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On behalf of the Family Farm Alliance

Oversight Field Hearing: “Electricity Prices and Salmon Recovery: Finding a Balance”

Committee on Resources
United States House of Representatives

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Mr. Chairman, Members of the Committee, on behalf of the Family Farm Alliance and its member organization, the Washington State Potato Commission (WSPC). I thank you for the opportunity to testify before the Subcommittee today. I serve on the Advisory Committee of the Family Farm Alliance (Alliance), and today I am here to convey the message of agricultural water users from throughout the West. The Alliance advocates for family farmers, ranchers, irrigation districts, and allied industries in seventeen Western states. The Alliance is focused on one mission – To ensure the availability of reliable, affordable irrigation water supplies to Western farmers and ranchers

We appreciate the effort made by you, Representative McMorris, and the other members of the subcommittee to hear our concerns today. We particularly appreciate the effort that you and the committee staff have made to hear our concerns, here in the Western States. This is an important and timely hearing on a matter that has a deep concern for family farmers and other agricultural interests in the Pacific Northwest - - the requirements and costs under the Endangered Species Act for salmon recovery.

This subcommittee has paid close attention to the Columbia and Snake River systems, and, in particular, the effect of proposals and requirements for salmon recovery on irrigated agriculture, navigation and energy production. We are directly impacted by the salmon recovery requirements for the Columbia. We appreciate the balanced view taken by the Committee of the need to consider not only salmon recovery but also the multiple uses and multiple needs of a working river system.

Our Interests in the Columbia River

The Washington State Potato Commission is a quasi-state agency dedicated to protecting the interest of potato growers in Washington State. The WSPC membership includes approximately 350 potato growers throughout Washington. Potato growers in Washington operate on an estimated 165,000 acres of farm land, primarily located in three growing regions: the Skagit Valley, Yakima Valley and the Columbia Basin. Washington State ranks second in the nation in potato production, and potatoes alternate with wheat as Washington's second largest agricultural crop. Thousands of jobs in Washington rely on potato planting, harvesting, packing, processing and transportation. In fact, economists estimate the annual economic impact of Washington potato production, packing and processing at approximately \$3 billion, making potatoes one of the most important value-added agriculture commodities in the State. Eight percent, or roughly one out of ten jobs in the region, stems from potato production. As water users in the Columbia River Basin, WSPC and its members have a direct, substantial and daily interest in BPA's programs and operation of the Columbia irrigation and hydro electric power systems. With BPA power rates just now coming off historic highs, we have little room for rate increases or inefficient use of salmon recovery funds. Our members compete globally. A rate difference of 1-2% is important to us, and very often means whether a business stays in business, goes off-shore, or goes out of business. The region has, in many ways, lost its electricity price advantage. We can not afford rate increases and in fact need a rate decrease now that the unprecedented rate effects of the West Coast price spike of 2001 are receding. Because of the nature of our business, and agriculture in general, we are very concerned about BPA costs and the efficient use of salmon recovery measures and funds.

Value Added Processing Threatened

Food processing is vital to the economic growth and stability of the Northwest. A recent study by Advanced Research Technologies found that food processing annually contributes \$20.7 billion to the Northwest economy. When the multiplier effects are added, processors add \$42.5 billion in economic value to the region's economy. Processors directly create 75,000 jobs with an average wage of \$32,000 per year plus benefits.

The long, grinding and frustrating saga of implementing the Endangered Species Act on the Upper Snake and Columbia River's is beginning to seriously impact the desire of key food processors to maintain operations in this region. Washington, Idaho and Oregon are three of the most productive and desirable growing regions in the world. However, in recent years,

processors have been relocating plants and moving operations to other regions to mitigate the potential risk of being unable to continue to source adequate raw product supplies in the region due to curtailment in water supplies. This trend is being exacerbated by the rising cost of power, which was once a huge economic incentive to Northwest processors but is no longer a competitive advantage.

Potato processors are building and buying plants in Canada, China, Europe and Australia. This movement is fueled by a number of issues, including market location, currency exchange and government incentives. However, in the past five years, we are now seeing the fear of inadequate water supplies and the rapidly escalating cost of power, both of which are being driven artificially by the ESA, beginning to erode the Northwest's competitive advantages in the world marketplace.

The danger of losing the food processing industry to the world marketplace is real. It will not happen quickly and the industry does not want to move out of the region. However, the subtle, grinding effect of the uncertainty of the ESA will take its toll over the long run. As processors make decisions about where to spend capital dollars to upgrade plants and equipment or to add new lines and processes, they are currently investing outside the region. This trend, if not reversed, will slowly but surely move the industry to the locations where the most current, productive and efficient plants are located. That has always been the Northwest, but now, the trend is changing and the newest and most productive plants are no longer in our region.

