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**Testimony on "*The Power Marketing Administrations: A Ratepayer Perspective.*"**  
**Subcommittee on Water and Power**  
**House Natural Resources Committee**  
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Mr. Chairman, Ranking Member Napolitano my name is Joel Bladow. I currently serve as Tri-State Generation and Transmission Association Inc.'s Senior Vice President of Transmission. I appreciate having the opportunity to testify before the committee on the ratepayer's perspective of the relationship between the federal power marketing administrations and their customers. In Tri-State's specific case, the relationship we have with the Western Area Power Administration (WAPA).

**Tri-State Background**

Tri-State is a not-for-profit wholesale electric cooperative based in Colorado. Our mission is to provide reliable, cost-based wholesale electricity to our 44 not-for-profit member systems (electric cooperatives and public power districts) in an environmentally responsible manner. Our members serve 1.5 million predominantly rural consumers over 200,000 square miles of territory in Colorado, Wyoming, Nebraska and New Mexico. To meet our membership's electricity needs, Tri-State generates, or purchases power produced by coal, natural gas, and hydropower, as well as from intermittent renewables like solar and wind. Since the end of 2010, we have integrated just over 30 megawatts of solar from the Cimmaron Solar facility in Northern New Mexico and 127 megawatts of wind from projects on the Eastern Plains of Colorado.

In addition to these larger scale projects, Tri-State's Board of Directors has established policies to encourage local renewable energy projects on our member systems. Under this policy our members have added, or are scheduled to add, another 42 megawatts of distributed renewable generation resources. Tri-State is not unique with respect to the integration of traditional sources of coal, natural gas, federal hydropower and intermittent resources. Other customers of the WAPA have undertaken similar initiatives and have similarly diverse generation portfolios.

We are proud of the great strides we have made to integrate intermittent renewable and local distributed generation into our resource portfolio. However, our most important source of renewable generation is still the emission-free, reliable, dispatchable hydropower generated at the federal multi-purpose projects of the U.S. Army Corps of Engineers and Bureau of Reclamation and marketed by WAPA. Hydropower purchased from WAPA accounts for approximately 12% of our generation needs. It is integrally important to keeping the at-cost power that we provide to our member-systems at an affordable rate while also playing a role in maintaining the overall reliability of the bulk electric power system.

## **The Ratepayer Perspective**

Although I am representing Tri-State at this hearing today, my testimony reflects the views and concerns of many major customer groups that WAPA serves. Tri-State receives its WAPA firm power allocations from facilities within the Pick-Sloan division of WAPA as well as from facilities within the Colorado River Storage Project (CRSP) of WAPA. Appropriately, Tri-State is a member of the Colorado River Energy Distributors Association (CREDA) and the Mid-West Electric Consumers Association the customer groups representing the CRSP customers and Pick-Sloan customers respectively. We are also representing the views of WAPA customer groups outside of Tri-State's footprint including the Irrigation and Electric Districts' Association of Arizona (IEDA), the Arizona Municipal Power Users' Association and the other customer groups that signed the letter to Administrator Gabriel attached as an appendix to my testimony. Collectively, our – the ratepayer – perspective on the past, present and future role of WAPA is similar.

## **WAPA's Mission**

WAPA's core mission is to deliver power over its transmission system from the federal generating agencies to preference customers. In addition, WAPA has sold excess transmission capacity in its transmission system to other users to maximize the use of the transmission infrastructure and help keep the rates affordable. These activities have led to WAPA developing operations control centers and significant technical capabilities in the operations, maintenance, and construction of high voltage transmission facilities. The focus has always been as an operating entity, not a policy development or research organization like the Department of Energy. In addition, WAPA is not a utility and has no load-growth responsibility to provide for new generation or transmission to serve the growing loads of its customers or other utilities. Over the years WAPA has continuously replaced facilities, upgraded transmission lines in partnership with its preference customers and as a result has a highly reliable transmission delivery system.

## **Regional Diversity**

In understanding the ratepayer's perspective on WAPA, it is important to understand the diversity of WAPA's system not only geographically, but also operationally. WAPA is a unique system due to its broad geographic scope and the different statutes authorizing each project from which WAPA delivers the federal hydropower resources. Congress created WAPA in the Department of Energy Organization Act of 1977. The act transferred power marketing responsibilities away from the Bureau of Reclamation (BOR) and, thus, the Department of the Interior to WAPA and the new Department of Energy. Prior to the transfer, BOR had been developing power generation assets across a broad swath of the West based on the unique characteristics of each river basin. For example, the Flood Control Act of 1944 is the underlying statute authorizing the projects within the Pick-Sloan Missouri River Basin (North Dakota, South Dakota, Nebraska, Montana, Wyoming, Colorado, Kansas, Iowa, and Minnesota) whereas the Colorado River Storage Project Act of 1956 is the underlying statute for Bureau of Reclamation Power projects in the Upper Colorado River Basin states of Colorado, Utah, Wyoming and New Mexico as well as the lower basin states of Nevada and Arizona. Given these differences, it is not surprising that, historically, WAPA has focused on working on a

regional and project basis with its customers on infrastructure and power marketing issues while centralizing common organizational functions such as procurement, accounting, and legal support at its headquarters in Lakewood, CO. From a customer perspective, this de-centralized hybrid approach has worked well. And we believe *“if it ain’t broke, don’t fix it.”*

