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TESTIMONY BEFORE THE
COMMITTEE ON NATURAL RESOURCES
SUBCOMMITTEE ON WATER AND POWER
UNITES STATES HOUSE OF REPRESENTATIVES

HEARING ON
FEDERAL POWER MARKETING ADMINISTRATION BORROWING
AUTHORITY: DEFINING SUCCESS

March 10, 2009

Good afternoon, Chairwoman Napolitano, Ranking Member McMorris Rodgers, and Members of the Subcommittee. My name is Scott Corwin. I am the Executive Director of the Public Power Council. I thank you for the opportunity to testify today on this important topic.

The Public Power Council (PPC) is a trade association representing the consumer-owned utilities of the Pacific Northwest with statutory rights to purchase power that is generated by the Federal Columbia River Power System and marketed by the Bonneville Power Administration (BPA). Member utilities have service territories in portions of seven western states and serve over 41% of the electricity consumers in the region.

These utilities, some of the largest and some of the smallest in the Northwest, are committed to preserving the value of the Columbia River system in terms of its clean and reliable electricity for consumers. Because the utility members of PPC are owned by and answer directly to their ratepayers, they are very sensitive to the rates they pay for wholesale power and transmission of electricity and to the levels of debt service that are a portion of those rates.

The Public Power Council has been a strong supporter of the \$3.25 billion in additional BPA borrowing authority provided in the American Reinvestment and Recovery Act. When the idea came up last fall that borrowing authority could be extended as part of the economic stimulus package, we took it under very careful consideration. Before supporting the idea, we sent information to our membership and raised it on the meeting agenda before our 21 member Executive Committee to make sure that there was consensus.

Funds borrowed from Treasury by BPA are paid back by its customers with interest. So, decisions to support additional borrowing are taken very seriously by the customers. There were several aspects to the decision that bolstered support, including:

- There was a pre-existing construct for BPA borrowing authority under the Federal Columbia River Transmission System Act (that spells out the use and repayment of borrowed funds) that has worked well in the past to benefit the region.
- Customers have access to rigorous processes under the current construct to help ensure that capital spending is justified and ratepayer dollars are spent responsibly.
- While there is a strong public purpose focus, the law requires BPA to act in a business like manner and recover costs as appropriate.
- Without the additional borrowing authority, the array of infrastructure needs already identified -- even for basic system reliability and maintenance -- would have pushed BPA's authority to its limit in the near future.
- There will continue to be growing needs to facilitate new sources of generation in the region, especially renewable resources such as wind and geothermal.
- System stability and the economy of the region would benefit if work on these infrastructure projects moved more rapidly than it otherwise could.

We appreciate the steps taken on this issue by Congress generally, and by members of the Northwest delegation in particular. Added borrowing authority for BPA presents a helpful combination of advancing key infrastructure needs, promoting job creation, facilitating alternative sources of energy, and insuring actual return of the dollars with interest to the U.S. Treasury.

The Case for Additional Borrowing Authority for BPA

PPC is grateful that Congress chose to work within the current legal framework for BPA borrowing authority and not impose new requirements or limitations. With this in mind, PPC chose to support the proposed additional borrowing authority for the following reasons.

First, despite the existing extensive BPA transmission system that enables movement of wholesale power from 31 carbon-free federal dams, one nuclear plant and other nonfederal hydroelectric and wind facilities, there is a critical need for electricity infrastructure in the West, especially with respect to capability needed to maintain reliability of the electrical grid. We have faced bottlenecks for years as population and electricity loads have out-grown an out-dated system. It was only a matter of time before this caught up with us.

Second, enhancements to the electricity transmission system are required in order to add new sources of generation. BPA has been the leader in facilitating major additions to the region's renewable generation capacity from sources such as wind power. In light of the ever growing demand, accessing additional generation resources and moving electricity freely throughout the region becomes increasingly important.

Third, in addition to transmission facilities, other key infrastructure pieces that fall within BPA's existing statutory responsibility and are in need of funding include investments in energy conservation, refurbishment of existing generation assets at the federal projects, and fish and wildlife mitigation projects. These investments will help the region meet its environmental and power supply needs, and maintain the federal hydro-electric system's capabilities to serve loads.

Fourth, projects enabled with this authority have multiple economic benefits. For example, a single project like the John Day – McNary 500 kV transmission line calls for vast materials and supplies along with hundreds of jobs associated with the necessary engineering and construction. In addition to new construction activity, this infrastructure provides economic benefit by ensuring a clean, low-cost, and reliable electricity supply to millions of residents and businesses in our region.

Fifth, as noted above, any amounts borrowed from the U.S. Treasury by BPA are repaid with interest through revenues collected from electricity sales, mostly to consumer-owned utilities around the Northwest. So, aside from all of the benefits listed above, taxpayers receive a solid return on investment from a financial standpoint.

Ensuring Accountability and Defining Success

In representing those who will repay the cost of debt taken on by BPA, the customer view of this issue makes an important distinction between borrowing/financing and actual payment or cost recovery. BPA has an excellent record of payment on its obligations to the Treasury because of the

cautious approach taken in the rate cases that set the amounts added to power and transmission rates. As the customers paying those rates, our members spend a lot of time and effort in the capital planning processes run by BPA to determine appropriate types and locations of investments for transmission and for the other statutory purposes.

In addition, customers are very active in the BPA budgeting processes. We have worked hard over the years to try to improve the timing and level of detail around information relating to BPA's budgets. Our goal has been to have significant input at the front end of these processes, so that we are not merely arguing in rate cases over the allocation of costs already incurred. Currently, an evolution of the budget process for BPA called the Integrated Business Review is further refining how and when customers get information on key spending decisions.

While \$3.25 billion is a lot of financing capability, major infrastructure projects cost in the hundreds of millions of dollars each. Therefore demand for these funds will continue to be high, and BPA will continue to need to be very prudent in its expenditures. It is critical that proposed projects pass rigorous review and that they make both economic and engineering sense. Transmission projects with large costs also come with a level of risk. Customers on the hook for repaying BPA's debt will need continued assurance that the appropriate reviews remain in place so that they will not be left holding the bag on investments that do not pencil out. This is an especially important point in light of the current economic situation facing the end users of electricity who pay the bills.

For the most part, the capital planning and budgeting tools in place at BPA have served the region well in order to maintain an effective and reliable electricity system. At PPC, we intend to stay engaged as the region moves forward to implement use of this additional borrowing authority in a manner that will best benefit the citizens of the Northwest. Again, we appreciate the efforts of all of those involved who added this key element for the region's economic benefit.

Thank you for the opportunity to testify today. I am pleased to answer any questions, and look forward to working with you on these issues in the future.