POWER MARKETING ADMINISTRATIONS TRANSFER

OVERSIGHT HEARING

BEFORE THE

SUBCOMMITTEE ON WATER AND POWER RESOURCES

OF THE

COMMITTEE ON RESOURCES HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

ON

THE POTENTIAL TRANSFER OF THE POWER MARKET-ING ADMINISTRATIONS OUT OF FEDERAL OWNER-SHIP

MAY 18, 1995-WASHINGTON, DC

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City of Detroit Lakes, MN

POWER MARKETING ADMINISTRATIONS TRANSFER

THURSDAY, MAY 18, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON WATER AND POWER RESOURCES,
COMMITTEE ON RESOURCES,
Washington, DC.

The subcommittee met, pursuant to call, at 10:01 a.m. in room 1334, Longworth House Office Building, Hon. John Doolittle (chairman of the subcommittee) presiding.

STATEMENT OF HON. JOHN T. DOOLITTLE, A U.S. REPRESENT-ATIVE FROM CALIFORNIA, AND CHAIRMAN, SUBCOMMITTEE ON WATER AND POWER RESOURCES

Mr. DOOLITTLE. The Subcommittee on Water and Power Resources will come to order.

The subcommittee is meeting today to hear testimony on the potential transfer of the Power Marketing Administrations out of Federal ownership. Under rule 6(f) of the committee rules any oral opening statements at hearings are limited to the chairman and the ranking minority member, and all members are invited to submit opening statements which will be included as part of the record.

I might just mention by way of reference, today we are debating and voting on the historic balanced budget amendment in the House of Representatives. There will be periodic interruptions with votes. We are just going to have to put up with that, and I guess about every hour we are going to have a 15-minute vote. So when it happens don't be surprised.

This hearing will focus on the potential sale of the three Power Marketing Administrations. It will review the existing competitive electrical supply system, evaluate the effect of the transfer out of Federal ownership, and consider some of the alternatives proposed

to effect the transfer.

The PMA's are agencies within the Department of Energy with the primary mission to market the electrical power produced at Federal water projects operated by the Bureau of Reclamation and the Army Corps of Engineers. The PMA's are facing a number of problems, including a drain on revenues for unrelated purposes, increased competition in the wholesale power market, deferred maintenance on the dams and power-generating facilities, and reoperation of dams for environmental purposes.

For purposes of the fiscal year 1996 budget resolution, the House Budget Committee made policy assumptions that include selling three of the PMA's to private, taxpaying corporations. According to Budget Committee recommendations, quote, the three corporations would buy the power houses and related generating equipment at Federal dams plus transmission and other assets now owned by the agencies at the Department of Energy. The corporations, in turn, would be owned by the customers, who as of the sale date, buy the Federal power. These customers are primarily municipal utilities and rural electric cooperatives.

The net effect of the Budget Committee proposal over five years is to produce \$3 billion in deficit reduction. In setting the \$3 billion figure for recovery, it is our understanding that the Budget Committee recognized that the return could be greater depending on

how the transfers are executed.

There was also an assumption that by creating taxable entities there would be further revenue in the form of taxes. However, there are some difficult problems raised by this approach and questions which are unanswered. For example, how would tax-exempt public entities, i.e., the preference customers, hold stock in private taxable corporations which are engaged in the same basic business as these tax-exempt organizations? This provision might require changes to the Internal Revenue Code as well as State corporation and tax laws. It also raises the possibility that such entities would simply set rates so that no taxable income is produced.

Two, in addition, the management of the such entities would be cumbersome, Given the large number of preference customers served by some PMA's. There are also widely divergent interests. There would be a question concerning a relative management

weight given to each preference customer.

Three, the plan transfers the major income producing assets while retaining the assets with the greatest liability. There would be ongoing Federal costs with little or no income to pay for them.

The transfer of the PMA's will affect an existing private/public electric supply and distribution system in the United States. That system has grown up over the past 50 years with about 80 percent of the electricity currently generated by investor-owned utilities, IOU's, and about 20 percent by the public power systems. The Federal Energy Regulatory Commission, FERC, regulates wholesale power rates and the availability of access to the transmission systems.

As FERC continues to make the electric utility business more competitive, they are taking steps to let public and private electrical providers compete directly for each other's customers. However, with minor exceptions, the public power providers can use the transmission systems of the IOU's to compete for the IOU's customers, but the IOU's do not have the same open access to the public power transmission systems.

In determining the nature of the PMA transfers, the subcommittee must look at the impact on existing and future competitive trends in the marketplace. This impact will include decisions about whether to make the ultimate purchasers of the PMA's subject to FERC or the principles of the FERC competitiveness regulations.

Just a bit of historic review here. In the early 1900's when privately-owned utilities served primarily the large urban markets, Congress authorized and appropriated funds that would allow mu-

nicipalities and rural cooperatives to build electric utility systems to meet their needs. When the Federal Government advanced the funds for the construction of these public power facilities, the revenue subsequently generated by the sale of the electricity was to be returned to the Treasury to pay for the capital expenditure. Since that time, two schools of thought have arisen concerning the nature of those payments.

Some in the public power sector have come to view the payments as the acquisition of an equity interest in the facilities themselves both in the rural and municipal systems as well as in the PMA's that supply some of their power. Others view the revenue generated as merely payments for the electricity received which do not

create ownership interests in the PMA's.

I believe there is ample evidence for transferring the PMA's out of Federal ownership. However, even a cursory review reveals that there are significant issues to be addressed. They include the effects of such a sale on ratepayers, a determination of which assets should be sold, and the consequences of any transfer to other users.

There are public power policies that should be protected in the transfers. We can and should provide for limitations on rate increases to provide a smooth transition from the current situation. The trend toward increased competition should be enhanced by this transfer rather than frustrated thereby.

Finally, the Federal Government should not be left with the liabilities while transferring the revenue-generating resources out of Federal ownership. I remain very concerned about our ability to reach these objectives effectively if we limit all transfers to the ex-

isting public power entities.

As we hear from the broad spectrum of witnesses we have today, I trust that these witnesses will provide some creative suggestions on how best to meet these goals, and, with that, I would like to recognize our ranking member, Mr. DeFazio, for any statement he may wish to make.

[The statement of Mr. Doolittle follows:]

STATEMENT OF HON. JOHN T. DOOLITTLE, A U.S. REPRESENTATIVE FROM CALIFORNIA

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The net effect of the Budget Committee proposal over five years is to produce \$3 billion in deficit reduction. In setting the \$3 billion figure for recovery it is our understanding that the Budget Committee recognized that the return could be greater depending on how the transfers are executed. There was also an assumption that by creating taxable entities, there would be further revenue in the form of taxes. However, there are some difficult problems raised by this approach and questions

which are unanswered:

1. How would tax-exempt public entities (the preference customers) hold stock in private taxable corporations which are engaged in the same basic business as these tax exempt organizations? This might require changes to the Internal Revenue Code as well as State corporation tax laws. It also raises the possibility that such entities would simply set rates so that no taxable income is produced.

2. In addition, the management of such entities would be cumbersome given the large number of preference customers served by some PMA's. There are also widely divergent interests. There would be a question concerning the relative management

weight given to each preference customer.

3. The plan transfers the major income producing assets while retaining the assets with the greatest liability. There would be ongoing Federal costs with little or

no income to pay for them.

The transfer of the PMA's will affect an existing private/public electric supply and distribution system in the U.S. That system has grown up over the past 50 years with about 80% of the electricity currently generated by investor owned utilities

(IOU's) and about 20% by the public power systems.

The Federal Energy Regulatory Commission (FERC) regulates wholesale power rates and the availability of access to the transmission systems. As FERC continues to make the electric utility business more competitive, they are taking steps to let public and private electrical providers compete directly for each other's customers. However, with minor exceptions, the public power providers can use the transmission systems of the IOU's to compete for customers but the IOU's do not have the same open access to the public power transmission systems.

In determining the nature of the PMA transfers, the Subcommittee must look at whether or not to affect the existing and future competitive trends in the market. This will include decisions about whether to make the ultimate purchasers of the PMA's subject to FERC or the principles of the FERC competitiveness regulations.

In the early 1900's, when privately owned utilities served primarily the large urban markets, Congress authorized and appropriated funds that would allow municipalities and rural cooperatives to build electric utility systems to meet their

When the Federal Government advanced the funds for the construction of these public power facilities, the revenue subsequently generated by the sale of the electricity was to be returned to the Treasury to pay for the capital expenditure. Since that time two schools of thought have arisen concerning the nature of those payments. Some in the public power sector have come to view the payments as the acquisition of an equity interest in the facilities themselves, both in the rural and municipal systems as well as in the PMA's that supply some of their power. Others view the revenue generated as merely payments for the electricity received, which do not create ownership interests in the PMA's.

I believe there is ample evidence for transferring the PMA's out of Federal ownership. However, even a cursory review reveals that there are significant issues to be addressed. They include the effects of such a sale on rate payers, a determination of which assets should be sold, and the consequences of any transfer to other users.

There are public power policies that should be protected in the transfers. We can and should provide for limitations on rate increases, to provide a smooth transition from the current situation. The trend toward increased competition should be enhanced by this transfer, rather than frustrated. And finally, the Federal Government should not be left with the liabilities while transferring the revenue sources.

I remain very concerned about our ability to reach these objectives effectively, if

we limit all transfers to the existing public power entities.

As we hear from the broad spectrum of witnesses we have today, I trust the witnesses will provide some creative suggestions on how to meet these goals.

Thank you.

STATEMENT OF HON. PETER A. DEFAZIO, A U.S. REPRESENTATIVE FROM OREGON

Mr. DEFAZIO. I thank the Chairman, and I look forward to hear-

ing the testimony.

I'm very skeptical about a number of the assumptions that have been made by the administration and others regarding the sales of the PMA's. In a lot of cases if one were to look carefully at the PMA's, their existing obligations, the revenue streams that they provide to the Federal Government, disposal, particularly disposal at bargain prices, is not in the best interests of the Federal tax-payers, and in many instances disposal, parcelization or sale, is not going to be in the interests of large regions of the United States or the ratepayers of those regions. So this is something we should

enter into cautiously.

I regret deeply that the Democratic administration, knowing little of what it was talking about, began down this path last December and has never revisited those assumptions. In a rush to find a way for the President's bid in the tax cut bidding war going on here on the Hill, they just threw out a lot of outrageous and unsupportable numbers which have been picked up by Members of Congress regarding the revenues that we could realize by selling the PMA's. Of course we then disregard the fact that we lose a revenue stream over the next 20 or 30 years. Essentially we sell the furniture to take a trip to Las Vegas.

These are investments that have been made by the Federal Government. They are being repaid by the ratepayers of those regions to the Federal Government that provide stability in those areas, economic growth, prosperity, taxes to the Federal Government,

and, you know, we have got to visit this issue very carefully.

I am not an expert on all of the PMA's, only on the ones serving my region, but I look forward to the testimony that will be before us and enter into this other, than the reservations I have stated, with a totally open mind.

Mr. DOOLITTLE. All right. Amongst the Members to testify, Mr. Scott Klug is present, and we welcome you, Mr. Klug, and please

share with us your insight on this matter.

STATEMENT OF HON. SCOTT L. KLUG, A U.S. REPRESENTATIVE FROM WISCONSIN

Mr. KLUG. Thank you, Mr. Chairman, and I'll submit a protracted statement for the record, but I'll keep my initial comments

fairly brief.

If I can, let me just make three or four of what I think are very important points, and I want to go back to Mr. DeFazio's comments to begin with. I think at the top we really have to, first of all and foremost, make a philosophical judgment, does the Federal Government in 1995 still need to produce and sell electricity, and I'll make it very clear to this committee up front that I say absolutely not. I think in many ways the Power Marketing Administrations are an anachronism left over from the mid-1930's. I think 60 years later it is awfully difficult to justify why the Federal Government is still involved in the business of producing and selling and distributing electricity.

On the back of the statement you have in front of you I think is an interesting map. This is produced by Merrill Lynch, and it is global trends—industry trends, I should say, in the global power sector. These are privatization projects going on across the world. We are, I'm sure this committee will be astonished to find, behind Malaysia, the Philippines, China, Russia, Hungary, Turkey, Ukraine, Pakistan, Italy Brazil, Bolivia, Chile, Argentina, Peru, Columbia, Mexico, and Canada in privatizing electric companies and

utilities and energy-producing resources owned by the central government.

Now in an era we are about to enter, retail wheeling, where electricity can be bought and sold and moved across State lines, where a California utility in a few years will be able to sell in Massachusetts and a Florida utility in Washington State, I think we have to ask why it is the Federal Government continues to rope off sections of the country.

Now fundamentally I also have to tell you that it is my judgment that what consumers of the Power Marketing Administrations have been paying for years is electricity, it is not paying off the assets, no more so than when I pay my utility bills back home I'm buying electricity. I don't get shares of stock in the mail some months

later.

It is also abundantly clear that many more people today and many more people in the past have paid for than actually had the opportunity to use the cheap power produced by the Power Marketing Administrations, and so I think we have to ask ourselves again in 1995 why it is that taxpayers in Wisconsin or Florida or Texas

pay to provide cheap power to other corners of the country.

Now if we are going to look at models on how we should do this, what you have described and what I think the Budget Committee has talked about is the idea of selling it primarily to its current customers. It is a model that was used by Great Britain some time ago when it moved to privatize its public power resources, but I would suggest that the better model actually for the United States

to look at is what New Zealand did.

In New Zealand the fundamental goal was to maximize the return on the investment, to get as much money as possible in house. The administration, under the proposal they have written, thinks we will raise about \$3.3 billion. The House budget resolution selling price is just a little bit over \$3 billion. But if you look at some of the initial analyses that have been done by outside investment firms, we think the four Power Marketing Administrations, Alaska, Southeast, Southwest, and Western, are probably close to \$7 billion, and that may be and underestimated price as well. So I would submit to the committee if we are going to do this, we need to be very clear up front what it is we are trying to do.

In the past when the Federal Government has privatized other resources we have always had very mixed motives. For example, when we privatized Comsat some years ago, if our only choice would have been to maximize the price, we would have restricted the data on that satellite to the fewer number of people possible to make sure we got the most money we could, but instead what we decided is, since the Federal Government and therefore taxpayers paid for these resources and this data, we should keep the

revenue stream a little more open, and so we tempered that.

I think the same kind of philosophy should be used in the Power Marketing Administrations when we decide to sell them, and that is to essentially hire outside financial consultants to figure out how best to take the systems apart, and, if you will, to kind of walk our way up the food chain. Alaska is the least complicated. Somewhere down the road Tennessee Valley Authority is the most complicated. And I think what we want to do is, rather than go into this and

assume what we want to do immediately is to structure the rules to only sell them to rural electric cooperatives or to municipals, we should really make sure what price we can get for which parts of

the systems.

As you know, Tucson Electric, for example, has a proposal on the table to buy some of the resources of the Western Power Marketing Administration. As you know, Mr. Chairman, in the Central Valley Project, there is actually a coalition of the State and a number of public utilities who are interested in buying it, and I don't think we want to do this in every case just so that REA's are essentially cut out of the loop and don't have any opportunity to bid and compete, but it also seems to me absolutely foolish if we are trying to maximize the sale price in these cases that we are going to preclude investor-owned utilities.

So let me, because I know we have a vote going and I want to keep this short so we can at least get one series of testimony under the way, make the case that I'm delighted that you and the chairman of this full committee are going to explore and aggressively pursue this. I'm delighted to actually find ourselves in a situation when we are about to, one way or the other, jettison the Power Marketing Administrations away from the Federal Government.

At the time when we are talking about eliminating the Department of Energy and nearly a third of the Department of Energy staff works for the Power Marketing Administrations, unless you take them off the Federal books, to talk about eliminating the Department of Energy is a joke, you are just going to change names

on the letterhead.

But fundamentally when you decide how to go through with this, I'd urge this committee to examine this just as you would any other investor. You have a very valuable asset to liquidate, and I think it would be a mistake to rush to judgment on how to liquidate that asset.

Finally and fundamentally, if this is a budget decision then it should be the decision of this committee to fully explore all the revenue streams, to fully explore the maximum return on the investment, and then finally, once you have reached those decisions and once you understand that judgment, to try to figure out how to balance the conflicting needs between maximizing the return to the Treasury and also understanding in some cases there could be implications for some corners of the country, and, again, I'll submit a full statement for the record and thanks for having the opportunity to talk to you.

[The statement of Mr. Klug may be found at end of hearing.]

Mr. DOOLITTLE. Thank you very much.

Are there questions of Mr. Klug?

Mr. DEFAZIO. I have some questions, Mr. Chairman.

Mr. DOOLITTLE. Yes, sir.

Mr. DEFAZIO. Thank you, Mr. Chairman.

Mr. Klug, do you own a house?

Mr. KLUG. Yes.

Mr. DEFAZIO. What interest rate are you paying?

Mr. KLUG. Good question. We refinanced about a year ago, somewhere in the high 7's or low 8's, I think.

Mr. DEFAZIO. OK. You know, I'm not sure, you are not certain of the rates compared to the market, but the question would be, for instance, I refinanced at a better time. I've got a 7.0 rate on my house in Oregon, and banks currently, no way they are going to lend me that money at 7 percent. Would you say I'm getting a subsidy because I happened to get the loan at a time and lock it in when interest rates were lower? Does that constitute a subsidy by the bank of me? Is that a problem?

Mr. KLUG. No. but-

Mr. DEFAZIO. OK. Well, if I could continue with my time, the loans to BPA have occurred over a 50-year period, some of which were let out at a market rate of 1.5 or 2 percent. That was the existing market rate at that time. Now today we look back and say well, if we could have that money today and loan it out today, well, we could get 7 percent because that is what we are selling 30-year treasuries for. Well, I fail to see how that is a subsidy. The Bonneville Power Administration will pay. There will be a revenue stream to the Federal Government of \$750 million approximately

in the next fiscal year, principal and interest.

Now, you know, your numbers regarding BPA, this \$250 to \$450 million a year subsidy seems to be predicated on the fact that the Federal Government lent them money a long time ago at rates that were current at the time but we wish they were higher now. Well, my bank wishes that I was paying them 8 percent too, but I had a deal, I had a contract, as did the BPA. Now should we go back and revisit all of the existing Federal loans that are out there being repaid by everybody and raise the interest rates constantly to market rate and move them up? Should they all become variable? I mean that seems to be a major part of your assumption.

Mr. KLUG. The substantial difference is that we didn't ask the taxpayers to help subsidize the interest rates on your mortgage on

your house.

Mr. DEFAZIO. Federal mortgage insurance, Fannie Mae, Sallie Mae, all these things, there is certainly some Federal interest in stabilizing the housing market, and I would think if the Federal Government didn't participate at all that we would see higher mortgage rates.

Mr. Klug. First of all, Sallie Mae actually is the secondary mortgage company that authorizes student loans, which, incidentally,

wants to be privatized so they can pay their loans.

Mr. DEFAZIO. Right, but these are all things that were started by the Government in order to create secondary markets, liquidity,

and to help, you know, maintain those markets.

Now the question here is, you know, are we just going to revisit all of the past Federal investments, whether it is in education, housing, power, and we are just going to have constantly to revise anything to current market rate? I mean so we couldn't ever lend anybody—the Federal Government couldn't be involved in any long-term obligation because there wasn't a variable rate loan.

Mr. Klug. First of all, when they got their initial loans they were at a subsidized rate, so they didn't get it at market rates when this began. If they would have essentially borrowed money from the private sector we wouldn't be having this discussion, because there wouldn't have been taxpayer subsidy loans over the

history of the Bonneville Power Administration or any of the rest of these. So this idea that somehow what we are doing is comparing market rates today to market rates in the past isn't true, be-

cause they were subsidized.

