

Testimony of Nancy Hirsh

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Before the U.S. House of Representatives
Subcommittee on Water and Power of the Committee on Resources
Oversight field hearing on
“Electricity Costs and Salmon: Finding the Balance.”

July 7, 2006

Pasco , Washington

Mr. Chairman and distinguished members of the subcommittee, thank you for the opportunity to testify before you today. My name is Nancy Hirsh and I am the policy director of the NW Energy Coalition. The NW Energy Coalition is an alliance of more than one hundred consumer, environmental, faith-based and low-income groups, unions and progressive utilities from the four Northwest states and British Columbia, working toward a clean and affordable energy future. I am testifying today on an issue that goes to the very identity of the Pacific Northwest: affordable electricity and wild salmon.

The Pacific Northwest has been blessed with something that no other region can call its own: the Federal Columbia River Power System. This system of 31 dams throughout the Columbia River Basin has helped make the Pacific Northwest what it is today, providing low cost hydroelectricity, a river highway for transporting goods, irrigation, recreational opportunities, and more. Since the construction of the very first federal dam on the Columbia, we as a region have attempted to balance the benefits of that system. It is a “multiple use” system and inherent in that definition is managing trade-offs on both benefits and impacts.

But the bounty of the federal system does not come to us for free. No one would argue that the construction and operation of dams along the Columbia and Snake rivers hasn’t had a profound effect on our cherished wild salmon and steelhead runs. My testimony today asserts that we can and should find a better balance between hydroelectric operations and salmon recovery than we have to date. But unlike many on today’s panel, I believe it is on the salmon side where more, not less, should be done to balance the scales. I also believe we can achieve salmon recovery without losing our competitive edge in the electricity industry. This is our obligation, and our burden, as stewards of the Federal Columbia River Power System (FCRPS).

Summary

- Salmon are a linchpin of the Pacific Northwest economy
- Energy vs. salmon is a false and unnecessary choice
- Clean energy investments can help us achieve both
- Higher-than-normal BPA rates are not the fault of salmon recovery
- The Energy Coalition supports BPA cost transparency, but H.R. 4857 is the wrong approach

The Economic Importance of Salmon Recovery

We all know the economic significance of affordable electricity rates for everyday consumers, businesses, and others. But a “working river,” as the Columbia is often called, does more than just provide affordable energy. I’d like to focus briefly on something that is not as well known and less well understood: the economic significance of salmon recovery.

According to the Northwest Sportfishing Industry Association, sportfishing alone is a multi-billion dollar industry and currently supports about 36,000 family wage jobs in the Pacific Northwest. Stretching far beyond tackle and fishing license sales, recreational fishing involves both direct spending on rods, reels, boats, tackle, etc., and significant indirect spending, such as travel expenses in and around river and coastal communities. This economic input ripples through local communities, helping to foster jobs, economic stability and growth.

Commercial fishing is another important economic outgrowth of salmon recovery. According to the independent economic arm

of the Northwest Power and Conservation Council, commercial fishing contributes about \$84 million per year in personal income alone to economically strapped ocean communities in the Northwest. And all this comes at a time when fishing opportunities are severely constrained by low salmon returns. These benefits will multiply exponentially when, and if, salmon are recovered to self-sustaining, harvestable populations.

That's why the NW Energy Coalition strongly believes that smart investments in salmon recovery simply make economic sense for the Pacific Northwest.

The False Choice Between Salmon and Low-Cost Energy

Too often, balancing salmon and low-cost energy is portrayed to the public as a dichotomy. The perception is that we cannot have our cake and eat it too. However, the Pacific Northwest need not make that difficult choice. We can have both salmon and low-cost energy, and we hope everyone in the room today agrees with that point.

In fact, taking a step back and looking at this issue from a national perspective, one can make a strong argument that the scales are currently heavily tipped in favor of low-cost energy. If true balance is to be achieved, perhaps it's time to do more, not less, for our imperiled salmon populations.

The fact of the matter is that the Pacific Northwest currently enjoys among the lowest electricity rates in the country, thanks in large part to the benefits of the FCRPS. The Bonneville Power Administration's (BPA) wholesale preference rates are currently 59 percent below the market rates that BPA has assumed for FY 2006 in the current BPA rate case. On average, Bonneville would be 41 percent below the lower market rates it projects during the rate period. BPA just established firm wholesale power rates at \$27.50 per megawatthour for FY07-09 rate period. Market based wholesale firm power contracts are \$45-55 per megawatthour.

It is critical to point out that these comparisons include all of the current fish and wildlife costs and impacts on BPA power operations. Clearly, our energy rates are higher now than in the past, and the Coalition supports BPA's efforts to find cost savings that do not jeopardize the long-term stability of the agency. We hope our rates will remain under market rates. But even with fish and wildlife costs included, BPA power is significantly below market rates, and is, in truth, the envy of other parts of the country. That's something to be proud of. Business leaders and farmers from California or New York, where energy prices are through the roof, might wonder what all the fuss is about.

