

STATEMENT OF
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BEFORE THE
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SUBCOMMITTEE ON WATER AND POWER
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Madam Chairwoman and members of the Subcommittee, my name is Nicki Fuller and I am the Executive Director of the Southwestern Power Resources Association (SPRA). I come before you today as the representative of the customers of the federal hydropower program across the nation. First, I want to say thank you to you, members of this Subcommittee and Congress as a whole for supporting the federal hydropower program time and time again. You have recognized the importance of this program to your constituents and worked tirelessly to protect it. Second, I want to speak about some of the great successes we have had with the federal hydropower programs. The contributions to the nation, including the vast investment in federal infrastructure, cannot be overstated. Finally, I want to speak about some of the challenges we face. These challenges are not insurmountable, but will require your help to ensure federal hydropower is an economical and sustainable program both now and in the future.

SPRA is a voluntary, not-for-profit organization of rural electric cooperatives and public power systems in Arkansas, Kansas, Louisiana, Missouri, Oklahoma and Texas which serves nearly 10 million regional citizens. These cooperatives and systems are customers of Southwestern Power Administration (SWPA), a Power Marketing Administration (PMA) which is a part of the Department of Energy (DOE). There are four PMAs- Bonneville Power Administration (BPA), Western Area Power Administration (WAPA), SWPA, and the Southeastern Power Administration (SEPA). These entities market hydroelectric power generated at multi-purpose Army Corps of Engineers (Corps), Bureau of Reclamation (BOR), and International Boundary and Water Commission (IBWC) water projects to 1,200 public power systems and rural electric cooperatives in 33 states, as well as other public agencies, federal installations, and investor-owned utilities in special circumstances. In total, federal hydropower serves approximately 150 million U.S. citizens with clean, renewable hydropower.

Each PMA and the customers they serve are unique in statute, but alike in mission. The Flood Control Act of 1944 (58 Stat. 887, 890; 16 U.S.C.A. 825s) is SWPA's main authorizing legislation and is applicable to each of the PMAs. Through Section 5 of this Act, Administrators are required to "transmit and dispose of ... power and energy in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles."

Unlike most federal programs, the PMAs like SWPA pay their own way. Every dollar spent on the federal hydropower program is repaid with interest through rates charged to customers. This includes the costs of construction, operation and maintenance, and transmission of generating and marketing the hydroelectric energy.

Through permanent and annual Congressional authority, the PMAs today operate mostly off funding received from revenues collected through power sales. Annually approved use of receipts authority for SEPA, SWPA and WAPA fund operating expenses and purchase power and wheeling (transmitting) costs. When hydropower cannot be generated in a drought situation or when the water at the dams is used for purposes other than for electricity production (such as recreation and environmental mitigation), the PMAs purchase power on the open market to replace hydropower product. The purchase power and wheeling funding authority is important to ensure the PMAs can meet contractual commitments. Today, only a fraction of funding for SWPA and WAPA comes from traditional appropriations. These important but diminishing appropriations fund capital and transmission infrastructure efforts. For SWPA, the net appropriations from Congress is only 7% of their total operating budget. However, these appropriations- plus all other expenses for SWPA and for the Corps' costs for hydropower and a percentage of joint use expenses- are included in the rates that the customers pay. The taxpayers do not subsidize or pay for any activity of any PMA, including SWPA. This deserves repeating – the federal hydropower customers, your constituents, pay for all costs, and in some instances more than we should be paying.

CUSTOMER FUNDING OF ENERGY INFRASTRUCTURE

With all the discussion of “Public Private Partnerships” or “P3”, I want to inform the Subcommittee about the long, successful P3 program utilized by the PMAs and the generation agencies in cooperation with the federal hydropower customers. Beginning in the 1990s, federal hydropower customers began noticing increased unscheduled outages at Corps and BOR hydropower plants. These outages were increasing costs to the PMA customers because outages often make it necessary for PMAs to purchase expensive replacement energy to meet their contractual obligations to their customers. Further, the federal budget cycle added to costs by delaying equipment repair and/or replacement.

Though outages were increasing, SWPA saw significantly decreased appropriations for hydropower infrastructure investment. Reduced appropriations to the federal power program does not represent savings to the U.S. Treasury. Fortunately, in 2000 Congress approved a mechanism allowing customers to provide funding to the Corps for needed hydropower infrastructure investment through power rates charged by SWPA.