Mr. DEFAZIO. They were approximately the same rates that Social Security got at that time, so I guess Social Security got a real bad deal from the Treasury. If you go back and look at outstanding obligations to Social Security in comparable years, you will find comparable rates of interest are being paid on some of those 30-year-old debts to Social Security. So I guess we are screwing the Social Security Trust Fund because that was all we were paying them.

Mr. KLUG. Mr. DeFazio, remember though that the Social Security System serves the entire United States. The Bonneville Power Marketing Administration does a very good job serving the Pacific Northwest. Unfortunately, my consumers in Wisconsin aren't allowed to buy power at the same rates. So the question really becomes a question of national equity, and at a time when you are going to move to retail wheeling and certainly Bonneville is going to face tough competitive pressures, it is already, and if the argument is, well, somehow Bonneville has had these rates in place and they can never be forced to live under competition I think simply isn't true, and as somebody, as I know you are, who is very interested in energy efficiency and very interested in the efficiencies in the use of energy, period, know that oftentimes the best way to guarantee that somebody will be efficient is when there are competitive pressures under way, and I think Bonneville's rates, frankly, might shrink if they face competition.

Mr. DEFAZIO. As you aptly point out in your testimony, they have made some disastrous decisions in concert with the Federal Government such as the WPPS debacle, and they are saddled with such a debt load at this point in time, and I don't think anyone has been more critical of the operations of BPA. Essentially they are losing customers. They have lost about 1,000 megawatts of customers in the last month. Public customers and private customers are going elsewhere and getting long-term power agreements.

So you say that there are some loss leaders out there underselling BPA. They aren't loss leaders unless these people enter into 10-year loss leader deals, and I don't think there are too many customers operating 10-year loss leaders. I mean the market in the Northwest has now—and the West, has undercut Bonneville's and some of its most optimistic assumptions, eliminating bureaucracy, cutting costs, and everything else—I mean unless we can get rid of the WPPS debt, and unfortunately that predates me, and somehow we made the WPPS debt secondary—I mean primary, and the Federal debt is secondary. So, you know, the rate-payers and the taxpayers have to pay off the WPPS debt before we can begin to deal with the Federal debt.

Mr. KLUG. Well, again, I think the fundamental question back to the beginning—you and I disagree on this—the question is whether Bonneville and the other Power Marketing Administrations are an anachronism. I mean to the credit, for example, of the folks who operate Sallie Mae today, they have said, look, why is the Federal Government still today in the business of providing a secondary market for student loans? It is no longer necessary. Let us get out from under the wings of the Federal Government and operate and stand on our own. We don't want any continued strings with the

Federal Government.

Frankly, I think it would be in the best interests of the Bonneville Power Marketing Administration to try to figure out how it is they can get from under the wings of the Federal Government and learn how to stand on their own two feet, and I think decade after decade after decade after decade of Federal Government involvement, Federal subsidies, Federal support of employees connected to the Bonneville Power Marketing Administration should immediately come to an end.

Mr. DOOLITTLE. Does the gentleman-

Mr. DEFAZIO. Well, I have just one final—I mean if one were to take a sober assessment of their outstanding obligations, both Federal and private, because of WPPS, look at the current market, I believe that the sale price of BPA would be less than the total obligations, which means that the Federal taxpayers would have to pay to sell it, and then they would lose the \$760 million a year revenue stream. It doesn't make a lot of sense to me. That would be a subsidized sale of an asset just to satisfy a philosophical bent as opposed to a sound business decision which benefits Federal taxpayers long-term, and that is the current existing situation out there. I mean no one—you know, to buy this entity with essentially \$16 billion. I mean if this were a private company it would have been in Chapter 11 a long time ago.

Mr. KLUG. Well, I'll make a deal with you, and that deal would be that we should send a signal to Wall Street and to investment firms that Bonneville may be for sale, and then we can take a look at the price, and, in addition, when you take that into consideration you obviously have to include the revenue stream that will come back to the Federal Government when these are for-profit

ventures that have to pay taxes.

Mr. DOOLITTLE. Will the gentleman yield for just a moment?

Mr. DEFAZIO. I will certainly yield.

Mr. DOOLITTLE. We have got a Journal vote on. I think we are going to have to go now and do that.

Mr. Cooley, you have some questions of Mr. Klug. Is that right?

Mr. COOLEY. Yes, but I don't think I have enough time.

Mr. DOOLITTLE. No, you don't have. Let me just say, let's go and

vote. Mr. Klug, can you come back?

Mr. KLUG. Mr. Chairman, unfortunately, I can't because I have to go and have this same argument on the Senate side in a few minutes, but Mr. Foley will be here, and I'm sure he can address the same kinds of concerns.

Mr. DOOLITTLE. We are going to have to go, so we will reconvene

in a few minutes.

Recess.1

Mr. DOOLITTLE. The subcommittee will reconvene if people will take their seats.

Our next witness is the Honorable Mark Foley.

Just in the interests of time, we have got a number of witnesses today. We are going to run the lights and ask the questions to be limited—testimony and questions limited to five minutes apiece.

Welcome, Mr. Foley.

STATEMENT OF HON. MARK ADAM FOLEY, A U.S. REPRESENTATIVE FROM FLORIDA

Mr. FOLEY. Thank you very much, Mr. Chairman, and good morning, members of the committee. I appreciate the privilege and the opportunity to testify today.

I will try to limit the amount of time I take and offer my written

testimony for the record of this hearing.

The Power Marketing Administrations and the policy we apply to them in the future serve as an example of a common debate occurring in the Nation today. That debate, simply stated, is whether we should continue to subsidize benefits for just a privileged few at the expense of many. I compliment the committee for its interest in this issue, and I am happy to add my voice and the voice of millions of taxpayers to this discussion.

As the Nation emerged from the Great Depression, we worked to bring electricity to the greatest number of people. Clearly, the Power Marketing Administrations served a vital role in this important and necessary mission. By providing preferential sale of federally generated power at below market cost, the PMA's, in conjunction with the ever expanding private sector, helped electrify practically every inch of American soil. Now that this important goal

has been reached, what should happen to the PMA's?

The President and the House Budget Committee have both proposed selling the PMA's. Some of these proposals, unfortunately, have not gone far enough. As background, I will tell you that my interest in the PMA's started with my work on the House task force to eliminate the Department of Energy. Since the start of this Congress, the task force has investigated every program and function of the department. I am proud to inform you that very soon the task force will unveil legislation that redirects or eliminates every single element of the Department of Energy. My portion of that bill will be a title that proposes the sale of all five Power Mar-

keting Administrations.

After using Representative Klug's bill, H.R. 310, as the perfect starting point, I have added many provisions that would protect consumers and ensure the most benefit to the American taxpayer. It will call for the Secretary of Energy to work with a private, non-governmental consultant to establish an honest, fair market value for all assets of the five PMA's. Once the value is established, it directs a sale by process of the highest bidder for these assets. Most importantly, it calls for a rate stabilization mechanism that will guarantee no extreme rate increases for current consumers of PMA power. I reiterate, to ensure the most return to the Federal Government for the massive investment it has made, it will call for the highest paid sale and does so without placing a burden on current consumers.

I believe that if we simply transfer these assets for the net present value of the debt we will provide an unfair subsidy to the group that receives the preference. This subsidy would impede the progress being made toward a free and competitive base power

market.

It is essential that the issues be considered in an open and honest way. For that reason I would like to spend my last few moments addressing the most common misconceptions associated with

the sale by the highest bid.

First, some claim a sale of any type means unreasonable rate increases. I disagree. As you will hear today, a bid has already been offered by the Department of Energy by Tucson Electric Company. This bid would ensure no rate increase in excess of what would

occur at the facility under the PMA management.

Additionally, as I have stated, the PMA legislation I am offering would limit any potential rate increase. During the process of drafting this language it has become clear that rate guarantees are available as part of legislation or contractual arrangement. It must be stated though that any such obligations will undoubtedly affect the final sale of the assets.

The reason for potential rate change is the current below market rate of PMA power. PMA power is sold at rates more than 50 percent less than the national electric rate. As the chart included with this testimony shows, the PMA rate is at times over 100 percent

less than the regional market rate.

Next, as we consider these sales we are told that the current preference customers have equity in these facilities. By their assumptions, the amount that they pay covers operation and maintenance but also pays back principal and interest incurred since the building of the original facilities. I do not accept this premise. I currently lease an automobile. When the term of my lease is ended I will not have equity in the car. Despite the fact that I have paid a monthly charge, bought gas and oil to operate it, and occasionally paid for repair, I certainly will not be able to tell the dealer that I am now a co-owner of this asset.

Finally, claims are made that the sale would only supply a onetime infusion of cash, thereby leaving potential revenue on the table. This only occurs if the current preference customers purchase the PMA's. These customers are rural electric coco-ops and municipal power utilities, both of whom receive wholesale tax-free power and resell it with tax exemption. In 1993 investor-owned utilities paid \$10.8 billion in Federal income tax, and to assume that acquisition of an additional 35,400 megawatts of electric generation capability would not add to that revenue is ludicrous.

A sale by the highest bid would guarantee the highest return for years of the investment the American taxpayers have made in the PMA assets. It is the method of sale supported by a host of this country's most notable taxpayer and consumer watchdogs. Some of the groups in support are Citizens Against Government Waste, the Seniors Coalition, the Small Business Survival Committee, the Competitive Enterprise Institute, and the United Seniors Association, to name a few.

As this Congress moves to downsize bureaucracy and works to rein in Federal spending we must show Americans that we have the courage to end the benefits to a select few. I look forward to

working with you in these efforts to achieve fairness.

Thank you, Mr. Chairman.

[The attachments to Mr. Foley's statement may be found at end of hearing.]

Mr. DOOLITTLE. Thank you very much, Mr. Foley.

Questions of Mr. Foley?

Mr. DeFazio.

Mr. DEFAZIO. Mr. Cooley—Mr. DOOLITTLE. Mr. Cooley,

STATEMENT OF HON. WES COOLEY, A U.S. REPRESENTATIVE FROM OREGON

Mr. COOLEY. Thank you, Ranking Minority Leader, for the cour-

tesy of going first.

This will go on the record as probably the first time I have ever agreed with Mr. DeFazio on issues even though we are from the same State.

Mark, we have known each other for a long time. Stop and think about something when we talk about this process. Why does a private utility want to buy a Federal entity? Because they can make money from it. Otherwise they wouldn't want to buy it. Why should

you buy a loser? You are not going to.

Besides that, the private utility rates, at least in my part of the country, are vastly closer to what Bonneville and some of the other utility rates are paying because we are loading on the backs of some of these public utilities such things as endangered species costs, et cetera, et cetera, which is actually literally driving them to the point where they cannot make contracts.

Now in my area I have one of the biggest power users in the country, Northwest Aluminum Company. They are now buying power out of Texas through the transmission line of Bonneville. Could they do that if that transmission line was owned by a private utility? I don't know. But I think that there are some areas in here that we really have to truly look at before we start dumping these units.

Number one is, we have to look at, why did we build them in the first place? Why did the American taxpayer build these units? Because we needed electrification. We wanted to have competitive prices, and we wanted it done at the benefit of the people using

those utilities.

The argument comes in that we are subsidizing it because we are paying low interest rates. If you were to purchase a major building in a major city in 1934 you would have been paying 2.5 percent to 3 percent interest rates on that total property purchase. You might have had that over a 100-year mortgage because it cost in the millions and millions of dollars. The bank doesn't come to you 20 or 30 years later and say, "Gee, I want to renegotiate that interest loan because now the rates are 8 or 9 percent." It doesn't happen in business, and it should not happen also in public entities.

At the time the money was borrowed the rates paid were the going rate, and nobody worried about that. Now they are going back and criticizing that. We are talking about turning Government back to business with business principles, and we are going the other way now. I think we need to look at this as businessmen,

look at what it is doing.

This is supplying income to our Treasury. But some of them won't if we keep loading on the backs of the public utilities, some of the, quote/unquote, unnecessary burdens economically. Yes, you

are right, you will drive them to the point to where they are going to miss their Treasury payments, and then there will be a clamor in this building as there will on the other side to sell off these units because they will not be profitable. Now we know that that is happening in the Northwest. We know what is happening there, and, as they continue to require, obligate, our public utilities to meet certain regulations and so subsidize those regulations, we are going to make them not as competitive, that is true, and those private entities in the area will profit by that, and the thing is that I don't think that that is good government.

I think we are here to try to provide a good service to the people that we serve, and I think that all of a sudden by going out and overnight deciding to start selling off some of these assets, selling off some of these power units, is not good public policy. We should

look at them.

We discussed it yesterday in a four-hour meeting on the Alaskan. We have decided to sell the Alaskan unit. It is unique in itself because it really is not efficient any more and the public utilities are willing to pick it up and pay something for it. But some of these other ones we are looking at, there is a lot more to go into it than just all of a sudden starting to sell it—disruption of power source.

This country is run on electricity. We need to have a stable supply, and I think we need to take a real good look at this and not hurry down the road to try to get rid of these in order to readjust, quote/unquote, the Treasury. I think we can do that without selling these units off. I think we can balance the budget, and I think we can do it in an equitable way, but I think before we just hastily run down the road we need to examine each and every one of these utilities within its own unique sphere and what it will really do and also look at the other side of the ledger.

The other side of the ledger is that if something is not profitable, private enterprise is not going to buy it, and yet we have people clamoring to buy it, so it is obvious that there is something there that maybe we are not looking at as Members of Congress, as guardians of the taxpayers', money and as good government and

providing services to the people we represent.

Thank you, Mr. Chairman. Mr. DOOLITTLE. Thank you.

Mr. Foley. If I can only respond for just a minute, one of the things you brought up should be of great concern to us. As the free enterprise opens up and utility companies are allowed to move away from their geographically bound barriers, you will be starting to lose in the Bonneville and other PMA's customers, and as you have declining revenues this will place a greater burden on the American taxpayers.

A number of corporate debts around America have call provisions, so that somewhat answers that earlier question about the 100-year mortgage on a building that you had purchased. A number of notes have call provisions on interest rates. If we sell in fact to the highest bidder, the revenue generated will be coming to the Treasury in the form of tax payments on the profits of those utili-

ties.

So we do want to be careful. We are concerned with the consumers. We don't want to turn these over and have rapid rate increases. If you put a cap per year on the amount of rate increases from the current base rates, you will not only protect the consumer but you will also set a threshold on the pricing mechanism and the

value utility.

Much like in the real estate example, you base your net operating income on a cap rate or a yield. You determine the value of that property based on that analysis. The same would be true in the Power Marketing Administrations. We do have five. We want to look at the five independently. We want the Secretary of Energy to go out and get a bona fide analysis of both the debt and the income streams and the potential for sale. It would not preclude your local municipal operators or the other rural co-ops from being participants in that purchase.

Mr. COOLEY. Would you yield, Mr. Foley?

Mr. FOLEY. Yes, sir.

Mr. COOLEY. Let me ask you one question. We now in the Northwest have spent \$2 billion mitigating salmon recovery. The rate-payers in the Northwest, going clear down to California, have paid this. There is a proposal of spending half a billion dollars a year starting in 1996. It is going to be picked up by Bonneville. If you were to sell Bonneville, who would pick up the cost? I'm just curious. What are we going to do to pick up that cost? Is that going

to come out of the Treasury?

Mr. Foley. That would have to be figured into the acquisition price. If there is a cleanup or a mitigation responsible, that would be a liability that the investor or purchaser would be required to take part in just as if you bought a piece of real estate knowing that there may be an underground storage tank of fuels, you know that in advance you have a requirement to clean the site up. The purchase price would be adjusted to reflect that type of expense that a purchaser would have to undergo.

Now I agree with you, there are things in the Endangered Species Act we are going to work on. I don't think they definitely relate

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Mr. COOLEY. We have been working on this for over 10 years and not been able to solve it. It is an open-ended situation. We realize that, the way the legislation the law is set up today, it is open ended. I don't believe, as a private entrepreneur, that anybody would buy something that is open ended, and I wonder how many other utilities throughout the United States or the other three that we are really looking at face the same type of problems that we have in the Northwest.

Mr. Foley. Well, again, in the analysis of determining value, all those factors have to come into play. If it is determined that in fact the liability is open ended, then I would assure you that Tucson or Florida Power or any other company that is interested in acquiring these assets will simply walk away from the table and we will be

right back where we started from.

I don't think there is a risk with going forward and determining an asset value. I guess that is my point. Let's find out what we really have here, and if those factors weigh heavily on an investor's mind they are certainly not going to lay down cash on the table and say I'm willing to risk and gamble, but it will tell us at least what our up front obligations are going to be as far as the United States taxpayer is concerned.

Mr. COOLEY. Thank you.

Mr. DOOLITTLE. The chair is going to recognize the ranking memer.

Let me just hasten to add, Bonneville is the most difficult of all these PMA's, and it is not the subject of the legislation. So I realize it has implications for all of them and it is fair to explore in questions, but it isn't being proposed that Bonneville be sold.

Mr. DeFazio.

Mr. DEFAZIO. Thank you, Mr. Chairman.

I guess I'm a little puzzled, and I'd ask the gentleman to explain a little bit more how it is we are going to sell it to the highest bidder theoretically at the market value when in an area the market range of power—let's take Phoenix, in the case of Tucson Electric, is 2.66 to 3.48, is the market range on your chart, and the PMA average is 1.56. How is it that we are going to sell it at the market rate to a profit-making entity and they are not going to increase the rates to the detriment of the current customers, which is your allegation here.

I mean I notice it says guarantee no extreme rate increases. So are we saying that a rate increase from 1.56 to 2.66 is not extreme? Is that what we are looking at? I would assume that this company is going to want to make a return on its investment. It is paying market rate, so therefore I would assume that it is going to want to increase rates. How much are you going to limit that increase, and therefore how much is that going to limit the disposal price?

Mr. FOLEY. Well, that is a function of what you set your cap rate at. If you limit increases to 10 percent per annum to get it up to a stabilized market rate, then your income stream will generate a net value price of the asset. So it is all a function of running the numbers up.

Mr. DEFAZIO. So is that a feasible scenario, 10 percent per year, to bring it to the market rate? Do you think that would be a rea-

sonable cap under this legislation?

Mr. FOLEY. Possibly.

Mr. DEFAZIO. So that would be a doubling within seven years, so electric rates would double for PMA customers in a seven-year period, and that wouldn't cause extreme hardship, undue problems, or economic disruption for all of those millions of customers?

Mr. Foley. I guess I would have to ask the question, if I'm paying market rate in my area of Florida for electricity coming to my home and my business, how fair is it for me to look at a neighbor in another State who has access to the PMA power and is substantially paying less than I do? I don't think that is a fair analogy either. I don't think that the Federal Government was in the business—

Mr. DEFAZIO. No, I'm just going by your allegation, which is, it would not be to the detriment of the current consumers. Clearly the caveat is that they may be looking at a doubling of their electric rates within seven years and we don't consider that to be to their detriment because other people pay higher rates.

Again, given the chairman's caution, I don't want to dwell too much on Bonneville Power Administration, but, you know, the Fed-

eral Government built the BPA to service in great part the aluminum industry for World War II, and they induced—since they had so much surplus power, they induced certain consumption so they basically—everybody in the Northwest or most people use electric space heating, and we have had a conservation program, and we are trying to move away from that, but the difference is that in Boston or some place else you would be crazy to try and use electric space heating, but it was induced by Government policy in the past, and it is hard too make an abrupt transition to say to every homeowner, well, either you have got to go out and get a different source of power or your electric rates are going to double.

I wouldn't say that 10 percent a year is any sort of reasonable assurance for current consumers in, say, Sacramento, 2.48 to go to 3.34 to 5.16. You know, I don't think the Sacramento ratepayers would find that to be nondisruptive of small business, seniors, and others. I don't know where they are going to find the extra money.