Unfortunately, it appears that WAPA may be looking to depart from this successful management model in favor of more centralization. We are led to believe this is the future approach given the issuance of the Chu Memo from DOE headquarters in March 2012 and the recent Access to Capital efforts emanating from WAPA headquarters. The move to increased centralization very much concerns Tri-State and WAPA’s other customers. We believe it could lead to cost increases and inefficiencies in delivering federal power because each WAPA region and project is unique and must operate in the environment it was established in and has evolved over many years with neighboring utilities – both public and private.

### **Paying for the System**

To put potential cost increases into perspective, it is important to understand that all WAPA (and generating) costs are paid for by its customers and have been since the inception of the Federal Power Program. For example, if WAPA speculates on or constructs surplus transmission over and above that needed to deliver federal hydropower to its customers and it goes unutilized, the losses incurred are eventually rolled into its firm power rate and paid for by federal power customers. Also included in these rates are the substantial costs incurred by WAPA, the Bureau of Reclamation and U.S. Corps of Engineers to comply with Endangered Species Act (ESA) requirements at Glen Canyon Dam, the Aspinall Unit and other federal hydropower projects throughout WAPA’s footprint. At Glen Canyon Dam alone, WAPA customers have had to incur an additional \$50 million/annually since 1996 to comply with these costs.

Over the years, WAPA has traditionally relied on appropriations to fund their programs. As appropriations requests from the Department of Energy have been reduced for WAPA, the preference customers have stepped up to advance funding for capital improvements on the system. Over the last decade, just in the Pick-Sloan Program facilities, the preference customers have advanced over \$500 million in funds to help keep the system in excellent condition. In fact, the federal agencies in Pick-Sloan currently have almost \$120 million in funds advanced by the preference customers to be used for on-going projects. In the past, the customers have supported moving to direct access to receipts for operations and maintenance and purchase power and wheeling as long as there was sufficient Congressional oversight.

WAPA’s new Access to Capital initiative concerns us due to the continued erosion of Congressional oversight over WAPA’s operational budget. In the Pick-Sloan project, WAPA’s customers worked with Congress to enact net zero funding for WAPA’s operational and maintenance costs as an alternative to relying on the annual appropriations process, which has been anything but consistent in recent years. The net zero legislation has proved to be a “double-edge sword.” The implementation of the net zero initiative has increased timely access to operations and maintenance funding for WAPA, but the corresponding reduction of congressional oversight and customer involvement has led to a 32% increase in operational costs at WAPA headquarters over the last five years.

## **Not a Giant Footprint**

When the Chu Memo was released last year, it quickly became apparent that WAPA was proposed to serve as a “test-bed” for many of initiatives outlined in the memo. Indeed, the memo inferred that WAPA was the key part of the transmission network due to its presence in 15 western states. Yet, the opposite is true. Its transmission footprint epitomizes the operational and geographic diversity of WAPA. WAPA’s transmission system is a mix of facilities that have been built over many decades. In some places WAPA has very little transmission infrastructure, in other areas it has a stronger presence. Its transmission system has been expanded and augmented by its customers over the years. It all works together – WAPA’s transmission system provides a base complemented by many enhancements paid for and owned its customers. If WAPA centralizes and optimizes their processes, it may very well increase overall consumer costs as all of the other partners must now modify their systems and processes to match WAPA’s.

## **Conclusion**

Mr. Chairman, my goal today has been to provide a ratepayer perspective on the past, present, and future relationship between WAPA and its customers. As I have noted throughout my testimony, WAPA is the most diverse of the four federal power marketing administrations not only geographically, but also operationally. Historically, the strong regional focus and partnerships with its customers have helped keep electricity affordable and reliable to millions of customers and served the nation well. Tri-State believes the move to increased centralization of process currently performed throughout each of WAPA’s unique regions will inevitably lead to increased costs for its customers with little to no commensurate measurable benefit. We are also concerned, as are most, if not all of WAPA’s customers, about the shift of WAPA’s focus away from being a real operating utility with real-time responsibilities to that of a policy “test-bed” for the Department of Energy. Finally, Tri-State and WAPA’s other customers go to great lengths to provide affordable and reliable electricity to our consumers in an environmentally responsible manner. However, as the ESA and other environmental regulations continue to be implemented in an inflexible manner, compliance costs continue to increase making it a challenge to meet our mandate of providing affordable and reliable electricity.

Thank you, Mr. Chairman, I would be happy to take any questions.