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 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) 2012 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 the considerable challenges we are facing, and an overview of the FY 2012 budget.

BONNEVILLE'S RECENT SUCCESSES

FY 2010 was challenging, yet productive for Bonneville. Like almost every institution and business in the nation, Bonneville is facing the realities of the current economic hardships. But Bonneville has been more than up to the challenge of managing through difficult economic times while making important progress in areas that advance both national and regional energy goals.

In the Pacific Northwest, poor economic conditions have been exacerbated by successive years of low snowpack. Snowpack fuels our hydro-powered system. With last year's January – July runoff at only 79 percent of the 30-year average, we had little surplus power to sell. Surplus sales normally represent about one-fifth of our revenues. As a result, we fell far short of our start-of-year revenue goals.

Despite these challenges, Bonneville has retained its fundamental financial strength and stability. The same financial discipline and management principles that enabled us to recover from the West Coast energy crisis of 2000-2001 are ensuring that we can manage 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 Committee knows, Bonneville ratepayers repay the debt on the Federal investment in the Federal Columbia River Power System (FCRPS). In FY 2010, Bonneville made its full scheduled payment of $864 million to the U.S. Treasury, including $38.5 million in advanced amortization. This payment marks the 27th year in a row that Bonneville has made a full, on time payment to the Treasury. Bonneville finances its approximate $4.6 billion annual cost of operations and investments primarily using 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 also has a mandate to mitigate the impacts on fish and wildlife of Federal hydropower development and operations on the Columbia River and its tributaries. On that front, it has been a very successful year. While ocean conditions clearly play a big role in the survival of fish, there is strong evidence that our efforts are contributing to the increasingly robust salmon populations. After years of investing in improvements to make our hydroelectric projects and habitat safer for fish, we are seeing remarkable results. Some salmon runs are returning in numbers that haven't been seen since the 1950s. Last year, more Snake River fall Chinook returned above Lower Granite Dam than we have seen since the dam was built in 1975.

FY 2010 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 3,400 megawatts of wind capacity is currently integrated into Bonneville's system, an amount that could double in the next few years. Major transmission infrastructure projects accompany this continuing expansion. We are well into construction of the West of McNary Group I Transmission Project (also known as McNary-John Day) which was the first of Bonneville's American Recovery and Reinvestment Act (ARRA) projects to break ground.

We are grateful to the Congress and the President for a substantial increase in our existing borrowing authority as part of ARRA. We have developed asset management plans for our major categories of capital assets (transmission, hydro system infrastructure, fish and wildlife, and conservation) and have identified cost-effective investments that exceed our current total borrowing authority. This means we will need to continue to

follow rigorous capital review process to assure we approve only the most cost-effective uses of our borrowing authority.

Bonneville captured almost 90 average megawatts of energy efficiency in FY 2010, easily exceeding its portion of the Northwest Power and Conservation Council's conservation target. The energy efficiency team was recognized as a leader in the field with multiple awards, including three Energy Management Awards from the Department of Energy and two regional Environmental Protection Agency Awards.

KEY CHALLENGES

The coming years will see fundamental changes in the Pacific Northwest power system. Growing demand and increased wind power development are combining to put new strains on our transmission and power systems. Bonneville is working closely with customers and stakeholders throughout the West and looking for opportunities to meet these new demands.

Energy Efficiency – The Northwest's Priority Resource

The Pacific Northwest has long been a national leader in energy efficiency and Bonneville has been an integral part of this successful effort. Bonneville is significantly increasing investment in the years to come which will support the Administration's goals of enhancing the economy, increasing energy independence, and promoting clean energy (Attachment A).

In FY 2010, the Northwest Power and Conservation Council issued its Sixth Power Plan. The plan identifies energy efficiency as the least cost resource and envisions that almost 60 percent of the Pacific Northwest's new demand for electricity over the next five years and 85 percent of load growth over the next 20 years could be met cost effectively with energy efficiency. This nearly doubles targets from the previous plan. Bonneville agrees with this plan and will work in partnership with public power to achieve public power's share of that goal. Bonneville budgets reflect increasing investment to achieve the higher megawatt targets.