One other question. The taxes, what did Tucson Electric pay in taxes last year? I am just curious. I see their rates of return in the article, but it didn't state specifically their taxes. Do we know that?

Mr. FOLEY. You are going to have a representative here later. I'm

not a representative of Tucson.

Mr. DEFAZIO. All right. We will certainly want to get that question answered since I know the rates of return are regulated by public utility commissions and those sorts of things. I'm just curious what they did pay in Federal taxes and what sort of return we can look at, because we are looking right now with WAPA at a return—a net of \$153 million to the Federal Treasury. That is a lot of taxes. We would have to add up the aggregate, but we are talking a net of \$153 million for the Federal taxpayers. To come out ahead I would assume that we are going to see some pretty hefty taxes across a number of these private utilities. I just want to see if that pencil is out.

Mr. FOLEY. Do you have a suggestion as to what you would consider a reasonable rate increase so we can proceed with an evalua-

tion of the utilities?

Mr. DEFAZIO. Well. Each of us is an expert in its own region. I can tell you that in my region right now that BPA is being undercut daily and the market is below their PMA rate. So I don't know what the market conditions are in these other regions, but right now my largest public utility has just gone into the private market and is shedding BPA power to buy private power, and so market conditions are changing dramatically. But that also means that BPA is worthless. That is, you couldn't sell it, and I don't know what that means for these other PMA's at this point in time.

Mr. Foley. I think we have got to recognize that as an absolute important dialog to proceed, because as customers are stolen or taken or co-opted from the Bonneville or any other PMA's they will continue to decline in value until ultimately we are paying in excess of just the generating capabilities to maintain the facilities. Sometimes they say in real estate get out while the getting is good.

I'm afraid that is where we are headed.

Mr. DEFAZIO. I'm looking at handing it back to the Feds, I don't know about selling it.

Anyway, I thank the gentleman.

Mr. DOOLITTLE. Other members have the right to question. We have yet to hear from another Member of the House who wishes to testify. But does anybody over on this side wish to ask Mr. Foley further questions?

How about over here? Mr. Dooley?

Mr. DOOLEY. No, thank you, Mr. Chairman.

Mr. DOOLITTLE. OK. Let's welcome the Honorable L.F. Payne, a representative from Virginia who has a statement for the record. Mr. Payne.

STATEMENT OF THE HONORABLE L.F. PAYNE, A U.S. REPRESENTATIVE FROM VIRGINIA

Mr. PAYNE. Thank you, Chairman Doolittle and members of the

subcommittee.

I appreciate the opportunity to address the subcommittee this morning regarding the proposed sale of the PMA's and represent the south central part of Virginia. This region includes the federally-owned Kerr-Philpott hydroelectric facilities that generate electricity and market it through the Southeastern Power Marketing Administration, or SEPA.

Throughout our State almost one million of our citizens receive a significant portion of their electricity from these power facilities. These citizens and the consumer-owned electric cooperatives which they are members of are deeply concerned about the efforts to privatize the PMA's, and I share these concerns and have strongly opposed the sale for the reasons I want to discuss just briefly this

morning.

First, contrary to popular misconception, the Federal Government is not giving anything away through SEPA and the other PMA's. No one is getting a free ride because of the PMA's, but rather the power marketing arrangements represent a partnership with the majority of the Nation's 1,000 not-for-profit consumerowned utilities. These utilities purchase power through long-term contracts. Under these sales contracts, the PMA's recover all of their operating costs and the PMA's also recover an amount necessary to repay the construction costs of the power generating facilities with interest.

According to a report published this March by the Congressional Research Service, the net positive receipts to the Federal Treasury generated by the four PMA's will be \$243 million in fiscal year 1995. This is a significant stream of revenue to the Treasury.

Second, because these consumers have helped to finance the capital cost of our Nation's hydroelectric power facilities they have a real vested interest in the PMA's as a result of their investment.

It is important to remember that when this partnership was formed it was not always a good deal for these consumers. In many cases hydroelectric power was more expensive than competing forms of electricity, and rural America upheld their end of the bargain by meeting their financial obligations, and so I think we need to question the fairness of ending this partnership at this particular time.

Thirdly, the Power Marketing Administration plays an important role in ensuring price competition in the electric utility industry.

There are some other factors too which strongly argue against this sale. Preference customers have in some instances foregone new plants and sources of electricity because they relied on the continued existence of PMA's, and under existing budget rules this or any other asset sale will not be counted toward our deficit reduction.

Mr. Chairman, I know that there is great support for this sale. It was included in the President's budget, it is included in the House budget, the Senate budget proposals from the Budget Committee, and it enjoys the strong support of Mr. Klug from Wiscon-

sin who has already addressed this panel.

I must say that if this sale is approved that I would urge you to work with the preference customers to protect and preserve their equity investment in this power, and to that end I believe that it is important that any sale to the preference customers should be at a price where it would not adversely affect their utility rates.

Furthermore, the privatization issue is complex, and organizations necessary to the replace the PMA's may have to take several forms to best represent the interests of the preference customers. It may also be that in some instances component parts of the PMA systems can best be owned and operated separately. Therefore, flexibility to meet these needs should be an integral part of the pri-

vatization efforts.

Mr. Chairman, today we will vote on a budget resolution, one that will ensure that we reach a balanced budget by the year 2002, and certainly the rural people in my district and rural Americans will be a part of shouldering much of the burden in order to ensure that we do reach a balanced budget by the year 2002, and many of these people are also members of electric cooperatives that are preference customers of the Power Marketing Administrations. So I would urge you that if privatization happens, then let it be done in a manner that does not interrupt or disrupt our existing power supply markets, and I urge you to preserve competition by recognizing the huge investments that rural people have already made in these facilities by ensuring that PMA's are sold to existing preference customers, and I urge you to assure that any sale is structured to meet the needs of preference customers and the thousands of rural customers who rely today on PMA's affordable energy.

I thank you, Mr. Chairman, and thank the members of the panel.

Mr. DOOLITTLE. I thank the gentleman. Are there questions of Mr. Payne?

Mr. DeFazio.

Mr. DEFAZIO. Mr. Payne, I know you are both an able representative of your district and your State and have been a very successful entrepreneur, and I guess I would direct you to our predecessor colleague's remarks, Mr. Foley, and ask when we look at our discussion there and we talked about a 10 percent annual rate increase, a doubling within seven years, that he didn't find that to be either extreme or didn't feel it would be potentially disruptive, or, even if it was, that it was in the best interests of national equity. Could you address what you think the impact would be on those million customers of a 10 percent annual rate increase for seven years?

Mr. PAYNE. I think a 10 percent rate increase for seven years, as you suggest, would double the rates over a seven-year period of time. A doubling of rates in seven years would be a substantial increase, substantially higher than what is anticipated as it relates to inflation, perhaps double what other costs will increase over that time, and consequently I would say that efforts that we are making to generate economic development, for instance, in areas that badly need it as we are moving from agricultural economies to manufacturing economies would be hampered by rate increases such as that that you just described.

Mr. DEFAZIO. So perhaps then the taxes that might be realized because of the profits of a private power company purchasing those assets would be more than offset by a depressed effect on the taxes paid by the aggregate million people engaged in small business.

farming, and other sorts of employment?

Mr. PAYNE. I don't have any way to know that on a macroeconomic basis because I haven't had an opportunity to look at the other side, but I do know in region that I serve, that the electric cooperatives are an extremely important part of our region and an extremely important part of making life there affordable in a rural area and an extremely important part of making sure that we are competitive as it relates to attracting new industry into our region.

Mr. DEFAZIO. OK. I thank the gentleman and thank the chair.

Mr. DOOLITTLE. Thank you.

Are there questions from this side of Mr. Payne?

Mrs. Chenoweth.

Mrs. CHENOWETH. Thank you, Mr. Chairman.

Mr. Payne, I was interested in your comments about making sure that we protect the capital assets of the preference customers. Are you excluding the investor-owned utilities, or would you also plead as hard as I would for the capital investment and the investor-owned utilities as well as those PURPA customers that, for in-

stance, the PMA's have allowed direct access to?

Mr. PAYNE. My point was that over time, as this contract has been implemented over time, that a great deal of money has been paid from cooperatives and from small utilities to the PMA's, and that represents to them an investment over time of a source of power, and that is what I feel and others feel ought to be protected, that that shouldn't simply be given up without some recognition that an investment has been made over a very long period of time in those assets.

Mrs. Chenoweth. I really appreciated your comment, and I'm right with you so long as we can expand it to all of those who have made capital investments for the production of power and have

been recognized by the PMA's in allowing wheeling.

Being from the Northwest, I wanted to ask Chairman Moler a

couple of questions, if I might.

Mr. DOOLITTLE. Let me jump in and ask you to hold on that because she is going to testify and then you will have an opportunity to ask questions.

Mrs. CHENOWETH. All right. Thank you, Mr. Chairman. I have

had two or three committee meeting going so I missed that.

Thank you.

Mr. DOOLITTLE. All right.

Any further questions of Mr. Payne? All right. Thank you very much, sir. Mr. Payne. Thank you, Mr. Chairman.

Mr. DOOLITTLE. We will now move to recognize the chair of the

Federal Energy Regulatory Commission, Elizabeth Moler.

Welcome.

STATEMENT OF ELIZABETH MOLER, CHAIR, FEDERAL ENERGY REGULATORY COMMISSION

Ms. Moler. Good morning, Mr. Chairman and members of the subcommittee. It is a pleasure to be with you this morning to discuss issues related to the transferring of the Power Marketing Ad-

ministration's facilities and functions to non-Federal entities.

There are two points I want to emphasize at the beginning of my testimony today. First, as you have noted in your opening statement, Mr. Chairman, the electric utility industry is rapidly undergoing a transition to a much more competitive industry. The market for those who build new power plants to generate electricity is already competitive, and we have recently proposed to deregulate the price of power from those new facilities. We are looking at whether existing generating marketing can be made more competitive as well. We believe that a much more efficient wholesale market where buyers and sellers of generation capacity can easily conduct transactions will save consumers money and is in the public interest.

The key to making the wholesale market more competitive is transmission facilities. Transmission facilities are now regulated and operated as traditional monopolies. We have recently issued a notice of proposed rulemaking, known as our Open Access Rule, to require utilities to allow third parties access to their transmission wires. We do not have authority under existing law to require the PMA facilities to comply with our open access rulemaking, though we do have authority to require them to provide parties access on a case-by-case basis. Any legislation permitting the sale or transfer of PMA facilities should ensure that the PMA transmission systems are subject to open transmission access requirements being imposed on other transmission-owning utilities.

Second, PMA hydroelectric generating facilities are located at Federal Government dams operated by the Corps of Engineers or the Bureau of Reclamation. These generation facilities are not under Commission jurisdiction or license because they are Federal facilities. However, they could become subject to mandatory Commission licensing if they are transferred, depending upon who pur-

chases them.

Any legislation transferring PMA facilities, hydroelectric generating facilities, from Federal operations and control should be clear as to who, if anyone, is responsible for regulating them. Congress should resolve the uncertainties associated with these licensing issues in order to facilitate the sale of the PMA facilities and to enhance their market value.

Let me discuss each in a bit more detail, though I will certainly

limit my oral comments, as you have requested.

First, let me give you a broad overview of our existing statutory authority over PMAs. The Commission now only has limited statutory authority over the five PMA's. We regulate the rates of each PMA. However, our rate authority is very limited. We do not evaluate the PMA rates under the traditional just and reasonable standards of the Federal Power Act. The Northwest Power Act imposes some specific requirements on our review of Bonneville rates. Even so, our review is limited. We basically take a cursory look at their rates to make sure they provide for repayment of Bonneville's debt to the Federal Government.

The Commission also has limited authority to order PMAs to provide transmission service. We do not have general authority over the transmission service of the PMAs, the municipalities, or the cooperatives, though under the 1992 Energy Policy Act we can order PMAs to provide transmission service on a case-by-case basis. We have no licensing authority over the hydroelectric generating facili-

ties from which the PMAs market power.

Now what will happen if the PMAs are transferred? The regulatory consequences of any legislation will of course depend upon the specifics of any proposals you adopt. Depending upon who acquires the PMA assets, that entity could become subject to the Commission's regulation as a public utility under the Federal

Power Act unless you deem it otherwise.

If PMA facilities, for example, are acquired by an investor-owned utility that owns or operates facilities that are subject to our jurisdiction, the Commission would regulate the PMA assets transferred under the Power Act. We would regulate rates, terms and conditions, we would regulate transmission, and we would regulate mergers. If, on the other hand, they are transferred to a co-op or

a municipality, we would not have jurisdiction over them.

It is critical that you tell us whether you want us to exercise rate regulation over the assets that are transferred or not. It is equally critical that you tell us whether you want us to regulate and have jurisdiction over the hydroelectric generating facilities if they are transferred. Absent a specific directive, they will be subject to our jurisdiction under the Federal Power Act. If you take them out from under our jurisdiction, that is not the end of regulation over them. They could easily be subject to a myriad of State rules and regulations and perhaps a licensing regime under individual State authority.

We believe it is important that you address these issues in order to facilitate the transfer of the PMA facilities. Resolving the uncertainties about licensing should facilitate the sale of the PMA facilities, if that is what you want to do, and enhance the taxpayer's re-

turn on those facilities.

Thank you.

[The statement of Ms. Moler may be found at end of hearing.]

Mr. DOOLITTLE. Thank you very much.

The obtaining of a FERC license can be a rather lengthy and expensive process, can it not?

Ms. MOLER. Yes, sir.

Mr. DOOLITTLE. Give us a range, if you will, for the time and the

expense that could be involved.

Ms. Moler. It depends really on a whole variety of factors. It takes a minimum of four or five years because of planning and consultation that has to be done with resource agencies in advance

and a number of studies that are required. You have to count fish, for example. That has to be done in advance, and then we process the licenses in a one to two-year period under the best of circumstances.

Mr. DOOLITTLE. You said you have to count fish?

Ms. MOLER. Yes, sir.

Mr. DOOLITTLE. Who required that?

Ms. Moler. There are various statutes. If you get a FERC license you are subject to mandatory conditions from the other Federal fish agencies, and you have to provide for passage around the dams, and we have to know in advance whether the passage is working, and we also have to look at the effect of the generating facilities and whether fish go through those generating facilities or not.

Mr. DOOLITTLE. Do you have some suggestions you would be prepared to offer to this committee about ways to streamline the regulatory process so it didn't take a minimum of four to five years, including revisions to the various laws that you are citing?

Ms. Moler. We have not been making those suggestions. Most of the requirements are imposed on our process by the litany of statutes that you are already familiar with—NEPA, Endangered

Species Act, and so forth.

Mr. DOOLITTLE. I wonder if you can submit for the record the various acts and their requirements, because we are in the process of revising those and we would like to have the input of the Administration if possible.

Ms. MOLER. We are not the Administration, but we will certainly

submit our input.

[The material submitted may be found at end of hearing.]

Mr. DOOLITTLE. I would welcome your input and would appreciate that.

Let me ask you, this issue, FERC, is a big issue. Let's suppose these PMAs, these facilities, are transferred with a de facto FERC license because if they go to anything other than the exempt entities that are getting the power now, if we go to, say, an investorowned utility, then they are going to be subject to FERC, so if they get a de facto license what would you recommend to be the minimum length of such a license?

Ms. MOLER. We generally issue our licenses for a period of be-

tween 30 and 50 years under the Federal Power Act.

Mr. DOOLITTLE. OK, and would that be a recommendation in this instance?

Ms. Moler. You provide them a license in the process of the transfer, or you could accomplish something that would happen by operation of law for some sort of initial licensing regime, or exempt them from our jurisdiction. But, unless you do something like that, we would begin to license them under the mandatory conditions of the Power Act, and we would look at all these fish kinds of issues and the other endangered species issues and we would ultimately, presumably, impose mitigation requirements on them. And they may be up to snuff already. And then we would issue a 30 to 50-year license.

Mr. DOOLITTLE. Should the renewal dates be staggered to enable

FERC to handle the volume of licenses more efficiently?

Ms. MOLER. There are two schools of thought on that. One is that we should look at all of the licenses in a river basin and they should all be up at the same time so we can coordinate. Fish go along rivers, so the argument is that we do them all at once. The other is, so that we can cope, that you should stagger them.

I don't think it really makes a difference to us, though it is easier for us to do our environmental work if we take a river basin ap-

proach.

Mr. DOOLITTLE. Maybe someone else can answer this better, but what do you think it costs the applicant who is going through four or five years of minimum process to get the FERC license? Do you have any idea of the amount of money involved for them?

Ms. MOLER. No. sir. I don't.

Mr. DOOLITTLE. OK. All right. Thank you very much.

The gentleman from Oregon. Mr. DEFAZIO. I thank the chair.

Ms. Moler, I guess back to your basic assertion here in the open access, I have got a couple of questions regarding that, and I know FERC is perhaps in the midst of making some rules in this area, but I'm puzzled how we are going to deal with prior investment, something that the California Energy Regulatory Commission came up to, and they said, well, we'll allow people to amortize what were

good investments.

I mean there is a question here. Who is going to benefit? What I envision is a world where the new independents are out there snapping up the profit centers, which are generally large industrial or commercial customers not real interested in maintaining miles and miles of electric line to provide power to a farm in Mr. Cooley's district or a rural area in my district. I don't see that there is going to be a tremendous amount of competition to provide power to that

person or to carry the costs of that distribution system.

So I'm just puzzled how, in this brave new world where we go from a regulated monopoly to free market dealing with one piece of wire, what we are going to do with these utilities who made investments under existing conditions and now suddenly they have someone come in and pick off their profit centers and they have no option except to either, A, go bankrupt or, B, shift those costs on to their remaining customers, and I know this isn't exactly the thrust of this hearing, but this is just something that bothers me tremendously, and I wonder what great wisdom the Federal Energy Regulatory Commission, since you are such strong advocates of these changes—how are you going to deal with that?

Ms. Moler. Mr. DeFazio, in the world that you have just described where individual customers can buy from independent

power producers, that is a full retail wheeling environment.

Mr. DEFAZIO. I was under the impression you were advocating that.

Ms. Moler. No, I am not. We do not have that authority, and you specifically prohibited us in the 1992 Energy Policy Act from

getting into retail wheeling issues.

Mr. DEFAZIO. There were differences of opinions over the rather vague wording of the 1992 Energy Act, and being one of the two conferees who voted against the agreement, one of 30 people in the

House who voted against it, I felt that it was vaguely enough word-

ed that in fact it did authorize that.

Ms. Moler. Well, let's skip that discussion. In a full retail wheeling environment, the number for stranded investment, which is the term that we use to describe what you are describing, the amount, the price tag, on that is approximately a \$200 billion problem.

We are not proposing retail wheeling. We are looking at wholesale wheeling, a much more open access environment between utilities. We think you can make major improvements, major efficiency gains for customers, without staring a \$200 billion problem in the face.

We have, in our notice of proposed rulemaking that you alluded to and that is discussed very briefly in my testimony, recognized the right of utilities under the old regulatory regime to recover these stranded costs, to recover prudently incurred costs that they invested when they had an obligation to serve people, and we are proposing an amortization of those costs over a period of time to deal with it.

We have done this in the natural gas business where the industry has been restructured. We allowed the utilities to be paid those stranded costs, and even taking those stranded costs into account, and keeping the utilities whole, we have lower consumer prices as a result. It can be done, but it is a very difficult problem on the

electric side.

Mr. DEFAZIO. And would the wholesale transmission—I'm glad to hear. I mean it seems that there are certainly people out there who believe that retail wheeling is the objective and it has been author-

ized, but I'm glad to hear that isn't.

