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**Testimony  
Before the United States House of Representatives  
Committee on Resources  
Subcommittee on Water and Power**

**Hearing on  
The Bureau of Reclamation's 21<sup>st</sup> Century Challenges in  
Managing, Protecting and Developing Water and Power Supplies**

**April 5, 2006  
Washington, DC**

Good afternoon, Mr. Chairman, members of the subcommittee. My name is George M. Caan, and I am the executive director of the Colorado River Commission of Nevada (CRC). I appreciate your invitation to share with you today my agency's experience with the Bureau of Reclamation relative to the recent National Research Council Report on Reclamation's organization, practices and culture and Reclamation's responsive Action Plan. We were very pleased that the authors of the report met directly with us to discuss our issues and concerns. Many of the comments we made are found in the report, including the note of the successful relationship those of us, such as the CRC, have developed with Reclamation in the Lower Colorado Region.

The Colorado River Commission of Nevada is the state agency that represents Nevada in negotiations regarding Colorado River resource issues. CRC works closely with Reclamation and the other basin states on a range of issues related to river operations, water delivery and endangered species. The CRC is a member of the Colorado River Energy Distributors Association (CREDA), the organization representing many of the Colorado River basin power users in six western states. As such we are part of the successful working relationship CREDA has had since 1992 with the Bureau of Reclamation and the Western Area Power Administration on the Colorado River Storage Project. But today, I will focus on CRC's relationship with

Reclamation regarding its management of the infrastructure in the Lower Colorado Region that produces the hydroelectric power available to us.

### **Lower Colorado Region**

The Lower Colorado Region, as it pertains to federal hydropower, consists of Hoover Dam, forming Lake Mead outside Las Vegas; Davis Dam, forming Lake Mohave near Laughlin, Nevada; and Parker Dam, forming Lake Havasu in Arizona. Nevada receives approximately 25 percent of the energy generated at these facilities, with the remaining energy going to entities in California and Arizona. The CRC has a unique role in Nevada as steward of the federal hydropower provided to the state. We purchase approximately 460 MW of federal hydropower and, in turn, market the power under long-term contracts, at cost plus an administrative charge, to 12 customers consisting of municipal and investor-owned utilities, cooperatives, public utility districts, industrial customers and water and wastewater agencies.

The relatively low cost of federal hydroelectric power made available to Nevada is crucial to the viability of the state's economy, and this clean, renewable, resource contributes significantly to the environmental health of the state as well. As you know, the price of that power is set so that the federal government is repaid its costs associated with the generation and distribution of the power, plus interest. Thus, our operational costs are, to that degree, at the control of the federal agencies that own and operate the generation and transmission system. For these reasons, we in Nevada, along with our counterparts in the other Colorado River basin states, care greatly about the condition, operation and cost of the federal infrastructure that provides us this vital resource. We know that this infrastructure is aging and needs careful maintenance and replacement; we know that efficient operation will also extend the life of the facilities and control costs. These responsibilities are in the hands of Reclamation, and the degree to which the agency will allow the power customers to monitor and provide input into its operation, maintenance and replacements (OM&R) activities at the dams and power plants on the Colorado River is extremely important to us. I am happy to be able to report to you that today, under current leadership at all levels of Reclamation, there are in place mechanisms and processes that are promoting substantial and fruitful cooperation, and even collaboration,

between Reclamation and the power customers in the Lower Colorado Region. This had not always been the case.

As recently as the 1980s, Reclamation in the lower region was still following the more traditional 'paternalistic' approach under which the customers generally received little information about Reclamation's operations and were afforded less opportunity for input than is the case today under Reclamation's current customer-oriented policies. It was in the wake of spectacularly huge cost overruns for the new visitor facilities at Hoover Dam, which the power customers were unexpectedly obliged to shoulder, and the increasing need to have these customers provide funding for project upratings and operations in place of congressional appropriations, that customer-oriented mechanisms and processes were sought by the customers, slowly negotiated and eventually agreed upon. A history of mutual distrust and suspicion between Reclamation and its customers had to be overcome, and attitudes and perceptions of personnel on both sides needed to evolve towards an acceptance of the mutual value of a more cooperative and customer-oriented relationship. Now I would like to describe how those new attitudes and perceptions have resulted in meaningful and valuable changes in our relationship and in the management of vital federal power resources.

### **Boulder Canyon Project (Hoover) Implementation Agreement**

In January 1987, the Hoover Up-rating Advance of Funds Contract was signed, and under it, in exchange for advance funding, the Boulder Canyon Project customers were able to more closely monitor Reclamation's plans and progress in a crucial program to increase the capacity of the Hoover powerplant generators. In early 1995, the even more significant Implementation Agreement took effect between Reclamation, the Western Area Power Administration and the Boulder Canyon Project customers. In exchange for customer funding of estimated project OM&R costs, the agreement established an Engineering and Operating Committee (E&OC) that meets quarterly to help develop and monitor implementation of Reclamation's project work plan and a Coordinating Committee that meets annually to decide the amount of customer funding. A Technical Review Committee of the E&OC provides an opportunity for the customers' experienced utility engineers and other professionals both to consult with their counterparts

within Reclamation and to regularly visit the Hoover dam and power plant facilities to examine—literally—the nuts and bolts.

