



HOUSE RESOURCES SUBCOMMITTEE ON WATER AND POWER

Hearing on Implementation of the Energy Policy Act and the Power Marketing Administration Budget

March 1, 2006

Chairman Radanovich, Ranking Member Napolitano and members of the House Subcommittee on Water and Power, I appreciate the opportunity to appear before you today representing Tri-State Generation and Transmission Association, Inc. and to share our views on the Power Marketing Administrations implementation of the Energy Policy Act of 2005 and the proposed Fiscal Year 2007 budget for these agencies.

My name is Mac McLennan, and I am the Vice President of External Affairs for Tri-State Generation and Transmission Association, a not-for-profit wholesale power supply cooperative that provides electricity to forty-four member distribution cooperatives in Colorado, Nebraska, Wyoming and New Mexico. As Vice President, I oversee Tri-State's government relations, communications and external association activities. Tri-State is based in Westminster, Colorado, and has facilities and employees throughout the four-state region. Tri-State provides electric service through our member distribution cooperatives to more than one million electric customers, primarily located in rural communities. Tri-State is one of the largest customers of hydroelectricity generated by the Bureau of Reclamation and the Army Corps of Engineers in the interior West and distributed by the Western Area Power Administration (Western) at facilities in the Colorado River Storage Project as well as the Pick Sloan Missouri Basin Project.





I would like to emphasize that Tri-State has had a very positive, long-standing working relationship with Western. We have worked together on joint transmission projects to improve efficiencies for the benefit of the end-use consumers. We have worked with other power customers to develop a Memorandum of Understanding with our federal power partners, Western, the Bureau of Reclamation (USBR) and the Army Corps of Engineers that provides the opportunity for our input into planned future expenditures in the federal power program. We appreciate the expertise and professionalism of our federal partners and the combined efforts to keep the federal facilities operating efficiently and cost effective.

As I mentioned earlier, Tri-State receives a power allocation from the Pick Sloan Missouri Basin Project as well as the Colorado River Storage Project. Tom Graves, Executive Director of Mid-West Electric Consumers Association, of which Tri-State is a member, is on the panel testifying today, and we endorse the testimony that he is presenting. I want to make special emphasis regarding his comments on the inequity of the proposed Pick Sloan Cost Reallocation in the President's budget. Power entities are already paying over 85% of the irrigation costs for Pick Sloan irrigation and it is unfair to shift an additional \$23 million annually to the power customers. While not contained in this years budget request for Western, Tri-State supports the concept of Net Zero to provide annual funding for Western, providing it can be done in a way that provides for appropriate congressional oversight and customer involvement.

I would like to now turn to some crucial issues for the Colorado River Storage Project (CRSP). They include the ongoing drought and purchased power impacts; the role of Glen



Canyon Dam operations in adaptive management for the Grand Canyon; the operational impacts and costs from environmental processes for the Aspinall EIS now underway; and federal infrastructure security costs. Tri-State is a member of the Colorado River Energy Distributors Association (CREDA) which represents us on CRSP issues.

DROUGHT IN THE COLORADO RIVER BASIN

The Colorado River Basin is in its sixth consecutive year of drought. In the 100 years of record keeping by the Bureau, there have never been six consecutive years of drought. Lake Powell reached its lowest level since 1969 on April 5, 2005, 144 feet below full pool. It was approaching minimum power generation level. The hydrology has improved since the spring of 2005, but there is still a chance this level could be reached as soon as 2007. If minimum power generation level is reached, there will be little CRSP generation available to the CRSP contractors. This will have significant economic consequences for the CRSP contractors and the customers they serve, as well as for a number of other non-power programs that are funded with CRSP power revenues.

THE UPPER COLORADO BASIN FUND AND DROUGHT IMPACTS

The Basin Fund is a revolving fund maintained by CRSP power revenues. The Basin Fund is the source of CRSP project repayment, including: repayment of the capital investment with interest, operation, maintenance and replacement expense, 95% of the irrigation investment, and the USBR and Western employee salaries (about \$80 million annually). In addition, the Fund has been the economic source for other “non-power” programs:

- Nearly \$18 million for the Colorado River Salinity Control Program;



- \$179,577,774 for the Glen Canyon Adaptive Management Program;
- \$40,399,329 for the Upper Colorado River Basin and San Juan Basin Endangered Fish Recovery Programs

The programs listed above cost about \$20 million per year.

In addition, due to reduced generation levels from the CRSP resource, Western has had to purchase power on the open market to meet its contractual requirements. Last year alone, they spent \$50.5 million from the Upper Colorado Basin Fund for replacement power. In order to maintain a sufficient Basin Fund level, in October 2001, Western increased the CRSP rate 17%. In October 2003, Western reduced energy deliveries to its customers by 26%. Each customer has had to “make up” the shortfall on its own. On October 1, 2005, Western increased the CRSP rate nearly 23%.

NON-POWER RELATED PROGRAMS SHOULD BE FUNDED BY APPROPRIATIONS, NOT CRSP CUSTOMERS

Tri-State is concerned that, when generation is ceased or close to being ceased at Glen Canyon Dam, an effort will be made to require CRSP power users to fund the non-power programs described above. This would, in effect, be a subsidy from the electric consumers in six Western states to all the parties that benefit from the Salinity Control, Adaptive Management and Endangered Species Recovery programs on the river.