Bonneville is also supporting two major demonstration initiatives supporting a smarter grid — the Pacific Northwest Smart Grid Demonstration Project and the Western Interconnection Synchrophasor Program. We are exploring how different smart grid technologies can benefit Bonneville's customers through cost containment and improved reliability. Smart grid technologies hold great potential to improve transmission reliability and reduce the need for new transmission infrastructure and power resources, although much work remains to be done to prove the business case.

Wind – Success Breeds Challenges

By the end of 2010, Bonneville had connected nearly 3,400 megawatts of wind generation to its transmission system (Attachment B). What is remarkable about this milestone is that only four years ago, a regional wind integration task force thought that 3,000 megawatts of wind connection to the Bonneville system was a reasonable target to be accomplished by 2020. We hit that target a decade sooner. We now have commitments in our interconnection queue that could increase that total generating capacity in Bonneville's Balancing Authority Area to 10,000 megawatts by 2017 (Attachment C).

It is important to note that most of this wind resource is being developed for use elsewhere. More than 80 percent of the wind on Bonneville's system is meant to serve renewable electricity demand outside Bonneville's Balancing Authority Area. We estimate that over half is under contract to serve California utilities. Bonneville's ability to connect such significant amounts of renewable generation is a major contribution to renewable energy development West-wide.

This rapid pace of wind development leads us to believe there is a need for a "lessons learned" discussion with the region. We intend to work with regional stakeholders to review our operating experiences and the challenges we can expect to face as a result of further accelerated wind power development in the Pacific Northwest.

Bonneville is seeking to simultaneously encourage renewable resource development, maintain reliability, protect fish and wildlife, and assure that the costs of wind power are paid by wind purchasers and sellers. We believe success at achieving these goals is necessary to continue the expansion of renewable resources.

Some of the challenges we are currently experiencing include:

1. Wind development has concentrated in a small geographic area east of the Columbia River Gorge where transmission service is available and in close proximity to California interties. This concentration magnifies the peaks and troughs of wind generation.
2. Wind generation tends to accentuate the periodic oversupply of energy in the spring.
3. Bonneville's transmission system has limited ability to move all of this generation out of the region.
4. Bonneville has embarked on major transmission projects within the region to improve service for all transmission transactions, including wind generation, but due to flexibility we have offered we do not always know the ultimate destination of wind electricity and this uncertainty is increasingly affecting our ability to plan for reliable transmission service.
5. The Federal hydro system has worked well to back up wind generation's high variability. The dams can ramp generation up when wind generation falls off and back down when wind generation comes back up. We have worked successfully

for the last several years on new tools to stretch the reserve capabilities of the hydro system but we are nearing the limits of those capabilities.

If wind generation in our system is to triple in the next six years, we need to engage the region to expand the integration strategy.

Rates –Managing for Short and Long-Term

Bonneville is currently engaged in processes to re-set rates for sales of power and transmission and is following an extensive public process to review and make changes to Bonneville's budget. Almost all Transmission customers have agreed in principle to a settlement of rates for FY 2012-2013.

On the Power side, this is the first time we will be implementing rates under our new contracts, which include tiered rates. Bonneville is proposing an 8.5 percent wholesale power rate increase primarily driven by the need for investment in the non-CO2 emitting, low cost hydropower assets that create substantial value for the region. We are committed to establishing rates that will maintain at least a 95 percent Treasury Payment Probability while also seeking to keep rates as low as possible reflecting the stress the regional economy is experiencing.

Residential Exchange – Addressing a Regional Controversy

Representatives of consumer owned and investor owned utilities across the region have worked hard in response to our request that they attempt to settle on Residential Exchange Program costs and benefits for the next 17 years. Disputes and litigation have plagued the Program since its inception. Together they have reached a proposed settlement that will now be considered by the utilities for adoption. We applaud their efforts and are considering the merits of their proposal in a formal rate setting process. We are under ex parte rules for both this and the power and transmission rate setting processes.