With all Hoover power customers working together with Reclamation and Western in these committees, many of the issues that divided us are being cooperatively addressed and resolved. The issues are as diverse as expensing replacements, establishing meaningful user fees for the visitor facilities, allocating multi-project benefits and costs, scheduling needed construction, and dealing with billing and payment procedures, working capital, audits, periodic payment of principal and annual rate adjustments. These are difficult and complex issues, but the forthrightness of Reclamation personnel in the Lower Colorado Region and their determination to resolve these issues in partnership with the affected power customers have eased the task.

This represents a significant change in terms of our relationship with Reclamation. In the past we sensed the reluctance of plant managers to involve the customers. But after it was understood that our goal was to ensure that the proper investments were being made, at the proper time, and that the plant managers had the best handle on what needed to be done, the plant managers became more comfortable with customer inputs. By way of example, I often cite the customers' review of the need to replace the plant's air compressors. The "old" Reclamation would replace air compressors at intervals based on the number of years in service. The "new" Reclamation, after customer input, uses "run-time" as the measurement for replacement. The compressors would still be replaced but only when they were really ready for replacement. This saved the customers money and did not have any detrimental effect on operations.

This working relationship has matured over time into a very productive and positive exchange of ideas and priorities among the participants. A variety of potentially contentious issues have been considered and resolved in a positive manner, including a determination that key replacement parts needed for later installation at the Parker and Davis dams would be purchased well in advance of need to coincide with earlier similar upgrades at Hoover, and customer-supported decisions to move significant scheduled maintenance projects to earlier

years than originally scheduled to take advantage of the unforeseen low-water conditions caused by the regional drought.

There are other difficult and complex issues ahead, such as personnel turnover, outsourcing, and how to treat the substantially increased security costs that have followed September 11, 2001. A meaningful dialogue between Reclamation and its customers relies on certainty and transparency. Security costs that are proposed to become reimbursable by "project beneficiaries," who in reality include only the power customers, pose a challenge to this policy. We believe that if Reclamation continues to involve the project customers in identifying needs and in its search for solutions to these and other issues, outcomes can be achieved that are more workable and accepted. CRC is extremely pleased with the level of information and input working with Reclamation in the Hoover committees has given us; Reclamation has been helpfully responsive; and we are confident the coordination and cooperation that close customer involvement has made possible have increased efficiency, have significantly controlled costs, and have ensured that needed maintenance and replacement have received timely and adequate funding.

#### **Parker-Davis Project Advancement of Funds Contract**

The same can be said as well for OM&R at the Parker-Davis Project downstream from Hoover Dam. On October 1, 1998, after five years of often difficult negotiation, Reclamation, Western and the Parker-Davis Project customers concluded an Advancement of Funds contract. Again, in exchange for approving and committing to advance fund OM&R budgets for the project's generation facilities, the contract established an interactive process for developing annual and 10-year work plans and a Funding Board that meets annually to vote on the amount of funding the customers will advance for each line item or costing unit in the annual plans. Committees have also been formed to review the technical issues involved in developing an annual operating plan and the rates the Western Area Power Administration will charge for the power. Annual customer visits to the Parker and Davis powerplants to inspect the nuts and bolts are also accomplished. These mechanisms and processes for customer involvement are also working well and accomplishing significant and valuable results. As at Hoover, broader

interactive communication has led to more willing cooperation, and has yielded increased efficiency in project operations, a better control over costs, and the timely and adequate funding of necessary maintenance, repair and replacement.

### **National Research Council Report**

We are pleased with the findings and recommendations of the report as well as Reclamation's action plan in response. We look forward to working with Reclamation as it proceeds to address the report's recommendations. The report addresses the tasks Reclamation should be engaged in as it faces the end of an era of building large dams. This type of review is a good mechanism for ensuring that the organization is focused and efficient.

We do have concern with the statement that one of the future tasks should involve "dam removal." We do not think this is an appropriate activity in general; certainly, dams with powerplants that furnish hydroelectric power are critical facilities and are vital to our economy. Enhancing the generation capacity of our hydroelectric system would be a worthwhile goal in reviewing Reclamation's role in the 21<sup>st</sup> century.

With respect to the report's recommendation regarding technical expertise, we believe that some level of technical expertise needs to be associated with specific projects, since so many of them have unique technical characteristics. We support a review of potential outsourcing that identifies which operations are appropriate for outsourcing, examines both short-term and long-term effects, and carefully weighs the potential benefits with the potential costs before going forward with any recommended actions. Reclamation should ensure that outsourcing does not result in a loss of the technical skills needed to maintain the projects. We are confident that Reclamation, in working with its customers, such as the CRC, will be successful in evaluating changes that will result in a more efficient and effective Bureau of Reclamation.

## **Conclusion**

The Colorado River Commission of Nevada has been the beneficiary of Reclamation agreements and decisions that have provided forums for meaningful customer input on the operations of Reclamation's powerplants on the lower Colorado River. We believe Reclamation's process of customer involvement is working well in our region and is key to the overall success of any improvements to managing infrastructure. We applaud the focus of the National Research Council Report on ways to improve efficiency and reduce costs in Reclamation's operations. Perhaps the mechanisms and processes that have worked so well for us might serve as a ready model.

Along with efficiency, CRC also supports consistency, transparency and accountability in how Reclamation sets policy and manages its operations. As I have tried to show, many of the policy decisions that affect operations have been and, in our view, are best developed at the local level with customer input. We would encourage flexibility that provides for strong local input into these decisions. We now have empowered Reclamation decision makers at the local level and policy makers in Washington, DC, that have been accessible and demonstrate a strong commitment to customer involvement. We hope and support that the implementation of the National Research Council Report will continue to build on this relationship.

I would be happy now to answer any questions you may have.