With this in mind, SPRA in partnership with the Corps and SWPA, developed the Trust Memorandum of Agreement (Trust MOA). Under this agreement, the customers meet with the Corps and SWPA to determine the funding needs for the following fiscal year. Together, we rank projects based on need and risk of failure and then choose the projects that should be funded in the next fiscal year. This cooperative process allows the customers, the ones who pay the expenses, to have input on how their money is spent and it allows the Corps to have a predictable revenue stream to sustain this federal infrastructure. We have committed to the Corps that we will fund through the Trust MOA about \$2.4 billion for hydropower infrastructure over the next 30 years to complete rehabilitation of all 24 Corps hydropower plants marketed by SWPA. Through this process, we are able to keep local control and oversight, sustain federal infrastructure, and assure the longevity and future of the federal hydropower program.

Some version of customer-funding takes place in cooperation with each PMA, utilizing that region's specific needs and authorities. Through these efforts, PMA customers across the country have spent billions of dollars rehabilitating and replacing the nation's vital energy infrastructure.

CHALLENGES:

The PMAs are a rare federal program. For the most part, these are entities that provide a much-needed service to the nation while paying their own way- with interest- without costing the taxpayers a single cent. In addition, they pay the joint-use costs for dams that would otherwise create one more expense to the Treasury. That is not to say, however, that there are not challenges which face these entities and its customers.

Proposal to Sell the assets of the PMAs

The proposal to sell the assets of the PMAs threatens the very program which has successfully served my members for over 75 years. Let me repeat, the taxpayers do not subsidize or pay for any activity of any PMA, including SWPA. Therefore, there would be no savings for the Treasury with this proposal. In fact, if the federal hydropower customers did not pay the power rates, the taxpayers would have to fund the joint-use costs for the dams currently included in PMA power rates. This proposal would cause increased power bills for primarily rural end-users across the country while not saving the Treasury a single dollar.

This proposal is not a new one. Throughout history, several recent administrations of both parties have had the misguided idea that selling the PMAs or its assets would generate cost savings. However, through education by the federal hydropower customers, administrations have come to understand the fallacy in this idea and the importance of the continuation of the PMA program. In a letter to Office of Management and Budget (OMB) Director Mick Mulvaney regarding the President's Fiscal Year (FY) 2020 budget request, the American Public Power Association (APPA) and the National Rural Electric Cooperative Association (NRECA) wrote, "...there is no factual evidence that selling the transmission assets of the PMAs would result in a more efficient allocation of resources. Rather, it is much more likely that any sale of these assets to private entities would result in attempts by the new owners to charge substantially increased transmission rates to the PMA customers for the same service they have historically received. These arguments are merely a pretext for actions that would raise electricity costs for millions of people and businesses".

We are so grateful to members of Congress, including members of this Sub-Committee, who have stood firm in their resolve to protect this vital program. We are also grateful that the 63 House Members who signed a letter in opposition to this proposal have remained strong in their support of the PMAs and helped keep electricity rates low.

Rates and Competitiveness

The electricity industry has changed significantly in the past few decades. Where once my members were held captive to local generation which could only be accessed through direct transmission or transmission contracts, the energy markets and Regional Transmission Organizations (RTOs) have completely changed this method of doing business. My members are located in an area of the country which is surrounded by three RTOs. With this vast market comes the increased pressure for cost competitiveness for PMA rates.

However, even though now more than ever PMAs should be turning to reducing costs to remain competitive, there is a growing trend that must be addressed where federal hydropower rates are loaded with expenses unrelated to the generation of this power. In BPA alone, costs for fish and wildlife mitigation comprise roughly 30% of BPA rates. BPA's customers contribute up to \$750 million per year for direct and indirect fish expenditures. For the customers of the Central Valley Project in California, environmental costs have pushed the price for federal hydropower over the market alternatives in four out of the six previous years.

My members have been extremely grateful to SWPA that even with upward pressure on the rates they have been able to hold them steady now for six years. This was due to some extreme cost-cutting measures put into place by several SWPA administrators over the past six years. But these measures were only a band-aid. Greater action must be taken to ensure PMA rates remain competitive now and in the future.