Protecting ESA Listed Fish

After more than a decade of litigation, we are awaiting an imminent ruling on biological opinions protecting threatened and endangered fish in the Columbia River Basin. A Federal plan has been introduced in the Federal District Court of Oregon under Judge James Redden. This plan responds to Judge Redden's request for funding commitments that ensure the improvements are reasonably certain to occur. Consistent with the Court's request for collaboration, the Federal plan is the product of extensive regional collaboration resulting in support from three states and seven Indian Tribes. The National Oceanic and Atmospheric Administration performed a review of the plan, which

also included review by independent biologists. The independent review confirmed that the underlying science of the plan was sound.

Bonneville believes the region is at a fundamental fork in the road with respect to salmonid restoration. The Federal plan is well positioned to succeed. The Federal plan addresses the whole salmonid life cycle: habitat, hydro, hatcheries and harvest, while the plaintiffs' plan focuses only on hydro projects. The Federal plan has unprecedented state and tribal support. It is the product of regional collaboration and supported by the best science available. The data shows that surface passage and spill has improved fish survival, habitat restoration provides healthy rivers for returning fish to spawn, and returns are improving. Moreover, the Federal plan also creates a substantial number of jobs. Bonneville believes that it's time to let the plan work.

Part of implementing the plan includes beginning construction in FY 2012 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.

Columbia River Treaty – Important Decisions are Coming

The Columbia River Treaty (CRT) is a marvel of international cooperation enabling a wide range of related benefits that affect British Columbia and the Pacific Northwest (Attachment D). Signed in 1961 and ratified in 1964, the CRT is known throughout the world as one of the best and most successful examples of a transboundary water Treaty. The Treaty includes a unilateral right for either country to terminate beginning in 2024 provided 10 years' notice is provided. The U.S. Entity for the CRT, through Bonneville and the Army Corps of Engineers, has initiated the process to discuss with the region's state governments and tribes, as well as other stakeholders, issues related to the continuation of the CRT. The CRT was designed to provide flood control and hydropower benefits in both countries, but we understand that values in the region have changed in the last 50 years and issues need to be considered that were not part of the debate 50 years ago. The U.S. Entity is establishing management structures to engage fellow Federal agencies, regional sovereigns and non-sovereign stakeholders in order to develop a recommendation to be provided to the State Department in fall 2013.

FY 2012 BUDGET OVERVIEW

Bonneville is in sound financial condition and is well positioned for the future. Bonneville's FY 2012 budget proposes estimated accrued expenditures of $3,195 million for operating expenses, $52 million for Projects Funded in Advance, and $937 million for capital investments.

Bonneville's commitment to fish and wildlife mitigation and enhancement is exemplified in its substantial direct program budget of $300 million, capital and expense.

Bonneville's FY 2012 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 2012 Congressional Budget submission provides increased transparency regarding potential Bonneville third-party financing activity, which is estimated at about $203 million during the FY 2010 through FY 2016 period. This use of third-party financing pushes out the point in time where capital spending plans are estimated to exhaust Treasury borrowing authority.

Please see Attachment E for budget data based on current services for FYs 2010 through 2012.

