

Mr. Stephen J. Wright
Administrator
Bonneville Power Administration
United States Department of Energy

Testimony
Before the Committee on Resources
Subcommittee on Water and Power
United States House of Representatives

“The Power Marketing Administrations’ Role in Bringing Our Nationwide Electricity
Transmission System into the 21st Century”

March 15, 2005

Mr. Chairman and Members of the Subcommittee, I appreciate this opportunity to discuss actions that the Bonneville Power Administration (Bonneville) is taking in grid reliability and capacity enhancement, and to present an overview of our FY 2006 budget.

In my testimony today, I will first share with you an overview of Bonneville's transmission initiatives and recent accomplishments. I will then provide an overview of the FY 2006 budget.

BONNEVILLE'S TRANSMISSION INITIATIVES

Recently Energy Secretary Bodman stated that, "The need to modernize our country's aging electric infrastructure is paramount to our national and energy security." The Secretary went on to say that, "This was underscored by the East Coast and Midwest blackout of August 2003 which left millions of Americans in the dark and cost the Nation billions of dollars." We strongly agree with the Secretary.

The eastern blackout on August 14, 2003, heightened the Nation's concern for the adequacy and reliability of its electricity infrastructure. Bonneville and the West got such a jolt in 1996 when a disturbance that originated in the Northwest rolled across the Western Interconnection and blacked out two million customers. We responded with a reliability management system that is now being emulated by the North American Electric Reliability Council (NERC) in its response to August 14.

The West Coast energy supply crisis of 2000-2001 was a second red flag for us, and we have responded with infrastructure investment that has added significant new transmission capacity to our system, relieving bottlenecks that have hampered power flows during peak periods of use.

Bonneville's response to these signals and the need to improve system adequacy, reliability and availability has involved a set of key transmission infrastructure projects. These projects are meant to address multiple challenges, including the need to relieve the growing number of congested transmission paths, the pressure to keep up with growing energy demands, and the need to meet the Federal Energy Regulatory Commission's (FERC's) open access policy in support of competitive markets. The infrastructure investments are important to the competitive wholesale market in the Western Interconnection that encompasses 15 western States, two Canadian provinces and two Mexican States.

Bonneville advanced nine of these critical transmission infrastructure projects in FY 2004, achieving all project milestones on schedule and coming in \$13 million under the \$167 million budget. In 2005, Bonneville is continuing this effort in 13 key projects budgeted at \$108 million.

Bonneville's total capital expenditures for transmission (main grid additions, upgrades and additions, system replacements, area and customer services, and projects funded in advance) for those two years were \$315 million and \$352 million, respectively. For

2006, this category is budgeted at \$414 million. All of these investments are repaid by Bonneville's customers.

Bonneville passed a major milestone in its infrastructure program when it energized the Kangley-Echo Lake 500-kilovolt transmission line, located east of Seattle, Washington, in December 2003. The project provides improved transmission system reliability and enhances Bonneville's ability to meet treaty requirements with Canada. This was our first transmission line project at that voltage in more than 15 years.

Another critical component of the program, the Celilo modernization project, was completed in April 2004, and will maintain for another 30 years the transmission line capacity of the 846-mile Pacific Direct Current Intertie running from The Dalles, Oregon, to Los Angeles, California. The transfer capacity of this line would otherwise gradually fall from 3,100 to 1,100 megawatts.

A third big project, the Grand Coulee-Bell 500-kV transmission line project that took more than two years to construct was energized in December 2004. That project increased capacity on the "West of Hatwai" path near Spokane, Washington from about 2,800 megawatts to 4,065 megawatts. The Western Electricity Coordinating Council (WECC) has approved the new operating limits and the path will be operated at that capacity through the coming spring. The new capacity means greater and more reliable service on the Northwest electricity grid.

A fourth project, the Schultz-Wautoma 500-kV transmission line project is now under construction and will extend about 63 miles from Ellensburg to near the Hanford Reservation west of Richland, Washington. This project will add 600 megawatts of transfer capacity to our grid in what is currently a bottlenecked flow path.

Bonneville leads public processes to review and prioritize its transmission investments. Stakeholder input provides our utility customers, non-utility generation developers, power marketers, States, tribes and interest groups an opportunity to evaluate proposed infrastructure additions for their contribution to reliability and wholesale market operation, and to examine schedules, benefits, costs, risks and feasible alternatives.

Bonneville also conducts a public process that examines all costs that have to be recovered in future rates. For transmission rates that will be established for the FY 2006-2007 period, Bonneville recently completed this "Programs in Review" and reached a settlement with its customers on proposed transmission rates that is currently under review in a Northwest Power Act section 7(i) rate process.

Finally, Bonneville has formed a round table of Northwest leaders to work with the agency in investigating how to integrate non-construction alternatives such as demand response, distributed generation, and conservation into its transmission planning. Before we decide to build a line, we want to be sure we have taken a comprehensive look at all alternatives available to us, so that we may choose the most cost-effective solution. In cooperation with retail utilities, industrial consumers and government agencies,

Bonneville has conducted several “non-wires” pilot projects to demonstrate the feasibility of these approaches to solving transmission problems.

Looking toward a future of better-integrated operation of the Northwestern grid, Bonneville is continuing to work closely with the region’s other transmission owners, our customers, and other stakeholders through a public collaborative process to develop what is called the “Grid West” proposal. At the core of the proposal is a flexible business model providing for a staged, voluntary implementation process and a governance structure that would provide a set of checks and balances to ensure that the region retains strong influence in how the entity serves the region’s needs. The “Grid West” model is restructured from an earlier “RTO West” proposal. Bonneville is also working on another potential approach with a group of Northwest utilities call the “Transmission Issue Group” (TIG).