We have reasonable electricity prices. What we do not have is healthy, self-sustaining wild salmon, and we have a long way to go before reaching that goal.

Clean Energy Can Help Bridge the Gap

I share the concerns about rising energy costs and their effects on our region's economy in general and on financially constrained low- and moderate-income families in particular. Fortunately, I believe that there is a solution that can help keep rates low while at the same time providing more flexibility for salmon recovery: investments in cost-effective energy efficiency and non-hydro renewable power.

Investments in energy conservation programs may increase rates slightly, but would reduce consumers' actual bills immediately and everyone's bills over time. The Northwest Power and Conservation Council's Fifth Power and Conservation Plan identifies 2,500 average megawatts of energy conservation potential in the region at an average cost of 2.4 cents per kWh. The Council also says that if the region does not capture these energy savings, we will lose \$2.4 billion in economic benefit over the next 20 years.

Likewise, renewable energy not only protects consumers against the easily seen volatility of fossil-fuel resources and inevitably recurring water shortages, but also against the coming penalties/fees on carbon dioxide emissions. To protect consumers from the financial impacts of these uncertainties, BPA needs to facilitate and support renewable energy opportunities.

The NW Energy Coalition thanks BPA for proposing to meet the Council's energy efficiency targets, but we believe BPA's energy efficiency goals should be higher and remain concerned about whether the needed investments will be made. This is an opportunity that the region cannot afford to pass up.

- Higher Than Normal Electricity Rates Aren't Due to Salmon Recovery

Again, looking at this issue from a broad perspective, it becomes abundantly clear that higher than normal electricity rates in the Northwest are not in any way due to increased fish and wildlife investments. Obviously, salmon recovery has an impact on rates, but not nearly to an extent that is beyond the burden we must bear to maintain the benefits of the FCPRS in the Pacific Northwest.

In a report to the House Appropriations Subcommittee on Energy and Water, the U.S. Government Accountability Office (GAO) found that the major cause of BPA's recent cost increases was the agency's "open-ended obligation to be the net provider of wholesale power to the region" at a time when the 2001 west coast energy crisis and a serious drought was about to hit. This obligation, along with significantly increased customer demand, "led to BPA's overcommitment to provide power to its customers in the current rate period—from fiscal years 2002 to 2006—and consequently, to BPA's cost increases as it purchased large amounts of power at average prices much higher than the costs of the federal power system." As a result, BPA spent approximately \$900 million in fiscal year (FY) 2002 and \$760 million in FY 2003, necessitating a rate increase of more than 40 percent for the majority of BPA's customers.

The effects of 2001 are still lingering, though BPA should be commended for the steps the agency has taken to get us out of the red. The agency's mid-year forecast this year shows revenues about \$250 million over the start of the year projections, bringing BPA close to breaking even for the mistakes of the past.

Would we be able to make up more ground faster if not for salmon recovery obligations? Without a doubt. We could also eliminate the residential exchange program for customers of investor-owned utilities or eliminate all sales to the aluminum industry. Those cost savings would certainly lower rates faster. But these are not choices within our power to make, nor are they choices that would aid the Pacific Northwest economy as a whole.

The point is that we are moving in the right direction. It is good news, and a credit to our ability to balance salmon and energy, that even with increased salmon recovery measures like "spill," BPA has still been able to keep electricity rates affordable and competitive. In fact, in 2005, only eight days after the end of the court-ordered summer spill period, BPA announced that it would be reducing its 2006 wholesale power rates by nearly 2 percent.

Despite all the rhetoric and political jockeying, salmon recovery obligations are not the most significant driver of BPA's fiscal health. These obligations, which we are required to meet by federal law, represent just a small fraction of BPA's overall \$3.3 billion budget.

Nevertheless, I take rising electricity costs seriously, and I am not here today to argue that all is fine and dandy in the world of Northwest energy. Higher-than-normal electricity and natural gas rates have a real impact on consumers, particularly on low-income families. The NW Energy Coalition has long supported increased investments in low-income weatherization and we thank BPA for increasing its commitment to this program to \$5 million. We urge you to support the full \$5.1 billion annual authorization in the Energy Policy Act of 2005 for the Low Income Home Energy Assistance Program for 2007 and 2008.

H.R. 4857 is Not the Answer

Finally, I'd like to say a word about H.R. 4857, the Endangered Species Compliance and Transparency Act of 2006. Sara Patton, executive director of the Coalition, appeared before the Committee on Resources in March of this year to outline our concerns with this legislation. I will briefly restate portions of her testimony here.