We support the House Resources Committee's efforts to bring rationality to this process. The bill sponsored by Rep. McMorris is an incremental step in the right direction. It is good public policy and sends a message to all parties that there will be transparency and accountability in the process.

Transparency of ESA Costs and Requirements

The Family Farm Alliance and the Washington State Potato Commission strongly support H.R. 4857, the Endangered Species Compliance and Transparency Act of 2006. This much-needed legislation would provide a basic level of public disclosure of the costs incurred under the Endangered Species Act by the Bonneville Power Administration to administer and fund most salmon recovery programs along the Columbia River and the basin which it drains. We view the requirements contained in this bill as an appropriate public "right to know" provision that harms no one, yet provides information to the public on the measures used under the Endangered Species Act to enhance and advance the recovery of listed species.

In our view, it is common sense to disclose the amount of costs incurred under the ESA for salmon recovery. We believe that H.R. 4857 would provide valuable information to the public regarding the costs incurred by the Bonneville Power Administration in compliance with the Endangered Species Act. Rates paid to Bonneville Power Administration by our members and other customers of Bonneville are investments of the public in the federal hydro system. Over the past decade, the public has invested, through payment of BPA rates, an estimated \$8 billion dollars in salmon recovery efforts, including the costs of lost power generation. It is important for the public to understand the nature of those expenditures and the results of the use of those expenditures. It does not make sense to us to shield disclosure of ESA related costs from the public which pays those costs through BPA rates.

Endangered Species Act compliance costs are not ordinary operational costs associated with the operation of the federal facilities. They arise because of a later listing of species under the Endangered Species Act, and the requirement that additional measures be taken to provide for conservation and recovery of listed species. There are 12 listed species in the Columbia and Snake River systems. These are not routine costs. The activities funded by these costs result from a separate statute and a separate federal obligation to conserve species listed under the ESA. Further, the costs are extraordinarily high by any measure. For BPA, it is reported that the costs of salmon recovery, at over \$600 million per year, exceeds all other costs of operating the agency. No other species recovery effort in the country matches the costs associated with the recovery of the salmon in the Pacific Northwest.

We support salmon recovery. Our concern is not with the effort to restore salmon runs, it is with the efficient and effective use of salmon recovery funds. For this reason, we believe a disclosure to the public of the costs associated with ESA compliance and recovery measures that apply to Bonneville is both fair and appropriate. The disclosure requirements of this legislation would assist the public in knowing the amount of repair expenditures going to salmon recovery efforts, and, we hope, would assist in understanding how efficient are those measures.

H.R. 4857 applies to power marketing administrations, which provides a forum to better educate power customers on direct and indirect costs resulting from compliance with the Endangered Species Act of 1973. Many of the members of the Family Farm Alliance are also customers of another agency – the federal Bureau of Reclamation (Reclamation) – which is the largest water wholesaler in the country. Reclamation provides municipal and industrial water to more than 31 million people and irrigation water for 10 million acres that produce 60 percent of the nation's vegetables and 25 percent of its fruit and nuts.

The environmental revolution of the last 30 years imposed new requirements for environmental assessment, protection, and enhancement on virtually everything the Bureau of Reclamation does. These new requirements increase project costs and further constrain the availability of water for human uses. Over the years, ESA requirements have significantly altered the operations of federal dams and reservoirs, which have serious ramifications for agricultural water users dependent upon those facilities.

As is the case in the power arena, under law, those costs are passed on by the federal government to water consumers who receive federal water. For example, water contractors served by California's Central Valley Project (CVP) pay ESA costs accrued to both water and power; the power portion of the CVP water contractors costs are assessed as Project Use Energy (PUE) used to deliver CVP Water. In a given year, between 20% and 30% of the total power generated by the CVP are used for PUE.

There are many examples of direct and indirect costs to water users associated with ESA implementation. Direct costs are defined as "federal agency obligations related to study-related costs, capital, operation, maintenance and replacement costs and staffing costs." Indirect power costs are defined as "foregone generation and replacement power costs, including the net costs of any transmission."

Water users in California pay some direct environmental costs through rates that are identified in financial statements as "water marketing" and "storage operations and maintenance". It is also possible that some direct environmental costs are hidden in financial statements under terms like "other direct expenses". In some cases, environmental costs find their way into water rates, as well. The core problem is that environmental costs are not separately identified as specific line-items. As a result, water users have no idea of the specific dollars that they spend on endangered species and other environmental causes .

It is clear that ESA-related costs are not the only "environmental costs". There are concerns among some water users that additional costs beyond the ESA may also be included in rates, such as those associated with the National Environmental Policy Act (NEPA) and, in California, the Central Valley Project Improvement Act (CVPIA).