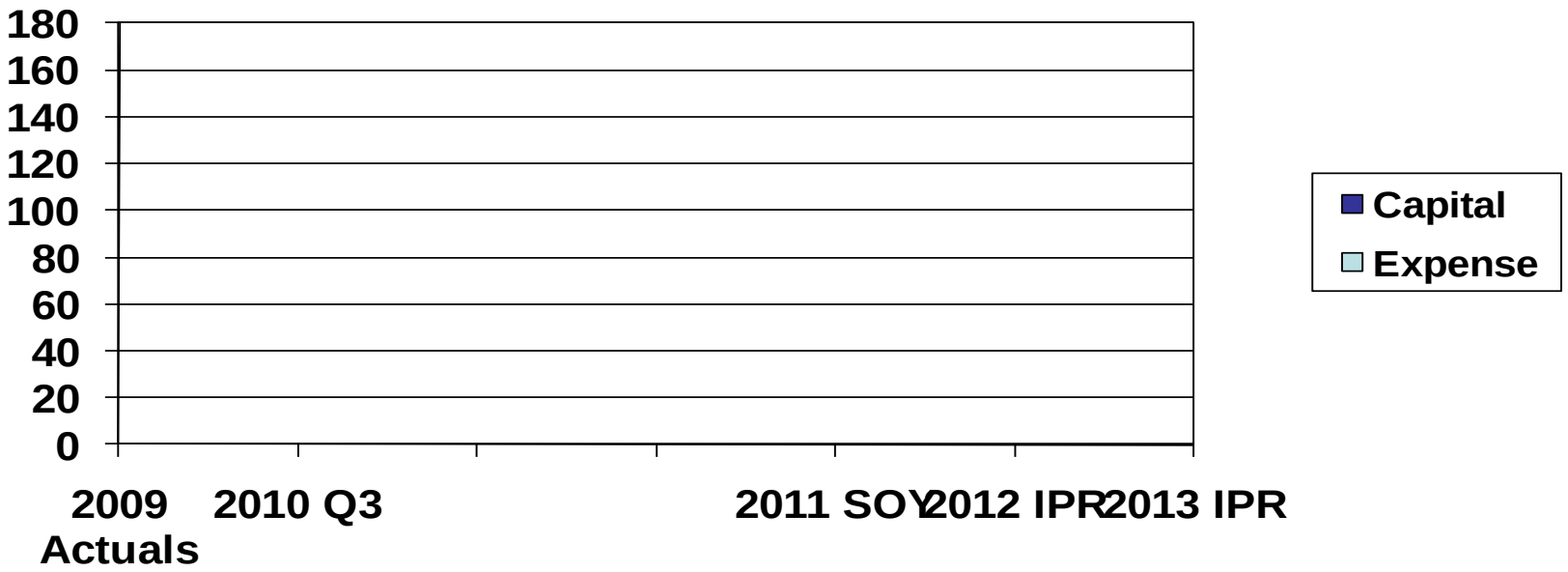
CONCLUSION

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 Committee.

Attachment A

BPA increasing investment in energy conservation

($ millions)

