



U.S. House of Representatives
House Committee on Resources
Subcommittee on Water and Power
March 1, 2006

Testimony of Dwight Langer

Mr. Chairman and Members of the Committee, it is my honor and privilege to have this opportunity to share with you some serious concerns concerning current and proposed federal actions that affect wholesale power rates of the Bonneville Power Administration.

My name is Dwight Langer and I am general manager for Northern Wasco County People's Utility District (a municipal electric utility corporation) in The Dalles, Oregon. The Dalles is in Oregon's 2nd Congressional District and very ably represented by your colleague, Rep. Greg Walden. My utility's offices look out on the beautiful Columbia River and are located 85 miles east of Portland, Oregon.

My comments pertain to the Administration's fiscal year 2007 proposed budget for the Department of Energy, Public Enterprise Funds – BPA. We are alarmed about both the particulars and the public process concerning the proposed future disposition of revenues from secondary energy sales by the Bonneville Power Administration. This proposal would shift the use of revenues for BPA when they exceed a set amount. It "changes the rules" on BPA debt repayment. The proposal is unfair and not consistent with the BPA ratemaking processes or sound business practices. My message today has three themes 1.) BPA rates have been high and painful the last few years. 2.) Administrative proposals that increase short term rates in the Northwest or that diminish the value of BPA to the region's customers, are unfair and unacceptable, and require Congressional review. 3.) Some of BPA's costs, such as fish mitigation, are excessive, beyond the Agency's control, and indicative of a lack of an overall plan that makes economic sense.

Northern Wasco PUD is a Full Requirement customer of BPA. Relying upon BPA as our exclusive wholesale supplier, we provide electrical services to our retail customers. Any changes in BPA rates for power supply or transmission services are passed on directly to our customers. The proposal for change due to "excess secondary revenue" has been estimated to cause an increase of 10% in BPA's wholesale rates to public power customers. A 10% BPA rate increase forces our utility to increase retail rates by at least half that amount, plus any increases over time reflecting our local operating costs. In summary, what happens to BPA financially finds its way directly into the pockets of our retail customers. With nearly 9,000 residential customers, the Administration's proposed budget for BPA would extract nearly \$400,000 per year from residential customers within Northern Wasco's service territory, as well as the compounding economic effects

of reduced income and the impact on the business decisions of energy-intensive industries.

Northern Wasco PUD did not cause the Northwest energy crisis of 2000 – 2001, but we suffered the consequences. The combination of failed deregulation in the electric industry, higher than anticipated BPA loads, and a Northwest drought resulted in BPA imposing a 46% increase in its base rates on October 1, 2001. BPA reserves were inadequate to cover higher costs, and as a consequence the Agency triggered Load Based, Financial Based and Safety Net Cost Recovery Adjustment Clauses as an increase to the base rate structure. The Agency continues to make all required payments to the U.S. Treasury, an action which we fully support. However, this was not without severe economic consequences in Oregon, Washington, Montana and Idaho attributable to higher rates to assure full Treasury payment. BPA did what it could to cut costs, by \$100 million, undertook refinancings, and extension of Columbia Generating Station Debt. We commend their efforts. But they were not nearly sufficient to fully mitigate high market purchases when the Agency was resource short, and as a result we were really hurt. We stood by the deal, though, paid the higher rates, and Bonneville made all Treasury debt repayments.

Now we are in a situation---and this may well be temporary--- where BPA has secondary resources to sell and market prices are attractive. However, BPA's wholesale power rates are still 31% above 2001 base rates, and BPA's initial rate proposal for FY 07 – 09 includes an additional increase for next year. Given our current rate levels, it is inexcusable for OMB to make a determination that funds that would otherwise be available for rate relief should be siphoned off to pay down BPA debt. You simply don't make a double house payment of principal when there is not enough cash available to feed your family.

