

STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON WATER AND POWER
COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES
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EXAMINING THE PROPOSED FISCAL YEAR 2014 SPENDING, PRIORITIES AND THE
MISSIONS OF THE BUREAU OF RECLAMATION, THE FOUR POWER MARKETING
ADMINISTRATIONS AND THE U.S. GEOLOGICAL SURVEY'S WATER PROGRAM

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to testify here today. My name is Bill Drummond. I am the Administrator of the Bonneville Power Administration (Bonneville) and welcome the opportunity to serve in this capacity. Before continuing with my remarks, I would like to first acknowledge the extraordinary public service of my predecessor, Steve Wright. He served as the second longest-serving Administrator in Bonneville's history and his leadership prepared Bonneville for the continued evolution of the energy industry. I am pleased to be here today to discuss the President's Fiscal Year (FY) 2014 Budget as it relates to Bonneville.

In my testimony today, I will share with the Committee Bonneville's significant successes over the past year, how we are addressing key challenges and opportunities, and I will provide an overview of the FY 2014 budget.

BONNEVILLE'S RECENT SUCCESSES

In FY 2012, Bonneville celebrated its 75th anniversary. Since its creation, Bonneville has been a major force in the Pacific Northwest, providing renewable power that is the cornerstone of the region's economy, helping to preserve the environment and raising the standard of living for both urban and rural citizens. In this momentous milestone year, Bonneville continued to face the realities of the current economy. Nevertheless, Bonneville's foundational commitment to being a wise steward of the region's valuable resources enabled us to meet the challenge of managing through difficult economic times while making important progress in areas that advance both regional and national energy goals.

Debt Repayment

As the Committee knows, Bonneville ratepayers repay, with interest, the debt on the Federal investment in the Federal Columbia River Power System (FCRPS). In FY 2012, Bonneville made its full scheduled payment of \$886 million to the U.S. Treasury, including \$53 million in advanced amortization. This payment marks the 29th year in a row that Bonneville has made a full, on-time payment to the U.S. Treasury. We expect to make the 30th consecutive payment

this year on-time and in full. Bonneville finances its approximate \$4.3 billion annual cost of operations and investments primarily through power and transmission revenues and borrowing from the U.S. Treasury at interest rates comparable to the rates prevailing in the market for similar bonds issued by Government corporations.

Capital Strategy

The 75th Anniversary provided an opportunity to reflect on the assets of the FCRPS, which provide so much value to the region. The majority of the transmission system and its high voltage power lines and substations are more than 40 years old, yet Bonneville and its utility customers have successfully maintained and enhanced an extremely reliable transmission system. The average age of the Federal hydroelectric plants is about 50 years, with some that exceed 60 years. As this critical infrastructure ages, replacements and upgrades will continue to increase operational efficiency and provide reliable service, needed capacity and capabilities, ensuring that the region has an adequate, reliable and low-cost power system.

The need for investment in the FCRPS assets has become a significant theme in the regional conversation Bonneville has with customers and stakeholders. In FY 2012, as part of its bi-annual public cost review, Bonneville initiated a new public process called the Capital Investment Review (CIR). The CIR provides an opportunity for Bonneville to share with stakeholders the strategic drivers of Bonneville's long-term capital program based on its asset strategies. The asset strategies provide information about the health of the assets and long-term capital investment needs and priorities. They provide a 10-year guideline for asset management and the associated capital spending forecasts and set long-term direction for managing power and transmission system assets to maximize their economic value.

Power Customer Pre-Payment

The CIR was well received by regional participants and provided an understanding of the need for continued significant investment in the system and Bonneville's capital constraints. It also gave stakeholders confidence in Bonneville's strategic direction and enabled the implementation of alternative financing arrangements for capital projects. Even with the American Recovery and Reinvestment Act (ARRA) providing a sizable increase in Bonneville's borrowing authority, such alternative financing arrangements help to preserve U.S. Treasury Borrowing Authority.

One innovative new tool initiated in 2012 is power customer prepayment. This program, designed in consultation with a team representing the broad spectrum of our regional preference customers, allows power customers to prepay Bonneville for a portion of their planned power purchases through FY 2028. Bonneville then uses these customer prepayments to fund capital investments in Federal hydro-related projects.

