

Testimony

before the

United States House of Representatives

Natural Resources Committee

Water and Power Subcommittee

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Submitted by

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My name is Michael McDowell. I am General Manager & CEO of Heartland Consumers Power District. Heartland is based in Madison South Dakota and provides wholesale power to 28 communities in Eastern South Dakota, Western Minnesota, and Northwest Iowa, as well as 6 state agencies in South Dakota. Thirty of our Customers hold allocations of Federal Hydropower from the Western Area Power Administration. Heartland provides power from a diverse resource base that includes coal, hydro, nuclear, and wind. Twenty percent of Heartland energy comes from South Dakota wind resources. Heartland is a member of the Midwest Electric Consumers Association (MECA) and the Western States Power Corporation (WSPC).

I appreciate the opportunity to submit testimony regarding the Bureau of Reclamation's capital planning under the American Recovery and Reinvestment Act of 2009 (ARRA) on behalf of Heartland, MECA, and WSPC.

The Mid-West Electric Consumers Association was founded in 1958 as the regional coalition of more than 300 consumer-owned utilities (rural electric cooperatives, public power districts, and municipal electric utilities) that purchase hydropower generated at Federal multipurpose projects in

the Missouri River basin under the Pick-Sloan Missouri Basin Program. In Pick-Sloan, power generated at Bureau multipurpose projects is marketed by the Western Area Power Administration and is under long term contracts.

The Western States Power Corporation was founded in 1995 and is represented by 19 members from the Missouri and Colorado River Basins. The organization was formed in response to declining appropriations and an urgent need to support the Federal power infrastructure. The members provide advance funding to the Bureau of Reclamation, the Corps of Engineers, and the Western Area Power Administration to replace critical equipment and provide emergency maintenance. Since its inception, Western States has provided over \$230 million in advances, half of which has been in the past three years. The Bureau has received \$13 million of these funds, and we have committed another \$12 million to them for FY 2009. Despite our efforts, challenges remain in keeping their plants operating; some of these problems relate to power features, while others involve water delivery systems that we share as multipurpose facilities. We welcome the availability of funds under ARRA, and hope that they will be used to keep these important facilities viable in the future. During a time when carbon discussions dominate the energy landscape, we agree that it makes good sense to maintain carbon-free resources that currently exist, and for which the government is fully repaid.

We have reviewed the Bureau of Reclamation's plans for these funds, and based on the information presented in the Investment Projects Report dated April 14<sup>th</sup>, it appears that only a small portion has been designated toward the actual repair and replacement of power infrastructure. In fact, while the magnitude of Reclamation's appropriation approaches \$1 billion, less than \$23 million is slated for power infrastructure on a Bureau-wide basis. In the Pick-Sloan Western Division alone, Bureau engineers estimate that power-related needs will average \$10-\$15 million per year for the foreseeable future. Under these conditions, it is unlikely that repairs and replacements will keep pace with critical project requirements unless power customers somehow fill the void. This is not to say that the proposed nonpower projects are unjustified; however, the power features are a key component of the Bureau's success and should be given equal consideration in the decision-making process.

The power customers have steadily increased their participation in funding for the Bureau, and Western States members now fund essentially all of the power replacements within the Great Plains Region. This has been fortunate for the Bureau and our end-use consumers, but there are

limits to what the customers can and should do for Federally-owned facilities. Between the needs of the Bureau, the Corps of Engineers, and the Western Area Power Administration, our advances approach \$60 million per year, and we have reached our practical limit for funding. Cash-flow limits, capital needs within our respective organizations, and soon-to-expire Federal power contracts make this an uncertain model for long-term reliability.

Another implication of the program that has not been fully considered is the impact on rates and repayment. Since the ARRA funding is reimbursable from power customers, any new funding outside of regular Bureau workplans may generate unanticipated rate increases. This repayment applies not only to specific power features, but also to safety modifications and allocated shares of multipurpose improvements. All of these components are part of the ARRA legislation, and the safety modifications appear substantial. The power customers coordinate with the agencies on a regular basis to “stage-in” construction activities and encourage priorities that provide the greatest benefit for each dollar spent. This process has worked well and provides some measure of rate predictability over time. The impact of additional outlays at this point is unknown; however, the likelihood is high that additional items will enter the repayment stream at a time when most of the customers are absorbing painful rate increases due to extended drought.

Unintended consequences may also occur in projects which may be started under ARRA, but which will require additional investment above the initial amounts. Based on the numbers in the Investment Report, we doubt whether the entire costs of some projects have been considered. This is the case for line items such as the Pole Hill Canal Refurbishment and Boysen Powerplant Rewind, both of which appear to have partial, short-term funding. If continued appropriations are not received, the projects will likely become an upfront financial encumbrance for the power customers or remain uncompleted.

We believe that the Bureau’s power program offers the nation a solid foundation for clean, renewable energy at a reasonable cost while providing substantial cost-sharing with multipurpose water systems throughout the west. To ignore the needs of the powerplants may result in significant disrepair and long-term outages, which will eventually impact all of the functions served by the Bureau.

Thank you for the opportunity to provide written testimony to the Committee on these important issues. I would be happy to respond to any questions.