Indirect costs associated with ESA and other environmental regulations – such as lost opportunity costs – are sometimes difficult to quantify. There may be environmental programs within Reclamation's Denver Office that are included in the indirect cost allocations that are added to water rates. Other indirect costs may represent a greater impact to water users and their communities. As Rep. McMorris has noted, in the Sacramento, Colorado, Platte and Missouri river basins, the federal government had to modify its hydropower generation services and flow requirements to account for ESA mandates. This resulted in lost federal hydropower generation and has led to an average of \$96 million per year in ESA costs that is passed on to consumers. It also leads to increased uncertainty for family farmers and ranchers, whose need for a certain water supply can form the foundation for other financial decisions.

While the Family Farm Alliance and Washington State potato industry enthusiastically endorsed H.R. 4857, our discussion regarding this bill suggested that, perhaps, it was not enough. Water users from several western states have asked that Congress consider expanding the last part of the bill to require the Secretary of Interior to conduct a project-by-project breakdown of ESA, NEPA and other environmental costs for Bureau of Reclamation projects, as well as the power marketing administrations. This very simple addition would produce very useful information for Reclamation's customers, many of whom are members of the Family Farm Alliance.

We offer some initial thoughts on potential solutions to improve the transparency of environmental costs that water users bear:

1. Investigate the possibility of using a more detailed description of existing rate components to specifically identify environmental costs. For some water customers, separately breaking out and categorizing existing rate components would certainly be useful and increase the transparency of the environmental costs that are currently buried in several components of the water user rates. A good first step might be to identify the specific types of environmental costs (including ESA, NEPA, etc) that might be buried in water rates. Note that in many states, State environmental regulations can add still more environmental costs. CEQA, which is the State of California's equivalent to the Federal NEPA legislation, is a good example of these potentially redundant expenditures. Existing Reclamation rate book schedules could be adjusted to provide specific line-item detail regarding the specific costs that are incurred due to ESA or other environmental compliance issues. This would let contractors know what their environmental compliance bill is without creating a new environmental rate component. This proposal may not necessarily be applicable West-wide, and should be considered only after the concept is reviewed by federal water customers and Reclamation officials at the regional level.
1. Review Reclamation's Denver Office to investigate ways to make indirect costs more transparent. Beyond the environmental cost component indirect costs, it would be helpful to improve visibility on indirect costs in general. To get an accurate picture of the total environmental expenditures, it is absolutely necessary to include Reclamation's indirect expenses at both the

Regional Office and Denver Office level.

1. Establish a "non-geographic" division that would be for the specific purpose of reporting all environmental costs. The current method for reporting costs in some areas of Reclamation is to segregate different geographical regions/facilities into divisions on financial statements. In the interest of full disclosure to the ratepayers, the environmental costs should be grouped into a single section of the financial statements, and the cost of each environmental activity should be segregated into a specific line-item.

The Family Farm Alliance believes that, for both electricity and water customers to make an informed decision about ESA costs, the first step is to provide transparency in consumer costs. The Endangered Species Compliance and Transparency Act of 2006 is a bill that will take an important first step in this direction. It can be strengthened and improved even more effectively by expanding the bill to apply to Bureau of Reclamation water projects.

The Region Should Consider Other Measures To Achieve Balance

Our members The Potato Commission, as well as other constituents of the Family Farm Alliance, strongly support balanced natural resource policy, efficient use of federal resources and rate payer funds, and the most cost-effective environmental policies that may be available. We are interested in working more directly with both the Bonneville Power Administration and the Bureau of Reclamation on water conservation as it would assist in salmon recovery and in the Columbia River Basin generally. An issue that may soon develop is the recharging of the Odessa aquifer in Central Washington. We are working on developing a plan for revamping water management in the Odessa Aquifer area. Part of this potential solution may well evolve a buy back by the Bonneville Power Administration of water and power usage and a significant reduction in aquifer demand. Our hope is that both irrigation and power use could be significantly reduced through a cooperative program with Bonneville Power Administration and the Bureau of Reclamation to assist in the recharging of the Odessa Aquifer.

We are in the early stages of considering these proposals, and are not yet in the position to seek support either at Bonneville or in this committee. However, as the committee considers the multiple uses of the Columbia River system and the ESA obligations, and other obligations as they apply to the federal Columbia River power system, we would ask that consideration of an Odessa Aquifer recharging program be put into consideration at the appropriate time.

Mr. Chairman, we are well aware that Congress has a tough job to find a balance between conservation, power production, efficient salmon recovery and the public interest in salmon recovery and cost disclosure. We stand ready to assist the Committee, and the House, in seeking to find that balance.

Thank you for the opportunity to testify. I welcome any questions the Committee may have.