But in dealing with this problem, what conditions—I mean is there any mandate on FERC to see that this is a nonpolluting source of energy or it is particularly energy efficient? Are there any constraints? Is it renewable, or any of those constraints apply, or is basically the price the determining factor? That is, if someone can provide power cheaper on a wholesale basis, whether it is burning dirty coal somewhere in the Plains States, they then can become the efficient producer and should have access on the wholesale market?

Ms. MOLER. We assume that other agencies do their job with respect to dealing with pollution issues, and we do not deal with that

nor do we have authority to deal with it directly.

Mr. DEFAZIO. Again, you referenced the PMA's and needing to bring them under your jurisdiction in this arena. In the Northwest we have very strict mandates regarding conservation renewable preference. Would you then advocate or would you be prepared to carry that forward in your regulatory scheme, or are you assuming that that mandate would go away with any change in the status of the PMA? There would no longer be a conservation or renewable preference in the Pacific Northwest?

Ms. MOLER. Most of those kinds of mandates under the existing

law are imposed by State regulatory commissions.

Mr. DEFAZIO. This is Federal.

Ms. Moler. And we recognize in our proposed rulemaking that utilities, or if they become utilities, should have an opportunity to pass through the costs of those kinds of mandates as well.

Mr. DEFAZIO. OK. So in this case it is a Federal mandate, and you are not anticipating then that in the implementation legislation we do away with this mandate?

Ms. MOLER. No, sir.

Mr. DEFAZIO. ÓK. And I would assume then that any sorts of conditions we are putting on these sales would lower the market value of these entities.

Ms. MOLER. To the extent they cost money, yes, they would.

Mr. DEFAZIO. OK. I thank the chairman.

Mr. DOOLITTLE. Thank you. Mr. Cooley is recognized.

Mr. COOLEY. Let me ask you a question for clarification. Did I understand your testimony that you said that you had a limited

authority to order transmission services?

Ms. Moler. Yes, we basically have authority over investor-owned utilities. We do not have authority over co-ops and municipalities and PMAs, except under one particular provision of the Energy Policy Act of 1992 where we can order them to carry power for a specific customer upon application and after a proceeding.

Mr. COOLEY. Basically then, who does have the ultimate author-

ity over transmission lines?

Ms. Moler. We have authority over some of them. The PMAs have authority over their own. The co-ops and munis have author-

ity over their own.

Mr. COOLEY. So when we talk about transmission of power of, let's say, all the way from Texas to the Columbia Gorge this is an agreement by the PMA's that service Texas and the Bonneville to move power up? Is that what you are saying to me?

Ms. MOLER. No. More likely it is a series of transactions, though

some of them in Texas don't sell outside Texas.

Mr. COOLEY. We are buying power right now on the Columbia

Gorge from Texas.

Ms. Moler. Assuming they are not limited by a really obscure Texas situation that doesn't matter here, the investor-owned utilities along that way, or in many cases the Western Area Power Marketing Administration, WAPA, for example, have an open transmission access regime now. But it is done on a case-by-case, contract specific basis where they agree individually to provide power for others. That is very common.

Mr. COOLEY. OK. So you don't have any real authority, and you

don't get involved in that process?

Ms. Moler. We do if they are investor-owned utilities participating in that, yes. If Tucson Electric, for example, is in that transaction or if Southern California Edison or PG&E, or PacificCorp, all of which are in the transaction you are describing, yes, we have authority over them.

Mr. COOLEY. OK.

Another thing, as I looked at your testimony here, do you have some kind of a different—under the Northwest Power Act it specifies that you have confirming approval on an interim and final basis on the rates for Bonneville. Is that a little bit different than in some of the other PMA's.

Ms. MOLER. Yes.

Mr. COOLEY. OK.

And let me make one statement about natural gas and your quotation about deregulating natural gas. In your deregulation of natural gas we have really disenfranchised our small communities, and I want to go back to my good colleague on the other side of the aisle, Mr. DeFazio, who is absolutely correct that the PMA's have provided electric power to areas where private enterprise probably would not have spent the funds to do that, and the natural gas is actually an example of what the free enterprise system has done.

I'm not picking on the natural gas people, but in a great part of our country, especially in the West, we do not have natural gas available because of the expenditures to bring this energy source, which is clean, to utilize in some of our smaller communities because it is just not economically viable to do that. I think to myself that if we had not had PMA's part of this country would not have power today, electric power, and so I think that the PMA's maybe need to be looked at, overhauled, and a lot of things done to them, but I think that they serve the people of America very, very well in providing this energy source.

in providing this energy source.

Ms. Moler. I would observe that regarding natural gas for new construction—in the Pacific Northwest, for example, we have recently authorized several new pipeline expansions. And the new generation, whether it is for individual homes or whether it is to feed new power plants, is largely gas fueled even in the Pacific

Northwest.

Mr. COOLEY. I know that, but you know and I know what is going on there because two major lines run through my entire district, which, as you know, is the full length of the State of Oregon, but what we say in the east side and people in Idaho and other places are talking about is that line goes through but it doesn't go east, it only goes west where the population is. It runs right in our backyard, and yet we have no ability to tap that source.

I mean we are running through the community of Bend, Oregon, which is 45,000 people. We do not have a gas source off of that line, and yet it runs right through our city. We feel very deprived of the ability to tap into that because of the way the system is set up, and it is a free enterprise system, and we understand that, and we are not crying about it, it is just that if that would have been a PMA

we would have had gas there.

Mr. DOOLITTLE. OK.

Mrs. Chenoweth is recognized. Mrs. CHENOWETH. Thank you, Mr. Chairman.

Chairman Moler, I was interested in your comment about the open access rule that occurred as a result of the amendment, the 1992 amendment, but do I understand you to say that the open access rule for power marketing agencies is not available for retail customers and that includes PURPA customers, or who would that include?

Ms. Moler. We have authority over transactions between utilities, we don't have authority to authorize transactions to end users, industrial customers for example. So we are proposing open access, buyers and sellers getting together between utilities so that the independent power producers will have access to the power grid so

that they can sell to distant utilities. If the State regulators wish to make it so that these independent power producers can sell to industrial customers or even individuals, as they are proposing in

California, that is really up to a State regulatory initiative.

Mrs. Chenoweth. But if the avoided costs for the independent power producers which does set a cap over 20, 30 years once they get into the contract, if the avoided cost is so low that the utility within that particular grid or within that particular area that is serviced by a utility whose avoided costs for some reason or another is very low, my concern is that with a 10 percent per annum potential increase in the PMA's ultimately that will fall back on the producers and it is going to be an impossible situation. I hope we can work that out because it is of great concern to me.

I think that the 1978 PURPA amendment was a great thing for this country, and it has worked well in Europe and Japan and China and everywhere else, but for some reason it just wouldn't fly here, and I hope that that vision doesn't die. I hope that we can

resurrect it.

Mr. Chairman, you asked what could be done to help do away with some of the regulatory burden. I can tell you in the Northwest if we repealed the Northwest Power Act I think that would go a long way, and I don't mean to sound reckless, but in the Northwest Power Act there were four criteria by which we were to make sure that there was efficient energy always delivered to the customers and make sure that the facilities were in a stable enough condition that we could rely on a reliable price, and instead the fourth criteria, which was simply mitigation for damage of fish and wildlife, has flipped and so now the Bonneville Power Administration is burdened with an economic burden of the salmon that does nothing but produce paper, and how we can equate the facilities of BPA and what might be sold with the health of the salmon run is a real stretch, and the only way you can bring the two together is through the Northwest Power Act. I hope some day this committee can look at that Act.

I think that I have covered most of my list. You did say that facilities that are owned by the Bureau of Reclamation or the Corps of Engineers, if they are somehow transferred, that unless this body specifically deals with that, that it would revert to the juris-

diction of FERC?

Ms. Moler. If they are sold, for example, to an investor-owned

utility which would be a likely purchaser—

Mrs. CHENOWETH. Oh, yes, if they were sold to an investorowned utility, but if they were sold to an irrigation company?

Ms. MOLER. If they are not still in the Federal domain, we would

have licensing jurisdiction over them.

Mrs. CHENOWETH. Interesting. Thank you, Mr. Chairman.

Mr. DOOLITTLE. Thank you.

The gentleman from Colorado is recognized.

Mr. ALLARD. I would like to thank the chairman.

I have a statement I would like to submit to the record. Without objection, I would like to have that part of the official record.

Mr. DOOLITTLE. That will be included.

Thank you.

The statement of Mr. Allard follows:1

STATEMENT OF HON. WAYNE ALLARD, A U.S. REPRESENTATIVE FROM COLORADO

Mr. Chairman, thank you for holding this important oversight hearing today to discuss the proposal to sell three of the nation's power marketing agencies. I have a keen interest in this proposal, as do the approximately 1.5 million Coloradans who

are consumers of WAPA power.

As you know, Mr. Chairman, the House Budget Committee recently unveiled its budget proposal for FY 1996. The proposal includes the sale of Western Area, Southeastern, and Southwestern Power Administrations (PMAs) for a total sales price of \$3 billion. Although that is certainly an attractive figure to anyone who is trying to balance the budget, there are still innumerable questions surrounding this issue that have to be answered before the proposal should move forward. Further, there may be other proposals worthy of consideration, but the details of any plan must be brought forward before proceeding.

Many Coloradans are nervous about a proposal to sell WAPA. The idea was first advanced in the early 1980s and has been discussed by several Administrations and Congressional budget cutters since. Letters from constituents with questions about the idea are already starting to pour into my office. These individual rate-payers want to know, as do I, whether their rates will go up as a result of privatizing the PMAs. My answer is that I'm not sure—and I don't think the Administration or

other Members of Congress are either.

I think it's important at the outset to say that this proposal is on the table because it generates precious short term cash offsets for budget proposals. Some may argue that selling the PMAs is motivated by a desire to privatize power generation systems or make government more efficient. I don't believe that argument because if that were the case we'd also be talking today about selling TVA and Bonnevillebut we're not. And the reason is because they wouldn't bring much, if anything, at the auction block because of various resource problems.

If privatizing selected government power generating functions is the goal of this debate we ought to start with the ones that would benefit most from a change in

management, not with the ones that are well run.

In general, I am a big fan of privatization. I'm also one of the toughest budget cutters on Capitol Hill. Look at my voting record and talk to my colleagues and you'll find I'm willing to make the tough votes. Therefore, when someone comes up

with a sensible idea to save money, I'll take a look at it.

Having said that, I have to tell this Committee that to date I have had serious concerns about the proposal to sell WAPA—the PMA with which I'm most familiar. My biggest bone of contention is that no one can tell me what the details of the sale are. Will they be offered up to the highest bidder? Can any for-profit power consortium make a proposal? Will rate-payers be protected from huge rate increases? What are the effects or irrigators? How will it affect future water projects? And so on, and so on.

The question of rate increases is key here, because what we're really talking about is a backhanded tax if rates do go up. If the sale price of WAPA or any of the PMAs is jacked-up by a sales contract, with few or no conditions about the level of future rates, then it is merely a case of the government sucking out a big cash windfall

at the expense of the captive rate base.

Another important question I want answered before acquiescing to this idea is whether the individual PMAs are money making assets or liabilities to the government. For example, I know that WAPA annually nets about \$100 million—after costs—to the Federal Treasury. A month-and-a-half ago I sent a letter to Deputy Secretary of Energy William White asking for a 15-year valuation of the PMA sale, and I look forward to his report.

The pending sale of the Alaska Power system shows that there are situations where privatization of PMAs makes sense. But the APA is quite a bit different than any of the other PMAs. Putting together a buy-out proposal for a small, one-state system like APA, is not by any stretch of the imagination analogous to brokering a deal for a huge, intertwined, 23-state system like WAPA.

I want to emphasize that I'm not opposed to looking into this idea further. In fact, I want it looked into! There may be a scenario possible, such as the one the Budget Committee paints, whereby these sales would be harmoniously negotiated among the existing preference power community. If such were the case, rate-payers were protected and the sale made long term economic sense for our Treasury, then I would probably support it. But I point out that right now there are lots and lots of unanswered questions.

That's why in this hearing and in the coming weeks I'm going to be asking a lot of tough questions about what we're up to here. If more study is needed to answer my questions, which I believe will be the case, I'll help to bring it about. But what I won't do in this climate, absent firm guarantees about the nature and terms of the sale, is blindly endorse a proposal that directly affects the pocketbooks of more than one million Colorado citizens.

I look forward to asking questions of the witnesses and thank the Chairman for

the opportunity to share my thoughts on this issue.

STATEMENT OF HON. WAYNE ALLARD, A U.S. REPRESENTATIVE FROM COLORADO

Mr. ALLARD. I have some comments that I would like to make

before I question the witness.

I served on the Budget Committee, and this issue of PMA came up in discussion in the Budget Committee because of various budget ramifications, and going into the discussion in the Budget Committee I had a very open mind about what we ought to be doing with the PMA's.

It has been very clear to me that this is a very, very complicated issue, an issue that perhaps there needed to be some studies done so we could clearly get a picture of what was going to happen with

some of privatization efforts that were going on.

My personal preference in many cases is privatization. I am an individual who has a lot of confidence in the free market system. But during our discussions on that committee it came to my attention that there was a real potential for rate increases to occur, particularly in rural areas, and that we had to keep in mind how the preference power customers were being impacted by what decisions the Congress may make. Most of that burden is going to fall on this committee. We came up with a bottom line figure. Now this committee is going to have to work out the details, and it is going to be a difficult chore for the chairman, and I respect that.

There are still many, many issues before us on this particular issue, and I want to compliment the chairman for getting at these issues right away and holding this hearing. I hope that we don't come up with price controls as part of the strategy because in my view price controls do nothing more than result in shortages. We have seen that happen whenever price controls get applied, and

some people are suggesting that as a possible alternative.

It has come to my attention in the last week that there are some special interests that are purely driven by the profit motive and not thinking so much about the services to the preference customers and the costs to those particular customers who are putting together a campaign to target certain members on this committee because of them trying to represent their constituencies and to try and hold down those utility rates to their customers, and if you take a district like mine where we have a lot of farmers who do irrigate, it is a very, very important issue to whether those farms even stay in business or not.

I have not been willing to take a real up front position on this issue, but because of this information coming to me within the last week that there are going to be members of this committee that may be very well targeted by a vicious campaign within their own districts because they are trying to represent their customers, I plan to take a much more active role in this issue, and I will be

sitting down with the members of this committee and will continue to work with all the various parties, but I want the members of this audience and this committee to know that we have a number one responsibility to make sure that our customers are well served and that they are not gouged by high utility rates that could otherwise be avoided, and that is going to be my primary concern.

Let me move on to a question to the witness.

If we get into the PMA's being sold for a price that would exceed the present net value, what kind of terms and conditions would have to be brought up by those new purchasing powers that would guarantee that there would be no rate increase as a result of some

privatization?

Ms. Moler. Congressman, again it depends upon to whom they are transferred. If they are transferred or sold to an investor-owned utility, we would look at what they paid for them, use that as their rate base, and do our normal approach under the Federal Power

Mr. ALLARD. So there could be a substantial increase in utility rates?

Ms. Moler. It depends on the price they pay. It all comes down to that.

Mr. ALLARD. So an original figure looked at by the Budget Committee of \$10 billion would have a greater potential of having an impact on utility users than what is now in the—was discussed out

of Budget Committee, the \$3 billion.

Ms. MOLER. It would. It also depends on how long you amortize those payments. I mean you can't do that in one year, and there are lots of things that you do if you are going to get into ratemaking issues that are ratemaking magic that determine whether there is a rate increase or not. There are certainly things that you can solve if you want to address rate issues.

Mr. ALLARD. I would like to get an opportunity to visit with you

a little more about this ratemaking magic that you refer to.

Thank you very much, Mr. Chairman.

Mr. DOOLITTLE. Thank you.

Ms. Moler, thank you very much for coming forward, offering your testimony. We would ask you to respond to any further questions that we may submit to you in writing, and we will hold the record open to get those responses.

With that, we will excuse you and call up panel number one.

I will just hasten to add, we are due to have a vote here any minute, but let's get started. When this vote comes, we are going to endeavor to recess as soon after the call comes as we can, and

then we will reconvene following the vote.

Mr. DOOLITTLE. Panel number one, I think you know who you are. We have four individuals, and what we will do is ask each of you to try and confine your remarks to the five minutes. The lights will indicate there, red, yellow, and green, what the status of your time is.

At the conclusion of the testimony of the four witnesses, then members will each have five minutes to address questions to any member of the panel that they would choose.

Our first witness on this panel is Mr. Charles Bayless who is

representing the Edison Electric Institute.

I think, Mr. Bayless, you are also the CEO of Tucson Electric, I believe.

Mr. BAYLESS. That is correct, sir, yes.

Mr. DOOLITTLE. Thank you. You are recognized for your statement.

STATEMENT OF CHARLES E. BAYLESS, EDISON ELECTRIC INSTITUTE, AND CEO, TUCSON ELECTRIC POWER COMPANY

Mr. BAYLESS. Good morning, sir, Mr. Chairman and members of

the subcommittee.

The Edison Electric Institute's members strongly support the sale of the assets of the Power Marketing Administrations. We believe that in privatizing the PMA's Congress can provide rate protection to current customers and at the same time yield substantially more funds for the Federal Treasury than the net present value of the debt.

Four issues will determine the level of benefits received by the taxpayers from the sale: First, obviously the sale's price. We believe the administration's estimate of \$3.7 billion as well as other estimates being considered is a gross undervaluation of the PMA assets. A study for EEI by the EEOP Group finds the combined value of the three PMA's to be just under \$9 billion, more than twice the administration's estimate. In addition, if the facilities were sold to tax paying entities the Federal Government could reap an income stream whose present value exceeds \$1 billion.

Tucson Electric's's estimate for WAPA Phoenix area assets really had three values. We thought the assets, if sold on the open market with no rate constraints, were worth about \$1 billion. Based on the existing contracts, in other words, not raising the existing rates any more than they would be if WAPA owned them, they were worth about \$500 million, and we thought the net debt excluding

some Navajo debt was about \$300 million.

As Congress strives to balance the budget we would urge that you not leave billions on the table by conducting a fire sale of the

PMA assets to existing customers at far below market value.

The second critical issue is existing customers' protection. Even under the worst case scenario, the EEOP Group has calculated that almost 85 percent of the current ultimate customers would experience an increase in rates of less than 5 percent. The 10 percent figure for seven years is not feasible. It is not in the studies. It is not viable. We would urge that Congress put a mechanism in which would limit rate increases that the entity buying the assets could charge, whether it is an IOU or an REA, a co-op, or whatever.

The EEOP estimates that including rate protections in the sale would lower the sale's value by about 10 percent, but we believe that Congress must address rate protection up front with any legislation. It is the only way to ensure that the current customers will not significantly see an increase in rates. It should be noted that limiting the sale to preference customers under existing law pro-

vides no rate protection.

Next is the eligible customers or the eligible purchasers. If rate protection legislation is passed Congress can then authorize an open sale and let the market set the price and choose the purchasers. The assets are obviously worth more to some people than

others, and only an open sale will let the person who the assets are worth the most to bid. We do not feel that the current customers

have any equity whatsoever in these assets.

If benefits of the Treasury are to be maximized it is imperative that federally-subsidized financing not be used to finance the sale. Further, the purchasing entity must pay Federal income tax. To allow buyers to finance purchases of the PMA's with funds that are provided by the Federal Government would simply trade one Federal subsidy for another.

EEI feels strongly that upon privatization the PMA's assets should be subject to FERC's full jurisdiction. Any transmission access regulations adopted by FERC should apply to the purchaser of the PMA facilities. Congress must also address the issue of hydro-facility licensing, as the chairperson of FERC stated earlier. Otherwise it will be virtually impossible for any interested party to

obtain financing to purchase the assets.

