absent for decades. While ocean conditions clearly play a big role in the survival of fish, there is strong evidence that our efforts are contributing to the increasing salmon populations. Federal dam improvements completed last year are proving effective in providing safe passage for young fish in their downstream migration, and results are on track to meet passage standards at all federal Columbia and Snake River hydro projects.

Bonneville is guided in its program implementation by the Northwest Power and Conservation Council's Fish and Wildlife Program and the associated biological opinions (BiOp) issued by NOAA Fisheries and the U.S. Fish and Wildlife Service under the Endangered Species Act (ESA) for the operation of the FCRPS. The federal plan for

Endangered Species compliance for the mainstem dams on the Columbia and Snake Rivers is one of the most extensive, complex, and comprehensive BiOps ever developed.

After more than a decade of litigation, U.S. District Court Judge James Redden handed down a ruling in August on the federal government's most recent biological opinion. The judge asked for a revised plan by January 2014, but left the existing BiOp in place through 2013, allowing the unprecedented level of regional collaboration over the past few years to continue providing beneficial measures that help protect listed species. Bonneville is working diligently implementing the current BiOp and initiating work to implement the Court's order to identify specific mitigation measures for the 2014-2018 period.

Part of Bonneville's commitment to help facilitate salmon and steelhead protection and recovery includes beginning construction in FY 2013 on three significant fish projects. These projects are listed in the Proposed Appropriations (Expenditure Authority) Language of Bonneville's Congressional Budget submission pursuant to Public Laws 93-454 and 96-501. The projects are consistent with the 2008 Biological Opinion and the 2008 Columbia Basin Fish Accords. The projects exemplify the commitment by tribes, states, and Bonneville to work collaboratively towards achieving specific biological objectives and meeting salmon recovery requirements.

FY 2011 marked the culmination and resolution of several long-term, and often divisive, issues facing the region. Preparatory work for initiating the Regional Dialogue contracts, which provide for the sale of firm power to our customers, was completed clarifying the value of the region's federal hydropower system and securing that value through 2028. Our Northwest customers now know what they can expect from the federal system. They have clear responsibility and choices for meeting their power needs beyond what the federal system and energy efficiency provide.

In addition, nearly all the region's utilities, representing 93 percent of power consumed in the Pacific Northwest, have approved a 2012 Residential Exchange Program Settlement Agreement. If upheld by the courts, the settlement will resolve 30 years of legal challenges among Bonneville customer groups and provide long-term certainty on the level of Columbia River system benefits paid to residential and small-farm consumers served by the region's investor-owned utilities. We appreciate these parties coming together on a solution.

FY 2011 also saw wind power continue to flourish in the Pacific Northwest. As the owner of about 75 percent of the high voltage transmission in the region, nearly 4,100 megawatts of wind capacity is currently interconnected to Bonneville's system – beating regional targets for wind power development by over a decade. Major transmission infrastructure projects accompany this continuing expansion. The McNary-John Day transmission line, the first of Bonneville's American Recovery and Reinvestment Act (ARRA) projects to break ground, was energized November 1, 2011, under budget and months ahead of schedule. A second line, Big Eddy-Knight, is under construction and

expected to be completed in February, 2013. Several other infrastructure projects are in various phases of environmental review.

Bonneville captured almost 117 average megawatts of energy efficiency in FY 2011, easily exceeding its portion of the Northwest Power and Conservation Council's conservation target. This is the largest amount of energy efficiency acquired in a single year by public power in the Pacific Northwest since the Northwest Power Act passed in 1980. For the next few years, at least, Bonneville plans to meet all of its incremental energy needs through expanded energy efficiency and market purchases.

## **KEY CHALLENGES**

The coming years will see fundamental changes in the Pacific Northwest power system. The challenges of keeping loads and resources in balance are placing strains on our transmission and power systems. Bonneville is working closely with customers and stakeholders throughout the West as we pursue opportunities to meet these new demands.

### ***Increasing Demands on the Power and Transmission System***

The Northwest federal power system and transmission grid are now being operated in ways not originally envisioned – due not only to the increase in wind generation, but also due to changes in markets and transmission patterns. Several transmission paths are at or near their capacity limits.

