

**Statement of
Lauren Azar
Senior Advisor to the Secretary
Before the
Committee on Natural Resources
U.S. House of Representatives**

April 26, 2012

Chairman Hastings, Ranking Member Markey, I submit this testimony for the record on the Federal Power Marketing Administrations (PMAs), and specifically, Secretary Chu's March 16, 2012 Memorandum (Memo) setting forth "foundational goals" that the Department of Energy (DOE) is considering for the PMAs. The Memo outlines broad concepts for achieving these goals in a manner that will be customized to reflect the uniqueness of each PMA. DOE will begin its review to address the goals of the Memo with the Western Area Power Administration (WAPA). The core of this process will be a robust collaboration among each PMA, its stakeholders, customers, and its congressional delegations. DOE intends to move sequentially and will assess our approach to the other PMAs in light of our experience with WAPA. We hope to initiate the WAPA review soon and anticipate it will take until late 2012 to complete.

PMA PRIMARY MISSIONS: POWER MARKETING AND TRANSMISSION

The PMAs have two primary obligations: (1) marketing electricity to preference customers so as to encourage the most widespread use of federal power at the lowest possible rates to consumers, consistent with sound business principles¹, and (2) maintaining and operating their portion of the Nation's transmission grid.² Below, I will describe these obligations and how

¹ This standard – to encourage the most widespread use of Federal power at the lowest possible rates to consumers, consistent with sound business principles — is often simply referred to as "cost-based rates" or "at cost". The truncated versions are used hereafter.

² The PMAs have many responsibilities beyond these two missions. For example, BPA has a third primary mission: fish and wildlife protection.

they relate to the Secretary's Memo in more detail, but it is important to note from the outset that the overwhelming majority of the goals set forth in the Memo relate to the PMAs' transmission infrastructure and not to the marketing of federally generated power to the preference customers.

Power Marketing

Beginning in the late 1800s, the federal government began to build dams with hydroelectric power generation. The dams were initially built primarily for flood control, navigation, or irrigation, while in some systems the selling of the electricity was a secondary consideration. Today, the electricity generated by these federal facilities is incredibly valuable: with water as its fuel source, it is generally inexpensive³ and produced without air-pollution emissions. As the demand for clean energy grows, so does the value of these federal assets. The Secretary is committed to taking good care of the federal hydropower system and the clean energy it represents.

Congress has mandated the electricity generated by federal hydroelectric plants be sold at cost. Congress also specified who in each region should get priority access to this federal electricity, namely the "preference customers."⁴ Understandably, the preference customers have a strong interest in protecting their ability to purchase cost-based, clean federal electricity. Other consumers in the PMA regions, however, do not have access to this federal electricity, thus forcing them to build their own generation or purchase electricity on the open market.⁵ To be clear, preference customers also rely on the open market to purchase electricity over and above their allocation of federal hydropower to fulfill their customers' electricity needs. Hence, both preference and non-preference customers benefit from a robust and competitive electricity

³ The relative expense of federal hydropower differs from system to system. As a consequence, it is not "inexpensive" for every system.

⁴ "Preference Customers" refers to municipalities and other public corporations and agencies.

⁵ BPA is unique for two reasons. First, it has a few non-preference customers who are grandfathered and able to purchase federal electricity. Second, certain non-preference customers of BPA receive, from the power revenues, annual benefits for their rural areas.

marketplace. (Herein the “electricity marketplace” refers not only to the buying and selling of electrons but also includes all facets of generating, delivering, and consuming electricity.)

The Secretary has expressed his continued commitment to comply with all applicable laws relating to the rates for the sale of electricity to preference customers, which include cost-based rate structures. This commitment will not waiver as the individual plans are developed. The DOE will continue to support the PMAs’ fundamental obligations to operate and maintain the federal hydropower assets and sell their power to preferred customers at cost.

Transmission

In addition to selling federally generated electricity, three of the four PMAs own and operate 33,700 miles of transmission lines that comprise a significant portion of the Nation’s power grid.