In general, the Energy Coalition believes that transparency of BPA's costs is a laudable goal, but there must be a full and honest accounting to inform the public properly. H.R. 4857 raises a number of concerns because we do not believe it would ensure that fair accounting for the following reasons:

- The bill is unnecessary: the information is already readily available from BPA, and utilities are free to inform their customers if they wish.
- BPA's fish and wildlife funding is required by a number of federal laws and treaties; separating out Endangered Species Act (ESA) costs would be difficult or impossible.
- Proposals to include foregone revenue in these costs imply that BPA can claim savings for violating federal laws, and that BPA owns the Columbia and Snake Rivers.
- Meaningful economic transparency should address both costs and benefits. H.R. 4857 only examines perceived costs.

- The definition of the firm customers' share of BPA's ESA costs can be interpreted in different ways, leading to starkly different conclusions. If not done correctly, such accounting fosters more confusion than transparency.

I'd like to focus specifically on one aspect of this legislation: the requirement that BPA and other Power Marketing Agencies include "foregone generation" as indirect costs in their Endangered Species Act-compliance calculation (Section 2(c)).

"Foregone revenue" in this context refers to the cost of foregone generation; that is, the money BPA speculates it could have made if it did not have to operate the river to assist salmon migration. Requiring that BPA consider as a "cost" the revenues or profits that a business or agency could have made if it had violated federal laws, regulations, or court orders is a curious accounting concept, to say the least, and H.R. 4857 would set a dangerous precedent by codifying it in federal law.

BPA already readily reports its foregone revenue due to fish and wildlife obligations. Unfortunately, doing so grossly distorts the actual monetary contribution BPA expends on salmon recovery, amounting to over 50 percent of the agency's fish and wildlife investments (if foregone revenue can properly be deemed an investment). BPA does not, however, report any of the other various revenues that the agency foregoes, such as those associated with meeting other legal constraints on power generation like providing irrigation water, flood control, maintaining minimum flow depths for river transportation, limiting rapid variations ("ramping"—which can damage streambeds and banks) in flow rates, or recreation. All of these other federally mandated purposes limit the FCRPS's ability to generate electricity and reduce BPA's potential revenue. Hence, to be consistent, BPA would need to count them as "costs" as well.

In fact, it is difficult to draw a clear line between what does and does not constitute "foregone revenue," if one looks beyond the uses of Columbia Basin water. For example, BPA currently makes annual payments totaling hundreds of millions of dollars for failed nuclear plants that were never constructed. Using BPA's logic, shouldn't these payments be considered "foregone revenue" because every penny spent is a penny that cannot be applied to a reduction in rates?

The truth is that BPA does not "own" the water used for spawning salmon past the dams. BPA shares the river with all other uses, including fish and wildlife. BPA is not entitled to all of the possible revenue it can squeeze out of the river, only its share. Including foregone revenue in the calculation would open a Pandora's box that would be better left closed. The NW Energy Coalition recommends that Sec. 2(c) be deleted from the bill.

Conclusion

In conclusion, I hope that the Pacific Northwest as a region will take a step back and start approaching the question of balance between low-cost energy and salmon recovery from a broader perspective. We are blessed in this region as the sole beneficiaries of the FCRPS. As the stewards of this federal system, we have a moral and legal obligation to keep healthy, wild salmon in our rivers for future generations of Northwest families, and for the nation as a whole. Salmon recovery is a part of that responsibility, but it is also a tremendous benefit. Salmon recovery obligations do not now, and will not in the future, pose a threat to affordable electricity.

Testimony of Liz Hamilton, Executive Director, Northwest Sportfishing Industry Association, before the U.S. House of Representatives, Subcommittee on Water and Power, Field Hearing, Clarkston, WA, June 6, 2005.

Independent Economic Analysis Board, *Economic Effect from Columbia River Basin Anadromous Salmonid Fish Production*, January 2005. (Document IEAB 2005-1)

Declaration of Roger Schiawe of BPA, in National Wildlife Fed'n, et al, v. NMFS, et al., spreadsheet entitled "River Ops, Genesys," November, 2005.

Northwest Power and Conservation Council, *The Fifth Northwest Electric Power and Conservation Plan*, May 2005. (Council Doc. 2005-7)

Id.

United States Government Accountability Office, Report to the Subcommittee on Energy and Water Development, Committee on Appropriations, House of Representatives, *Bonneville Power Administration: Better Management of BPA's Obligation to Provide Power Is Needed to Control Future Costs*, July 2004. (GAO-04-694)

Id.

Id.

Bonneville Power Administration, *News Release: BPA mid-year forecast shows higher revenues; Agency regaining financial strength*, May 1, 2006.

Bonneville Power Administration, *News Release: BPA announces wholesale power rate decrease*, September 8, 2005.

Testimony of Sara Patton, Executive Director, NW Energy Coalition, before the U.S. House of Representatives, Committee on Resources, Regarding H.R. 4857, the Endangered Species Compliance and Transparency Act of 2006, March 16, 2006.