

Committee on Resources

Testimony

Subcommittee on Water and Power

Tuesday, March 4, 1997

1324 Longworth HOB, 2:00 P.M.

STATEMENT OF STEPHEN J. WRIGHT
VICE-PRESIDENT FOR NATIONAL RELATIONS
BONNEVILLE POWER ADMINISTRATION

Chairman Doolittle, and members of the Subcommittee, I appreciate this opportunity to present a written statement on the President's proposed Fiscal Year (FY) 1998 budget for the Bonneville Power Administration (Bonneville).

PROFILE OF BONNEVILLE POWER ADMINISTRATION

I will begin with a brief overview of Bonneville. Bonneville provides electric power, transmission and energy efficiency throughout the Pacific Northwest. Created in 1937 to market and transmit the electric power produced by the Bonneville Dam on the Columbia River, Congress has since then directed Bonneville to sell at wholesale the electric power produced at a total of 29 Federal dams, and to acquire non-federal power and conservation resources sufficient to meet the needs of Bonneville's customer utilities. Bonneville serves a 300,000 square mile area including Oregon, Washington, Idaho, Western Montana, and parts of Northern California, Nevada, Utah and Wyoming.

The Federal Columbia River Transmission System Act of 1974 (Transmission System Act) placed Bonneville under the provisions of the Government Corporation Control Act (31 U.S.C. 841 et seq.) and allows Bonneville to use its revenue from electric ratepayers to fund all programs directly through the Bonneville revolving fund, and sell bonds to the U.S. Treasury to finance the region's high voltage transmission requirements. The Pacific Northwest Electric Power Planning and Conservation Act of 1980 (Northwest Power Act) expanded Bonneville's utility obligations and responsibilities to meet requesting utility loads, encourage conservation and develop renewable resources, and to protect, mitigate and enhance the fish and wildlife of the Columbia River and its tributaries. In support of these responsibilities, Bonneville's borrowing authority was expanded to allow the sale of bonds to finance conservation and other resources and carry out fish and wildlife capital improvements. The Northwest Power Act also required regional energy plans and programs and created the Northwest Power Planning Council (Planning Council).

Bonneville is financed by revenues which are deposited into its revolving fund. These power revenues are available for Bonneville to spend without further appropriation or fiscal year limitations. Bonneville also uses permanently authorized borrowing authority, now totaling \$3.75 billion, to finance capital investments. Bonneville's program does not require an annual appropriation since it has permanent multi-year obligational authority to carry out its activities.

On the capital side, Bonneville meets its capital investment requirements for electric utility and general plant associated with the Federal Columbia River Power System's (FCRPS's) generation and transmission

services, conservation and energy efficiency services, fish and wildlife and capital equipment. Bonneville's fish and wildlife capital program implements the Administration's agreement on Bonneville fish and wildlife mitigation.

PROPOSED FY 1998 BUDGET

This budget reflects spending levels used to determine rates for the FY 1997-2001 period. The rates have been approved by the Federal Energy Regulatory Commission (FERC) on an interim basis and are the basis for Bonneville's amended contracts with preference and Direct Service Industrial (DSI) customers. These contracts have provided revenue stability for Bonneville in a time of great uncertainty due to electricity restructuring. For FY 1998, the Bonneville budget includes \$253.0 million in borrowing authority for capital investments. These investments provide electric utility and general plant associated with the FCRPS's transmission services, capital equipment, hydroelectric projects, conservation and capital investments in environment, fish and wildlife. Two thirds of the capital investments in FY 1998, \$171.0 million, is for transmission services to provide for additions, upgrades and replacements to the Federal transmission system and for pollution prevention and abatement activities in compliance with environmental laws and regulations and to mitigate environmental risks associated with operation of the power system. A total of \$33.0 million is included for conservation programs and \$9.0 million for capital equipment. Funding of \$27.0 million is allocated to resource protection, enhancement and mitigation of Columbia River Basin fish and wildlife losses attributed to the development and operation of Federal hydroelectric projects on the Columbia River and its tributaries. A total of \$13 million is also included for direct Bonneville funding of Bureau of Reclamation and Army Corps of Engineers hydroelectric replacements, repairs, additions and improvements. This budget reflects Bonneville's commitment to reducing capital expenditures both to deliver competitive rates and to extend the life of Bonneville's Congressionally authorized borrowing authority.

Bonneville's FY 1998 budget has been prepared on the basis of its three major areas of activity; power, transmission and conservation and energy efficiency services. This new structure supports Bonneville's reorganization undertaken to become more competitive in the rapid restructuring of the deregulated wholesale electric energy market. This industry deregulation stems largely from the 1992 Energy Policy Act and ensuing FERC orders, (FERC orders 888 and 889) requiring functional separation of utilities power and transmission functions. As a Federal agency, Bonneville is not bound by law to comply with the orders, but chooses to comply with the FERC orders because it views compliance as essential to successfully compete in the electric power market of the future. Further, Bonneville supports DOE's October 1995 "Power Marketing Administration Open Access Policy". Bonneville filed with the FERC open access transmission service rates and associated terms and conditions, under the applicable Federal Power Act standards, on December 19, 1996.

The Bonneville budget does request legislative authority, consistent with the requirements of Section 4 (H)(10)(B) of the Northwest Power Act, to proceed with production and supplementation facilities designed to mitigate fisheries impacts resulting from the Federal hydro system. These facilities have been recommended by the region's fish agencies and tribes, and approved by the Northwest Power Planning Council. The funding for these projects is included in the Columbia River Basin Fish and Wildlife Costs Memorandum of Agreement establishing a Columbia River Salmon Basin budget for Bonneville.

The FY 1998 budget assumes that Bonneville will begin to cover the full unfunded liability of the Civil Service Retirement and Disability Fund (Disability Fund), the Employees Health Benefits Fund and the Employees Life Insurance Fund. The unfunded liability is the difference in the actual cost of paying current

FCRPS employees future retirement benefits and the sum of (1) 7 percent withheld from current employees salaries and (2) an additional 7 percent of wages that the FCRPS must already contribute into the Disability Fund. The FY 1998 budget assumes the entire Bonneville Civil Service Retirement System (CSRS) cost recovery will be phased in over a ten-year period of time given that wholesale power and transmission rates for Bonneville are contractually frozen until the end of FY 2001 in order to meet competitive market pressures. The Administration is reviewing whether additional legal authority is needed to fully implement this policy.

The FY 1998 budget also included for the first time full funding for the Bureau of Reclamation operation and maintenance of power facilities at Federal Columbia Basin hydro facilities. This funding is provided pursuant to authority contained in the Energy Policy Act of 1992, Public Law 102-486, Section 2406.

Conclusion

This budget reflects a continuing effort on the part of Bonneville to cut costs to assure competitive electric rates, thereby protecting the investment of the Federal taxpayer in the Federal hydroelectric system in the Pacific Northwest. Mr. Chairman, that completes my testimony. I would be happy to answer any questions you might have.

###