

Written statement of proposed testimony
Dan Peterson, Commissioner, Pend Oreille County Public Utility District

TO:
US House of Representatives
Committee on Resources
Subcommittee on Water and Power
Oversight Hearing, March 1, 2006, 2:00 p.m.
"How the Federal Power Marketing Administrations are Implementing the Energy Policy Act of 2005 and an Assessment of the Proposed Fiscal Year 2007 Budgets for these Agencies"

Chairman Radanovich, Ranking Member Napolitano, Vice-Chair McMorris, and members of the Subcommittee:

Thank you for the opportunity to testify. I offer the following written comments on behalf of my local utility and my county's citizens who have elected me Commissioner. As a past President of the Washington Public Utility Districts Association and current chair of the association's Legislative Committee, I also speak from a statewide PUD perspective. And, as a utility member of the region's Public Power Council, I support the broader interests of Public Power throughout the Pacific Northwest.

Pend Oreille County is located in the very northeast corner of Washington State's Fifth Congressional District, which is represented by Congresswoman McMorris and shares borders with both Idaho and British Columbia. Our county is nearly 60% federal lands, and that percentage is even higher in our larger northeast region. Five counties in Representative McMorris' District have PUDs that provide electric, water, sewer, and telecommunication services.

Our county of 1400 square miles has 12,000 residents; the Public Utility District serves electricity throughout the County to about 8000 customers. In addition to our own non-federal hydroelectric resources on the Pend Oreille River, the PUD purchases power from the Bonneville Power Administration (BPA) to supply a large newsprint plant.

In my testimony, I will address three issues:

1. The Administration's Fiscal Year 2007 budget proposal regarding BPA's surplus revenues and third-party debt
2. Longer-term federal power matters
3. The Endangered Species Act reform

First, in regard to the Administration's budget proposal that BPA's surplus revenues above \$500 million be used to repay Treasury:

BPA supplies a quarter of my utility's total energy needs and is nearly half of our total energy cost, with an annual BPA bill of approximately \$10 million.

Historically BPA surplus revenues have served to stabilize BPA's wholesale power rates. The large federal hydropower system in the Northwest is subject to variable water flow conditions. There are good water years producing surplus revenue, and there are dry years that may fall short of revenue projections. This proposal would limit BPA's flexibility of taking advantage of the good years to deal with the bad years. Contrary to the budget proposal's claim, "sound business practice" has allowed surplus revenues to remain in the region and help stabilize rates. At the same time, our ratepayers have continued to faithfully repay federal debt on time and with interest.

Moreover, BPA has voluntarily made more than \$1.46 billion in early payments on its federal debt obligation, without raising rates. That made good business sense for BPA and good economic sense for the region. But what other business would voluntarily increase rates and costs to its customers to pay off debt ahead of schedule, as the OMB proposes?

Some argue that electricity rates in the Northwest are too low to begin with, and there is no harm in raising them. But our rates are not as low as they once were. We have taken a tremendous hit from the Western energy crisis, which we are still—resentfully—paying off. Also, as a fast-growing region, the Northwest and the West have had to add new and expensive generation. Some claim that average residential rates of BPA customers have recently moved close to or even above the national average.

History reminds us that the hydropower system was built to attract businesses and keep industry in the U.S. Even if our region did have the lowest rates in the nation, why would the Administration artificially raise those rates and force businesses out of the region, possibly overseas?

The Northwest produces much of the cleanest power in the nation. The President in his recent State of the Union Address stressed energy independence. At a time when the President is urging our nation to wean itself off foreign oil and showcase renewable energy, it makes no sense to arbitrarily increase the cost of a large, clean, domestic, hydro resource. This isn't good energy policy or economic policy, and it is contrary to the national goal of energy independence.

Although the dollar impact of the budget proposal may be relatively small in my utility's case because we purchase a specialized "Slice" product from BPA, this budget proposal, if implemented, will raise BPA rates. It sets bad precedent, hurts my neighbor PUDs, and could do unnecessary damage to the Pacific Northwest region.