Bonneville is meeting the ongoing challenges of wind integration as Renewable Portfolio Standards (RPS) in the West drive wind-energy growth. In the past five years, the region has seen an explosion of wind development driving the need for infrastructure investment to support this new resource. Most of this wind resource is being developed for use outside of Bonneville's service area for use by consumers other than Bonneville's customers. More than 80 percent of the wind on Bonneville's system is meant to serve renewable electricity demand outside Bonneville's Balancing Authority Area.

The rapid pace of wind growth is expected to plateau over the next two to four years driven primarily by changes in California's energy policy. California – which was once expected to meet a significant portion of its RPS needs with Northwest wind energy – is now increasingly relying on its own in-state resources, including wind, solar and distributed generation.

Recently, Bonneville signed two agreements through which the agency keeps options open for serving its six southeast Idaho public utility customers after the existing agreements through which Bonneville serves the customers are terminated. In one, BPA agrees to participate with two investor owned utilities in the environmental work and permitting for the Boardman-to-Hemingway 500-kilovolt line. In the second, BPA is cooperating with another investor owned utility to consider the proposed Mountain States Transmission Intertie. Bonneville is also exploring securing local energy supplies. Because these customers are not connected to Bonneville's transmission grid, language

requesting authorization for the construction phase of this or any alternative project that would enable Bonneville to serve the southeast Idaho load appears in the Proposed Appropriations (Expenditure Authority) Language of Bonneville's Congressional Budget submission pursuant to Public Laws 93-454 and 96-501. Section 4(d) of the Federal Columbia River Transmission System Act, 16 U.S.C. § 838b(d), requires Congressional approval for Bonneville to commit funds to commence construction for this purpose.

Bonneville is planning a major refurbishment of the northern end of the direct current interties which will increase the reliability of this immensely important line while also creating the opportunity for a modest increase in capacity between the Northwest and southern California. Bonneville has committed with Puget Sound area utilities to \$140 million in system upgrades that will reinforce a weak link in our regional transmission system.

### ***Rates – Managing for Short and Long-Term***

Bonneville is beginning its internal budget development work and its external discussions with the region in which customers have an opportunity to review and comment on proposed spending levels for the next rate period and beyond. The results from this public process will feed into the rate setting process that begins in the fall of 2012 and culminates with a final proposal for FY 2014 and FY 2015 rates in the summer of 2013.

Bonneville faces serious challenges to minimizing increases to its power and transmission rates. The greatest driver of Bonneville's future power rates is net secondary revenues from surplus power sales on the open market. These revenues are significantly affected by the current extremely low prices for natural gas that result from large volumes of newly produced gas in addition to reserves already in storage. Forecasts for future years show some small recovery but markets for the surplus power Bonneville sells are likely to remain depressed (Attachment A).

On the transmission side, the primary driver is the effect of investments in the transmission system. Bonneville's transmission rates have not increased since 2006; however, the costs associated with investments to maintain reliability and to interconnect new renewable electricity to meet regional goals may put pressure on rates in the coming years.

### ***Columbia River Treaty – Important Recommendations are Coming***

The Columbia River Treaty between the United States and Canada has served as a model of international cooperation since 1964, bringing significant flood control and power generation benefits to both countries (Attachment B). Because of certain provisions in the treaty, it is now time to evaluate whether it is in the best interest of the United States to continue, terminate or amend the treaty. Either Canada or the United States can terminate most of the provisions of the treaty any time on or after September 16, 2024, with a minimum 10 years written advance notice.

The U.S. Entity, consisting of the U.S. Army Corps of Engineers and Bonneville, is responsible for implementing the treaty for the United States and has established a management structure to engage fellow federal agencies, regional sovereigns and non-sovereign stakeholders to develop a recommendation on the future of the Columbia River Treaty to be provided to the State Department. The U.S. Entity will provide a final recommendation to the State Department in the fall of 2013.

Even though the treaty has brought significant benefits to both countries over the past 40 years, circumstances in both countries have changed in areas such as fish and wildlife, recreation, electric power supply, cultural resources, irrigation, navigation and water supplies, all of which are influenced by hydro operations in the Columbia River Basin.

### **FY 2013 BUDGET OVERVIEW**

In spite of many challenges, Bonneville is in sound financial condition and is well positioned for the future. Bonneville's FY 2013 budget proposes estimated accrued expenditures of \$2,946 million for operating expenses, \$101 million for Projects Funded in Advance, and \$1,246 million for capital investments.

Bonneville's commitment to fish and wildlife mitigation and enhancement is exemplified in its substantial direct program budget of \$330 million (capital and expense combined).

