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TESTIMONY
BEFORE THE WATER AND POWER SUBCOMMITTEE
OF THE COMMITTEE ON NATURAL RESOURCES
UNITED STATES HOUSE OF REPRESENTATIVES

HEARING ON FEDERAL POWER MARKETING ADMINISTRATION
BORROWING AUTHORITY: DEFINING SUCCESS

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Madam Chairwoman, members of the Subcommittee, I am Leslie James, Executive Director of the Colorado River Energy Distributors Association (CREDA). I am pleased to have been asked to talk with you today regarding the Western Area Power Administration's Borrowing Authority provisions contained in HR 1, the American Recovery and Reinvestment Act (ARRA).

CREDA is a non-profit organization representing consumer-owned electric systems that contract for the delivery of federal hydropower over the federal transmission system of the Western Area Power Administration (WAPA) from the Colorado River Storage Project (CRSP). CREDA members are all non-profit organizations, serving over four million electric consumers in the six western states of Arizona, Colorado, Nevada, New Mexico, Utah and Wyoming. CREDA members include political subdivisions, electric cooperatives, state agencies, municipalities and tribal utilities. CREDA members are members of the American Public Power Association (APPA), as well as the National Rural Electric Cooperative Association (NRECA). CREDA members (listing attached) purchase over 85 percent of the CRSP hydropower generation.

I. WESTERN AREA POWER ADMINISTRATION (WAPA) AND ITS CUSTOMERS

WAPA is one of the four federal Power Marketing Administrations (PMAs) and it markets at wholesale over 10,000 MW of federal hydropower generated by the Bureau of Reclamation and Army Corps of Engineers facilities in a 15-state region, utilizing 17,000 miles of transmission facilities. WAPA's wholesale customers in turn provide electricity to approximately 50 million end-use customers. In accordance with federal law, WAPA rates are set at the levels needed to recover the costs of the initial federal investment (plus interest) in the hydropower and transmission facilities. WAPA annually reviews its project rates to ensure full-cost recovery. *None of the costs are borne by taxpayers.* If a deficit is projected, rates are adjusted to eliminate any deficit. There are no profits involved in the sale of this power from WAPA to its customers, or in the sale of this power by the customers to their end-use customers. Power rates also help to cover the costs of other activities authorized by these multipurpose projects such as navigation, flood control, water supply, environmental programs, and recreation.

The federal resources were established under a multitude of authorizing legislative initiatives. WAPA markets the federal resources through 10 separate "projects", including but not limited to the CRSP, the Boulder Canyon Project, the Central Valley Project, the Parker-Davis Project, and the Pick-Sloan Missouri Basin Project. WAPA markets the federal hydropower resources in the following states: Arizona, California, Colorado, Iowa, Kansas, Minnesota, Montana, North Dakota, Nebraska, New Mexico, Nevada, South Dakota, Texas, Utah and Wyoming.

II. KEY ISSUES

WAPA customer concerns with the provisions contained in Section 402 of the ARRA may be categorized into three general areas:

First, *accountability and transparency*. WAPA's customers have been ensuring repayment of the federal investment for over 50 years, by entering into long-term contracts to purchase the hydropower generation and transmission resources and by paying all of the federal investment in generation and transmission facilities (with interest), all power-related operation and maintenance costs, and associated environmental costs. Each project's resources are marketed in accordance with individual marketing plans and contracts; ratemaking, accounting and repayment obligations and timetables are also different for each project. For example, the repayment obligation in the CRSP includes repayment by power customers of over 95% of the cost of the irrigation features -- the costs that are determined to be beyond the irrigators' "ability to pay."

WAPA customers want to ensure that WAPA's original, core mission of delivering reliable, cost-based renewable hydropower resources remains intact. This new, congressionally authorized borrowing authority will stretch WAPA's human resources to the limit. It is important that WAPA and the preference customers work together to assure that resource conflicts are identified and mitigated. The customers have a long history of working with WAPA to ensure these critical energy resources provide benefits to millions of end-use customers. For example, since 1992, CREDA members, WAPA and the Bureau of Reclamation have participated in a joint review of agency work programs to better understand the agencies' critical needs, and provide funding support when needed. This process has afforded the customers the ability to understand, comment on, and provide input on

programs, capital investments, and operational issues facing the agencies. The transparency and accountability that the joint review provides has been proven to be an important aspect of agency/customer relationships.

In addition, the customers, as U.S. taxpayers, strongly support transparency and accountability in the implementation of all aspects of the stimulus legislation, including the new WAPA borrowing authority program. The customers applaud the provisions in the WAPA provisions that require development of policies and procedures through a public process, to ensure the existing project rates are not increased through implementation of this program and that customers understand the criteria that will be applied to recruit, select and implement transmission projects.

