

Committee on Resources

Subcommittee on Water & Power

Witness Statement

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Testimony on BPA Subscription Process
Before the Subcommittee on Water & Power
U.S. House of Representatives

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Mr. Chairman, my name is Bill Gaines, and I am here on behalf of the more than 835,000 residential and small farm customers in western Washington served by Puget Sound Energy, Inc. There are five other investor-owned utilities in the Pacific Northwest. Collectively, we serve 60 % of the residential customers in the region - over 6 million people. BPA intends to allocate less than 23% of the Federal power benefits to that 60% of the region's citizens. This disproportionate allocation is not acceptable. Nor is it consistent with what Congress intended when it passed the 1980 Northwest Power Act.

In its report on the 1980 legislation (House Report 96-976, Part I, p.23), the House Commerce Committee began its explanation of the "Background and Need" for the bill by reciting from Section 2(b) of the 1937 Bonneville Project Act that gave BPA authority to build its transmission system "[i]n order to encourage the widest possible use of all electric energy that can be generated" by the Project. Consistent with that long-standing emphasis on spreading the Federal power benefits as widely as possible, the 1980 Act created the residential exchange program to ensure that all residential and small farm customers in the region would share equitably in those benefits. As the House Interior Committee explained in its report on the 1980 legislation (House Report 96-976, Part II, p.35), the exchange program "will allow the residential and small farm consumers of the region's IOUs to share in the economic benefits of the lower-cost Federal resources marketed by BPA and will provide these consumers wholesale rate parity with residential consumers or (sic) preference utilities in the region."

The Federal power benefits all pass through to our residential and small farm customers; none go to our investors.

Now that the original power contracts signed pursuant to the 1980 Act are about to expire, BPA intends to start signing "subscription" contracts within the next few weeks. Those contracts will divide among the people in the Northwest the benefits of the Federal Columbia River Power System. Those benefits are estimated to be between as much as \$1 billion and \$2 billion per year - that's the difference between the cost of the Federal power and the higher market price of alternative power in the Northwest.

BPA's current subscription plan does not allocate a proportionate share of those benefits to the 6 million persons served by Puget and the other investor-owned utilities. They comprise 60% of the people, but they will get less than 23% of the benefits.

BPA certainly should revise the plan so that the benefits of the federal power are distributed proportionately among the region's citizens. As is explained below, BPA has the financial resources to do this without harming other customer groups. Meanwhile, BPA should not be allowed to lock in for many years to come its disproportionately small allocation of benefits for the investor-owned utilities' residential customers by signing contracts longer than five years.

Longer-term contracts also should be rejected because they would frustrate regional and Congressional efforts to re-structure and modernize BPA to be consistent with the evolving competitive electric power industry. There is growing consensus in the region that BPA must be restructured to accommodate changing regional circumstances, e.g. adoption of "retail choice" in Montana and Oregon, the movement toward formation of a regional transmission organization, and the need for a more rational river governance system. And let me emphasize that limiting BPA to five-year contracts would not put the Treasury at risk. I would be pleased to expand on this point when we get to the question period.

BPA's "slice" proposal is an example of BPA's disparate subscription plan. BPA is offering "slice" contracts only to the government and cooperatively-owned utilities. It is not offering "slice" to the investor-owned utilities for the benefit of our residential and small farm customers. If BPA proceeds with its "slice" proposal, it should offer "slice" to all regional utilities on a short-term, experimental basis.

BPA should allow the residential and small farm customers of investor-owned utilities to receive the benefits of BPA's slice-of-system products on an equal basis with other utility customers in the region.

BPA does have the financial resources to double the subscription benefits it is offering investor-owned utilities' residential and small farm customers. This simply would require BPA to hold its cash reserves to roughly \$700 million during the FY2002-06 period rather than building them up to an unprecedented level of well over a billion dollars as now appears to be the plan. And it is important to understand this would leave BPA with cash reserves as high or higher than it has had in the past, would permit BPA to offer the PUDs, municipal utilities and cooperatives the same low power rate it is currently proposing for them, and would permit BPA to proceed with its planned power sales to the aluminum companies (DSIs).

The problem with BPA's subscription plan has been pointed out repeatedly. All six investor-owned utilities have urged Bonneville to fix this plan and to restore wholesale power cost parity for the 6 million people we serve. Wholesale power cost parity was a fundamental goal Congress intended to achieve when it passed the 1980 Northwest Power Act.

To provide you more detail, I have attached to my prepared remarks excerpts of the brief the investor-owned utilities submitted to BPA in its present wholesale power rate case.

As I said earlier, within a few weeks BPA intends to start signing power sales contracts with terms of 10 years (or perhaps even longer). If BPA is allowed to commit to ten-year contracts six million people in the region - the majority - will be denied their proportionate share of \$10 to \$20 billion of Federal power benefits during that ten-year period. That is unacceptable. BPA should not be permitted to sign contracts longer than five years.

I am here with this message because this is the right thing to do for the families and small farms we serve - and for the entire region. We are in a position disturbingly similar to that which existed prior to 1980. In 1980, Congress passed the Northwest Power Act to end divisive battles in the region over the allocation of

Federal power by providing wholesale power cost parity to all residential and small farm customers in the region regardless of what type of utility served them. BPA has misused its discretionary authority to construct a subscription plan that is contrary to that fundamental objective and is re-igniting those divisive battles.

Puget supports the efforts Congress made in 1980 and over the years to ensure that all the people in the region are treated equitably. When, in 1995, BPA proposed a disproportionately small allocation of Federal power benefits for IOU residential customers, the Congress - led by Rep. Jennifer Dunn - saw the need to step in. It passed legislation as part of an appropriations bill that temporarily helped correct the situation. We welcomed and supported those Congressional efforts. Congress may need to step in again. It certainly should not permit BPA to lock-in its disproportionate and inequitable allocation of benefits by signing contracts exceeding five years.

We are unwilling to accept an outcome that treats our residential and small farm customers as second-class citizens in their own region. On this point, the six investor-owned utilities have been united. The end result of BPA's allocation of billions of dollars of benefits must treat all citizens of the Northwest equitably. The result proposed by BPA - where 60% of the people in the region receive less than 23% of the benefits - falls far short of this standard.

On behalf of those 6 million Pacific Northwest citizens, thank you for the opportunity to address this important issue.

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