Bonneville's FY 2013 budget is a business-based budget that strongly supports Department of Energy priorities and goals.

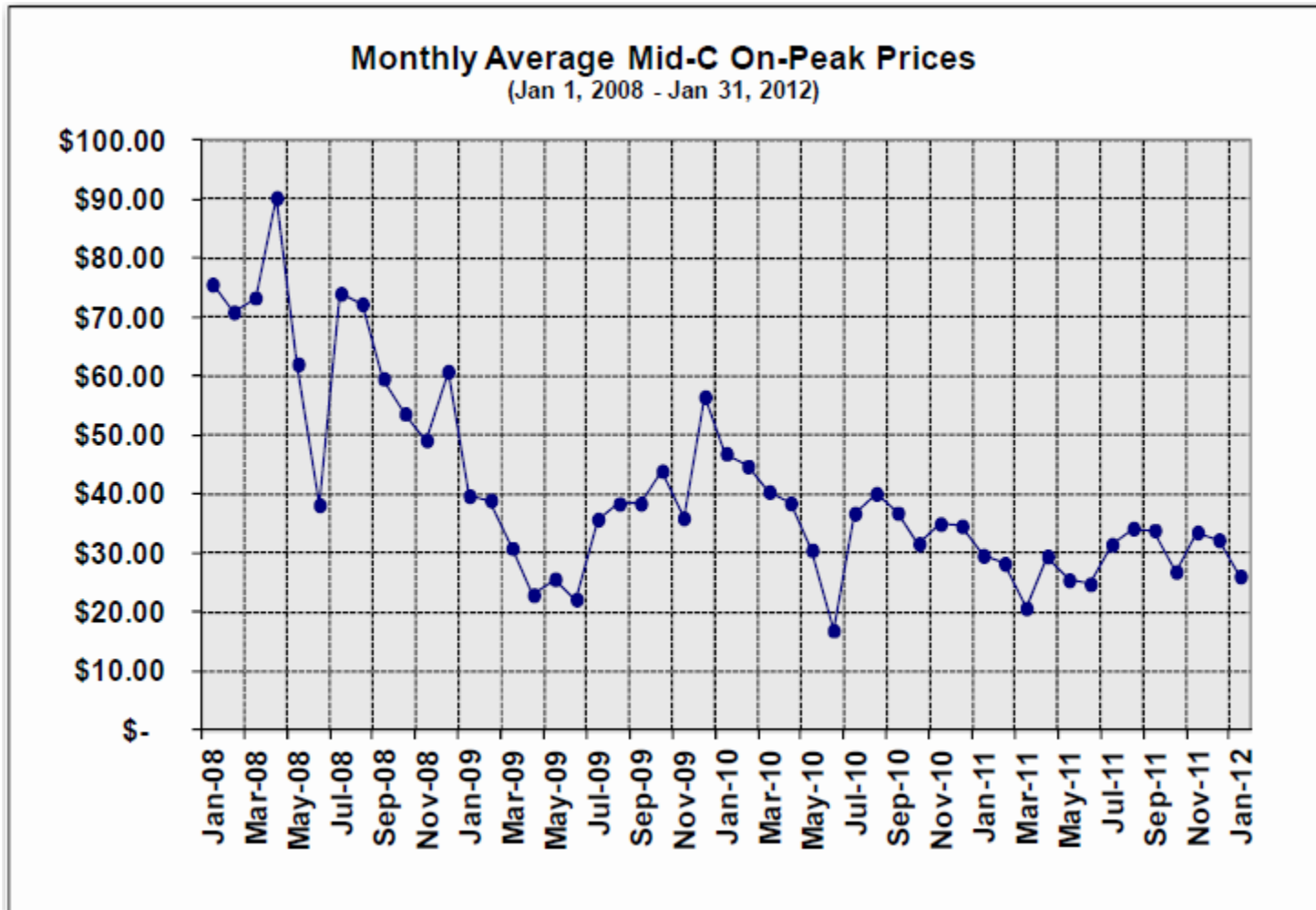
Even with the ARRA providing a sizable increase in Bonneville's authority to borrow from the Treasury, the agency will continue to face capital funding challenges as the pace of capital spending increases to meet the infrastructure and energy efficiency needs of the region. We continue to seek opportunities for alternative funding sources with third parties. Table BP-5 in Bonneville's FY 2013 Congressional Budget submission provides increased transparency regarding potential Bonneville third-party financing activity, which is estimated at about \$593 million during the FY 2011 through FY 2017 period. This use of third-party financing extends Bonneville's access to capital by delaying the point in time when Treasury borrowing authority has reached its capacity.

