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WHEAT RIDGE, COLORADO

BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON WATER AND POWER

MARCH 1, 2006

Good afternoon, Mr. Chairman. I am Thomas Graves, Executive Director of the Mid-West Electric Consumers Association, headquartered in Wheat Ridge, Colorado. I also serve as chairman of the National Preference Customer Committee of the National Rural Electric Cooperative Association. We appreciate the opportunity to testify today before the House Resources Subcommittee on Water and Power on the federal power program.

Mid-West was founded in 1958 as the regional coalition of consumer-owned electric utilities – rural electric cooperatives, municipal electric utilities, and public power districts – that purchase hydropower generated at federal multi-purpose projects operated by the U.S. Army Corps of Engineers and the U.S. Bureau of Reclamation. Mid-West members utilize federal hydropower marketed by the Western Area Power Administration under the Pick-Sloan Missouri Basin Program in nine states – Montana, Wyoming, Colorado, North Dakota, South Dakota, Nebraska, Kansas, Minnesota, and Iowa.

The National Preference Customer Committee of the National Rural Electric Cooperative Association is comprised of federal power customers across the country and their regional associations.

The Administration's Budget Request for Fiscal Year 2007 includes three troubling proposals relating to the federal power program:

- Changing the interest rate on new federal power investments;
- Reallocating certain irrigation costs in the Pick-Sloan Missouri Basin Program; and
- Changing the management of secondary revenues of the Bonneville Power Administration.

Historically, the interest charged on federal power investment has been the U.S. Treasury's long term yield rate. Each year, the Treasury provides to the Power Marketing Administrations the interest rate to be charged for investments made in that year. Those investment costs plus interest are repaid to the Treasury through power rates charged to federal power customers.

Now, the Administration has stated that it intends to change that practice and charge the "agency rate," which is the rate charged to governmental corporations. The difference between this rate and Treasury's long term yield rate is described as "small," averaging about .4 per cent, which would garner about $2-3 million per year from federal projects where the interest rate is not set by law.

The federal Power Marketing Administrations – Western, Southeastern, and Southwestern are not government corporations. They do not have borrowing authority or other authorities available to government corporations. The Power Marketing Administrations are federal agencies within the Department of Energy and are funded annually by congressional appropriations.

The current practice of using Treasury's long term yield rate has worked well for decades. It is wrong to assign an interest rate formula for a government corporation to federal agencies that are not government corporations.

The proposed reallocation and acceleration of Pick-Sloan Missouri Basin investment is apparently a rehash of a similar proposal in last year's Budget Request. It is hard to tell exactly what is proposed since there is no legislative language or even a detailed explanation of the proposal.

The short "explanations" that have been offered are inconsistent. One section of the Budget calls for repayment of vaguely defined construction costs – "Power customers will be responsible for repayment of all construction from which they benefit." (p. 188 Department of Interior: Mandatory Proposal Recover Pick-Sloan Project Costs). However, Bureau of Reclamation Highlights (BH- 36) calls for "repayment of construction <u>and operations costs . . ."</u>

The Budget Request erroneously states that Pick-Sloan power customers have not heretofore been responsible for repaying these costs. Pick-Sloan power customers are responsible for repaying all the costs of the power investment, joint costs allocated to the power function, and a huge portion of investment related to irrigation. These repayment obligations have been organized under the "ultimate development" concept.

Most simply put, the Administration's Budget Request would destroy the ultimate development concept that allocates costs among the various project purposes and determines repayment practices.

The budget process remains an inappropriate forum to undertake a reform of that magnitude. The allocation and repayment of federal investment in the Pick-Sloan Missouri Basin Program is an extremely complex issue that is the result of years of negotiations in the basin. It cannot be easily undone. The consequences of tinkering with ultimate development go far beyond any financial spreadsheet.

In the first session of this Congress, a bi-partisan delegation of Members of Congress from the region and from the full committee expressed their opposition to this proposal. Those reasons are still valid.

The Administration currently plans to implement the change in Bonneville's repayment practices and imposition of higher interest rates for PMA power-related investment through administrative actions rather than seeking Congressional endorsement and action.

We strongly object to any attempts to remove Congress from its historical role in providing oversight and policy direction for the federal power program. The National

Rural Electric Cooperative Association passed a resolution at its annual meeting last month opposing these changes. A copy is attached.

We are well aware of the budget difficulties Congress faces. Deficits force unenviable choices in curtailing government spending. For the Power Marketing Administrations, limited budgets have been further curtailed by earmarks in construction programs for new work not included in its proposed budgets. Last year, Western had some $6 million earmarked for projects not in the current work plan. Without additional appropriations, that sort of earmarking can wreak havoc with planning PMA construction projects.

Federal power customers have worked diligently to help maintain the reliability of the federal power systems. The Western Area Power Administration, for example, has over 17,000 miles of high voltage transmission facilities in fifteen states that serve all utilities in the region.

In Pick-Sloan, we have established the Western States Power Corporation to provide stop-gap funding for critical projects whose funding is precluded by the deficit issues confronting Congress. Other regions have established similar financial mechanisms to deal with funding shortfalls. That being said, none is in a position to shoulder all the funding needs of the PMA's and federal generating agencies.

Federal power customers are also partnering with the Power Marketing Administrations in ensuring adequate transmission. The recently completed Path 15 in California is but one example of this sort of collaborative relationship. In Pick-Sloan, Tri-State G & T and WAPA are working together to develop much needed transmission through the East Plains Transmission Project.

Mid-West thinks there are approaches to funding the federal power program that would ensure adequate funding for the Power Marketing Administrations, while preserving Congress' role in determining budget levels and oversight. Federal power customers believe strongly in the role of Congress and the federal power program.

The budgets of the PMA's can be divided into two major categories – capital investment and annual expenses. Both of these categories are funded through congressional appropriations. Both of these categories repay those costs to the U.S. Treasury.

The annual expenses of the PMA's – program direction and operations and maintenance – are funded by congressional appropriations each year, but are "scored" as if they are permanent outlays of money. Those dollars are returned to the U.S. Treasury by the end of that fiscal year.

So, in reality, the annual costs of the PMAs have no impact on federal deficits. Sadly, the congressional budget process does not recognize this. As a consequence, PMA's find

their annual budgets curtailed by appropriations committees' spending allocations or reduced by deficit reduction measures.

The current funding practice does not contribute to Congress' management of federal deficits and threatens the reliability of the federal power program.

Mid-West suggests that a "net-zero" appropriation for the PMA's annual expenses recognizes the fact that these costs are not a permanent federal outlay of monies and helps to ensure that the PMAs will have adequate resources to fulfill their mission. In fact, last year, the Administration included this concept in their Budget Request to Congress. The Federal Energy Regulatory Commission is currently funded by such a mechanism.

A net-zero appropriation would maintain congressional budget authority. The PMAs would still submit a budget to Congress. Congress would still set the spending levels for these annual costs, as well as PMAs' capital programs. Congress would maintain all of its oversight authorities as well.

Federal power customers wouldn't have it any other way.

Thank you.