Northwest **Power** and **Conservation** Council

March 23, 2020

The Honorable James E. Risch
United States Senate
Washington, DC 20515

Dear Senator Risch:

The Northwest Power and Conservation Council would like to register its opposition to proposals in the Trump Administration's Fiscal Year 2021 budget regarding the Bonneville Power Administration. While recommendations to sell BPA's transmission system and require the agency to sell electricity at market rates have been proposed unsuccessfully in prior years, their reappearance in the latest budget must again be highlighted as detrimental schemes for the economy of the Pacific Northwest.

Of course, both proposals violate federal law. Power marketing administration asset sales proposals are prohibited by PL 99-349, the Urgent Supplemental Appropriations Act of 1986, and PL 100-371, the Fiscal Year 1989 Energy and Water Development Appropriations Act, included in Section 506 a permanent provision prohibiting the expenditure of federal funds to conduct studies relating or leading to the possibility of changing federal power marketing administration electricity rates from cost-based to market-based.

The proposal to sell BPA's transmission assets is especially troubling given the harm it would inflict on both Northwest consumers and on the Federal Treasury due to an estimated sales price that is far below the economic value of the system.

The Economic Impact of Privatizing BPA's Transmission System

The economic impact of the proposal on Northwest electricity consumers would be comparable to the rate increases from the 2000-2001 West Coast energy crisis. Between 1999 and 2002 retail rates in the region increased 36 percent. Because of that crisis, the region's economy lost about $10 billion in 2000 and 2001. The increase in rates reduced electrical load across all sectors of the Northwest's economy by an amount equivalent to a 30 percent reduction in residential electricity consumption.

Electricity-intensive industries such as aluminum smelting and wood products manufacturing either closed business for good or lost significant market share in the national and international markets as their cost of production increased. Over 77,000 jobs were lost between 2000 and 2003 and the unemployment rate rose from 5 percent to 7 percent.

Effect on Electricity Costs and Rates

The Trump proposal would hurt public power customers the most. It would require BPA customers to pay additional costs for transmission, distribution, and other ancillary components that are currently covered in the existing BPA rates.

A typical residential customer of public power currently pays about $94 per month for their electricity. The rate increase under the Trump proposal could increase the average customer's monthly bill by 15 percent to 30 percent. Customers in rural areas, where home heating is typically from electricity, could see an even larger increase in their bills. Rural customers of public utilities have some of the lowest income levels in the region and this rate increase would disproportionally affect them, potentially resulting in up to a 3 percent reduction in their disposable income.

Including the impacts on commercial and industrial customers, average regional rates can increase by 15 percent with medium market prices and by 40 percent with high market prices.

Long-term Financial Impacts

Uncertainty about future electricity prices would discourage industries from coming to the region. A prime example of this are data centers sited in the Northwest because of our abundant, affordable, clean electricity. Just as the energy crisis contributed to the demise of the aluminum industry, this proposal would lead to large industrial customers moving out of the region. Reduced loads and price volatility would reduce the financial strength of BPA, hindering its ability to cover its costs.

Increased Risks to the Northwest and the Federal Treasury

BPA's 2019 Annual Report indicates that the depreciated value of its transmission assets is $6.713 billion. Yet, the Trump Administration's Fiscal Year 2021 budget estimates that the ten-year stream of payments to the Federal Treasury as a result of a sale of the assets is only $3.279 billion (i.e., $2.982 billion net present value at 3% interest), which is about the same amount that BPA owes the Treasury for transmission related loans. In total, BPA's existing transmission system debt to the Treasury and others is about $5.5 billion. Considering the long-term value of BPA's transmission system, it is questionable why the Administration would be willing to sell it for considerably less than its depreciated value.

Other factors to consider in order to conduct an in-depth economic analysis of an asset sale include the net present value of transmission services over the economic life of the assets; how much BPA would have to pay to provide power to its customers; an estimate of the risk and added uncertainty in transmission rates; and an estimate of the costs and impacts of the system being purchased by multiple parties. There is little doubt that the total costs of these factors, and others that would likely arise, further increases the value of the system to the region.

From a purely economic perspective, selling BPA's transmission system would raise rates to the region and introduce more uncertainty to power systems in the Northwest and across the West.

Cost-Based Rates to Market-Based Rates

The effects of the proposal to require BPA to charge market rates will clearly increase the cost of electricity to the region's consumers, assuming today's expected market rates relative to BPA rates. These increases in electricity costs will affect all aspects of the regional economy. In the short run, consumers will experience the cost increase as if it were an additional tax, which reduces their disposable income. In turn, this will reduce their expenditures and depress the local economy.

Businesses will experience the price increase as well, and it will reduce their net income or increase the price they must charge consumers for their products. Some industries will not be able to change the price of their products because of competitive pressures and the reduction in net income will drive them, in some cases, to go out of business.

The Council's most recent economic analysis of requiring BPA to sell at market-based rates focused on the impacts to rural cooperative utilities using 2015 Energy Information Agency data. The results of the analysis indicated that over a 15-year period, these utilities, collectively, would be required to collect an additional $750 million. That would be an additional $297 collected each year per customer, about $25 per month or about a 23 percent increase in electricity bills to customers of rural cooperatives. This same type of analysis could be expanded to all BPA customers and all the segments served.

It is quite clear that Northwest consumers would see increased electricity bills under the Administration's proposal.

Please do not hesitate to contact the Council should you have any questions or concerns.

Sincerely,

Richard Devlin
Chair

Identical letter sent to all members of the Northwest Congressional delegation.