Instead, the non-power programs should seek appropriations from Congress to fund activities when the Basin Fund is depleted. Further, the Basin Fund should be limited to “the basics,” namely, those costs that are mandated by law to be repaid by the Fund. The Glen



Canyon Adaptive Management Program authorizes, but does not mandate, the use of CRSP power revenues for program funding. The Endangered Fish Recovery Programs legislation requires the Bureau and WAPA to seek appropriations in times of financial need.

From a public policy standpoint, these programs are intended to benefit the environment, which is in the public interest, and therefore should be funded by appropriations. Providing appropriations for these programs would assist in maintaining the Basin Fund's solvency.

GLEN CANYON DAM/ADAPTIVE MANAGEMENT

In 1989 the Department of Interior initiated an Environmental Impact Statement (EIS) process that produced a Record of Decision (ROD) and was signed by the Secretary of Interior in 1996. It created an alternative dam operating plan that was intended to permit recovery and long-term sustainability of downstream resources while limiting hydropower capacity and flexibility only to the extent necessary to achieve recovery and long-term sustainability. The Adaptive Management Work Group (AMWG) was created which is a 23-member stakeholder federal advisory committee charged with making recommendations to the Secretary of the Interior regarding dam operations and management actions necessary to achieve the intent of the EIS/ROD. Of particular note is that science is now finding that pre-ROD assumptions regarding dam operation effects on humpback chub were wrong and that fluctuating flows (providing load following) may actually benefit the chub by impacting predator populations. In 2000, Congress included language in the appropriations bill which capped the amount of CRSP power revenues that can be used to fund this program. In the summer of 2001, experimentation on water flows cost \$23 million, funded by CRSP power customers. In November 2004 a high-flow test was



initiated with the intent of improving sediment conditions; the cost was nearly \$2 million. Since CRSP power revenues are the funding source for this program – and given ongoing drought impacts -- it is imperative that any experimentation enhance power production. It is now time, after 12 years of monitoring and research, to enhance hydroelectric power production from this renewable resource. Unfortunately, on February 15, 2006, several environmental groups filed suit in U.S. District Court, District of Arizona against Interior Secretary Gale Norton and the Bureau of Reclamation to challenge the current management operations and reopen an environmental review. This could significantly impact operations on the Colorado River.

ASPINALL EIS UNDERWAY / BLACK CANYON OF THE GUNNISON

The USBR has begun a scoping and cooperating agency process for an EIS on the operation of the Aspinall Unit of the CRSP. The Aspinall units are on the Gunnison River a tributary to the upper Colorado River. The effort is to review the impacts of river flows and make flow recommendations for endangered fish. Tri-State believes the Upper Basin Recovery Program should be the primary focus of recovery efforts. Complicating the process is ongoing litigation by environmental interests in an attempt to overturn a memorandum of understanding between the Interior Department and the State of Colorado (April, 2002). Oral arguments will be held in early March 2006. Tri-State is concerned that these issues clearly overlap and need to be resolved in tandem, so as to avoid a “second bite of the apple” situation with regard to Gunnison flows. The EIS will take three to four years.



FEDERAL INFRASTRUCTURE SECURITY COSTS

In April 2002, USBR Commissioner Keys issued a policy statement indicating that the increased security costs for federal dams as a result of the events of Sept. 11, 2001, should be non-reimbursable. Security of these federal generating and delivery facilities is a national concern and should therefore be funded from non-reimbursable, appropriated funds. The FY 2006 Omnibus Appropriations Bill contains language providing that \$10 million of the costs of guards and patrols will be reimbursable, slightly less than half of what USBR requested. The USBR must provide a report to Congress delineating its proposed allocation and reimbursement methodologies. Tri-State urges this Committee and Congress to continue to review and work with the agencies on the development of proposals to ensure a fair allocation and to provide some certainty to the funding stakeholders.

IMPLEMENTING THE ENERGY POLICY ACT

The final issue that I would like address is the implementation of the Energy Policy Act by Western. Western has initiated a process to look at upgrading the capacity for transfer of electricity in Wyoming and Colorado. We support Western's efforts to engage in processes that explore expanding and expediting the development of transmission capacity in the intermountain West. Along those lines, we have initiated a joint transmission project with Western. Tri-State has signed a contract to partner with Western in a much needed transmission project on the eastern plains of Colorado and western Kansas referred to as the Eastern Plains Transmission Project. Over 700 miles of new high-voltage transmission lines are envisioned that will relieve existing transmission constraints and meet future load growth. The Eastern Plains Transmission Project will meet the transmission needs of Tri-State in its development of new baseload power



generation in the region as well as provide much needed opportunities for new renewable development in the area. The participation of Western in this project will serve to enhance the regional system, expedite the permitting of the project and provide the opportunity for increased generation development. Tri-State appreciates the expertise provided by Western in this joint venture and believes this is a prime example of the type of partnerships envisioned in the Energy Policy Act passed last year.

Mr. Chairman, in closing, I would like to thank you for holding this hearing today and providing Tri-State with the opportunity to express our views on significant issues affecting us, our member systems and ultimately the end-use consumers.