In the broader context, the thing that really got Tucson started on this subject is really two things, the budget and competition. We feel that Government subsidies to Government-owned utilities and electric cooperatives currently cost Federal, State, and local tax-payers about \$11 billion every year. While the Federal benefits, for instance, to small co-ops may be justified, Federal benefits to Government utilities that are financially healthy and engaged in a

competitive market are not.

When Nevada Power solicited 600 megawatts of power, Salt River, one of our competitors, was on the bidding list. They pay no taxes, they are financed 100 percent with tax-free debt, and they get preference power. We can't compete with that. TVA has announced it wants to expand outside its territory. Others can't compete with that. We feel that these programs present an interesting juxtaposition from other programs you are being forced to examine as you strive for a balanced budget. For example, medicare and welfare programs certainly serve sound public goals, but many question whether the programs are efficient. On the other hand, these programs certainly are efficient at keeping down rates to a select few, but where is the public policy behind it? Why should we as a nation be using taxpayer money to keep rates low in Aspen but not Tucson? Why Hilton Head but not Washington? Why on one side of the street in Phoenix should rates be low and on the other side should they be high? Where is the public policy behind this? These programs certainly achieve a goal, they are efficient in that manner, but they only achieve it for a public few.

As you are forced to wrestle with painful cuts, we would suggest that cutting programs which serve no public policy goals make

more sense than those which have goals.

Thank you.

[The statement of Mr. Bayless may be found at end of hearing.]

Mr. DOOLITTLE. Thank you, Mr. Bayless.

We are going to now recess until after this vote, so stay nearby and we will be back.

Mr. DEFAZIO. Mr. Chairman.

Mr. DOOLITTLE. Yes.

Mr. DEFAZIO. I'm designated to speak on this next amendment so it won't be for a lack of interest that I may not catch this panel.

Mr. DOOLITTLE. Thank you. Maybe you can make it back afterwards.

[Recess.]

Mr. DOOLITTLE. We will resume the hearing. Mr. Bayless had just concluded his testimony, and the next gentleman to testify is Mr. Crews, Clyde Wayne Crews, Junior.

Mr. Crews.

STATEMENT OF CLYDE WAYNE CREWS, JR., FELLOW IN REGULATORY STUDIES, COMPETITIVE ENTERPRISE INSTITUTE

Mr. CREWS. Thank you, Mr. Chairman. Good morning.

My name is Clyde Wayne Crews, Junior. I'm the new Fellow in Regulatory Studies at the Competitive Enterprise Institute. I'm very grateful to the subcommittee for the opportunity to appear

today.

CEI wholeheartedly supports efforts to privatize the Power Marketing Administrations. We view the current interest in privatization as merely one manifestation of today's wide scale public commitment to fundamental Government reform and taxpayer savings. We need to enact these savings not to cause pain to consumers but for precisely the opposite reason, to remove artificial benefits to some producers that threaten to prevent all Americans from sharing in the benefits of the coming deregulated energy environment.

While we may debate the proper selling price for the PMA's or the precise techniques needed to protect current affected customers in the event they experience rate shock during the transition to a private system, certain issues of fairness should be beyond debate but unfortunately are not. The core issues in this debate are two, and they center on the basic legitimacy and fairness of the PMA's. Number one, certain groups are getting preferential access to cheap power while others do not enjoy this privilege. Number two, power generation is a commercial activity in which the Government has no business and no rational basis for being a player. This is certainly true today given that Government's continued involvement, particularly the selling to preferred parties, will prove highly disruptive to wheeling innovations as they become more widespread and their benefits to consumers become more apparent.

A system that will be the most efficient for energy consumers is one in which all producers are free to sell to any buyers and any buyer is free to purchase from any seller. The PMA's preclude the

existence of such a marketplace.

Certain developments provide hope. As everyone knows, both the Clinton administration and the House budget to be voted on today have proposed selling marketing rights for three of the five PMA's for an estimated \$3.7 billion, although there is very legitimate debate about whether that price is too low. And the Senate less than 48 hours ago by a vote of 74 to 25 passed S. 395, a bill to authorize the sale of the Alaska PMA. These are several developments that are very important, and there are many others.

There are several critiques of privatization. We have heard a lot of them today. I think these critiques are unfounded, and I have provided written testimony—in my written testimony you will find some responses to those critiques, but I do want do mention the harmful impacts of subsidies beyond what I have mentioned in

these written statements and what I have mentioned in my testi-

mony so far.

Taxes, for their part, are widely known to create dead weight losses to society by driving a wedge between supply and demand and cutting off trades that otherwise would have taken place. These lost trades are unseen by the public. They do not make the nightly news but they simply evaporate. Less well known but equally important is that subsidies like those the PMA's enjoy create dead weight losses as well. Artificially lowering the cost to the producer will make him willing to supply more at any given price or, in economic jargon, it will shift out the supply curve. But the real resource cost represented by the original pre-subsidy supply curve does not change, and an excess of resources is consumed by power purchasers over what they actually paid for them. These resources will are lost forever to society despite the fact that they would have been more highly valued in other uses.

Let me skip ahead to some recommendations.

Number one, restrictions on Government studies of proposals to switch hydroelectric prices from cost base to market base should be eliminated immediately; two, Congress should specify legislatively that the proceeds from privatization shall go to deficit reduction; and, number three, while all the PMA's need to be privatized, an important intermediate step Congress might consider in initially dealing with the problem is establishing a commission similar to the Military Base Closure Commission. The commission could assemble a package of facilities to privatize, perhaps across PMA regional lines, submit it to the President for revision, and then hold an up or down vote. This procedure can be generalized to the Government at large as Senator Mack has done with his spending reduction commissions, but here I just look at PMA's.

There has been significant comment today on the question of rate increases. I'm not an investment banker, but I do want to make a statement on how a package like that might be put together that would benefit all the parties involved, both the customers and the taxpayers at large. This is a note on the mechanics of privatization, but I would prefer to leave it up to the experts who will come in the next panel, but it is important to note that the Heritage Foundation suggested a method in a 1986 study that was based upon the British experience with the British Oil and British Telecom.

The idea is to create a package whose benefits are distributed in such a way that all parties, PMA customers and taxpayers, can potentially be better off with the privatization compared with the status quo, and in rudimentary terms it might work something like this. A 51 percent controlling interest in the PMA could be offered to the public at the initial valuation, with current customers of each PMA given the option to purchase stock in proportion to their use of power. A minimum of 10 percent of this 51 percent block could be reserved for small investors like residential or small business customers of the PMA. These small buyers could also receive an option to buy additional shares in the future at the original offering price if they hold their shares for a prescribed minimum length of time. This allows small investors or former customers to benefit from any increasing value that privatization brings. The remaining 49 percent share of stock could be temporarily retained by

the Government and then sold at the most attractive price. This way, the taxpayer wins from any increase in stock value post privatization because all additional funds could be earmarked for deficit reduction.

I will conclude my comments there and thank the chairman.
[The statement of Mr. Crews may be found at end of hearing.]
Mr. DOOLITTLE. Thank you very much.

Our next witness is Mr. James Dushaw.

STATEMENT OF JAMES DUSHAW, DIRECTOR OF UTILITIES, INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS

Mr. DUSHAW. Good morning, Mr. Chairman and subcommittee members.

I am Jim Dushaw, director of the Utility Department of the International Brotherhood of Electrical Workers. On behalf of our international president, Jack Barry, and some 800,000 IBEW members, we thank you for your invitation to present our union's concerns about the proposals to transfer the Federal Power Marketing

Administrations out of Federal ownership.

The IBEW, our union, is closely is connected with this issue as a labor union representing some 230,000 members employed directly in the Nation's utility industry, the vast majority of these workers are in electric power production, distribution, and transmission; others contribute to reliable power supply and operating and maintaining power supply and distribution facilities and a host of activities associated with making certain Americans can enjoy reliable and safe electric supply. We have others working as contractors to the industry. We have some 1,350 labor agreements with employers categorized by ownership type, importantly here, as investor-owned, municipal, State or Federal, or rural electric cooperatives.

The typical IBEW electrical worker image that comes to mind for most people is the line worker exposed to adverse weather and threatening safety conditions while performing duties to restore electricity following natural disasters. That is the case often. Unfortunately, the fate of these workers and that picture we are familiar with is seldom considered as economic restructuring debates about the power supply industry consider outcomes and opportunities for

other industry stakeholders.

The IBEW has no interest in joining on one side or the other of the general war between the competing and opposing entities and associations which was unleashed by the National Energy Policy Act of 1992. We are, however, deeply concerned with issues as they affect the industry's work force and also consumers who expect and

deserve reliable, affordable, and safe electric power supply.

The IBEW would submit a reality check to point out that the coexistence of different forms of ownership and management of the Nation's electric power supply has produced an energy system unrivaled in the world and one which is fundamental to the Nation's productivity and hence critical to economic growth and advantage in global competition. Therefore, dismantling significant portions of the industry structure such as the PMA's should not be taken lightly or precipitously.

The IBEW submits that the privatization of Federal Power Marketing Administrations is not in the best interests of consumers generally, is not in the best interests of a well integrated competitive power supply system, and is not in the best interests of taxpayers. The PMA's are in fact one area of much maligned Federal Government operations which, by all accounts, is working well. These operations are gaining efficiency, providing vital services to vast areas of the country, and generating a dependable revenue

stream to the Treasury.

One less conspicuous factor to be considered with proposals to sell off the PMAs is the workers who have made the PMAs a well managed, effective system. These dedicated folks are threatened and stand to be abandoned while more powerful economic interests manipulate for the assets which have become tuned and polished by workers who more appropriately deserve commendation from their employer, the Federal Government. Instead, they are either on their way out the door or they are looking from the inside out at the equivalent of a fire sale liquidation of their workplaces with the sticker price an insult to good reason.

There are few voices these days who dare to question the popular and politically correct lexicon centering on privatization of Federal assets, deregulation, and competition. The IBEW is concerned that the philosophical and ideological mindset that goes along with the popular jargon may ignore reasonable considerations when making decisions about appropriate Government power operations' coexist-

ence with private industry.

We would suggest that the privatization of the PMA's is counter to accomplishing a desirable outcome for either long-term Federal budgetary interests or restructuring of the Nation's power supply

industry to provide greater industry competition.

In the interests of brevity, the IBEW would adopt and support the National Rural Electric Cooperative Association's itemized points in opposition to the sale of the Federal Power Marketing Ad-

ministrations as listed in the attachment to this.

One further point to be made is to recognize the PMA's singular contribution to the advancement of power supply technology and also energized line worker safety. Research and technical development undertaken by the PMAs, especially Western Area Power Administration, and Bonneville, to bring new efficiencies to operations in the Federal systems has contributed vastly to improvement of national and international standards for advanced work methods on energized lines and worker safety.

The IBEW is convinced that while workers, consumers, and the entire industry have benefited greatly from this activity involving Federal workers, we are also convinced that the private utility sector simply would not afford to take such initiatives. Cutbacks and budget refocusings threaten to terminate this positive activity.

I would conclude with, the sell-off of these important Federal assets is simply, in the very least, an idea whose time has not come simply because the evaluation, whatever it is, of the current value of these assets will vastly increase tomorrow.

[The attachment to statement of Mr. Dushaw may be found at

end of hearing.]

Mr. DOOLITTLE. Thank you very much.

I would like to recognize Mr. Glenn English. Mr. English, I will observe, is a former member of the House of Representatives. Welcome back.

STATEMENT OF GLENN ENGLISH, EXECUTIVE VICE PRESI-DENT, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIA-TION

Mr. ENGLISH. Thank you very much, Mr. Chairman. I appreciate that.

Mr. Chairman, before I begin my testimony I would request that a written statement by the National Cooperative Business Association be made a part of the record.

Mr. DOOLITTLE. That will indeed be included as part of the

record.

[The statement may be found at end of hearing.]

Mr. ENGLISH. And, Mr. Chairman, for the record, I am Glenn English. I am the executive vice president of the National Rural Electric Cooperative Association. The National Rural Electric Cooperative Association consists of some 1,000 electric cooperatives. These are all consumer owned from areas throughout the United States, some 46 States, and serve some 25 million consumers.

I might say, Mr. Chairman, with regard to the issue at hand, namely the proposed sale of the Power Marketing Administrations, that would impact on some 600 rural electric systems and some in some 34 States, all of which buy power from the Power Marketing Administrations. I might also point out for the record this would impact on some 17 million rural electric consumers. Now that does not bring to bear those that would be affected by small, investorowned utilities as well as municipalities.

Mr. Chairman, the consumers of this country and the Federal Government some time ago wrote one of the first contracts of America. They sat down together to deal with a particular problem that we have in many parts of this country. Now the problem was not to generate electricity but instead was a problem of how to pay for flood control, irrigation, and recreation on some of our Nation's rivers, and the plan was that a way of paying for those projects

would be to sell the electricity.

Now during that time we had a number of rural electric cooperatives and municipalities that were in the area where these dams were constructed, and they reached agreement with the Federal Government for long-term contracts to purchase that power even though that hydropower in most cases cost more at the time than

what was being supplied by investor-owned utilities.

Now that also comes at a time when we had the development of the atom, and certainly a great deal of discussion was taking place in the scientific community about how this was going to provide electric power. In fact, we had a good deal of discussion coming from the scientific community that said that power produced by the atom would render metering as uncalled for, you wouldn't even have a meter to sell electricity under those circumstances.

But you had rural electric cooperatives, municipalities, and small investor-owned utilities who went together and felt that it was important that these dams be built, it was important that they establish their own independent power supply, and it was certainly im-

portant for the economic development of the areas in which they served. So it should be understood that small rural electric cooperatives and municipalities, they took a flier with the Federal Government. They said, "We'll help you pay for this. Even though it costs us more at this time, we think it is an investment in our part of the country and we think it is an investment as far as the future

of our Nation," and certainly they were correct.

Well, they have honored their part of the agreement, and certainly they have helped pay for the construction of many dams around this country. As we heard Mr. Cooley and Mr. DeFazio talk about Bonneville, they are paying not only for the construction of those dams, they are now paying for a good number of other burdens that have been loaded on such as environmental projects, and so it becomes something of a cash cow, if you would, for the Federal Government. If you have a need, you pile it on to the PMA, and that is the way that you pay for it. It has been a very good deal indeed for the taxpayers of this country, and certainly they have been well served.

But we have some other less tangible issues that I think need to be brought to bear, Mr. Chairman. This Federal hydropower program has also provided a basic structure for real competition that has developed out of the Power Marketing Administrations between consumer-owned utilities, whether it be municipalities or rural electric cooperatives or small IOU's and the investor owned.

We also find that the Federal power customers have supported the construction of transmission facilities in lieu of building their own, in fact, linking up with the Federal Government being a part of that overall system, an investment that they have made in that system, and certainly public power and the cooperative systems are highly integrated and interdependent with regard to each of the PMA's and the power that they bring to their regions.

The value of the whole power system is certainly much greater than the individual pieces that could be sold off of that system, it is tied together, and that is what gives it a real value and systems diversities both from a geographical standpoint and in the facilities that are accommodated to maximize the overall system's oper-

ational efficiencies are extremely important as well.

I would like to touch very quickly as my time is running out, Mr. Chairman, on this issue of subsidies. The bottom line is, everybody gets subsidies, and let's face it right up front. It comes down to it that those who seem to be crying the loudest about subsidies are the very ones who get the most. Our friends over at the investor-owned utilities get some \$5 billion a year from the taxpayer through the Tax Code, and in many cases the smallest rural electric cooperatives have paid more in the way of taxes than some of the largest investor-owned utilities in this country, so at this particular point, Mr. Chairman, it might be helpful if you would like to get into a discussion of tax benefits with regard to various elements of the electric utility industry, and we would be delighted to help you in that examination.

With that, I will conclude my testimony and would be happy to

respond to any questions that you might have.

[The statement of Mr. English may be found at end of hearing.]
Mr. DOOLITTLE. Thank you very much.

All right, Mr. Bayless, how to you respond to that last state-

ment?

Mr. BAYLESS. I just happen to have a chart, Mr. Chairman. We think it is very unusual that people that do not pay taxes can claim that we are subsidized, and the point I would like to make—I did some figures, and I'm sorry the audience can't see these, but what I did was look at investor-owned utilities, municipals, and REA's, and looked at the subsidies.

These subsidy numbers come from a Mr. Donald Smith, the chief economist at the National Rural Electric Cooperative. This was a letter that he had sent out. We don't agree with them, we think they are much more, but I'll adopt theirs just for a moment. And they said that the rural electric co-ops got \$469 million of sub-

sidies. The munis got 1.2.

I then looked some EEI data, and what Mr. English is talking about I'm sure is the so-called phantom taxes, the deferred taxes due to accelerated depreciation, and the fact is, if you average over the last six years, he used \$5 billion, the number that I looked at in the combined industry balance sheet was, we in fact saved \$2.448 billion. But in fact we paid 6.18 and then saved 2.48.

The fact is, the electric utility industry paid about \$3.7 billion. So to say that we get a subsidy and they get a subsidy, let's accept that as true. We paid \$6.18 billion of taxes at the same time. If we want to make the playing field level, our industry in total, all

taxes, paid about \$24 billion.

I would suggest an easier way to levelize the playing field is make us subject to the same tax benefits they are or make them subject to the same taxes we are, we don't care which, but if you do the former and make us subject to the same tax structure that the munis and the co-ops, it will cost Federal, State, and local governments about \$24 billion.

Mr. DOOLITTLE. Let me just ask, the subsidies that you get,

aren't those just what would be available to any business?

Mr. BAYLESS. Yes, sir, they are.

Mr. DOOLITTLE. I mean there is nothing special for utility companies.

Mr. BAYLESS. I would say in the past there may from time to time have been special ITC's or things. I think right now, as far as I am aware—if anybody else is aware they can say so, but I think that we normally just have the same depreciation code as others. We may have more in one category or something just due to our assets, but yes, sir, they are.

Mr. DOOLITTLE. Mr. English, will you go for his deal?

Mr. ENGLISH. I think it is a very intriguing deal. Let me point out a few things. Let's get it on the record and talk about this a

little bit, Mr. Chairman.

He did raise the investment tax credit issue. He also has straight line depreciation, the way they calculate from the standpoint of the regulators. Well, this is the way they calculate when they apply for their rates, but whenever it comes down to what they file for with the Federal Government, it is accelerated depreciation, and that is what led the General Accounting Office to say that in effect what the investor-owned utilities have been getting is an interest-free loan. Certainly I don't know of any rural electric cooperative that

ever got an interest-free loan or anywhere that even came close to it.

I would also make the point, Mr. Chairman, that through the years as a result of the ITC and other benefits, that they have some \$75 billion that has been collected under the auspices that this is somehow going to be paid in Federal taxes, something that I think is rather interesting from the standpoint of the Federal Government. Here we have the investor-owned utilities who go to their local State ratemaking commission and say, "OK, here is the rate that we need. Now this includes all of our various expenses which would include also construction, also include all the depreciation built into that, include all of the Federal taxes that we are going to be paying," but whenever it comes time to pay the Federal income taxes they have got another line, another way in which

they calculate those taxes, and end up paying nothing.

Now you can find this information, Mr. Chairman, over at the Department of Energy because they file a little form over here, and I happen to have the copy here of income and retained earnings. This one that we are looking at here is Commonwealth Edison out of Chicago, mighty big folks. We don't have any rural electric cooperatives that come close to what these guys do, \$5 billion. That is how much they took in in 1993, \$5 billion. You know how much income tax they paid the Federal Government? Not a single dime. Not a dime. Not only did they not pay any income tax, they came in and asked for a tax credit, \$34 million in tax credits after earning \$5 billion. And whenever it comes down to other taxes, other income taxes they did not pay, they asked for an \$8 million tax credit.

