

TESTIMONY OF JOHN HAIRSTON
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HEARING ON

*EXAMINING THE PRESIDENT'S FISCAL YEAR 2024 BUDGET PROPOSAL FOR THE
U.S. BUREAU OF RECLAMATION, U.S. FISH AND WILDLIFE SERVICE,
NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION AND THE
POWER MARKETING ADMINISTRATIONS*

SUBCOMMITTEE ON WATER, WILDLIFE AND FISHERIES
COMMITTEE ON NATURAL RESOURCES
UNITED STATES HOUSE OF REPRESENTATIVES

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Good morning, Chairman Bentz and members of the Subcommittee. My name is John Hairston and I am the Administrator and Chief Executive Officer of the Bonneville Power Administration (Bonneville). I am pleased to be here today to discuss Bonneville's proposed budget for Fiscal Year 2024 and to discuss Bonneville's current initiatives.

Role of the Bonneville Power Administration

Bonneville is a Federal Power Marketing Administration headquartered in Portland, Oregon. It serves a 300,000 square mile area that includes Oregon, Washington, Idaho, western Montana, and parts of northern California, Nevada, Utah, and Wyoming.

Bonneville markets electric power, provides transmission, and supports development of energy conservation throughout the region. Bonneville markets the electric power produced from 31 Federal hydroelectric projects owned by the U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation (Reclamation). The 31 projects have a total electric generating capacity of over 22,000 megawatts and produce 8,593 average megawatts in an average water year. Bonneville also acquires non-Federal power, including the power from one nuclear power plant, the Columbia Generating Station, to meet the needs of its customer utilities.

Bonneville maintains and operates over 15,000 circuit miles of transmission lines and associated facilities over which this electric power is delivered. Its transmission system is a substantial majority of the Northwest's high-voltage electric grid. It is Bonneville's responsibility to plan for and fund the operations and maintenance of this system, while also preserving and enhancing physical security, cyber security, and overall system resilience.

Bonneville is fully self-financed, issues bonds directly to the U.S. Treasury, and receives no direct annual appropriations for operations. Bonneville has authority to borrow up to \$17.7 billion from the U.S. Treasury which is available on a permanent revolving basis. Bonneville's power rates and transmission rates are set to recover its costs.

Bonneville is also required to protect, mitigate, and enhance fish and wildlife, including related spawning grounds and habitat, affected by the development and operation of hydroelectric projects of the Federal Columbia River Power System pursuant to the Pacific Northwest Electric Power Planning Act ("Northwest Power Act").

Bonneville Strategic Direction Update

Bonneville is producing an updated strategic plan, building on the 2018-2023 Strategic Plan that established objectives for Bonneville to operate in a commercially successful manner while meeting its statutory obligations. Bonneville developed this strategic plan after listening to customers and constituents express their interests in Bonneville's commercial viability and ability to meet those obligations. The 2018-2023 strategic plan was developed at the point when Bonneville was midway through 20-year firm power sales contracts with its preference power customers.

The 2024-2028 Strategic Plan builds on the framework of the previous plan, coming from a place of financial strength and with competitive rates. Bonneville's new strategic plan focuses on six goals:

- Invest in people
- Enhance the value of products and services
- Sustain financial strength
- Mature asset management
- Preserve safe and reliable system operations
- Modernize business systems and processes

Financial Plan

In 2022, Bonneville continued its focus on financial strength with a public process to refresh its Financial Plan. The objective of the Financial Plan Refresh was to ensure Bonneville's long-term financial goals are supported with the appropriate targets, metrics and policies. The scope of the project focused on debt management, debt capacity, and capital execution performance reporting. Bonneville engaged customers and constituents through a series of workshops to discuss proposals. Bonneville published its 2022 Financial Plan on September 14, 2022.

In April 2023, the nation's leading credit agencies affirmed their positive ratings and outlook for Bonneville's financial health in their reports on debt instruments issued by non-Federal entities but secured by payment and other financial commitments provided by Bonneville. These ratings are:

- Moody's at Aa2 with a positive outlook,
- S&P Global Ratings at AA- with a stable outlook, and
- Fitch at AA with a stable outlook.

