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In support of
H.R. 460: Bonneville Unit Clean Hydropower Facilitation Act

Before the
House Natural Resources Subcommittee on Water and Power

April 17, 2012

Introduction

Chairman McClintock, Congresswoman Napolitano and members of the subcommittee, I thank you for the opportunity to testify in support of the Bonneville Unit Clean Hydropower Facilitation Act (H.R. 460). I am Assistant General Manager of the Central Utah Water Conservancy District (District), the state sponsor of the Central Utah Project. Congressman Jason Chaffetz's leadership on this bill has been invaluable. Also, I appreciate the support from Cong. Rob Bishop and Cong. Jim Matheson. The Bonneville Unit of the Central Utah Project develops water for communities in 10 counties throughout Utah. **H.R. 460** will clear away sunk system-wide costs, which constitute an economic roadblock to the development of clean hydropower in the Diamond Fork feature of the Bonneville Unit.

The District is an Experienced Developer of Hydropower

The District has a proven track record of developing non-federal hydropower on federal facilities of the Bonneville Unit. For example, in Summit and Wasatch counties, we worked from the initial design of the Jordanelle Dam to facilitate outlet plumbing for the installation of the recently constructed Jordanelle Hydropower Plant. The District has

taken the lead role on each step of this very successful project, which has a maximum capacity to generate 12 megawatts of hydropower at Jordanelle dam. The project has been certified by the Low Impact Hydropower Institute as "green power."

The plant began commercial operation on July 1, 2008. The District developed the Jordanelle power plant in partnership with Heber Light & Power (a local public power entity) who purchases and markets the energy. Since it was originally anticipated that federal power would not be developed at Jordanelle Dam, none of the costs of the dam or system-wide project costs were allocated to power. Therefore, during the negotiation of the Lease of Power Privilege (LPP) one of the negotiation points was to determine a reasonable fee to be paid to the federal government that would not push the cost of the power beyond market conditions. The negotiated fee was 3 mills per kilowatt-hour escalating at 3% per annum. The design of the LPP has proved to be a successful solution in this case.

Potential for Diamond Fork Hydroelectric Power Plants

Hydropower generation at Diamond Fork Canyon faces unique challenges. The Supplement to the 1988 Definite Plan Report for the Bonneville Unit (2004) and the Utah Lake Drainage Basin Water Delivery System Final Environmental Impact Statement (September 2004) detail the proposed power facilities that could be built at Diamond Fork. Two hydroelectric power plants would be located in Diamond Fork Canyon. They are at:

1. The Sixth Water Flow Control Structure with a capacity of 45 MW and,
2. The Upper Diamond Fork Flow Control Structure with a capacity of 5 MW

The potential Diamond Fork power plants have some similarities and yet some distinct differences from the Jordanelle power plant. The first difference is the manner in which the Department of the Interior has assigned power costs. $161 million in Strawberry Collection System sunk costs are assigned to be recovered from a future Diamond Fork power plant. This significantly complicates hydropower development at Diamond Fork. In essence, any developer of power at Diamond Fork starts in an economic "hole" of $161 million before installing any power turbines or constructing any transmission lines.

Secondly, power generation at Diamond Fork is based on the "run of the river" (generation that is incidental to water releases), and therefore Diamond Fork hydropower has less value in energy markets because it cannot be scheduled to meet peak demands. In fact, Section 208 of the Central Utah Project Completion Act (CUPCA) (Public Law 102-575) places limitations on the operation of the power plants at Diamond Fork. CUPCA states:

> *"Use of Central Utah Project water diverted out of the Colorado River Basin for power purposes shall only be incidental to the delivery of water for other authorized project purposes. Diversion of such waters out of the Colorado River Basin exclusively for power purposes is prohibited."*

Hence, flow releases through the Diamond Fork System of aqueducts and pipelines would be dictated by Central Utah Project (CUP) and Strawberry Valley Project (SVP) water needs first and then be used for electric energy generation at the hydroelectric power plants as a secondary purpose.

Legislation is needed to defer sunk system costs allocated to Diamond Fork Power

Because the power costs allocated to Diamond Fork make the project uneconomic, we approached the Utah delegation with a remedy to defer these costs similar to other costs that have already been deferred. The cost allocation was initially done using the Use of Facilities (UOF) method as directed by the Comptroller General in a letter dated January 26, 1994. Application of a strict UOF allocation of costs to power resulted in an allocation of $540.3 million to power. This amount would result in a power rate significantly higher than its market value. Consequently, a modified use of facilities approach was used to re-calculate the power allocation. Under this approach, the cost allocated to power is $161.0 million.

Even with the modified use of facilities approach this amount allocated to power makes power development very expensive and infeasible. At a time when the demand for energy is skyrocketing and the need for renewable energy is paramount, the sensible approach of H.R. 460 is to defer the costs assigned to power and allow development of this valuable resource. As was done with Jordanelle Dam, the fee paid to the Federal government for the investment in facilities, which make power development feasible, could be negotiated through a competitive Lease of Power Privilege process. Current market conditions and construction costs would be known and a reasonable fee could be established.

Conclusion

The District stands ready to initiate a process to apply for the right to develop clean hydropower at Diamond Fork if the economic hole created by the allocation of sunk

system-wide costs is deferred. We strongly urge your approval of this important legislation as soon as possible.