So I would suggest that—and I think I can do with great confidence—that probably the smallest rural electric cooperative in this country, because they do pay local taxes, probably paid more in the way of taxes than Commonwealth Edison did, one of the

largest utilities in this country.

Now whenever you can go to a State ratemaking commission and you can tell them you are going to be filing for Federal income taxes, you are going to be paying Federal income taxes, bill that into your rate, and then turn around and come to the Federal Government and your method for calculating those taxes then says you don't have to pay any, in fact if we made any profit the last two or three years we want it back-and I wouldn't be surprised-I haven't really looked, but I wouldn't be surprised if Commonwealth Edison didn't even get a tax refund out of all that. Now you just tell me that is not a subsidy? That is big time subsidy, Mr. Chairman, and I guarantee you there isn't a rural electric cooperative in fact, all 1,000 rural electric cooperatives receive less in the way of subsidies than 27 of the largest investor-owned utilities in the country. Now that is big time subsidy, Mr. Chairman, and so I'm delighted to hear they are finally 'fessing up to the fact that they are getting something and they are getting more than anybody, and I'm just delighted that they raised this issue so I could talk about it a little bit.

Now there are some others. We have got excess deferred taxes too, if you would like to get into that, Mr. Chairman, but I don't want to get abusive with regard to the time, but I will be happy

to talk about it at length if you would like to have a hearing on this matter.

Mr. DOOLITTLE. Well, my time regrettably is up. This has been a very interesting panel, and I'm going to recognize Mr. Dooley to carry on the questioning here.

Mr. DOOLEY. Thank you.

Mr. English, I would like to shift to a different area. There has been some discussion earlier about the equity that has been built up in the various PMA's and the equities that cooperatives such as you represent. Some people contend that there isn't any equity value that should be attributed to the PMA's. How do you address that?

Mr. ENGLISH. I would simply point out that about 10 years ago the investor-owned—believe it or not, they have got a hydropower too. They haven't talked about any of that, have they? But they have got a hydropower, and they have got dams, and they came in and asked to get their licenses extended, to renew those licenses, and quite frankly we supported it. They have got an investment in that, they have depended on it, they have linked up to it, and we thought that was totally just. We didn't say, well, golly gee, that is public water going through those dams and therefore there ought to be some reconsideration, or, golly gee, you ought to open this up and let the nonprofits, the consumer-owns, have a shot at it. We said that is right, they have got an investment.

Well, I would suggest to you that the rural electric cooperatives, the municipalities, and small investor-owns that are participating

in the PMA's have got just as much investment.

Keep in mind, when these dams were built, built by the Federal Government, that the way they paid for it was selling power, and what happened in those cases is, those long-term contracts are what made it possible for those PMA's to come into existence, for the construction of those dams to be paid for and a lot of improve-

ments that have been made over the years.

We have paid the same way they have paid. We have paid from the standpoint of nearly paying off a good number of these projects. In fact, it is my understanding that if we continue to pay not only for the cost but the interest and all the improvements and everything else that goes into it, the entire thing is going to be paid off in 19 years, but who has got the equity at that point, and what is the difference between the money that they borrowed and which they paid interest on to build their dams? It is all the same thing.

As I said, it is a question of which way you are going to look at it. Everybody has got subsidies, they just get it a different way than we do, and I certainly don't think they have got a right to get

holier than thou about it.

Mr. DOOLEY. Mr. Bayless, I would just be curious in terms of, you know, we are going to structure some type of way to transfer. Obviously the issue of equity that perhaps the PMA's or municipals have in a particular project can be transferred is critical in terms of providing for the composition. How do you address this whole issue of equity? Do you believe that there is equity that has been built up to some level?

Mr. BAYLESS. No, I do not, although Congressman Shadegg gave me one example that there may be, but we believe that when you go to the Safeway to buy groceries or when you go to American Airlines to buy an airline ticket you don't acquire an equity interest and that they have no equity interest any more than our customers

do who have bought from us.

In fact, we believe that because of the Federal subsidies they are not paying for the cost of the whole dam. That dam was built for other reasons also, and because of the ability to buy the preference power and not having to pay taxes, et cetera, that in fact it is the taxpayers who have subsidized these over the years who have the equity, as the taxpayers from everybody's districts rather than just the people who are getting those particular facilities that have an equity interest; that is, in fact, everybody that has the equity interest.

Mr. DOOLEY. So do you subscribe at all to the fact that some of the contracts, which they are currently involved in, which have power rates which are set, which are making contributions at least to the repayment of interest and operation and maintenance, that if those contracts were to be completed that there would be no payment on capital whatsoever, or on principal rather?

Mr. BAYLESS. We have a lot of contracts at Tucson Electric that we have with other people, and we don't build up any equity inter-

est when they have a contract with us.

I think one real difference in the equity thing—I think it was Mr. DeFazio that mentioned the bank and the mortgage. In a mortgage and in a banking situation the Federal Government would go out and they would hand Mr. English \$500 million to build a dam, but then he has a risk. Equity implies the ability to take a loss as well as a gain. And then as Mr. English paid the money back to the Federal Government he would indeed build up a an equity interest because he has a loss, but you don't see people running around at BPA, for instance, saying, "Oh, we are an equity interest; give us the loss at BPA," and I think that if they have in fact taken the risk, that is normally what is associated with an equity interest, and I do not believe they have taken any risk. In fact, I believe they have got a big benefit. It is the taxpayers that have taken the risk.

Mr. ENGLISH. Mr. Dooley, could I respond to that very quickly? Mr. DOOLEY. Yes.

Mr. ENGLISH. I would point out that the risks that we took were right up front. I mean when we agreed to those contracts, signed on to the contracts with the Federal Government for rates that were higher than the going rate at the time, when we agreed that we would sign long-term contracts in the face of the fact that the Federal Government itself was talking about you weren't even going to have a meter on an electric line in the future because nuclear power was going to just make it outmoded, that was a risk, that was a big risk, but we felt it was a risk worth taking. It was a partnership, and it was also the tie-in of a system, and whenever you start disconnecting the system and selling off little bits and pieces, you know, at that time certainly those pieces individually, the sum of those is not going to be worth what it is in total, and that is the basic issue. You are destroying the system, and you are destroying an awful lot of people, investor-owns, small investorowns as well, who depend upon that system for their power.

Mr. DOOLITTLE, Mr. Cremeans is recognized. Mr. CREMEANS, Thank you, Mr. Chairman.

Mr. English, as you know, Ohio, of which I have the largest district, and it is principally rural, has its share of rural cooperatives and obviously rural areas, and I want to assure my ratepayers that they continue to receive electricity at a fair and competitive rate. However, I am a little bit unclear exactly how privatization of the PMA's, no matter what entity they go to, would impact on Ohio, a State which really receives no power from PMA's. Would you or

could you comment on that?

Mr. ENGLISH. I don't think it would as far as directly impacted with regard to Ohio because Ohio does not receive any of the power from the PMA's, but it may very well get into the question, well, then, maybe Ohio is receiving power that has less of a cost than what it does, say, in Montana, and if we are going to open that door and that question, are we going to go for rate equity all across the country? If so, then I think this committee is going to have to provide some Federal authority with the basis on which we say, OK, we are going to have one uniform rate so everybody is treated fairly.

The point of the matter, the issue that we have before us, is this question of where the power is sold and distributed in a lot of very high rate areas. Rural electric cooperatives these days—and this is Ohio as well as the rest of the country—on an average all across this country 70 percent of the cooperatives are paying more than what the average rate is across this country. In fact, 15 percent of those are paying 40 percent more with regard to their rates than

anybody else in the country.

Now if we want to start leveling the playing field and saying, golly gee, you know, that PMA power that may be going out to Montana, well, maybe their rates are higher, but, by golly, you know, we ought to raise them some more, I don't think that makes sense. But if you want to get in and talk about, well, let's level it out all across the country, whether it is Ohio or Montana or Louisiana or wherever it may be, and we are going to bring the IOU's in, then be a part and share in the burden as well, and if we want to open up the question and say, well, golly, Congress made a big mistake when we talked about the Fuel Use Act in the late seventies and we started insisting that everybody do this or that with regard to the fuel, and drove the costs up, if we are going to level all those playing fields and correct all the mistakes that have been made by Government that have impacted on rates, then I think that is a great idea and we would applaud that, but I think you are going to be biting off probably more than you can chew with that one.

Mr. CREMEANS, OK.

I have been the butt of this question. You know. The prevailing thought in my community is that because of the subsidy on rural electric co-ops we are obviously paying higher rates. If we are to privatize, would you address that question?

Mr. ENGLISH. The PMA's?

Mr. CREMEANS. Yes.

Mr. ENGLISH. Of course, if you look at it from our membership's standpoint, and I think the municipalities probably feel the same

way, the safest thing we can do in trying to make sure there are no real rate increases on consumers that is out of line with what has just taken place normally is, you say, well, let's just don't sell

it—you know, let's don't make any changes.

Now what we are seeing happen is that the Congress is coming up, and it appears that both the House and Senate are going to be voting for a budget that is says, OK, we have got the sale involved. Now it is still possible that you are going to get by this without rate increases for that 35, 40 million consumers tied to PMA's, but you have got a real tricky operation on your hands now.

The job of this committee is probably going to have more of an impact on whether you can deliver on that than what the ultimate number is in there, give or take. Even if you adjust out the differences with the House and Senate bill, that probably is not going to have as much impact as the details that this committee is going

to have to write as to how they do it.

If you take this system and break it up, break it up and sell off the pieces, then you are going to see substantial rate increases because it is an integral system and there is no way that you can break up this thing and take all the agreements and throw them in the trash and just assume, gosh, we are going to start all over

and not have any substantial ramifications on rates.

I think you are going to have to also make this determination when we talk about extreme rate increases we heard this morning. I have heard that come out of the administration, well, we don't want any extreme rate increases and we will put a limit on and we will do this and that. I don't know what that means. Mr. DeFazio I think this morning did an outstanding job of pointing out, well, what is extreme to me may not be extreme to you. It probably depends on what end you are on, whether you are on the giving or the receiving. If you are on the receiving, I imagine your sensitivity level is a good deal lower than if you are on the giving

Mr. CREMEANS. OK. Thank you.

Mr. Chairman, I have a unanimous consent request. I have specific questions for Mr. Richardson. I would ask for a unanimous consent request that the distinguished chairman leave the record open so he may have an opportunity to answer them.

Mr. DOOLITTLE. Let me just say as a matter of policy you don't need any unanimous consent because any member who has any questions of any witnesses on the panels today is free to submit

them, so you may submit those and expect to get an answer.

[The questions and responses may be found at end of hearing.] Mr. DOOLITTLE. I must apologize to Mr. Shadegg. Ordinarily without all these interruptions we have had today with various hearings and Floor activities going on, I would have recognized him, acknowledged him as the representative of one of our witnesses today. I believe Mr. Bayless is your constituent, and I now recognize you for your questions.

Mr. Shadegg. Thank you, Mr. Chairman. Mr. Bayless is not, I don't believe, a constituent, but Arizona is a small State so I consider him a constituent, and I'm glad to have him here.

I do have a series of questions I would like to follow up with sev-

eral of the witnesses.

First, Mr. English, and I apologize. With four votes and I had an obligation to speak on this last measure, so I missed a good deal of your testimony, so if I'm going over some ground you have cov-

ered, my indulgence, I beg you.

I'm trying to understand, as proposed by the Budget Committee, essentially Mr. Allard's proposal, the PMA's would be sold, and I think you have to put that in quotes, to the existing preference customers. From what I heard you just say, you believe there is some rate implication in that in itself. Is that correct?

Mr. ENGLISH. I depends on what this committee does and how

they handle it. It becomes very tricky.

Mr. SHADEGG. There is no doubt about that. It is complex. It is

tricky.

Mr. ENGLISH. It is complex, and it is tricky, but let me also say, if you are asking me if you take the number somewhere in the range—and I assume when you go to conference you usually work out the difference between what the Senate committee came up with and the House committee came up with and saying is it possible that with the diligent work that this committee comes up with that you would end up with a plan where there would be no rate increases, where consumers would not be endangered, is that possible? Yes, I think it is possible.

Are you saying is that going to be something we can whip together tonight and run out on the Floor? Absolutely not. It is going to be extremely complicated and difficult, and I'm sure there are going to be issues raised that neither this committee nor I and probably a lot of other people involved in it have ever thought of. I think you are going to have an awful lot of different groups or individuals who are going to take an interest, and you have really got your work cut out for you. They have handed you a heck of a

challenge.

Mr. SHADEGG. They are in my office already. They have been there within days of when I was elected and long before I was sworn in.

Mr. ENGLISH. I think it is possible to do, but I think you have

got a heck of a challenge ahead of you.

Mr. SHADEGG. Bottom line, you believe, even if they are sold directly to the preferred customers, you see rate implication in that.

Mr. ENGLISH. If it is not done properly I think so, and I think the further you go afield from maintaining what you have, then the riskier obviously that gets, the more likely it is that something is going—

Mr. Shadegg. Mr. Bayless made reference to the fact that I thought I had pointed out to him, at least with one instance, where a preferred customer may have in fact acquired equity. I grew up in Phoenix, Arizona. Phoenix, Arizona was one of the first public power projects I think in this whole history. The Salt River Project is one of the first and one of the largest. It is a circumstance in which every single one of the landowners in the Salt River Valley and in the Salt River Project service area actually had to pledge the value of their land. They literally put a mortgage on their land to underwrite the cost of the dams, and, theoretically, had that

whole deal gone south they could have had their land sold out from under them as a result of the failure of that project. That, however,

is not the circumstance with most of your members, is it?

Mr. ENGLISH. Again, I think it depends on what you are talking about. I would think you would have a lot of consumers out there, millions of consumers, who say, gosh, we paid higher electric bills for 10 or 20 years and that gives us a pretty good stake in that.

Mr. SHADEGG. I understand your argument that the risk you took was in signing a long-term contract which obligated you to buy power over a long period of time, and as I understand it—and this is news to me—you were agreeing to pay for that power at

above market rates. Is that right?

Mr. ENGLISH. At the beginning that was what the contracts and many of these called for, and let me also say I want to go back and hit this again because I think we slid off of it just a little bit. It is not just for what it cost to put in the generators in that dam, they are paying for the cost of the dam, the improvements that have taken place on the dam, they are paying for the operation of the dam. That is how all this has come about through the years. The revenue that has come in from those PMA's has exceeded what the Appropriations Committee has been putting out each year to run them.

Mr. Shadegg. OK. Let me finish my last question.

However, it is in fact true that most of your members did not pledge their land as did the landowners in the Salt River Project. They didn't put a mortgage on their land, they may have acquired equity by signing a contract, but they didn't put a mortgage on their land. Is that right?

Mr. ENGLISH. They didn't put a mortgage on their land, you are right, and no one else in this country put a mortgage on their land

either as far as I know.

Mr. SHADEGG. The Salt River Project may be unique in the country. It is just the one I grew up with.

Mr. ENGLISH. I think that it probably is.

Now the other side of this is, it appears we are getting ready to put a mortgage on a lot of folks' land because if in fact the—let's assume that the House Budget Committee has its way and those provisions come out the way that they are and you do have this result. Obviously, there is going to have to be a very big mortgage that is going to go on a lot of folks' land as they buy what today are those Power Marketing Administrations, particularly if they are buying them intact.

Mr. Shadegg. I think you and I could probably talk for hours, and I'm going to ask for unanimous consent for some additional

time because I would like to follow up on some of that.

First of all, I'm a member of the Budget Committee, and Mr. Allard is a friend, and I applaud him for his efforts, but the work of the Budget Committee, bottom line, is to come up with a number. We can develop some proposals within that. We came up with three alternatives to fix medicare, but none of those are in fact the ultimate remedies for medicare. We came up with a proposal for dealing with the PMA's, but that is not the final plan, that is the work of this committee. So I get this PMA issue over there and over here, and I'm trying to do it here, and I don't think that either the

Senate or the House budget plans on PMA's are the final shot. I think what is going to happen is that this committee is going to

work very hard at trying to craft a good solution.

So with regard to putting mortgages on people's lands, are you suggesting that if in fact the Budget Committee resolution or proposal were to go through and the PMA's were to be transferred to the preferred customers, not sold on the free market, that those preferred customers would have to put mortgages on their own land?

Mr. ENGLISH. No. The cooperatives obviously would if they are going to go—

Mr. SHADEGG. The co-op itself.

Mr. ENGLISH. The co-op, and that is owned by the consumers, so

that is the consumers.

Mr. Shadegg. But it is not—again, I'm just trying to draw a distinction here between the Salt River Project and the entities that make up the majority of the members. The Salt River Project, on the house where I grew up in Phoenix, Arizona, there literally is—you go get a title search, and there is a first lien in favor of the Salt River Project which says if the Salt River Project goes broke they can come and sell the land where my childhood home sits. What you are saying is that those co-ops might have to mortgage their assets and/or their land, but you are not necessarily saying that their individual customers would have to mortgage their land.

Mr. ENGLISH. Well, the customers own it. Those are the owners. I mean if you go out—if Mr. Bayless, one of his investor-owns—if Tucson Electric goes out and mortgages this thing and they are taking out a debt in the name of Tucson Electric, and that is in the name of his investors, those people that put up money in there, the same principle, only in this case you have got consumers invested instead of somebody from New York City or some place else.

Mr. Shadegg. I think you know exactly what I'm saying. The investors in Tucson Electric do not mortgage their property by owning this stock. They are at risk for the extent of their stock. Their homes are not at risk. Even if he goes completely south and goes

broke, what they lose is their stock.

Mr. ENGLISH. Let me see if I understand what you are saying. You are saying that you think perhaps rural electric cooperatives should mortgage their homes, not Mr. Bayless's investors.

Mr. Shadegg. No. I was asking you a question. You created the implication that there was going to be a mortgage on the land of

the customers of your co-ops.

Mr. ENGLISH. No. I said there would be a mortgage as far as that cooperative is concerned which reaches back to each one of those consumers, and it does. The consumers own it the same as the investors own an investor-owned utility. Everybody has got a stake in it, and that is where the mortgage would obviously have to occur if there is going to be a loan. The same thing occurs, of course, with any loan with a cooperative.

Mr. Shadege. Let's pursue this for a second. Let's say the co-op went broke. Can they in fact go and sell the land to the customers?

Mr. ENGLISH. No. They sell all the assets of the cooperative itself.

Mr. Shadegg. I think we understood that point,

Mr. ENGLISH. Do you think it should?

Mr. Shadegg. No, I don't. I'm just trying to draw this distinction.

Mr. ENGLISH. Oh, I thought maybe there were good folks in Arizona interested in giving up their homes and their lands and you were suggesting a way there for them to do it.

Mr. Shadegg. You know, sometimes it is not important to pick a fight on every single question you get asked. I was just trying to draw this distinction between the Salt River Project and your co-

ops.

Mr. DOOLITTLE. If the gentleman will yield, I think we will go to a second round of questioning. So if that is all right, we will come back.

Mr. SHADEGG. I will be happy to yield.

Mr. DOOLITTLE. I want to go back to Mr. Bayless for a minute. Unfortunately, we have got all these things going on. Mr. Allard is chairing the subcommittee next door, but he expressed concerns about public relations campaigns by interests supporting the sale of the PMA's. Do the interests you represent care to comment with

reference to the concerns that he expressed?

Mr. BAYLESS. Yes, sir. If anybody at EEI or our member companies has done anything to offend Mr. Allard in that respect, we apologize. We do not think we have. We believe in the merits of our case. We are aware that others such as Mr. English's organization in one of their magazines was bragging of the fact that they had sent out 12.6 million postcards to their members and in fact used up the paper supply in Washington to do so. We have not done anything like that. We will not. But if we have done anything that offended any of the members, we do not intend to.