Bonneville Financial Performance

In Fiscal Year 2022, Bonneville met or exceeded all of its financial metrics. Bonneville ended the Fiscal Year with net revenues of \$964 million, far exceeding its rate case estimates. Its strong financial performance was the result of positive weather and river conditions allowing Bonneville to benefit utility customers and power consumers across the region. It also reflected continued cost management in the face of supply chain constraints and inflationary pressures.

As a result, Bonneville announced in December its intention to use a portion of its financial reserves for Power (\$500 million) and Transmission (\$63.1 million) rate reductions in Fiscal Year 2023, as well as for other high-value Power- and Transmission-specific purposes including fish and wildlife.

Fiscal Year 2024 Budget Overview

Bonneville is in sound financial condition. Its Fiscal Year 2024 budget proposes estimated accrued (self-financed) expenditures of \$2,879 million for operating expenses, \$46 million for projects funded in advance by customers, and \$929 million for capital investments. Bonneville funds its approximate \$3.9 billion in annual cost of operations and investments primarily through power and transmission revenues and borrowing from the U.S. Treasury at market determined interest rates. Please see Attachment A Bonneville budget data below based on current services for fiscal years 2022-2028.

Debt Repayment

Bonneville ratepayers repay, with interest, the debt on the Federal investment in the FCRPS. In Fiscal Year 2022, Bonneville made its full scheduled payment of \$951 million to the U.S. Treasury. This payment marks the 39th consecutive year Bonneville made a full, on-time payment to the U.S. Treasury. Bonneville expects to make the 40th consecutive Bonneville payment to the U.S. Treasury, currently estimated at \$965 million, by the end of this fiscal year, on time and in full.

This Fiscal Year 2024 Budget includes capital and expense estimates based on initial approved spending proposals from Bonneville's BP-24 Integrated Program Review. Capital investment levels reflect Bonneville's capital asset management process and external factors such as changes affecting the West Coast power and transmission markets, along with planned infrastructure investments designed to address the long-term needs of the region and national energy security goals.

Fiscal Year 2024-2025 Rates

In November 2022, Bonneville issued its Northwest Power Act section 7(i) Initial Proposal for power and transmission rates for Fiscal Year 2024-2025. This proposes a settlement to hold power and transmission rates flat. Upon final adoption by the Administrator, expected this summer, the rates are filed with the Federal Energy Regulatory Commission for interim and/or final approval to be in effect at the beginning of Fiscal Year 2024 on October 1.

New Power Sales Contracts

For decades, Bonneville supplied Federal power to utility customers serving communities throughout the Northwest through long-term power sales to regional utilities. Bonneville is the sole or major power supplier for most of these customers. With current contracts ending in 2028, Bonneville is working to preserve these important and mutually beneficial relationships through its Provider of Choice initiative to develop future power sales policies and contracts. The backdrop of this undertaking is more complex than ever before.

In developing the next generation of power sales policy and contracts, Bonneville is committed to being responsive to its customers' evolving needs while working within the framework established by Bonneville's statutes. Bonneville is committed to offering products and services

that are equitable, administratively straightforward, and offered at the lowest possible rates consistent with sound business principles.

In addition to supplying power from the Federal base system, Bonneville seeks to also offer customers flexibilities to invest in and integrate non-Federal resources they choose to use to supply electricity to serve their load. This collaborative policy and contract work will position Bonneville to support its customers and their communities for decades to come.

Western Markets Engagement

New markets present opportunities to enhance the delivery of reliable, affordable and carbon-free hydropower to our customers and optimize the Federal transmission system. Hydropower, an indispensable tool that boosts grid reliability and flexibility currently accounts for 32% of America's renewable electricity generation. One year ago, Bonneville successfully joined the Western Energy Imbalance Market (EIM). This participation allows Bonneville to obtain lowest cost real-time balancing energy from a wider Western market while also receiving greater value for Bonneville's clean hydro resources when there are opportunities and available supply.

Leveraging this experience in the EIM, Bonneville actively engages in shaping two market initiatives underway in the West — the California Independent System Operator's Extended Day Ahead Market and Southwest Power Pool's Markets Plus — to ensure they work with our statutory obligations and support our customers' needs and interests. Input from our customers and the public will inform our decision about whether to participate in either market option.