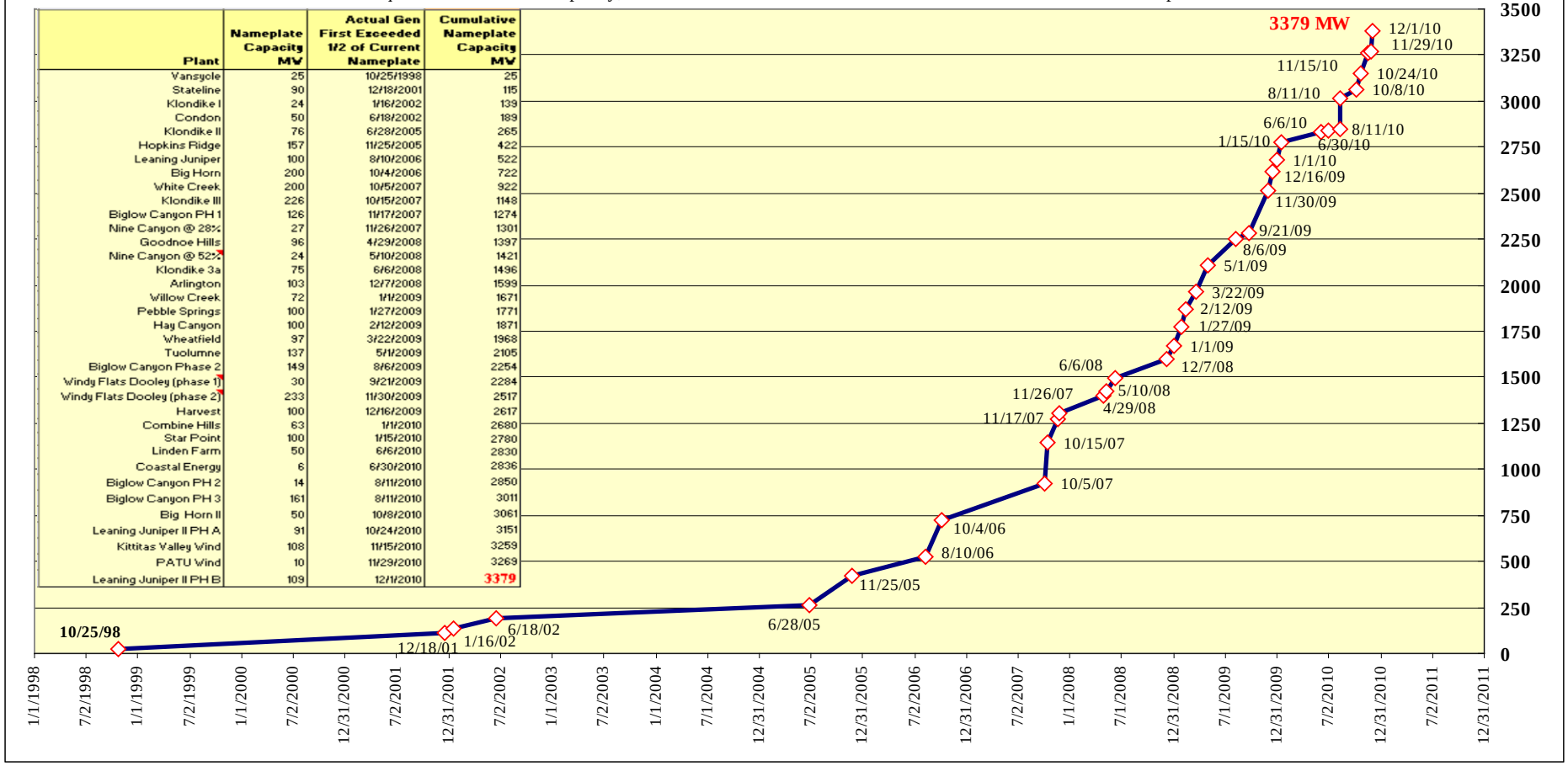


Attachment B

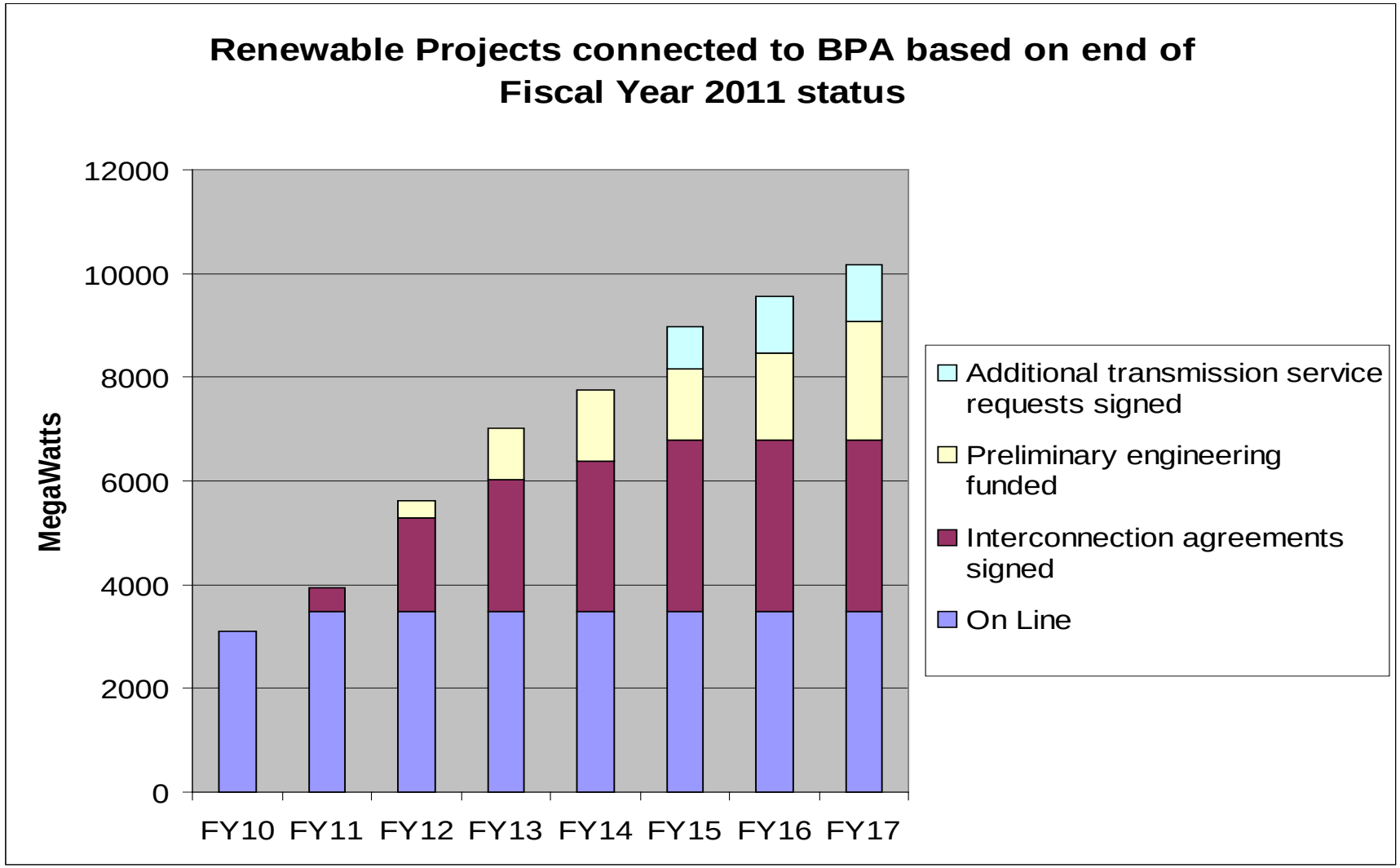
WIND GENERATION CAPACITY IN THE BPA BALANCING AUTHORITY AREA

Sequential Increases in Capacity, Based on Date When Actual Generation First Exceeded 50% of Nameplate

Plant	Nameplate Capacity MW	Actual Gen First Exceeded 1/2 of Current Nameplate	Cumulative Nameplate Capacity MW
Vansycle	25	10/25/1998	25
Stateline	90	12/18/2001	115
Klondike I	24	1/16/2002	139
Condon	50	6/18/2002	189
Klondike II	76	6/28/2005	265
Hopkins Ridge	157	11/25/2005	422
Leaning Juniper	100	8/10/2006	522
Big Horn	200	10/4/2006	722
White Creek	200	10/5/2007	922
Klondike III	226	10/15/2007	1148
Biglow Canyon PH 1	126	11/17/2007	1274
Nine Canyon @ 28%	27	11/26/2007	1301
Goodnoe Hills	96	4/29/2008	1397
Nine Canyon @ 52%	24	5/10/2008	1421
Klondike 3a	75	6/6/2008	1496
Arlington	103	12/7/2008	1599
Willow Creek	72	1/1/2009	1671
Pebble Springs	100	1/27/2009	1771
Hay Canyon	100	2/12/2009	1871
Wheatfield	97	3/22/2009	1968
Tuolumne	137	5/1/2009	2105
Biglow Canyon Phase 2	149	8/6/2009	2254
Windy Flats Dooley (phase 1)	30	9/21/2009	2284
Windy Flats Dooley (phase 2)	233	11/30/2009	2517
Harvest	100	12/16/2009	2617
Combine Hills	63	1/1/2010	2680
Star Point	100	1/15/2010	2780
Linden Farm	50	6/6/2010	2830
Coastal Energy	6	6/30/2010	2836
Biglow Canyon PH 2	14	8/11/2010	2850
Biglow Canyon PH 3	161	8/11/2010	3011
Big Horn II	50	10/8/2010	3061
Leaning Juniper II PH A	91	10/24/2010	3151
Kittitas Valley Wind	108	11/15/2010	3259
PATU Wind	10	11/29/2010	3269
Leaning Juniper II PH B	109	12/1/2010	3379