Mr. DOOLITTLE. I would like to ask Mr. Crews to comment. You are a fellow in regulatory affairs with the Competitive Enterprise Institute. Do you buy the equity argument, Mr. Crews?

Mr. CREWS. No, I don't buy that argument, but it does raise the issue of why it is so important to abolish the law that prevents the executive branch from even studying this question of transferring

PMA's to market-based pricing.

I think it is a fundamental misunderstanding of what ownership is. Ownership implies right of use and disposal of the property. If the customers owned the PMA's essentially they would already be privatized and we could approach them about setting up deals to exchange them, to exchange hands, but clearly I think the Government and the taxpayers in a sense actually own the PMA's, and that is why there is a right to sell them.

However, in constructing a deal, to the extent that these decadesold contracts may exist that do give some equity interest in specific cases, I think that when you set up a deal similar to that illustration I mentioned earlier, you can give those folks the first right of choice and you can create an option whereby they stand to gain from the appreciation of the stock in the PMA once it is privatized

over time.

Mr. DOOLITTLE. In your written testimony you spoke about electricity rates, and it has been represented that the rates will go way up if we sell these PMA's. Could you comment upon that? You indicated in the written testimony that you felt the arrangement could be structured in such a way that the impacts are either negligible

or indeed perhaps even a net plus for the PMA consumer. Will you

explain that?

Mr. CREWS. That is what I was referring to in the testimony. One of the ways of minimizing the impact was mentioned earlier in that draft legislation that puts a 10 percent cap on rate increases, but that is not necessarily the only way.

Mr. DOOLITTLE. You mean annual rate increases of a 10 percent

cap?

Mr. CREWS. That was-Congressman Foley had the draft bill.

Mr. DOOLITTLE. Yes. I mean 10 percent seems a little steep, but Mr. Bayless in his testimony indicated that even under a worst case scenario where there was no transition time involved with the sale, no special protections for ratepayers,—I'm just paraphrasing his testimony, and assuming the \$8.9 billion sale price, he said 85 percent of the current preference customers would experience an increase in rates of less than 5 percent.

Mr. CREWS. I'm not disputing that. That is probably true. The rates could increase even less, and you could construct a deal where the customers can accept a rate increase in exchange for an option to buy the stock at the initial offering price once that stock

has appreciated.

That 10 percent cap mentioned, that was a cap. That was a maximum increase that was going to be permitted, and that is all that was. That wasn't saying that every year that is the amount the

rates would go up.

The point I'm trying to make in this debate is, we need to study it, find out which of these facilities can be privatized, and that is why I recommended a commission approach. But there are various ways to go about it and get some answers and make sure that the people who potentially could lose are included at the outset of setting up the arrangements so that they can gain.

Mr. DOOLITTLE. All right. Thank you.

Mr. Dooley is recognized.

Mr. Dooley. Yes. I guess my question is, if you go to a privatization or a transfer, you have basically—if you go into what is proposed by the administration, perhaps you will give a preferential right to the PMA's themselves. I guess if we do then also follow through on what has been recommended in terms of deregulation and certainly deregulation of the grid system, do we create a situation which is going to be an unfair competitive advantage because the cost of production of a unit of power is going to have a competitive advantage and also is going to have access to a grid system out there?

Mr. Crews. Who is going to have the competitive advantage?

Mr. DOOLEY. If you gave a preferential right of purchase that was not necessarily reflective of the real market price of that generating unit, then they would have—again, be in competition with other power generators out there that were having a higher per unit cost of production, yet they, because of deregulation, would have access to the marketplace.

I guess what I'm looking at is, if we are going to pass legislation that is going to effectuate this transfer, how do we deal with this

in terms of ensuring equity?

And, Mr. English, I guess some of the folks you represent would have potentially this advantage. Do you see it as an advantage?

Mr. ENGLISH. I think the real issue that we are coming down to here, and I think you are touching on a very important one that needs to be recognized by the committee, is that this discussion should not be taking place in the environment of today or the environment of yesterday, it is the environment of what you can expect for the future, and, keep in mind, we are moving into a competitive deregulated environment.

Now I'm reminded what happened on airline deregulation. Now if you want to fly from New York City to Los Angeles, you can get a pretty good price ticket. You have got a lot of competition back and forth. If you are flying back to my home State of Oklahoma and Oklahoma City, which was in my district, you pay a lot higher rate even though you are only going half the distance, and the rea-

son is because you are subsidizing part of this stuff.

Now if you are talking about the PMA's and selling the PMA's into the future—and that is the reason that I would suggest that our good friends over at the investor-owned utilities are so eager to get their hands on the PMA's—and you put that into a competitive environment, it isn't going to be those folks that are getting served now, it isn't going to be those rural areas, those small towns, it isn't going to be consumers—I mean residential consumers. What you are going to be doing is, you are going to be moving into the area of retail wheeling, and Commissioner Moler, as you recall, said earlier then you are talking about the question of competition not with regard to residential consumers, you are talking about competition with big industry. That is what all comes about.

Now if you go into a national retail wheeling, which she says we are not into yet, but FERC is certainly encouraging all the State to get into it—and we are just about a half a step behind, I'd suggest, FERC going into a national type of retail wheeling situation—then I think it makes a lot more sense as to why you have got some people out here talking about \$9 and \$10 billion that they are willing to pay for PMA's even when you have got the Congressional Budget Office and a bunch of other folks saying it isn't worth anywhere near that. It may be worth it in the future, and particularly if you can get a hold of municipalities and rural electric cooperatives and literally strangle them to death and eliminate competition. That is how it is worth it to you. Then you can jack the rates up and you can do with it whatever you want. You want to talk about extreme rates; that is where it comes about.

As I mentioned, you have got to keep, in mind an awful lot of municipalities, 600 rural electric cooperatives, are tied to those PMA's, and they have transmission, particularly in the western part of the country, that are linked up to those PMA's, and if you are going to sell those PMA's out from under them, boy, they have

got them, they have got each and every one of them.

Mr. DOOLEY. I would suggest though, if you have got the deregulation of the grids and the transmission, there is going to be nothing necessarily to preclude those small cooperatives from purchasing the wholesale power that might be available through whoever might purchase the PMA or who might be accessing that, and I guess my real concern comes back to, how do you effectuate a

transfer that doesn't give somebody an unfair inherent advantage because of the way we priced that PMA?

And I guess, Mr. Bayless, I would like to hear your comments on

this.

Mr. BAYLESS. I think one thing, to compare the deregulation in our industry with the airlines, in the airlines there were no airlines flying around that didn't pay taxes at all, weren't subject to the Tax Code, and had 100 percent municipal debt financed and got to buy cheap preference fuel from the Naval Petroleum Reserve, or they would have won.

I think in transferring over we think right now that there is a huge benefit that goes to these different types of power systems. Once the transfer is made, we believe that the way to do it is that the Federal Government should say here's what rates can do. I think 10 percent is too high; 10 percent to me for seven years is outrageous. I would intervene personally as a consumer on that one. But I think the Federal Government can set rates and say here's what the rates can be, and then anybody can bid against that, and the Federal Government gets the maximum, knowing what the rates are.

Our systems today are so integrated with the PMA's. One of our largest customers is a rural electric cooperative, and we are not out against any of the small REA's, that is not our problem, but we buy and sell power on an hourly basis back and forth between PMA's and rural electric co-ops and munis. The systems work now; they

are going to continue to work.

I don't think—the system right now, if you look in the West, there are probably 40 different transmission owners, including the PMA's and the electric utilities, and we all work together. The sys-

tem works.

If the assets are sold there are no transmission ties that are going to be disrupted, no transmission lines are going to disappear, there are not going to be any new bottlenecks, it is just a new owner, and we think that what Congress should do is say this is what rates can be and let anybody bid, anybody own, and if they win they can run power companies as well as we can, we can run them as well as they can, but it should be whoever it is worth a lot of these assets are worth more to one person than they are to another person.

Hydro on our system would be great. If you have been to Tucson, we don't even have water in our rivers, we don't have hydro, so we would like to get some hydro. That is probably worth more to us than it would be a PacificCorp who is awash in water right now. So I think that you can say that, you know, that the way to maximize the benefit is say this is the rate path, it has got to be this.

An important part about this, when people talk about 15 percent rate increases from the PMA's or 20 percent, is that generation is probably a third to a half of the total cost of electricity, so if generation is 30 percent or, let's say, 40 percent, a 10 percent generation increase may only be a 4 percent increase to the ultimate customer.

My recommendation is, the Government says this is what rates can do, anybody can bid.

Mr. DOOLITTLE. Mr. Shadegg.

Mr. SHADEGG. Thank you.

My goal is to try to come up with a structure which, I think following on my colleague from the opposite side of the aisle, sets up something which does not preserve an inequity, because it is evident that we are moving into a more competitive market in this area. I think we ought to try to recognize the equities that exist at the present time but at the same time move into competition, because that is in the best interests of all people, and I happen to believe it is in the best interests of these people to get these assets out of the hands of the Government, and Mr. Klug testified earlier that we are trailing the rest of the world in that effort.

Having said that, I'm a little troubled by what at least I have

heard so far in terms of ideas on how to do it.

Mr. Bayless, in your testimony there is reference to certain practical devices, limits on rate increases or rebates or rate caps or a phase-in approach. Have you or anyone in your company—and I'm going to ask Mr. Crews to comment on this as well—given thought to some sort of a free market alternative to that? Because I'm just not crazy about the idea of the Government setting prices in this area even in an interim period.

Mr. BAYLESS. If you look at the study that we submitted—and we would certainly be glad to provide more testimony on that—about 85 percent of the people we feel would only get a 5 percent rate increase, but there clearly would be a couple of people out

there—and in fact it is probably worst in the WAPA area than in some others—that would get a large rate increase. I could see 20 or 30 percent, which is unacceptable.

Mr. Shadegg. Why would somebody wind up getting a significantly larger rate increase than somebody else? Give me that dy-

namic.

Mr. BAYLESS. Somebody, for instance, could be buying—not all of the REA's or munis or anybody else buys all of their power from WAPA. There would be somebody out there—for instance, I'll use the Navajo Nation, one of our customers. They buy their electric power from us. They are an REA. They buy minor amounts of energy from the PMA's. The PMA could probably slide into the Grand Canyon tomorrow and it would not affect the Navajo Nation that much. On the other hand, there could be people that have contracts on specific facilities that were very low cost that could see more of an increase. So it would vary from entity to entity. I mean there are some co-ops that buy more or less, and munis, so I think that it could vary, and it is those 5 or 10 percent of the people that could see larger rate increases that I think need protected.

Mr. Shadegg. Mr. Crews, can we figure out some way around this without getting ourselves deep in the Government regulating

rates?

Mr. CREWS. Well, I don't think there is any kind of magic answer. It is something that we have studied, and the developments in wheeling are going to take time. It is going to be a long time before we get to the point where rates can be equalized everywhere, but we can set initial trades maybe on a base closure commission model, we can set up initial deals where we move toward that more fluid power market.

The ultimate goal should be to get away from a situation where a PMA is isolated—munis and co-ops don't really have an incentive to buy outside of their PMA region, and those people on the outside who aren't in the PMA's, they ought to be able to buy power that is generated in the PMA. So when we free that up we will see rates come down. Those things take place over time. It may take a long time to get the absolute rate holddowns you want in some of the most inaccessible areas, but there are ways that you can manage it, and the way to manage it is not to leave the system as it is but to start taking steps to get there.

Mr. SHADEGG. Let me ask you, on page 7 of your testimony there is a discussion of perhaps the sale of a controlling interest of a PMA to offer to the public. Can you flesh that out at all and tell

me what the thought was there?

Mr. CREWS. That was simply an example on how you might set up something like this. I'm not an investment banker, these guys will be coming on the next panel, but the idea is, you are going to have an initial offering price of the stock and you can set up a program where that stock is offered to the public. You can make certain that a certain percentage of it is reserved for small businesses that are going to be affected in the PMA regions and customers who are affected in the PMA regions.

Mr. SHADEGG. Would you suggest that it be sold to those PMA

customers at its market value, not at any discount?

Mr. CREWS. When the stock is issued at its initial offering price, it is not necessarily going to be at the market value, that will be determined later, but if you set a PMA up into a block of stock you can offer an initial percentage of it in that manner. In the example I used, it was 51, and the other 49 percent the Government would retain, and as the stock price appreciated later it could sell that off and then benefit the taxpayers much more. That way, you don't sell the PMA off at these rock bottom prices that are being considered now, you can do it in an incremental way.

Mr. Shadegg. One last question. We have heard debate back and forth on the subsidy issue. I missed a part of that, but I understand it has kind of gone from one end of the table to the other. You are kind of an honest broker here, to some degree at least; you are not with either. What is your view of the subsidy argument, subsidy

issue, on each side?

Mr. CREWS. I do think PMA's get a subsidy in various ways. The back and forth was on the tax issue, but there are other ways. There is the appropriation that PMA's get that is over \$200 million a year. CBO indicates that PMA's sell their power for 2.5 cents a kilowatt hour while the market price is 4.5. That is not a direct taxpayer subsidy, that is the dead weight type of loss that I was indicating before, because the rest of society doesn't have access to that generating capacity when there is no reason why it shouldn't. That creates a dead weight loss in society that you really can't calculate. It is like regulatory dead weight losses, they are hard to tabulate. We don't know how much regulation costs the economy.

Mr. SHADEGG. Thank you.

Mr. DOOLITTLE, All right. I thank very much the witnesses of the panel.

Mr. BAYLESS. Mr. Chairman, could I have permission to submit further written testimony to rebut a few of the points that were

made?

Mr. DOOLITTLE. . Yes, I would invite all of the witnesses who wish to submit anything else in the way of written testimony. In fact. We would ask you to respond to any questions that the committee may have of you or any member thereof. And we will hold the record open in order to get those responses. We thank you for your time and interest. And we are going to go vote. At the conclusion of the vote we will return and take the second panel.

Thank you.

[The material submitted may be found at end of hearing.]

[Recess.]

Mr. DOOLITTLE. In the interests of everyone's time I was waiting for at least one other member to come. But I think we will start. We have got our second panel up here. And we will begin with Mr. Connor.

STATEMENT OF JOE CONNOR, VICE PRESIDENT, WHOLESALE MARKETING, ALABAMA POWER COMPANY

Mr. CONNOR. Thank you, Mr. Chairman.

I am Joe Connor, Alabama Power Company's vice president of wholesale marketing. Until just recently I was responsible for the company's daily hydro operations. I appreciate this opportunity to speak to you regarding Alabama Power Company's hydro operation and maintenance programs. Alabama Power Company has 14 hydroelectric plants on three major rivers in the State of Alabama, about 41 generating units representing approximately 1,600 megawatts of generating capacity. So, it is very important to Alabama Power Company and to our customers.

As a result of a very aggressive maintenance program, these hydro units have been able to serve customer load over 96 percent of the time. If you compare that to a national average of about 91

percent, you can see that we are very proud of our program.

The goals of our maintenance program are of course to maximize the availability of the units and minimize the cost of operating the units. In doing this, we start with daily routines of maintenance review by our technical personnel using checklists that we have developed over the years to determine the components that may need immediate maintenance or attention in the near future. These checklists wind up being a very important component of the maintenance program and, again, something that is a result of many years of operating a hydro system like ourself.

The maintenance outages are scheduled at least once a year. The longer-term maintenance outages, which are on the order of 7 to 11 days, are scheduled normally in the fall of the year outside of our peak demand period and when we have low flows in our rivers so that there is very little water lost. We coordinate those outages among all of our units using a very sophisticated hydro optimization management system that we have developed to do that. So, again, we are trying to maximize the use of all of our water re-

sources in the State.

We are involved with two jointly owned and jointly operated projects with the Corps of Engineers on one of our river systems, and in cases of outages planned for those units, we coordinate with the Corps of Engineers so that they can make plans for navigation and flood control purposes. This coordinated operation at the multipurpose dams, in this case two dams, has operated very successfully with the Corps for over 30 years with both parties receiving additional benefits from that cooperation.

From time to time we are required to make what we call substantial capital improvements at our hydro plants, things like turbines wearing out. They just don't last forever, and you have to replace these pieces of equipment. Planning for these capital improvements, the large ones, our capital budgeting plans extend as far as 10 years out in the future, so that we have a very carefully planned maintenance program that covers a long period of time.

If we look next door at our neighbors in the Southeastern Power Administration and dams operated by the Corps for the Southeastern Power Administration, when the Corps is faced with budgeted items like this, major replacement of capital equipment, they are required to go through a Federal budgeting process that really does not provide them with the ability to properly plan—or at least it appears that way—they cannot properly plan for major maintenance items, and we wind up with situations like two dams in Alabama where they have units that have been down and out of operation for over two years.

One of the major and very important factors in contributing to keeping our costs low at the plants that we operate is that we operate these plants at what we call efficient gate or best gate, that is something below full gate. The percentage below full gate varies from unit to unit. It is the gate opening at which you have maximized the generation from the limited quantity of water that you have available, and what this does is, it also helps to reduce the wear and tear on our units so it reduces our maintenance costs while we are maximizing the amount of generation that we get out of the units.

If we look to the Southeastern Power Administration again, and the Corps operation for the Southeastern Power Administration, we find that they are typically operating their units at full gate. Maybe that arises from contractual reasons, but for whatever reasons, they are, in our minds, operating those units in such as a manner as to drive up the cost of the operation and also does not maximize the generation that they get from the dams.

Mr. CONNOR. If you look at our projects, we have very excellent hydro availability, we have very few unscheduled maintenance outages, and the cost we have kept very low. We are very proud of our

program, and I will stop at that point, thank you.

Mr. DOOLITTLE, OK.

[The statement of Mr. Connor may be found at end of hearing.] Mr. DOOLITTLE, Mr. Bruce Driver is our next witness.

STATEMENT OF BRUCE DRIVER, LAND AND WATER FUND OF THE ROCKIES

Mr. Driver. Thank you very much, Mr. Chairman. My name is Bruce Driver. I am Special Counsel to the Energy Project of the Land and Water Fund of the Rockies. I am appearing today on behalf of the LAW Fund, as well as the Natural Resources Defense

Council and also the Grand Canyon Trust. I very much appreciate the opportunity to present to the subcommittee our positions on

PMA asset transfer.

The LAW Fund is a nonprofit regional environmental law center serving the Rocky Mountain, Intermountain and Desert Southwest States of the American West. Basically our objective is to advocate the adoption of measures that tend to minimize the adverse environmental impacts of meeting the demand for electric energy services in our region. To advance our positions, we intervene in State PUC cases in Arizona, Colorado, Nevada, New Mexico, Utah, as well as Wyoming. As well, since 1991, we have represented environmental interests in the public procedures that surround the Western Area Power Administration's attempts to deal with customer contract extensions as well as integrated resource planning. In short, we live in and work in the West on electric utility industry matters.

The focus of my testimony today is on the transfer of assets used in the generation and transmission of electric power marketed by Western, and my basic reason for being here is to place environmental impacts that are definitely affected by what is being discussed here today on the table. An initial basic point is that we fear the loss of various environmental amenities which most westerners very strongly support if there is a sale or other transfer of Western's assets. I am talking here of fish, wildlife, recreational benefits and support for the sustained and orderly development of

the region's copious renewable resources.

Now, this does not mean that we are unalterably opposed to any transfer, only that Congress not leap before it looks, and that any transfer protect and enhance the kinds of values and amenities that I am here to talk to you about today. In this regard, please do not forget that privatization is not an end in itself, but must be viewed in the context of the impact of it on the people and their values as might be affected in our region. It follows from this basic position that we prefer the Congress not authorize the sale of Western's assets right away, but instead remove the ban on the administration studying the transfer even while this subcommittee undertakes its own study.