I join the strong bipartisan opposition being expressed by the Northwest congressional delegation. With them, I am extremely disappointed that OMB and DOE have repeatedly ignored the substantive concerns we raise about Bonneville-related proposals.

On another budget matter, we again oppose the OMB proposal to change the accounting treatment of third-party financing arrangements Bonneville has used to finance transmission infrastructure improvements in the Northwest. OMB proposed this last year, and the Northwest expressed opposition then as well.

According to DOE, the main purposes of the surplus revenue proposal described above are to allow more financial flexibility for BPA and to help build more transmission infrastructure. While I agree with those goals, this third-party financing proposal runs completely counter to that. If third-party arrangements were to count against Bonneville's borrowing authority, it would effectively end financing arrangements, such as the successful Shultz-Wautoma electric transmission line project, which could effectively bring regional transmission investment to a halt and would lead to dramatic electric rate increases.

The proposal also makes no sense because third-party financial transactions create no taxpayer liability. The ratepayers of the Pacific Northwest—not the United States Treasury—secure Non-federal bonds backed by Bonneville, such as those issued by third parties.

Second, with regard to the long-term outlook for the federal power program, I have these thoughts:

- ▶ Long term contracts for BPA power are in the best interest of customers and the federal government. They benefit the federal government because they assure BPA of a continuing revenue stream to repay to the Treasury the investment in the facilities. They benefit customers because they provide resource certainty. Administrative burdens associated with short-term contracts are reduced for both parties.

- ▶ Solutions to energy problems are best formed when we develop a consensus on BPA-related issues in the Northwest before coming to the delegation and to Congress. Similarly, the region benefits when the delegation develops a bi-partisan position on energy issues and works together to protect our valuable Columbia River system. Over the years, the House Northwest Energy Caucus has done a terrific job of developing consensus positions on BPA matters. Northwest consumers are the beneficiaries of those actions.

Third, in regard to the Endangered Species Act:

Pend Oreille PUD recently received a new FERC license for our Box Canyon dam, a 72-megawatt run-of-the-river project on the Pend Oreille River. We are beginning to implement the numerous mandatory conditions of various Federal agencies. We have found ESA related processes to be lacking in consistency and sound science. The following items detail our experience:

▶ Local control is lost as decisions are made far away in regional headquarters or Washington D.C. Stakeholder comments rarely altered draft federal documents in our case. Motives remain suspect because only one small reservoir in a huge river basin unit was designated as critical habitat. Only our project area—where a FERC relicensing was ongoing and agencies could benefit from the financial opportunity—was designated critical habitat.

▶ Rules are applied inconsistently. Our project area does not have bull trout populations, yet we are being forced to spend millions of dollars for mitigation. Areas without bull trout are given protected status, while areas with bull trout are not.

▶ Decisions lack sound scientific basis. We must plan enormously expensive fish ladders for bull trout, but there are no fish to study to learn their habits and preferences, and no surrogate species exist. In an ultimate irony, while the federal government mandates our expenditure of millions of dollars for bull trout restoration, it continues to fund a tribal hatchery for bass, a species that eats bull trout! Furthermore, bass live in warm water; bull trout thrive in cold water. Studies establishing historical warm/cold and fast/slow water habitat conditions have been ignored.

▶ In general, land and water protection advocates seem to use ESA as a cover for keeping areas wild and pristine, rather than for actually preserving species. Listings result in a self-perpetuating, never-ending business. Given the questionable presence of an endangered species in our project area, it is terribly disconcerting when federal agencies appear more interested in dollars than the actual existence of a species. It feels to me like extortion!

▶ Costs are not evaluated against human impacts. Our 8000 ratepayers—in a county where the average annual per capita personal income is barely \$22,000—could face a bill of \$50 million or more for ESA related passage, habitat, and lost generation. Will the expense ever provide a real benefit?

We understand that Chairwoman McMorris will be introducing a bill soon that will provide some transparency on how much BPA and other PMAs spend on ESA costs. We support this legislation and look forward to helping the chairwoman advance it.

Thank you for this opportunity to submit this written testimony. If I can be of any further assistance to the committee, I am willing and available.

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