Energy Efficiency

FY 2012 was the first year in which Bonneville implemented its Post-2011 Energy Efficiency Policy, which changed the way Bonneville funds energy efficiency in the region. The new policy creates an equitable distribution of energy efficiency funding throughout the region and ensures that the benefits of energy efficiency are more evenly distributed throughout the service territories of all of Bonneville's customers. Additionally, Bonneville played a key role in a number of energy efficiency successes in 2012, ranging from new measure offerings and

improvements to one of the largest energy efficiency projects in the nation. Consistent with the Northwest Power and Conservation Council's Sixth Power Plan, Bonneville continues to work to fill the efficiency pipeline with the technologies and measures that will create the foundation for an efficient future in the Northwest. In its recent Mid-Term Assessment Report on the Sixth Power Plan, the Council concluded that in the first two years of the Plan, the region's utilities, including Bonneville, achieved 44 percent of the Council's five-year energy efficiency saving target of 1,200 average megawatts. The Council also concluded that based on utility projections, the region is on track to achieve the full five-year target.

KEY CHALLENGES AND OPPORTUNITIES

Heading out of our 75th year, this is a time of great challenge and opportunity for Bonneville and the energy industry in the Northwest. We expect to see fundamental changes in the Pacific Northwest power system. Growing demand and increased intermittent renewable development in the West are combining to put new strains on our transmission and power systems. Bonneville is working closely with customers and stakeholders throughout the West and looking for opportunities to meet these new demands.

Increasing Demands on the Power and Transmission System

Due to changes in markets and transmission patterns, and the expected continued increase of intermittent renewable generation resources on the system, the Northwest Federal power system and transmission grid are now being operated in ways not originally envisioned. Several transmission paths are near or at their capacity limits. Transmission congestion can force deviations from the optimal dispatch of generating resources, which can in turn lead to higher regional costs for delivered power. Further, a heavily loaded system constrains the agency's ability to take line or substation assets out of service for needed maintenance, repairs and replacements.

Renewable portfolio standards in the West continue to drive intermittent renewable energy growth. In the Bonneville balancing authority area, 36 wind projects totaling more than 4,100 MW have been interconnected into the transmission grid. To facilitate these resources, Bonneville has built eight substations and seven tap lines. The rapid pace of wind growth in the Pacific Northwest is expected to plateau, however, over the next two to four years driven primarily by changes to California's energy policy. California, which was once expected to meet a significant portion of its renewable portfolio standard needs with Northwest wind energy, is now expected to rely primarily on its own in-state resources, including wind, solar and distributed generation. Nevertheless, the existing large amount of wind generation in the Pacific Northwest is driving changes in system operations.

Transmission Planning and Development

Bonneville will continue to develop innovative approaches to planning transmission development in the region. To support the load growth and marketing needs of transmission customers, we are collaborating with stakeholders to revise and enhance policies and procedures with the objectives of: promoting more efficient and effective regional transmission planning processes and timelines; clarifying rights and responsibilities for Bonneville and its customers;

ensuring equitable cost allocation; reducing financial risks to Bonneville and its ratepayers, and mitigating stranded investment exposure.¹

In FY 2012, Bonneville partnered with several regional investor owned utilities (IOU) to evaluate two transmission projects aimed at solving some of the region's transmission challenges. BPA has executed a non-binding memorandum of understanding to evaluate a change to the IOU-proposed Cascade Crossing Transmission project. Additionally, Bonneville signed agreements with two IOUs to participate in the environmental work and permitting for the Boardman-to-Hemingway 500-kilovolt line. Participation keeps Bonneville's options open for serving its six southeast Idaho public utility customers after June 2016. Bonneville also signed an agreement with another regional IOU to examine potentially coupling existing Bonneville facilities with some new IOU transmission facilities in order to improve reliability in the Portland area.

Pursuant to Public Laws 93-454 and 96-501, language requesting authorization for the construction phase of the Boardman-to-Hemingway, or any alternative project that would enable Bonneville to serve the southeast Idaho load, appears in the proposed appropriations language of Bonneville's Congressional Budget submission. Section 4(d) of the Federal Columbia River Transmission System Act, 16 U.S.C. § 838b(d), requires Congressional expenditure approval for Bonneville to commit its self-financed funds to commence construction of a major transmission facility. With anticipated construction activity for this project starting in FY 2014, it will be critical to get this expenditure authority.

