

Committee on Resources

Witness Testimony

Opening Statement of
The Honorable John T. Doolittle, Chairman
Subcommittee on Water and Power Resources
Committee on Resources
May 18, 1995

This hearing will focus on the potential sale of the Power Marketing Administrations. It will review the existing competitive electrical supply system, evaluate the effect of the transfer out of federal ownership, and consider some of the alternatives proposed to affect the transfer.

The PMA's are agencies within the Department of Energy with the primary mission to market the electrical power produced at federal water projects operated by the Bureau of Reclamation and the Corps of Engineers. The PMA's are facing a number of problems, including: a drain on revenues for unrelated purposes; increased competition in the wholesale power market; deferred maintenance on the dams and power generating facilities; and reoperation of dams for environmental purposes.

HOUSE BUDGET COMMITTEE ACTION

For purposes of the fiscal year 1996 budget resolution, the House Budget Committee made policy assumptions that include selling three of the PMA's to private, tax-paying corporations. According to Budget Committee recommendations:

"The three corporations would buy the power-houses and related generating equipment at federal dams plus transmission and other assets now owned by the agencies at the Department of Energy. The corporations in turn would be owned by the customers who (as of the sale date) buy the federal power. These customers are primarily municipal utilities and rural electric cooperatives."

The net effect of the Budget Committee proposal over five years is to produce \$3 billion in deficit reduction. In setting the \$3 billion figure for recovery it is our understanding that the Budget Committee recognized that the return could be greater depending on how the transfers are executed. There was also an assumption that by creating taxable entities, there would be further revenue in the form of taxes. However there are some difficult problems raised by this approach and questions which are unanswered:

How would tax-exempt public entities (the preference customers) hold stock in private taxable corporations which are engaged in the same basic business as these tax exempt organizations? This might require changes to the Internal Revenue Code as well as State corporation and tax laws. It also raises the possibility that such entities would simply set rates so that no taxable income is produced.

In addition, the management of such entities would be cumbersome given the large number of preference customers served by some PMA's. There are also widely divergent interests. There would be a question concerning the relative management weight given to each preference customer.

The plan transfers the major income producing assets while retaining the assets with the greatest liability. There would be ongoing federal costs with little or no income to pay for them.

PUBLIC POLICY ISSUES

The transfer of the PMA's will affect an existing private/public electric supply and distribution system in the U.S. That system has grown up over the past 50 years with about 80% of the electricity currently generated by investor owned utilities (IOU's) and about 20% by the public power systems.

The Federal Energy Regulatory Commission (FERC) regulates wholesale power rates and the availability of access to the transmission systems. As FERC continues to make the electric utility business more competitive, they are taking steps to let public and private electrical providers compete directly for each other's customers. However, with minor exceptions, the public power providers can use the transmission systems of the IOU's to compete for the IOU's customers but the IOU's do not have the same open access to the public power transmission systems.

In determining the nature of the PMA transfers, the Subcommittee must look at whether or not to affect the existing and future competitive trends in the market. This will include decisions about whether to make the ultimate purchasers of the PMA's subject to FERC or the principles of the FERC competitiveness regulations.

HISTORIC VIEW

In the early 1900's, when privately owned utilities served primarily the large urban markets, Congress authorized and appropriated funds that would allow municipalities and rural cooperatives to build electric utility systems to meet their needs.

When the federal government advanced the funds for the construction of these public power facilities, the revenue subsequently generated by the sale of the electricity was to be returned to the Treasury to pay for the capital expenditure. Since that time two schools of thought have arisen concerning the nature of those payments. Some in the public power sector have come to view the payments as the acquisition of an equity interest in the facilities themselves, both in the rural and municipal systems as well as in the PMA's that supply some of their power. Others view the revenue generated as merely payments for the electricity received, which do not create ownership interests in the PMA's.

I believe there is ample evidence for transferring the PMA's out of federal ownership. However, even a cursory review reveals that there are significant issues to be addressed. They include the effects of such a sale on rate payers, a determination of which assets should be sold, and the consequences of any transfer to other users.

There are public power policies that should be protected in the transfers. We can and should provide for limitations on rate increases, to provide a smooth transition from the current situation. The trend toward increased competition should be enhanced by this transfer, rather than frustrated. And finally, the federal government should not be left with the liabilities while transferring the revenue sources.

I remain very concerned about our ability to reach these objectives effectively, if we limit all transfers to the existing public power entities.

As we hear from the broad spectrum of witnesses we have today, I trust the witnesses will provide some creative suggestions on how to meet these goals.

Thank you.

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