Bonneville is taking an incremental approach toward more integrated system operations, promising to enhance reliability and resilience. Bonneville will consider moving beyond a day-ahead market, if it chooses to participate in one, through the evaluation of services and benefits that could be provided by a regional transmission operator.

Bonneville played a leading role in the development of the Western Resource Adequacy Program, a major step toward ensuring reliability while integrating new clean resources into the grid and assuring it have the resources needed to meet demand.

Energy Efficiency

For more than forty years, Bonneville has been the catalyst in the Pacific Northwest in the development of conservation as a resource to meet the load demands placed on Bonneville by its regional power customers. Conservation, or energy efficiency, is Bonneville's priority resource to meet its regional contractual firm power load obligations. As of last year, Bonneville's cumulative energy efficiency savings totaled 2,532 average megawatts since the passage of the Northwest Power Act in 1980.

Transmission Service and Interconnections

Bonneville is experiencing significant demand for new transmission service and for interconnections to its transmission system. Several factors account for this demand. Clean

energy policies in the states of Oregon and Washington are driving an increase in transmission service requests, particularly into the Portland, Oregon, area and the Puget Sound region of Washington. While these load centers are on the west side of Bonneville's service area, much of the new clean resources able to meet their demand are located east of the Cascade Mountains. Meanwhile, Bonneville expects the reduced operation of 4.5 gigawatts of carbon-emitting generating capacity on the west side of the region. These situations of demand growth and generating resource location shifts will increase the need for transmission flows across the Cascades.

Bonneville responds to requests for new transmission service through its Transmission Study and Expansion Process, or TSEP. The initial phase of the annual TSEP is through the Cluster Study, which Bonneville has used since 2008. In the Cluster Study, Bonneville evaluates which of its pending transmission service requests can be met by existing facilities and which will require transmission system upgrades or expansion. Through the Cluster Study process, Bonneville can ensure that requestors bear the appropriate share of costs for studies to identify network upgrades.

The Cluster Study process allows Bonneville to confirm which of the transmission service requests in its queue are prepared to make the necessary financial commitments to continue in the process and, ultimately toward construction. Requestors who are interested in continuing through design and construction make commitments to take the transmission service they are seeking and securitize the projects. Bonneville generally funds project construction, recovering its costs from its ratepayers.

In last year's Cluster Study, Bonneville studied 144 transmission service requests with an associated demand of 11,118 megawatts. Of those requests, Bonneville was able to award over 1,000 megawatts of service without system upgrades. Customers representing about 7,000 megawatts elected to receive next step agreements in the TSEP to continue supporting identified reinforcements or projects. Bonneville expects to complete its 2023 Cluster Study by November 2023.

This past February, Bonneville initiated a stakeholder engagement process to begin pursuing changes related to its Generation Interconnection process. Bonneville currently has approximately 143,000 megawatts of interconnection requests pending in its queue for analysis, much of which are related to Washington and Oregon clean energy policies.

This demand for new generation interconnections to transmission is not unique to Bonneville or the Pacific Northwest. It is a national challenge as Federal and state policies incent the transition of electric generation resource mixes. Last year, the Federal Energy Regulatory Commission issued a Notice of Proposed Rulemaking (NOPR) targeting improvements in the interconnection process.

Bonneville evaluated concepts proposed in the NOPR and generally supports the concept of a first ready, first served Cluster Study process with readiness requirements. We are exploring the details of this concept and additional options through public discussions this spring and will propose tariff revisions this summer.

FCRPS Reallocation and Disposition Studies

While the Federal hydroelectric dams of the Columbia and Snake Rivers are valuable clean energy assets for the Pacific Northwest, Bonneville is concerned by the sharply declining value of Federal hydroelectric generation from Oregon's Willamette Valley. The Willamette Valley System was authorized by Congress primarily for flood risk management and the 11 dams in the system continue to provide considerable benefits to downstream communities for flood protection as well as for water supply and recreation. Eight of the dams have power generating capability and Bonneville pays approximately 40 percent on average of the joint costs for those dams.