Rates – Managing for Short and Long-Term

Bonneville is in the process of determining rates for power sales and transmission services for FY 2014 and FY 2015. This process will be completed in July 2013, with a final Bonneville proposal for FY 2014 and FY 2015 rates submitted to the Federal Energy Regulatory Commission (FERC) for approval. Bonneville faces serious challenges to minimizing increases to its power and transmission rates. Despite its effective cost control measures, very low wholesale power prices and Bonneville's capital needs are driving the proposed rate increases. Bonneville's initial proposal is a rate increase for both power and transmission, as published in the Federal Register on November 8, 2012 and filed in the current rate case. The greatest driver of Bonneville's future power rates is reduced net secondary revenues from surplus power sales on the open market. These revenues are significantly affected by the extremely low prices for natural gas resulting from large volumes of newly produced gas in addition to reserves already in storage. Forecasts for future years anticipate some small recovery, but market prices for Bonneville's surplus power are likely to remain low.

On the transmission side, the primary driver of the proposed rate increase is the recent investments in the transmission system. Bonneville's transmission rates have not increased since 2006; however, the costs associated with investments to maintain reliability and integrate renewable electricity to meet regional goals will put pressure on rates in the coming years.

¹ Stranded investment exposure is the risk that costs incurred by a utility may not be recovered under market-based conditions.

Columbia River Treaty – Nearing Recommendations for Formal Engagement with Canada

The Columbia River Treaty between the United States and Canada has served as a model of international cooperation since 1964, bringing significant flood control and power generation benefits to both countries. Because of certain provisions in the treaty, it is now time to evaluate whether it is in the best interest of the United States to continue, amend, or terminate the treaty. Either Canada or the United States can terminate most of the provisions of the treaty any time on or after September 16, 2024, with a minimum 10 years written advance notice.

Even though the treaty has brought significant benefits to both countries over the past 40 years, circumstances in both countries have changed in areas such as fish and wildlife, recreation, cultural resources, irrigation, navigation and water supplies that are influenced by hydro operations in the Columbia River Basin.

The U.S. Entity, consisting of the U.S. Army Corps of Engineers (Corps) and Bonneville, is responsible for implementing the treaty for the United States. The Sovereign Review Team, a policy-level team of Federal, state and tribal representatives, is currently in the midst of a multi-year review process designed to help the U.S. Entity identify and consider viable options for the Treaty's future after 2024. The goal of the process is to prepare a recommendation to the U.S. Department of State in September 2013.

Protecting Endangered Species Act-Listed Fish

As stewards of the FCRPS, Bonneville has a mandate to mitigate the impacts on fish and wildlife of Federal hydropower development and operations on the Columbia River and its tributaries. Bonneville is guided in its program implementation by the Northwest Power and Conservation Council's Fish and Wildlife Program and the associated biological opinions (BiOp) issued by NOAA Fisheries and the U.S. Fish and Wildlife Service under the Endangered Species Act (ESA) for the operation of the FCRPS.

This program, funded by Bonneville ratepayers, is the largest ecosystem restoration program in the nation. In 2012, Bonneville acquired or restored approximately 70,000 acres of important habitat and protected 25,000 acre feet of water in Washington, Oregon, Idaho and Montana. This land and water will be managed to conserve fish and wildlife.

Dam operations and structural improvements for safe fish passage form the centerpiece of the program for ESA-listed salmon and steelhead, and they are proving effective. The National Oceanic and Atmospheric Administration (NOAA) Fisheries 2008 BiOp for the main-stem dams on the Columbia and Snake Rivers sets a high bar for dam performance, calling for an average dam survival rate of 96 percent for young fish migrating downstream in the spring and 93 percent for those migrating in summer. Bonneville with its Federal partner the U.S. Army Corps Engineers is on track to meet or exceed those standards at all Federal Columbia and Snake River hydro projects.

Bonneville is working diligently to implement the current BiOp and to identify specific mitigation measures for the 2014-2018 period. This summer, Bonneville, the Corps and the Bureau of Reclamation plan to release for public review a draft comprehensive evaluation of the status of the fish and the results of the restoration work over the first five years of this BiOp.

NOAA will evaluate this, as well as our implementation plans for 2014-2018, to produce a new or supplementary BiOp in late 2013.

Part of Bonneville's commitment to help facilitate salmon and steelhead protection and recovery includes beginning construction in FY 2013 on three significant fish projects. Pursuant to Public Laws 93-454 and 96-501, these projects require Congressional expenditure authority and are listed in the proposed appropriations language of Bonneville's Congressional Budget submission. The projects are consistent with the 2008 Biological Opinion and the 2008 Columbia Basin Fish Accords.