Attachment C



Attachment D

Columbia River Treaty

Attachment E

Funding Profile by Subprogram [1/2/3/]

(accrued expenditures in thousands of dollars)

	Fiscal Year				
	2010 Audited Actuals	2011 Original [2/]	2011 Adjustments	2011 Revised [4/]	2012 Proposed
Capital Investment Obligations					
Associated Project Costs [5/]	148,103	N/A	-	170,252	209,329
Fish & Wildlife	41,106	N/A	-	90,000	50,000
Conservation & Energy Efficiency [5/]	57,899	N/A	-	80,000	104,000
Subtotal, Power Services [6/]	247,108	N/A	-	340,252	363,329
Transmission Services	304,520			360,512	526,682
Capital Equipment & Bond Premium	51,964	N/A	-	51,615	47,185
Total, Capital Obligations [5/ 7/]	603,592	758,910	-	752,379	937,196
Operating Expenses and Other Obligations					
Operating Expenses	2,927,466	3,219,466	-	3,115,182	3,195,289
Projects Funded in Advance [8/]	158,726	77,179	-	113,224	52,470
Total, Obligations	3,689,784	4,055,555		3,980,785	4,184,955
Capital Transfers (cash) [7/]	458,979	386,870	-	386,870	383,181
BPA Total	4,148,763	4,442,425	-	4,367,655	4,568,136
Full-time Equivalents (FTEs)	3,043	3,100	-	3,175	3,064

Public Law Authorizations include:

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

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

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

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

The accompanying notes are an integral part of this table.

1/ BPA finances its operations with a business-type budget under the Government Corporation Control Act, 31 U.S.C 9101-10, on the basis of the self-financing authority provided by the Federal Columbia River Transmission Act of 1974 (Transmission Act) (Public Law 93-454) and the U.S. Treasury borrowing authority provided by the Transmission Act, the Pacific Northwest Electric Power Planning and Conservation Act (Pacific Northwest Power Act) (Public Law 96-501) for energy conservation, renewable energy resources, capital fish facilities, and other purposes, the American Recovery and Reinvestment Act of 2009 (Public Law 111-5), and other legislation. Authority to borrow from the U.S. Treasury is available to the BPA on a permanent, indefinite basis. The amount of U.S. Treasury borrowing outstanding at any time cannot exceed $7.70 billion. BPA finances its approximate $4.6 billion annual cost of operations and investments primarily using power and transmission revenues and borrowing from the U.S. Treasury at rates comparable to borrowings at open market rates for similar issues.

2/ BPA includes updated operating year budget estimates in each Congressional Budget submission. Updated BPA FY 2011 operating year estimates are included in the FY 2012 Congressional Budget.

Attachment E

3/ This budget has been prepared in accordance with the Budget Enforcement Act (BEA) of 1990. Under the BEA all BPA budget estimates are treated as mandatory and are not subject to the discretionary caps included in the BEA. These estimates support activities which are legally separate from discretionary activities and accounts. Thus, any changes to BPA estimates cannot be used to affect any other budget categories which have their own legal dollar caps. Because BPA operates within existing legislative authority, BPA is not subject to BEA "pay-as-you-go" test regarding its revision of current-law funding estimates.

4/ Original estimates reflect BPA's FY 2011 Congressional Budget Submission. Revised estimates, consistent with BPA's annual near-term funding review process, provide notification to the Administration and Congress of updated capital and expense funding levels for FY 2011.

5/ 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.

6/ Power Services includes Fish & Wildlife, Residential Exchange Program, Planning Council, Conservation & Energy Efficiency and Associated Project Costs which have been shown separately for display purposes.

7/ This FY 2012 budget includes capital and expense estimates based on preliminary IPR forecasted data for FYs 2011-2016.

8/ PFIA for Transmission Services paid by customers.

The cumulative amount of actual advance amortization payments as of the end of FY 2010 is $2,574 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.