In an analysis by the Northwest Power and Conservation Council (NWPCC) [an independent council whose members are appointed by the respective governor's of Washington, Idaho, Oregon and Montana] this provision would have in part the following effects:

- \$145 million average increase in the annual cost of power from Bonneville to its publicly owned utility customers
- \$109 million decrease in regional personal income
- decrease in regional jobs by 1,120
- additional effects on aluminum and other energy-intensive industries
- \$18.5 million decrease in federal personal income tax revenues

The NWPCC goes on to state and I quote, *“The proposal sets an alarming precedent by administratively imposing a mechanism on BPA that collects funds for national deficit reduction purposes. While the impacts we analyzed are relatively small in the first years of implementation, it appears that the Administration has the ability to further increase the dollar amounts in future budgets without the need for authorizing legislation.”*

We share the Council's concerns. But more importantly, the question becomes who should decide these issues that affect customers' pocketbooks? In the past BPA has run public processes to develop a long term financial plan, showing many alternatives, and with good public participation. In this instance, if the Administration wants to abruptly change long standing BPA financial practices, then it is imperative that Congress weigh into this matter and determine what is in the public interest. We look to Congress to establish the "rules of the road" on Treasury obligations of BPA. In this case, it is unwise and unfair for OMB to change those rules, without action by Congress.

While we are not against early debt retirement and increasing borrowing authority, we need to have an open process that is also sensitive to the retail rates issue. Similarly, we need to stand back and objectively examine the rationale for counting BPA's third party debt against the Agency's U. S. Treasury borrowing authority ceiling even if it is expanded by \$200 million in FY 2009. Northern Wasco PUD is a transmission customer of BPA and we recognize the need for the Agency to make capital intensive investments in infrastructure to preserve and expand our regional transmission grid. Transmission is our "highway" and absent highways our regional commerce is significantly impeded.

In addition to discussing the Administration's budget proposals, I feel the need to use this opportunity to advise the Subcommittee of one other major variable impacting BPA costs, and consequently our rates. On the surface it seems compelling to considering BPA as a long term power supplier, given the value of a hydro system, with no fuel costs, compared to other resources. However, BPA's fish and wildlife program costs of about \$340 million represent 20% of the Priority Firm power rate. In addition, because of the fish related constraints on power production, BPA foregoes another \$350 million in revenues that could otherwise be used to reduce rates. Fish and wildlife costs have increased 270% in the last ten years alone. These are our best estimates, but fish costs are difficult for us to track.

In addition through the Corps of Engineers Columbia River Fish Mitigation Project there are between \$1.5 - \$1.6 billion of Congressional appropriations for projects planned through 2014 which the Agency – through its customers – will have to pay.

But that isn't the end of the story. Federal action agencies have been subject to continued litigation by outside parties claiming that Federal hydro projects are not doing enough to protect Endangered Species Act stocks. These litigants have been successful attacking the value of the hydro system, while other critical recovery plan components, such as harvest, hatcheries, and habitat appear to receive only cursory examination.

We are concerned that we are rapidly depleting the value of our hydro system in pursuit of endeavors not based on the best available science, while forcing more expensive resource alternatives to be used that have their own negative environmental consequences. We need an orderly plan, based upon the best available science that establishes reasonable limits on ESA financial obligations.

In conclusion, I believe that to all BPA customers' credit, we have weathered the storm of higher rates attributable to market conditions, supply availability, and excessive costs tied to fish mitigation programs. While local economies have suffered, our obligations to the U.S. Treasury have been met in full and on time. We need time to heal and to reshape our local economies to respond to challenges from abroad, and from other regions. We need new long term contracts with BPA where we don't have to worry each year about some administrative initiative in which we were not consulted.

At Northern Wasco it is part of our philosophy that energy in all its forms, but in particular electric energy, is an essential service. We concur strongly with the President's statement in the State of the Union address that energy drives our economy and national security. We respectfully would add that adequate supplies of energy at affordable prices are the prerequisites for a vibrant and healthy economy which adds to the foundation for maintaining our Nation's quality of life and security. This budget proposal for BPA unfortunately appears to be at cross purposes with that philosophy.

Therefore, we ask your support for binding language to (1) prevent OMB from repeatedly suggesting changes in rate making methodologies and/or the treatment of revenues from the sale of power and energy by the Bonneville Power Administration; (2) that you include (again) language that OMB will not propose to interfere with the responsibilities of the customers of the Bonneville Power Administration without consultation with the congressional delegation of the Pacific Northwest; and (3) that third party financing for infrastructure cannot be scored against the financing limits for BPA.

Thank you for the opportunity to testify. I would be pleased to answer any questions the Members of the Committee may have.