The Willamette dams were built without fish passage facilities and, in response to litigation, the Corps is investigating structural and operational measures to provide fish passage at the power producing Willamette dams. In addition, the Corps proposed in the recent draft Environmental Impact Statement for the Willamette Valley System to indefinitely extend reservoir operations for fish passage that reduce power generation by about a third of recent annual average production of 184 average. These dams are among the highest cost projects in Bonneville's hydro portfolio, the estimated cost of structural measures will add to Bonneville's annual capital repayment costs which affect its rates for power customers. In addition, the Corps proposed in the recent draft Environmental Impact Statement for the Willamette Valley System to indefinitely extend reservoir operations for fish passage that reduce power generation by about a third of recent annual average production of 184 average megawatts.

In the Fiscal Year 2020 Energy and Water Appropriations Act, the House Committee report directed the Corps, Reclamation, and Bonneville to report on methods to modernize allocation of project costs among authorized purposes to reflect current benefits. The Corps and Bonneville focused on the cost allocations for the Willamette dams but could not agree on the method for updating cost allocations. For reference, in the Draft Environmental Impact Statement for the Willamette Valley System, the Corps estimates the annual value of flood protection from the dams as over \$1 billion a year, while the value of hydroelectric production averages \$26 million a year.

Similarly, for Fiscal Year 2021, the House committee report directed the Corps and Bonneville to continue to work to resolve their approaches to cost reallocation and provide quarterly reports on their progress. Bonneville has provided quarterly reports to the Committee.

In the 2020 Water Resources Development Act, Congress directed the Corps to report within two years of passage on the impacts of deauthorizing the power purposes at the Cougar and Detroit/Big Cliff projects of the Willamette Valley System. Bonneville provided its own assessment to the Corps that, because power production is a residual purpose of the Willamette dams and is available only after other project purposes have been optimized.

The 2022 Water Resources Development Act directed the Corps to conduct disposition studies for the power purpose at the eight Willamette dams within 18 months of enactment. The Corps has had initial meetings to discuss the scope of the disposition studies.

Fish and Wildlife

Bonneville funds regional efforts to protect, enhance, and mitigate fish and wildlife, including related spawning grounds and habitat, affected by the development and operation of hydroelectric projects of the Federal Columbia River Power System. In addition, the Administration is leading discussions to address issues in longstanding litigation regarding Columbia River fish mitigation.

These discussions include future Columbia River System operations and exploring Snake River and upper Columbia River habitat restoration opportunities. The current litigation stay runs through August 31st, and court-approved mediation is ongoing to seek resolution.

As part of Bonneville's fish and wildlife program and funding, in March 2023, Bonneville, the Corps, and the Reclamation agreed to an extension of the Columbia Basin Fish Accords through September 2025 with some Northwest states and tribes. These Accords are commitments by Bonneville, the Corps, and Reclamation for hydro, habitat, and hatchery actions that provide tangible benefits to salmon and other fish and wildlife species. These three year extensions will provide approximately \$409 million in fish restoration and protection.

The Accords were first established in 2008 and since then have protected more than 41,800 acres of riparian area and nearly 100,000 acre-feet of water. Through the funding provided by the Accords, States and Tribes have restored nearly 600 miles of streams, opened access to nearly 2,000 miles of fish habitat, and improved lamprey passage at Corps dams.

Columbia River Treaty

The Columbia River Treaty is an agreement between the United States and Canada that jointly coordinates operations for flood risk management and hydropower generation and provides other benefits as well. The Treaty went into effect in 1964 and is a model of transboundary water resource cooperation.

The United States and Canada are nearing an important date for the Treaty: In 2024, the Treaty shifts from 60 years of prepaid Canadian flood control space to an ad-hoc flood-risk management approach. In March, the United States and Canada committed to intensify work over the coming months to seek a modernized Columbia River Treaty regime to better reflect today's realities, while continuing to provide benefits to both of them.

The U.S. Government received authorization to negotiate with Canada on the Columbia River Treaty in October 2016. Global Affairs Canada notified the U.S. State Department in December 2017 of Canada's mandate to negotiate the Columbia River Treaty with the United States. Negotiations began in spring 2018 and continue to date. Both the U.S. Department of State and Canadian negotiators have discussed shared objectives and exchanged information on flood risk management, hydropower and ecosystem considerations. Bonneville will continue supporting the U.S. State Department in negotiations with Canada to achieve the U.S. objectives for a Modernized Columbia River Treaty Regime.

