

Statement of George B. Taylor, Jr.
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Before the House Natural Resources
Subcommittee on Water, Power, and Oceans

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Mr. Chairman and Mr. Ranking Member, on behalf of Oglethorpe Power Corporation and the Southeastern Federal Power Customers, I am appearing today to discuss H.R. 5556, the Environmental Compliance Cost Transparency Act of 2018. As a representative of customers of the Southeastern Power Administration (“SEPA”), I am supportive of the objectives of the legislation and encourage its passage.

Oglethorpe Power Corporation (“Oglethorpe”) is a not-for-profit wholesale electric cooperative supplying power to 38 distribution cooperative members with service territories throughout Georgia. We own or operate 7,843 MW of generating capacity, including units powered by nuclear, gas, coal, oil and water. Our members also purchase power from other suppliers, including suppliers of solar and other renewable resources, in addition to purchases from SEPA. Over the course of a typical year, Oglethorpe’s members purchase 630,000 MWh of energy from SEPA, which is generated at Corps of Engineers (“Corps”) projects throughout the southeast.

Oglethorpe is a member of the Southeastern Federal Power Customers, Inc. (“SeFPC”), whose members represent electric consumers who benefit from hydropower produced at Corps projects in the Southeast. Members of the SeFPC either directly purchase capacity and energy marketed by SEPA or represent municipally owned utilities and rural electric cooperatives that have power purchase agreements with SEPA. SeFPC members represent the majority of the twelve million power customers that receive the benefit of capacity and energy that is provided by Corps projects located in several river basins in the Southeast. I have served as Oglethorpe’s representative to the SeFPC for over 25 years.

Unlike the other power marketing administrations, SEPA does not own any transmission, but instead relies on the transmission systems of others, including its customers, to deliver the energy that it markets. The dominant sources of environmental impacts on its rates to customers are costs incurred by the Corps, and changes in operations by the Corps to accommodate environmental requirements. Sometimes SEPA must buy replacement energy as a result of modified operations, the cost of which it passes on to its customers, but in many cases the customers themselves must purchase higher cost energy to replace the energy they would have received had

not the Corps modified its operations to accommodate environmental requirements. While SEPA staff continues to work with Corps accountants to ensure that only appropriate costs are charged to power customers, in many cases environmental costs must be shared by power customers.

In recent years, Oglethorpe, like much of the electric utility industry, has faced serious challenges, particularly on the regulatory front, from ever widening compliance requirements, to increasingly burdensome environmental regulations. While in the last year there have been actions to lessen some of the proposed regulation, we still face the difficult task of managing mounting cost impacts resulting from these challenges while continuing to ensure that our customers have a reliable and affordable electric power supply.

Further, until recent years the hydroelectric energy supplied by SEPA has been very competitive. However, in recent years the cost of energy supplied by SEPA has been close to market price. In fact, in recent months five of SEPA'S customers have tendered notice to terminate contracts of long standing. When the cost of SEPA energy was much lower than market price, it was easy to avoid delving into the details of every cost increase. However, with prices at the level of market price, every cost increase must be examined.

Unlike investor-owned utilities, every cost impact on rural electric cooperatives or public power utilities is passed on directly to our customers—many residents of rural areas who are already struggling. Our responsibility, therefore, is to do everything in our power to manage these risks and costs.

Yet, today, SEPA's customers face any number of challenges in addressing costs. Unlike a traditional power supply counterparty that relies on the same market fundamentals that we can observe, we do not have the insight into the fundamentals that underlie the Corps' operations, which are driven by the multiple purposes of the reservoirs they manage. Our best option to address SEPA price increases is to anticipate when and how prices will increase and plan our internal strategies accordingly.

This approach, however, is limited by the information that SEPA provides in support of its rates, most of which comes from the Corps. However, we do not have a sense of how operational changes by SEPA's sister generating agency are affecting power supply and associated pricing. While many of the dedicated personnel at SEPA are willing to share anecdotal information on how environmental compliance affects hydropower generation, the precise cost break down is missing from the public domain.

H.R. 5556 would help address this informational gap by requiring the disclosure of compliance costs with Federal environmental laws impacting the conservation of fish

and wildlife. In this context we believe it is important to gather and disclose both direct and indirect costs. Moreover, because the legislation would require a line item in each monthly billing, customers would have a better understanding of the true cost of the resource that they are buying. A paragraph or two in a Federal Register notice does not always reveal the same impact that a line item in a bill will convey. Indeed, the proposed legislation would provide valuable insight into an important cost driver that has affected SEPA's power marketing in recent years. I should note that SEPA has continued to work with its customers to obtain information from the Corps to help us understand the cost impacts of environmental compliance. Indeed, if we have a question, SEPA personnel are willing to look into a matter and figure out the answer. However, this requires the customer to know what questions to ask in the first instance.

If enacted into law, H.R. 5556 would provide another important tool in helping us manage costs for our customers. Specifically, it would mandate the disclosure of costs associated with environmental compliance as a statutory obligation. The publication of these costs would become an ordinary and routine responsibility for SEPA and would relieve the pressure on the customer to ask whether and the extent to which rates are increasing because of fish and wildlife conservation compliance measures. Further, because SEPA must obtain much of the information from the Corps, it would be helpful to have this legislation that would also make it a requirement for the Corps to assist SEPA on a routine basis.

To be clear, we do not see the need to pass this legislation because we have an agency that will not provide the information we need to evaluate rates. We have full confidence that SEPA would assist us if asked. However, if publication of this information is not a regular requirement, important details could be overlooked and the power customer left without the full picture it needs to make informed decisions for its electric ratepayers. If we can receive this information in a regularized manner, we can better serve our customers and keep electric rates as low as possible. This is why, notwithstanding our excellent relationship with SEPA personnel, we support the passage of H.R. 5556.