Please see Attachment C for budget data based on current services for FYs 2011 through 2013.

### **CONCLUSION**

That concludes my prepared remarks Mr. Chairman. I am excited by the role Bonneville is playing to achieve regional and national goals for clean and reliable electricity supplies while managing the operation in a fiscally prudent manner. I would be happy to respond to any questions from the Subcommittee.

# Attachment A



## Attachment B

# Columbia River Treaty





# Attachment C

## Bonneville Power Administration

### Funding Profile by Subprogram <sup>1/</sup>

(Accrued Expenditures in Thousands of Dollars)

	Fiscal Year		
	2011 (EOY Actuals)	2012 Revised <sup>2/</sup>	2013 Proposed
Capital Investment Obligations			
Associated Project Costs <sup>2/</sup>	201,436	233,368	250,029
Fish & Wildlife	90,817	59,785	67,145
Conservation & Energy Efficiency <sup>2/</sup>	161,754	88,637	94,547
Subtotal, Power Services	454,007	381,789	411,721
Main Grid	123,093	235,851	299,552
Area & Customer Service	10,196	19,767	10,975
Upgrades & Additions	72,590	166,709	271,112
System Replacements	94,967	172,459	200,626
Transmission Services Total	300,845	594,785	782,265
Capital Equipment & Bond Premium	44,161	64,252	52,512
Total, Capital Obligations <sup>2/</sup>	799,012	1,040,827	1,246,498
Expensed and Other Obligations			
Expensed	2,655,281	2,790,637	2,946,314
Projects Funded in Advance	213,527	91,532	101,297
Total, Obligations	3,667,820	3,922,995	4,294,109
Capital Transfers (cash)	409,528	393,110	179,174
Bonneville Total	4,077,349	4,316,105	4,473,283
Bonneville Net Outlays	468,000	(9,000)	(7,000)
Full-time Equivalents (FTEs)	3,058	3,117	3,117

#### Public Law Authorizations include:

Bonneville Project Act of 1937, Public Law No. 75-329, H.R. 7642

Federal Columbia River Transmission Act of 1974, Public Law No. 93-454 S. 3362

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

Pacific Northwest Electric Power Planning and Conservation Act of 1980 (Northwest Power Act),

#### These notes are an integral part of the preceding tables.

<sup>1/</sup> This budget has been prepared in accordance with the Statutory Pay-As-You-Go Act (PAYGO) of 2010. 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.

<sup>2/</sup> Includes infrastructure investments designed to address the long-term needs of the Northwest and to reflect significant changes affecting BPA's power and transmission markets.

# Attachment C

## Additional Notes

Capital funding levels reflect external factors such as the significant changes affecting West Coast power and transmission markets, along with planned infrastructure investments designed to address the long-term needs of the region.

The cumulative amount of actual advance amortization payments as of the end of FY 2011 is \$2,672 million.

Refer to 16 USC Chapters 12B, 12G, 12H, and BPA's other organic laws, including P.L. 100-371, Title III, Sec. 300, 102 Stat. 869, July 18, 1988 regarding BPA's ability to obligate funds.

Budget estimates included in this budget are subject to change due to rapidly changing economic and institutional conditions in the evolving competitive electric utility industry.

Net Outlay estimates are based on current cost savings to date and anticipated cash management goals. They are expected to follow anticipated management decisions throughout the rate period that, along with actual market conditions, will impact revenues and expenses. Actual Net Outlays are volatile and are reported in Report on Budget Execution and Budgetary Resources (SF-133). Estimated Net Outlays could change due to changing market conditions, streamflow variability, and continuing restructuring of the electric industry.

Revenues, included in the Net Outlay formulation, are calculated consistent with cash management goals and assume a combination of adjustments. Assumed adjustments include the use of a combination of tools, including upcoming rate adjustment mechanisms, a net revenue risk adjustment, debt service refinancing strategies and/or short-term financial tools to manage net revenues and cash. Some of these potential tools will reduce costs rather than generate revenue, causing the same Net Outlay result. Adjustments for depreciation and 4(h)(10)(C) credits of the Northwest Power Act are also assumed. FTE outyear data are estimates and may change.