To bolster the competitiveness of the electricity marketplace and to ensure the grid’s resilience, Congress in 1992 and 2005 passed comprehensive legislation creating obligations on grid operations and reliability. As explained below, the Secretary’s Memo is intended to, among other things, ensure the PMAs are complying these obligations. In cases in which Congress exempted the PMAs from some of these requirements, DOE has further required that the PMAs comply with transmission requirements, to the extent allowed under the PMAs’ enabling statutes, to enable market competition and ensure grid resilience. That policy remains in place to this day.

As part owners and operators of the Nation’s transmission grid, the federal government must maintain its aging facilities and, if necessary, update or replace them. The Secretary is committed to ensuring the PMAs’ transmission is managed to support cost-effective transmission expansion, grid reliability and open, non-discriminatory access consistent with the PMAs’

statutory requirements. The federal government can and should be leading the way in ensuring that our Nation has a reliable transmission grid that eliminates barriers to a competitive marketplace.

To be clear, anyone using the PMAs' transmission lines pays for that use, whether or not they are preference customers. As is true for any transportation system supporting a marketplace, at a minimum, our Nation's transmission system should accomplish the following for the electricity marketplace:

- Efficiently and reliably deliver electricity;
- Eliminate barriers to competition and operate in a non-discriminatory fashion; and
- Accommodate the emergence of new technologies and market opportunities/segments.⁶

The transmission proposals described in the Secretary's Memo would seek to accomplish all of these goals, through actions that are in harmony with the PMAs' enabling statutes. Furthermore, the overwhelming majority of the proposed activities described in the Secretary's Memo relate to the PMAs' obligations and goals for transmission and not to the marketing of federally generated power to the preference customers.⁷

TODAY'S ELECTRICITY MARKETPLACE

Today's electricity marketplace differs markedly from that of even 10 years ago. For example:

- (1) State Renewable Portfolio Standards (RPS): Thirty-seven states⁸ have now enacted RPS standards (mandatory) or goals (voluntary). In other words, 37 states have decided to

⁶ These bulleted items refer to both legal requirements and policy goals.

⁷ As a consequence, the Secretary's Memo will have minimal applicability to the Southeastern Power Administration, which owns and operates no transmission.

⁸ In addition to these 37 states, the District of Columbia and Puerto Rico both have an RPS.

incentivize the production of electricity from renewable sources, which often are variable resources. The electricity transmission system should be flexible enough to accommodate these new sources of generation into the grid.

- (2) Security threats: It should come as no surprise that our Nation faces increasing security threats and the electric sector is no exception. By establishing an electric reliability organization and mandating the enactment of reliability standards, as well as its interest in cybersecurity standards, Congress has mandated a hardening of our electric infrastructure against physical threats, natural disasters, and cyber attacks. Protecting the transmission grid is particularly important. Blackouts not only threaten human health and safety, but also cause immense economic injuries to our Nation's businesses.
- (3) Technological Advances: As consumers adopt new technologies and practices such as rooftop solar, electric vehicles, and demand-response applications both the transmission grid and the electricity marketplace will face challenges and opportunities.

To effectively respond to the continued changes in the electricity marketplace, DOE is considering potential actions the PMAs can implement, within the limits set by their enabling statutes.

CONSUMERS' BILLS

The evolving nature of the electricity system requires the owners and operators of the transmission grid to adapt. As owners and operators of a significant part of the transmission grid, the PMAs should explore more effective ways to invest in the future and keep pace with the changing marketplace. Our overall goal is to keep consumer bills as low as possible while ensuring our Nation has the infrastructure needed to remain competitive in a global economy and accommodate regional choices to meet consumer demand.

CONCLUSION

As I stated at the beginning of my remarks, as we consider these issues, DOE intends to work closely with each PMA, its stakeholders, customers, and Members of Congress. This will be a robust collaborative process that is sensitive to the unique character and enabling statutes of each PMA.