Conclusion

Bonneville continues to deliver tremendous value to the communities and economy of the Pacific Northwest, meeting its statutory obligations. I am proud of the accomplishments of our people and their dedication to Bonneville's mission. This concludes my testimony, Mr. Chairman, and I will be happy to respond to the Subcommittee's questions.

Attachment A

Bonneville Funding Profile by Subprogram^{1/}

(Accrued Expenditures in Thousands of Dollars)

	Fiscal Year			
	2022 Actuals	2023 Original ^{2/}	2023 Revised ^{2/}	2024 Proposed
Capital Investment Obligations				
Associated Project Costs ^{3/}	190,294	264,120	281,260	270,000
Fish & Wildlife	16,119	43,000	43,000	41,335
Subtotal, Power Services	206,413	307,120	324,260	311,335
Transmission Services	373,500	497,086	497,160	593,840
Capital Equipment & Bond Premium	20,905	22,002	21,047	23,983
Total, Capital Obligations ^{3/}	600,818	826,208	842,468	929,159
Expensed and Other Obligations				
Expensed	2,994,653	2,733,825	2,758,063	2,879,919
Projects Funded in Advance ^{4/}	120,536	55,775	61,166	45,924
Total, Obligations	3,716,007	3,615,808	3,661,697	3,855,001
Capital Transfers (cash)	694,200	696,000	735,596	673,266
Bonneville Total (Obligations & Capital Transfers)	4,410,207	4,311,808	4,397,293	4,528,267
Bonneville Net Outlays	(806,000)	(324,967)	(332,469)	(208,923)
Full-time Equivalents (FTEs) ^{5/}	2,847	3,000	3,000	3,000

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

Bonneville Outyear Funding Profile by Subprogram^{1/}

(Accrued Expenditures in Thousands of Dollars)				
	Fiscal Year			
	2025	2026	2027	2028
Capital Investment Obligations				
Associated Project Costs ^{3/}	275,675	281,620	288,001	294,794
Fish & Wildlife	41,300	29,000	15,700	15,000
Subtotal, Power Services	316,975	310,620	303,701	309,794
Transmission Services	581,009	555,897	537,180	546,032
Capital Equipment & Bond Premium	22,830	24,990	23,180	23,970
Total, Capital Obligations ^{3/}	920,814	891,507	864,061	879,796
Expensed and Other Obligations				
Expensed	2,993,800	3,094,149	3,176,877	3,257,217
Projects Funded in Advance ^{4/}	55,007	53,073	53,907	54,751
Total, Obligations	3,969,620	4,038,729	4,094,846	4,191,763
Capital Transfers (cash)	646,624	660,089	612,307	406,879
Bonneville Total (Obligations & Capital Transfers)	4,616,244	4,698,818	4,707,153	4,598,642
Bonneville Net Outlays	(137,386)	(121,344)	(102,062)	(49,988)
Full-time Equivalents (FTEs) ^{5/}	3,000	3,025	3,075	3,125

These notes are an integral part of this table.

- ^{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 that are 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 dollar caps. Because Bonneville's obligations are and will be incurred under pre-existing legislative authority, Bonneville is not subject to a "pay-as-you-go" test regarding its revision of current-law funding estimates. For BP-1 table, the CJ reflects forecasted outlays while the yearend GTAS reflects the actual outlay in the Budget Appendix.
- ^{2/} Original estimates reflect Bonneville's FY 2024 OMB 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 2024. The BPA estimates in this budget are consistent with the BP-24 IPR.
- ^{3/} Includes infrastructure investments to address the long-term electric power related needs of the Northwest and significant changes affecting Bonneville's power and transmission markets.
- ^{4/} In this instance, Projects Funded in Advance represents prepayment of Power customers' bills reimbursed by future credits and third party non-federal financing for Conservation initiatives. Also this category includes those facilities and/or equipment where Bonneville retains control or ownership which are funded or financed by a third party, revenue, or with Power or Transmission reserves, either in total or in part.
- ^{5/} As of 10/20/2022, DOE HR staff has reported FY 2022 BPA's FTE usage at 2,847.