FY 2014 BUDGET OVERVIEW

Bonneville is in sound financial condition and is well positioned for the future. Bonneville's FY 2014 budget proposes estimated accrued expenditures of \$3,046 million for operating expenses, \$61 million for Projects Funded in Advance, and \$1,179 million for capital investments.

Bonneville's commitment to fish and wildlife mitigation and enhancement is exemplified in its substantial direct program budget of \$314 million, capital and expense.

Bonneville's FY 2014 budget is a business-based budget that supports Department of Energy priorities and goals.

Table BP-5 in Bonneville's FY 2014 Congressional Budget submission provides increased transparency regarding potential Bonneville third-party financing activity and projects funded in advance, which is estimated at about \$2,150 million during the FY 2012 through FY 2018 period.

Please see Attachment A for budget data based on current services for FY's 2012 through 2014.

CONCLUSION

Mr. Chairman, this concludes my prepared remarks. I am excited by the role Bonneville is playing to achieve regional and national goals for clean, low-cost, and reliable electricity supplies while operating in a fiscally prudent manner. I would be happy to respond to any questions from the Committee.

Attachment A

Bonneville Power Administration

Funding Profile by Subprogram ^{1/}

(Accrued Expenditures in Thousands of Dollars)

	Fiscal Year			
	2012 (Actuals)	2013 Original ^{2/}	2013 Revised ^{2/}	2014 Proposed
Capital Investment Obligations				
Associated Project Costs ^{3/}	214,187	N/A	248,349	249,802
Fish & Wildlife	57,679	N/A	67,145	60,275
Conservation & Energy Efficiency ^{3/}	79,785	N/A	75,200	75,200
Subtotal, Power Services	<u>351,651</u>	N/A	<u>390,694</u>	<u>385,278</u>
Main Grid	64,070	N/A	213,321	233,097
Area & Customer Service	7,356	N/A	32,663	21,128
Upgrades & Additions	95,940	N/A	237,463	275,648
System Replacements	87,469	N/A	233,610	216,557
Transmission Services Total	<u>254,836</u>	N/A	<u>717,057</u>	<u>746,430</u>
Capital Equipment & Bond Premium	<u>44,149</u>	N/A	<u>57,813</u>	<u>46,897</u>
Total, Capital Obligations ^{3/}	650,637	937,196	1,165,563	1,178,605
Expensed and Other Obligations				
Expensed	2,832,169	2,464,963	2,929,697	3,046,259
Projects Funded in Advance	304,698	94,989	71,790	60,511
Total, Obligations	<u>3,787,503</u>	<u>3,497,148</u>	<u>4,167,050</u>	<u>4,285,375</u>
Capital Transfers (cash)	493,194	877,573	179,174	132,442
Bonneville Total	<u>4,280,697</u>	<u>4,374,721</u>	<u>4,346,224</u>	<u>4,417,816</u>
Bonneville Net Outlays	340,000		(10,000)	(10,000)
Full-time Equivalents (FTEs)	3,037	3,117	3,175	3,100

Public Law Authorizations include:

Bonneville Project Act of 1937, Public Law No. 75-329

Federal Columbia River Transmission System Act of 1974, Public Law No. 93-454

Regional Preference Act of 1964, Public Law No. 88-552

Flood Control Act of 1944, Public Law No. 78-543

Pacific Northwest Electric Power Planning and Conservation Act of 1980 (Northwest Power Act), Public Law No. 96-501

These notes are an integral part of the preceding tables.

- ^{1/} This budget has been prepared in accordance with PAYGO. Under PAYGO all Bonneville budget estimates are treated as mandatory and are not subject to the discretionary caps included in the Budget Control Act of 2011. These estimates support activities which are legally separate from discretionary activities and accounts. Thus, any changes to Bonneville estimates cannot be used to affect any other budget categories which have their own legal dollar caps. Because Bonneville operates within existing legislative authority, Bonneville is not subject to a "pay-as-you-go" test regarding its revision of current-law funding estimates.
- ^{2/} Original estimates reflect Bonneville's FY 2013 Congressional Budget Submission. Revised estimates, consistent with Bonneville's annual near-term funding review process, provide notification to the Administration and Congress of updated capital and expense funding levels for FY 2013.
- ^{3/} Includes infrastructure investments designed to address the long-term needs of the Northwest and to reflect significant changes affecting Bonneville's power and transmission markets.