A second issue that may prove to be quite a challenge for the customers and WAPA going forward is that of *cost allocation*. Due to the integrated nature of the U.S. bulk transmission system, there will be circumstances requiring upgrades to the existing transmission facilities in order to interconnect new transmission facilities necessary to transmit renewable resources. There should be clear pricing and cost allocation policies adopted early in the program to ensure that the customers, the renewable developers, and taxpayers know the costs and benefits associated with a particular project. For example, if the facilities required are necessary solely for the transmission of new renewable resources, all costs (including associated overheads, operation, maintenance and rehabilitation) should be borne by the new project. If, however, the underlying project requires upgrades and there is a clear and direct benefit to the core mission of delivering federal hydropower to existing customers, then some cost-sharing may be appropriate.

A third area could be generally categorized as *electric reliability*. This includes ensuring the current transmission system is not negatively impacted from a reliability or load-serving standpoint by implementation of the new borrowing authority. The federal transmission system was designed and constructed to transmit renewable federal hydropower resources from the powerplants to load centers. WAPA does not have “load growth” responsibilities (i.e., providing additional power as demand increases over time). As loads have grown since the construction of the federal system, the customers, who DO have load-serving responsibilities have either built additional transmission facilities or contracted for transmission service with local transmission provider(s) to provide reliable electric service to their end-use customers. Because the transmission system, by its nature, is an integrated system, it is imperative that new transmission projects provide for public/private partnerships and joint use opportunities to ensure that customers are able to meet load growth reliably. Without joint participation, new lines could be constructed with no provisions to serve the local customers, resulting in the need to build additional facilities. It is imperative that planning and participation in these new WAPA constructed facilities and systems be open to participation by others also in order to minimize the impact on the environment, costs to local consumers, and local siting impacts.

III. IMPLEMENTATION PROCESS

The key to WAPA’s successfully implementing the new authority is its development of a process that identifies the issues, and then establishes the criteria that will be used so all parties – public power customers, renewable developers, and the taxpayers understand the benefits and costs associated with proposed projects. To that end there are two program areas that immediately come to mind and must be clearly defined:

- *Cost Allocation Criteria:* Presently NO criteria exist concerning how cost allocations will be determined between the existing federal system and the facilities that will be constructed under the new authority. WAPA must work closely with its customers to establish clear criteria on how the cost allocations will be treated. This will prevent significant problems and potential litigation as projects are constructed and repayment responsibilities established. In CREDA’s case, not getting it right could mean unnecessary electricity cost increases to the over four million end-use customers my members serve.
- *Partnerships:* It is important that proposed projects under this authority include the opportunity for local, load-serving utilities to participate in the new facilities to serve local customer needs. The project proposal and selection process needs to be well defined so that local utilities will understand the time-lines and can evaluate the economics of participating as a partner with WAPA in the new facilities. This will also ensure that non-federal funding is used to leverage the federal investment, and to minimize the local siting, environmental, and cost impacts associated with the new facilities.

There will undoubtedly be other issues raised as WAPA's public process is conducted and it is important that adequate time be allocated to fully explore this complex topic.

IV. CONCLUSION

The new borrowing authority afforded WAPA creates an opportunity to ensure integration of renewable resources and the development of required infrastructure. WAPA customers have a long history of partnering with the agency and look forward to working with WAPA to make sure the critical role the federal system presently has is not compromised as WAPA meets the challenges it faces to succeed with this new authority.

COLORADO RIVER ENERGY DISTRIBUTORS ASSOCIATION (CREDA) MEMBERSHIP

ARIZONA

Arizona Municipal Power Users Association
Arizona Power Authority
Arizona Power Pooling Association
Irrigation and Electrical Districts Association of Arizona, Inc.
Navajo Tribal Utility Authority
(also New Mexico, Utah)
Salt River Project

COLORADO

Colorado Springs Utilities
Intermountain Rural Electric Association
Platte River Power Authority
Tri-State Generation & Transmission Cooperative
(also Nebraska, Wyoming and New Mexico)
Yampa Valley Electric Association, Inc.

NEVADA

Colorado River Commission of Nevada
Silver State Power Association

NEW MEXICO

Farmington Electric Utility System
Los Alamos County
City of Truth or Consequences

UTAH

City of Provo
City of St. George
South Utah Valley Electric Service District
Utah Associated Municipal Power Systems
Utah Municipal Power Agency

WYOMING

Wyoming Municipal Power Agency