We commend the PMAs for their continued efforts with the generating agencies both regionally and nationally to find process and operational efficiencies as major reinvestment in federal hydropower takes place. Speeding up acquisition, reducing outage times, and improving costs assignment practices will help keep federal hydropower competitive. Additionally, we would ask Congress to help us ensure that no laws are passed which would burden federal hydropower rates with even more unrelated costs. Finally, legislation recognizing federal hydropower for the clean, renewable energy source that it is would add significant value by allowing my members to receive Renewable Energy Credits (RECs) and other renewable incentives which are properly due for their SWPA allocations.

Transparency and Customer Involvement

As I have mentioned, each PMA is very different. Not only are the statutory and legal frameworks in which the PMAs operate different, the customers themselves and the relationship they have with their PMAs are diverse. At SPRA and within SWPA's footprint, we consider ourselves extremely fortunate. For SPRA's 60+ years of existence, I and those that have come before me have made cooperation between SWPA and its customers a primary mission.

SWPA professes to view SPRA as a bit of a Board of Advisors. This customer-service approach is evident in SWPA and its employees. Quarterly, SWPA updates my Board and me on all issues of importance, and asks for input on matters large and small. This transparency is the key to our long and successful relationship as business partners. That is not to say there have not been bumps in the road along the way. However, the established practice of frequent communication has allowed these issues to be addressed in a manner which was fair to all parties.

Not every customer group is able to say they feel as though they have the transparency they desire or have an accurate accounting for each dollar collected through their rates. As with any large organization, there is always a balancing act between information sharing and potential harm from the distribution of business-sensitive material. However, each PMA needs to be cognizant of the needs of the not-for profit utility customers and ratepayers paying the bills. As federal hydropower customers, we are in the rare position of also being utility operators who can provide insight and advice on issues faced by the PMAs. I believe with increased communication, each PMA would find a trusted advisor to help navigate the difficult and evolving world of electricity marketing and distribution. It is only through partnership that we will all remain successful.

ESPCs

Several private hydropower developers and equipment suppliers have proposed legislative language that would allow Energy Savings Performance Contracts (ESPCs) at federal facilities. ESPCs would allow private interests to repair or replace hydropower generation at existing federal dams and could receive compensation in the form of electricity. This is problematic because PMA customers have already executed contracts for that electricity. And even if the contractors were repaid in dollars, it remains unclear how these private interests would receive a return on this investment because of the unique system of federal hydropower. Any revenue that these private investors would want to receive would come directly out of the pockets of the federal hydropower customers.

In addition to allowing a mechanism for private companies to make a profit out of the pockets of federal hydropower customers, this legislative language is a solution looking for a problem. Since 1999, SPRA, SWPA, and the Corps have worked together to fund over \$750 million in infrastructure improvements and modernization on federally owned dams through one of the nation's first public-private partnership. The customers of SWPA have committed another \$1.65 billion over the next 30 years to fully revitalize the federally owned hydropower assets in the Midwest. Programs like these exist across the four PMAs to ensure the viability and sustainability of the federal hydropower program. Not only could ESPCs raise the rates of all of the PMA customers across the country, it is completely unnecessary. This would be a detrimental rate increase providing an unnecessary and burdensome solution to an issue that has already been addressed.

In conclusion, I come to you today proud of the PMA program we have all built. We still recognize there is still work to be done to ensure all federal hydropower customers are served in the most cost-efficient and cooperative way. At SPRA, we have a strong working relationship with SWPA, which has proved invaluable for the federal hydropower customers in the Midwest. Unlike other federal programs, this program and existing partnerships costs the taxpayers absolutely nothing yet benefit millions of citizens while investing in federal infrastructure assets. We are proud of the work that we have done in our area with SWPA and the Corps to be good stewards of the federal infrastructure, and ensure its viability. These dams provide so many benefits to my region including navigation, flood control, water supply, environmental programs, and recreation. Without the federal hydropower customers paying the bills, more of the costs of these joint activities would be borne on the taxpayer. Thank you for your tireless efforts to

protect the PMAs and ensure this cost-based public power is allowed to continuing serving the needs of communities and citizens in 33 states across the Nation.

Madam Chairwoman, this concludes my testimony. Thank you for allowing me to come here today to discuss this important issue. I would be pleased to address any questions that you or the Members of the Subcommittee may have.