TESTIMONY OF

THOMAS P. GRAVES

EXECUTIVE DIRECTOR

MID-WEST ELECTRIC CONSUMERS ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON WATER AND POWER

HOUSE NATURAL RESOURCES COMMITTEE

U.S. HOUSE OF REPRESENTATIVES

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Madame Chair, thank you for the opportunity to testify before the subcommittee today on hydropower development in the United States.

My name is Thomas Graves. I am the Executive Director of the Mid-West Electric Consumers Association. The Mid-West Electric Consumers Association was founded in 1958 as the regional coalition of over 300 consumer-owned utilities (rural electric cooperatives, public power districts, and municipal electric utilities) that purchase hydropower generated at federal multi-purpose projects in the Missouri River basin under the Pick-Sloan Missouri Basin Program. The nine states included within the Mid-West footprint are Colorado, Iowa, Kansas, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wyoming.

I also serve as the chairman of the National Preference Customer Committee, comprised of representatives of federal power customers served by the Western Area Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Bonneville Power Administration and organized under the auspices of the National Rural Electric Cooperative Association. I testify today in my capacity as Executive Director of the Mid-West Electric Consumers Association.

Mid-West strongly supports funding necessary to responsibly manage both existing facilities and the development of additional hydropower resources in our country. As a clean, renewable energy source, increased hydropower can play an important role in helping to meet the challenges that climate change presents.

Existing federal hydropower is already an important part of the energy resource mix for consumer-owned electric utilities, municipal electric utilities, states, tribes, and the federal government in the Missouri River basin and other regions served by the federal power program.

Federal hydropower facilities are part of federal multi-purpose projects that serve a variety of purposes – flood control, municipal and industrial water supply, irrigation, recreation, navigation, fish and wildlife. Federal multi-purpose projects are different from most other federal infrastructure projects. Unlike most other federal capital projects, much of the costs of constructing, operating, and maintaining these projects are repaid to the federal government.

Federal power customers purchase electrical power generated at federal multi-purpose projects that have been authorized for hydropower development, and are responsible for repaying:

> the federal capital investment in generation and transmission facilities, with interest, including all of the original investment and the repair and replacement costs;
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> and an allocated share of the original multi-purpose capital investment (the dam, the reservoir, etc.) an allocated share of the repair and replacement with interest of multi-purpose facilities;
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> all of the annual operations and maintenance cost of generation and transmission facilities;
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> an allocated share of the annual operations and maintenance costs of multi-purpose facilities; and
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> the portion of the capital investment in federal irrigation projects that is deemed to be beyond the ability of the irrigators to repay.

In Pick-Sloan, the power users will repay about 80% of the irrigation investment. Furthermore, the project use rate charged to federal irrigation districts is 2.5 mills per kilowatt hour and the rate that the firm power customers pay is 33.54 mills per kilowatt hour.

So, in addition to providing a clean renewable energy resource, these federal power facilities also play an important role in contributing to the repayment of the federal investment in projects that benefit millions of Americans.

The potential for development of new low impact hydropower varies across the country. In response to congressional interest, federal hydropower generating agencies – the U.S. Bureau of Reclamation and the U.S. Army Corps of Engineers – have conducted an inventory of their facilities for additional development opportunities and are currently doing further assessments for low impact, low head hydropower opportunities.

Advances in hydropower technology have offered the potential of developing hydropower projects at sites heretofore considered infeasible. Increased emphasis on renewable generation, renewable portfolio standards, and the possibility of taxes on $CO_2$ emissions has bolstered the economics of some of these sites as well.

In the Missouri River basin, Bureau of Reclamation federal irrigation projects appear to offer opportunities for new hydropower development. The interest in Bureau projects includes those that have been authorized for power development and those that have not. That distinction – authorization or not for hydropower – currently splits jurisdiction over additional development. The Bureau is responsible for overseeing development at those projects authorized for power. The Federal Energy Regulatory Commission (FERC) is responsible for those that have not been authorized for power.

For projects under Bureau jurisdiction, parties seeking to develop hydropower must apply to the Bureau for a Lease of Power Privilege (LOPP). Mid-West and other federal power customers worked with the Bureau for years to develop an equitable fee structure for the LOPP. We all succeeded in that effort. The lease charges include repaying a portion of the capital investment as well as the operations and maintenance costs of the structure the applicant seeks to use. So, the LOPP holder helps to repay the investment and operations and maintenance costs of the facility.

What concerns us as federal power customers are the terms of development at federal facilities **not** authorized for hydropower.

In those instances, the Bureau apparently has ceded jurisdiction to FERC. The line between FERC and the Bureau jurisdiction has never been crystal clear; the current development opportunities further cloud the issue. In some instances, the Bureau has found that the authorization for hydropower wasn't sufficiently specific. Now, in addition, parties are seeking to develop hydropower using canals and conduits – something that probably was not considered when these federal irrigation projects were authorized many years ago. Though not authorized for hydropower, the investments in these facilities are also subsidized by federal power customers.

Under the FERC licensing process, the amounts collected by FERC are to include costs of other agencies and "shall be available to such agencies (in addition to other funds appropriated for such purposes) solely for carrying out such studies and reviews and shall remain available until expended." *See* Energy Policy Act of 1992, §1701(a)(2), amending Section 10(e)(1) of the Federal Power Act; *see also* 16 U.S.C. §803(e).

However, nowhere can we find any fees that are deposited in the Reclamation Fund to help repay the investment in the underlying federal facility. This certainly puts a FERC applicant in the cat bird seat. The FERC applicant can develop hydropower at federally owned facilities while paying nothing to repay the investment or maintenance of those federal facilities. This favorable financial treatment is not enjoyed by federal power customers or holders of Bureau LOPP. Consequently, federal power customers are not only subsidizing irrigation project development – an arrangement agreed to in the authorization of these projects – but also new

hydropower development – something we were never asked about and something from which we receive no benefit.

We find nothing equitable in that arrangement. We think there's a better way.

The financial arrangements of federal irrigation projects are complicated and can vary significantly from region to region. Federal power customers are invariably involved in supporting the finances of these projects, and are often impacted in the pricing of the power supply as well. Federal power customers thus have an immediate and apparent interest in expanding hydropower at Bureau irrigation projects, whether authorized for power or not.

This new low impact hydropower development at Bureau projects raises a host of issues. We believe that the party in the best position to shepherd the development of low impact hydro projects at Bureau of Reclamation projects is the Bureau of Reclamation. The Bureau understands the contractual and financial interrelationships with water and power interests in these projects. Moreover, the Bureau is in the best position to ensure that any unforeseen adverse impacts resulting from new installations are quickly and equitably mitigated. In my region, the Bureau is in the best position to work with the Western Area Power Administration – the federal agency responsible for repaying the federal investment – should federal transmission be brought into play. Under the current process, the Bureau is already asked for information on possible environmental and operational impacts. Simply put, FERC does not appear to bring anything to the process.

Putting the Bureau in charge of low impact hydropower development in all of its projects would help to ensure equitable treatment of all users – something the current development process does not ensure.

Thank you.