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U.S. House of Representatives
Committee on Natural Resources
Washington, DC 20515

Opening Statement by
The Honorable Tom McClintock
Chairman, Water and Power Subcommittee
At the Legislative Hearing on
H.R. 254 and H.R. 678
Tuesday, March 5, 2013

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The Water and Power Sub-Committee meets for the first time in the 113th Congress to take up two bills that could increase our nation's hydro-electric capacity by roughly 150,000 kilowatts – or the equivalent generating capacity of the four hydro-electric dams on the Klamath River.

They do so at no cost to taxpayers – indeed, these projects will produce millions of dollars of new revenue for taxpayers by leasing existing federal facilities.

Millions of dollars of new revenue, millions of watts of new clean hydro-electricity, and all the jobs these projects would produce, and yet the federal bureaucracies stand in the way.

The Bureau of Reclamation operates some 47,000 miles of existing canals and pipelines that could be fitted with small hydro-electric generators that could produce, according to the most conservative estimates – about 100,000 kilowatts of electricity.

Yet the bureaucracy has made it cost-prohibitive for the installation of these generators. As we will hear, the Bureau of Reclamation has forced developers to conduct crushingly expensive environmental evaluations, navigate time-consuming bureaucratic mazes, pay exorbitant administrative fees and risk the uncertainties of endless internal review and external litigation.

These bureaucratic obstacles often cost more than the projects themselves and turn sensible, economic electricity projects into cost-prohibitive farce.

The Bureau of Reclamation will testify that it is doing everything necessary to streamline the process – yet we will hear testimony that they've made the situation even worse.

One look at the bureaucratic flow chart produced by the Bureau itself illustrates the problem very clearly.

Representative Tipton's bill waives costly environmental reviews to install small hydro-generators in existing facilities that have ALREADY UNDERGONE environmental review; it

designates a central office within the Bureau to process applications; it establishes a sensible and streamlined process to determine development rights; and it assures that installation of hydro-generators will not disrupt existing water operations.

I view this bill as a model for the future and hope that similar regulatory reform efforts will soon be extended to other federal and non-federal facilities

The second measure clears the way for some 50 megawatts of additional hydroelectric generation on the Bonneville unit in Utah.

The bureaucratic hold-up here is that the Bureau is requiring that before hydro-electric generators may be installed, investors must first pay \$106 million of sunk costs for the overall project – making hydro-generation cost prohibitive. This policy gives us the worst of both worlds: no electricity and no lease revenues.

The “beneficiary pays” principle – the idea that the beneficiaries should pay the cost of projects that benefit them -- is a fundamental principle of project financing and the proponents will need to dispel any concern that this bill violates this principle.

The Bureau of Reclamation has raised this concern, but I believe its concern is misplaced. The “beneficiary pays” principle must be applied proportionally to the benefits provided by that resource.

In this case, the district seeking to install the hydropower will testify that the repayment requirement simply ignores the economics of the project.

The requirement is akin to a family renting out a room but first requiring the renter to pay off their mortgage. Then they are just shocked that nobody wants to rent from them. The family is not further along in paying off its mortgage and has denied itself the rental income that a renter would otherwise provide.

That’s what’s going on in the Central Utah Project.

This legislation changes the paradigm by not only recognizing the futility of the current regulation but by creating an environment where almost a half a million dollars will now be generated in annual federal income.

The rational application of beneficiary pays would not be for the government to set an arbitrary price, but rather to put the lease out to bid and award it to the highest bidder. In this manner, the market can determine the degree to which electricity purchasers are benefiting from the overall project as reflected in the ultimate lease price.

That appears to be what this bill does.