FY 2006 BUDGET OVERVIEW

Mr. Chairman, Bonneville is in sound financial condition. Our reserves are at a level that will assure we can make our full annual payment to the U.S. Treasury at the end of this fiscal year, despite having been through five straight below average water years. Bonneville’s FY 2006 budget proposes Bonneville accrued expenditures of \$2,977 million for operating expenses, \$147 million for Projects Funded in Advance, and \$487 million for capital investments. Since its budget is funded by sales of power and transmission services, and proceeds of bond sales to the Treasury, Bonneville has not requested or received annual appropriations since 1974.

Bonneville coordinates its power operational activities with the Corps of Engineers (Corps), the Bureau of Reclamation (Bureau), the Western Electricity Coordinating Council (WECC), and its utility customers to provide the most efficient use of the assets that comprise the Federal Columbia River Power System (FCRPS). Ongoing work with the Corps and Bureau is focused on improving the reliability of the FCRPS, increasing its generation efficiency and optimizing hydro facility operations.

Bonneville’s commitment to fish and wildlife mitigation and enhancement is exemplified in its budget of \$175 million, capital and expense, for this purpose in FY 2006. Bonneville’s FTE projection included in this budget is 3,166. Bonneville’s cost management initiatives are bringing this number down from the increases we sustained in the ramp-up of our infrastructure expansion program.

The FY 2006 budget document includes a new Administration legislative proposal to bring electricity rates of the Power Marketing Administrations gradually up to market levels. Under current law, Bonneville must set its rates to cover all of its costs including timely repayment of the taxpayers’ investments in the FCRPS, but it cannot charge more.

The President’s 2006 Budget proposes specific legislative language to clarify what Bonneville liabilities and obligations should be counted toward Bonneville’s statutory cap on borrowing. Under Budget Enforcement Act scorekeeping procedures, some

agency transactions, such as lease-purchases, result in liabilities that make a claim on future Bonneville resources, and therefore constitute a form of Federal debt for budget purposes. To ensure the integrity and usefulness of Bonneville's \$4.45 billion debt limitation with the Treasury, the Administration is proposing legislation to ensure that, in the future, these types of debt-like transactions are treated as debt and counted toward Bonneville's statutory debt limit.

The following table provides budget data based on current services for FYs 2004 through 2006:

(accrued expenditures in thousands of dollars)

	FY 2004 audited actuals	FY 2005	FY 2006
CAPITAL INVESTMENTS			
Power Business Line	136,806	199,658	184,400
Transmission Business Line	273,815	198,260	266,579
Capital Equipment & Bond Premium	28,081	35,022	36,491
Total Capital Investments	438,702	432,940	487,470
Accrued expenditures will require budget obligations of. .	438,702	432,940	487,470
 Operating Expenses	2,642,075	2,946,770	2,976,655
Projects Funded in Advance	41,317	153,791	147,359
 CAPITAL TRANSFERS (cash)	598,462	303,098	371,560
 BPA NET OUTLAYS	-61,000	-10,000	-10,000
 BPA STAFFING (FTE)	3,136	3,166	3,166

Notes:

These budget estimates are subject to continual change due to changing economic and institutional conditions in the electric utility industry in the Pacific Northwest.

BONNEVILLE TREASURY PAYMENTS

Bonneville made its planned payments to the U.S. Treasury on time and in full in FY 2004, for the twenty-first consecutive year. Included in these payments totaling \$1,049 million was \$346 million in early amortization of our Treasury debt.

Since its creation in 1937, through FY 2004, Bonneville has returned \$20.5 billion to the U.S. Treasury. During FY 2006, we anticipate paying \$848 million to the Treasury, of which \$372 million will be repayment of principal, \$453 million will be interest, and the balance of \$23 million will be applied to the unfunded liability of the Civil Service Retirement System.

In recent years, Bonneville has made amortization payments in excess of those scheduled in its FERC-approved rate filings resulting in a balance of advance repayment. The cumulative amount of advance amortization payments as of the end of FY 2004 is about \$1,146 million.

Starting in FY 1997, Bonneville began funding directly the Bureau's FCRPS Operations and Maintenance (O&M) costs and in FY 1999 began direct-funding the Corps' FCRPS O&M costs. Bonneville began direct-funding the US Fish and Wildlife Service in FY 2001 to pay for O&M costs of the Lower Snake River Compensation Plan facilities. These direct-funding relationships ended these agencies' needs to obtain annual appropriations of taxpayer money for their Pacific Northwest power-related programs, which Bonneville annually repaid. Direct-funded capital costs, also previously funded through appropriations, are now being paid through Bonneville bond sales to the Treasury. Bonneville's total O&M direct-funding of these agencies was \$214 million in FY 2004.

CONCLUSION

Mr. Chairman, Bonneville is responding ably to the challenges of an industry that is in the throes of an historic restructuring. Bonneville has moved aggressively to address the reliability and capacity issues that are at the heart of assuring the people of the Pacific Northwest the service from this critical infrastructure that they expect and deserve. I would reiterate our continuing commitment to high performance from our organization, to our partnership efforts with the other actors in the Northwest power system, and to our dedication to full and timely repayment of our obligations to the U.S. taxpayers whom we want to be proud of what their investment spurred.

Mr. Chairman, this concludes my testimony. I would be pleased to address any questions the Committee may have.