It also follows, we believe, that when and if a transfer is authorized, important public environmental benefits are protected through conditions on any such transfer. We note strongly that there is very broad support for these values in our region of the country. However, there may be no way of protecting certain public

interests through conditions on an asset transfer.

One such public interest is the need to promote vigorous wholesale electric competition in our region. There are lots of benefits from wholesale competition, including lower rates, lower cost of service, and a better environment, but it takes coordination of transmission assets to bring about a strong, wholesale, competitive market in our part of the country.

We think that selling transmission assets to dozens, scores, perhaps even hundreds of utilities may be inconsistent with a coordination of the transmission system; and if so, and if transmission is further balkanized in our part of the country, wholesale competitive markets will be spent, so please consider in this not selling the transmission assets.

Another important public benefit that could be lost and is up for grabs here is the running of the rivers to protect and enhance fish resources. It is not clear to us that if you authorize the sale of the power turbines themselves that the rivers will not end up being run primarily to serve the needs of electric utilities. That would be inconsistent—we think it might be at least—with protection of these other values.

What is left to sell if you don't sell the transmission assets and the pourer turbines? In our view, there is still a lot to sell, and that

is the entitlement to use the power.

Lastly, I would like to say that an idea that we have that we commend to your attention is, if there is to be a transfer of Western assets, Congress should encourage a vigorous competition within the electric industry to see who would offer the best package to protect and enhance important public interests. It follows that an automatic preference to existing Western customers to take control of these assets, as suggested in the administration proposal, is just not appropriate.

Thank you very much.

Mr. DOOLITTLE. Thank you, sir.

[The statement of Mr. Driver may be found at end of hearing.] Mr. DOOLITTLE. Our next witness is Mr. Alan H. Richardson.

STATEMENT OF ALAN H. RICHARDSON, DEPUTY EXECUTIVE DIRECTOR, AMERICAN PUBLIC POWER ASSOCIATION

Mr. RICHARDSON. Thank you, Mr. Chairman. My name is Alan Richardson. I am the Deputy Executive Director of the American Public Power Association. I have a rather lengthy statement that I have already submitted and request that it be printed in the record.

I have a somewhat shorter summary statement, but I am faced with the dilemma of what to say when most of what I was going to say has already been said. So, Mr. Chairman, I would like to offer a few comments regarding some comments that others have made.

First, we heard from Mr. Klug this morning that privatization is the trend and the United States is in fact behind the curve. I would suggest that in fact the United States, in terms of privatization, is ahead of the game, because if you look over our economy, you see that we are much more heavily privatized than most of the other economies and most of the other examples cited by Mr. Klug.

He referred to the Great Britain experiment with the privatization of their electric utility system, but of course they began with a total publicly owned system and they have converted it now, through privatization, to a private system. But in fact when you look at the experience of the United States, it is not necessarily whether it is publicly or privately owned that is the significant factor; it is the competition between the two sectors and competition that yields true benefits for consumers and for the economy. So I would like to look at a couple of issues that have been raised about competition, and also

about equity interests of public power systems and rural electric co-

operatives that are the current purchasers of these systems.

In my mind, they clearly do have an equity interest based upon their contribution, their repayment of the Federal power costs over the past 40 or 50 years. They certainly have a reasonable expectation that this power will remain available to them over time; and that expectation is every bit as strong as the expectation the private power companies had back in the 1980's that they would be assured of renewals of hydroelectric licenses. And there was a rather substantial debate that occurred in Congress regarding renewal of hydro licenses, and it was clear that the companies that had those licenses had a reasonable expectation that they would continue to have those licenses, and Congress affirmed that in the adoption of the Electric Consumers Protection Act, and we have heard about that.

Competition, Mr. Chairman, has been mentioned by several witnesses. There are a couple of elements here that I think have not been brought out. First of all, it is difficult for me to understand how a change in the status quo is somehow going to harm competition in the bulk power market that is currently developing, and what we are arguing for through the protection of existing customers is allowing those customers to continue to receive the benefits of the power for which they have been paying over the years.

There is another element to this, however, and that is what is required to create a vigorous market. Clearly, a vigorous market demands that you have both buyers and sellers of a product, in this case, kilowatt hours. There have been incentives to bring additional generators of power into the bulk power market, but the 1,100 consumer-owned utilities that purchase power from the Power Marketing Administrations are a substantial number of buyers that make this market in fact very vigorous.

If the power that they receive from the Federal power program is to be stripped from them, this will undermine their economic viability and will have a serious impact on competition over time as these systems become more vulnerable to takeover and sale to pri-

vate investor-owned utilities.

We have heard some comments about taxes, Mr. Chairman. In fact, the witness for the Edison Electric Institute said earlier this morning that the Salt River Project in Arizona pays no taxes. In fact, an individual from the Salt River Project is here, and she advised me that in fiscal year 1993 Salt River Project paid \$172 million in taxes to State and local governments.

And in fact when you do a nationwide comparison of taxes paid to State and local governments by public power systems and investor-owned utilities, what you find is that it is nearly a wash, they pay approximately the same amount of tax on net revenues whether they are publicly owned or privately owned; and to assert that

they are not paying taxes is simply misleading.

The witness also talked about advantages that go to public power systems. There was not an explicit, but I believe an implicit reference to tax-exempt financing as the kind of benefit that goes to public power systems. There was a discussion of the kind of benefits that might go to Tucson Electric. Not mentioned by the witness, however, was the fact that Tucson Electric itself is a bene-

ficiary of tax-exempt financing through the so-called "two county rule" and has, in fact, outstanding about \$350 million in bonds that they have been able to issue under the so-called "two county rule," a special privilege afforded to about 10 investor-owned utilities

through changes in the tax law several years ago.

Finally, Mr. Chairman, there has been much discussion about the price of Federal power. There seems to be the assumption that because this power is relatively low priced, it is somehow subsidized. I think we need to make an apples-to-apples comparison here, and I have before me 1993 hydroelectric generating plant statistics for selected plants, and if you look over various hydroelectric facilities licensed to the Idaho Power Company, the Washington Water Power Company, and Pacific Gas and Electric Company, you find hydro prices that range anywhere from 0.88 mills per kilowatt hour to 4.8 mills, 4.56 mills; Kings River Storage Project, Pacific Gas and Electric built in 1962, coming in at 2.48 mills. So if you look at a comparison of hydroelectric facilities and hydroelectric facilities, I think the perception is easily dealt with that this is subsidized electric power, particularly when that perception is based simply on an examination of the price that is charged for the sale of that energy.

Mr. Chairman, thank you very much for the opportunity to testify. I appreciate it, and would be happy to respond to your ques-

tions.

Mr. DOOLITTLE. Thank you very much.

[The statement of Mr. Richardson may be found at end of hearing.]

Mr. DOOLITTLE. Our final witness will be Mr. George A. Schreiber, Jr.

Mr. Schreiber.

STATEMENT OF GEORGE A. SCHREIBER, JR., MANAGING DI-RECTOR, SECTOR HEAD, REGULATED INDUSTRIES, TECH-NOLOGY AND PROJECT FINANCE, PAINEWEBBER, INC.

Mr. Schreiber. Thank you, Mr. Chairman, thanks to other members of the committee for giving me the opportunity to share my thoughts on this subject today. My name is George Schreiber. I am managing director at PaineWebber in the Investment Banking Division. My responsibilities are for the Regulated Industries Technology and Project Finance Sectors.

I am here today on behalf of PaineWebber and on behalf of the Alliance for Power Privatization, a group of independent power producers, investment banks, investor-owned utilities who support the privatization of federally owned electricity assets and, in particular,

the PMAs.

A couple of points that I want to address—I also have filed testimony, but will just kind of summarize in these oral remarks. It seems as though there are a couple of clear messages that are in the marketplace and in the political arena.

Number one, as a result of last year's elections, it seems that the American people are saying they want to reduce the size of government; and I think also that other countries around the world are following and may be in fact out in front of that.

There also seems to be, and what is being debated currently, the

budget, and that is to reduce the deficit.

The privatization of the PMAs through a competitive bidding process to the highest bidder I think accomplishes both of those goals. Fundamentally, I think there is a real question whether the Federal Government should be in the business of supplying electricity, and I think that one of the issues there is the fact that tax-payer subsidization does not go to the benefit of all the public, it goes to the benefit—to a few of the taxpayers that are in the PMA regions; and I think that, just from a fairness point of view, that

is an issue that needs to be looked at closely.

In terms of privatizations, the global capital markets have demonstrated clearly over the last 15 or so years that investors find privatizations very attractive. There is a lot of capital available for these kinds of transactions. Since 1979, worldwide, \$100 billion has been raised through the privatization effort. Since 1990, about \$40 billion has been raised. Since 1990, about \$27 billion has been raised for utility assets. It is interesting that we find that various countries around the world, in fact former Communist countries, are moving to privatize their assets; and we have a situation here which is legitimately a business that is still being owned and debated whether the U.S. Government in a system which is the most capitalistic system in the world has some question whether that is appropriate or not.

In terms of valuation, the valuation question really revolves around the rate question. The deal, how you privatize it, it will affect what the value is. There are ranges that have been published from \$4.5 billion up to, I think, \$86 billion that has been talked about over the years. I am not sure I know what the true value is. Certainly, in my experience, having been involved in M&A transactions and transactions of this sort, it is not the lowest number that is in the marketplace. It is also—from what I can tell, it is not the highest number, because investors are simply not going to put that kind of capital to work at the highest numbers. The true value will be found in the marketplace in the competitive bid-

ding process.

You can value these assets on many different ways, whether by valuing the outstanding debt by the discounted cash-flow method or by the replacement-cost method, and all those will serve the purpose and all the potential bidders will use those kinds of analyses

to determine value.

One thing I have to say, that in all my years of being in this business—and I think you can tell from my bald head and my gray hair it is a few years—that I have never in my life heard of a situation where payment for services is the equivalent of equity in some situation. My business is designing equity transactions, designing transactions where the equity component is at least a large part of it, or some part of it; and you know, if I could have ever sold that to any investor, you know, I probably would have been able to retire long ago because that is really turning gold from straw.

But, you know, I have been confused before, and I have also listened to Washington say that they are going to cut the budget and in fact the budget grows by about 7 percent, so I may be confused here again. I think that privatization can be completed on a couple

of different ways, either through a sale to a strategic buyer or through an offering to investors. From a rate point of view, I don't

think that is going to be an issue.

The competitive market today is not going to allow great rate increases. In fact, we have heard Congressman DeFazio say that the Bonneville Power Authority has lost customers because the competitive market has made cheaper power available to their customers.

I think that, going forward, the bottom line is that the government needs money—there is no question about that. I think that the privatization will help in that regard. Also I think that the question of whether or not this is a business that the government

ought to be in is also a question.

I think that we heard earlier a little comment about the profit motive. Quite frankly, the profit motive is not a dirty word. You know, all you have to do is look at what happened to overnight mail service, you have a situation where the Federal post office can't compete with Federal Express; and I think there is a lot to be gained by moving forward with the privatization, and I thank you very much for allowing me to testify.

Mr. DOOLITTLE. All right. Thank you very much.

[The statement of Mr. Schreiber may be found at end of hearing.]
Mr. DOOLITTLE. If I might ask a question of Mr. Schreiber, you
feel the government has undervalued the PMA assets. What do you

think is a more accurate value for the assets?

Mr. Schreiber. Well, Congressman, it is a question that is going to require a lot more study than I, quite frankly, have given at this time. I have seen numbers that are all over the lot, but generally, in my experience, when you run an auction process or prior to running an auction process, if you find that people are giving you indications of what they think something is worth, you will be able to achieve a lot more by throwing it into a competitive situation where you have made information available, you have made terms and conditions available under which everybody will have the same opportunity to analyze the situation and understand what the requirements are, and value will be determined through that process.

Mr. DOOLITTLE. Thank you.

Mr. Driver, if the sale of the PMA assets were to move forward, through what process, either legislative or perhaps the FERC licensing process, would you suggest protecting the public interest to which you referred?

Mr. DRIVER. I think it is very important that, as part of any legislation that goes forward, Congress is forthright in saying that those who take on the ownership, management or control of these assets have to meet certain conditions. That is one way of doing it.

Another way that is not inconsistent with it and may just be a process to gain the objective of protecting public benefits that are spelled out in the bill is to have competitive bidding to meet—who can meet these public benefits the best, who can provide the best package. I am convinced that the market may very well come up with some ways of protecting, for example, fish flows in the Colorado River Basin that we haven't even thought of yet, and so I urge Congress to consider possibly meeting these public benefits through

the authorization of competitive bidding that might be undertaken

and implemented by, for example, DOE.

Mr. DOOLITTLE. Well, that is a very innovative idea. I hope that you will continue to advise us of your thoughts on this matter should this process continue on down the road, as it frankly seems, I think, likely to do.

Mr. Richardson, let me ask you, considering public power's strong demand to ensure fair competition, would it be correct to assume there would be no objection from public power interests if the entities which acquire the PMAs are regulated by FERC and are subject to the open access provisions concerning transmission lines?

Mr. RICHARDSON. I am glad you asked that question about thefirst, on the transmission lines, because I think perhaps there is some misunderstanding about the reach of FERC and the regulation or the ability to regulate publicly owned transmission facilities.

The Energy Policy Act that was adopted in 1992 authorizes the Federal Energy Regulatory Commission to order any transmitting utility—those are jurisdictional utilities, the investor-owned utilities over whom they have traditionally had jurisdiction, as well as public-owned utilities over whom they have not had jurisdiction—to order any of those transmitting utilities to provide transmission services to others. Public power was instrumental in pushing for that legislation; in fact, enhancing the authority of the Federal Energy Regulatory Commission to order utilities to transmit power has been on public power's agenda and APPA's agenda for many, many years, and it finally came to fruition in 1992. We did not seek then and we do not seek now to hide behind public ownership to avoid FERC jurisdiction with respect to the exercise of that authority over transmission facilities.

The NOPR that was referred to this morning, the open access NOPR that has just been issued by FERC, applies only to the one—I believe it is 130 "jurisdictional" transmitting electric utilities, read "investor-owned utilities." That is because FERC is proceeding under different sections of the Federal Power Act, sections 205 and 206, in proceeding with that course to get a comprehensive, open access transmission regime as opposed to proceeding, as

Chair Moler said, on a case-by-case or a piecemeal basis.

But a very important element of the Commission's proceeding has to do with the transmission tariffs that they are requiring and what is required from those who seek to benefit from the open transmission tariffs that they would require be filed. There are provisions in there that require reciprocity. In other words, if I take from you, I have got to give to you in the same way, so if I am a publicly owned utility with transmission facilities and I take service under one of those new open-access transmission tariffs, I have to provide the same service to you.

Now, this is a back door way of getting at the publicly owned utilities to encourage them to come forward, but it is working because in my conversations with publicly owned utilities that do own transmission—and they are relatively few in the 2,000-plus community of public power systems—they are all looking at the prospect or planning the filing of open-access transmission tariffs. But I say they are also, of course, subject to FERC's authority. If an-

other utility says, we want this transmitting public power utility to transmit power for us, they can be taken before FERC in a pro-

ceeding under the provisions of the Energy Policy Act.

The Commission also is encouraging transmission access from all providers and all transmission owners through the creation of and the conditioning of regional transmission groups by requiring regional transmission groups when they come forward to have in their transmission tariffs the same kind of comparability provisions that we are seeing now in the notice of proposed rulemaking. Many public power systems are participants in these regional transmission groups, and they are participating with full knowledge that this is a requirement of the Federal Energy Regulatory Commission.

Now, as to the issue—and I don't want—I spent a lot of time on that because it is a very important issue, and how public power plays into this competitive environment and what our expectations are in terms of transmission access and making our facilities available to others. As to regulatory jurisdiction over public power systems by the Federal Energy Regulatory Commission, there has been no necessity for such jurisdiction; regulatory jurisdiction has been an instrument for protecting consumers, and local public power systems are owned by and responsible to the consumers that they serve, and they are in fact very effectively regulated by the elected officials or the appointed officials that operate and manage and oversee the responsibilities of those public power systems.

Mr. DOOLITTLE. Thank you.

Mr. DeFazio.

Mr. DEFAZIO. Thank you, Mr. Chairman.

To Mr. Schreiber first, you referenced the mail service. I have been through these privatization arguments, and I am not one who says the government should keep doing everything it has been doing; but on the other hand I always take a little bit of a jaundiced view.

Now, sure, overnight mail, great; what about delivering first class mail at 32 cents a shot to Canary, Oregon? Is there a lot of interest in the private sector in doing that at that price and providing an integrated Federal system which provides First Class Mail service at a third of a dollar to every American and every person, and business resident in this country?

Mr. SCHREIBER. I don't know. Have we tried it? Have you put it

out for bids?

Mr. DEFAZIO. I think the answer would be clearly no. They want the profit centers, and that is understandable. Everybody wants the profit centers, you know it would be great to just have to deal with densely populated commercial areas or even urban areas, as opposed to having to provide rural delivery. I think the same example holds here with, you know—in part, particularly for rural coops and others.

You heard Mr. Cooley and other members perhaps earlier who represent districts even more rural than mine. There is a question of, you know, who is going to want to string or continue to maintain three miles of line to serve a single farm house. You know, I suppose as long as we have regulated utilities, they will have to because the PUCs in the various States are required. But I don't see

that as being the real fight here; the real fight is over some very potentially profitable transmission in the case of these Federal entities, and also some very profitable prior-existing generation.

tities, and also some very profitable prior-existing generation.

I don't blame you. You are going to sell the bonds and make money on that, and that is great. Everyone wants to make money. But I have to come at it from a little different perspective; how are the people of the western United States best served and how can

we provide the lowest cost?

I guess here is the gist of it. If we are to sell these things, someone is going to have to, and apparently there is a tax exempt way to do it, I wasn't aware of the Tucson example, but let's just say they had to issue taxable bonds. What would be for—say, the billion dollar purchase price of the Arizona portion of WAPA, what would be the going market rate if someone wanted to issue a billion-dollar taxable bond on a utility project?

Mr. Schreiber. Well, you have to tell me what the credit rating

is; you have to tell me-

Mr. DEFAZIO. Whatever Tucson has, they are the ones who want

to buy it. What is their credit rating?

Mr. Schreiber. Well, Tucson, they are a noninvestment-grade rated company.

Mr. DEFAZIO. What does that mean?

Mr. Schreiber. That means the market for those bonds is severely limited.

Mr. DEFAZIO. You mean, they would be like junk bonds?

Mr. SCHREIBER. Well, they are not junk bonds.

Mr. DEFAZIO. We had them up here earlier and they were being offered as the paragon of a bidder for this Federal entity, and now you are telling me you wouldn't want to sell their bonds or they wouldn't be rated?

Mr. Schreiber. I never said—I would love to sell their bonds, because I make more money selling those kind of bonds than I do in-

vestment grade bonds; but the point is

Mr. DEFAZIO. So they are nonrated. What would they go for? Mr. SCHREIBER. A nonrated bond. What is the maturity?

Mr. DEFAZIO. Let's—you guys are all the experts. Whatever you want to market them for. What do you think is ideal here, 30 years?

Mr. Schreiber. You can't generalize because you could set up a

structure

Mr. DEFAZIO. We have just generalized on selling all of these Federal power marketing agencies, but now I want to get a little specific and talk about someone who testified earlier that they are a bidder, they have gotten written up in the Wall Street Journal. I assume they are a great example of what we are about here. It is the only specific example I have got before me, and you can't give me a number.

Let's just say 30 years. You told me they are not rated, fine, so you have got junk bonds, 30 years, a billion dollars for what they

were written up about in the Wall Street Journal.

Mr. SCHREIBER. Nine-and-a-half percent.

Mr. DEFAZIO. Boy, that is spending. So a billion dollars, 9.5 percent, 30-year amortization. What would that be on an annual basis?

Mr. Schreiber. Well, the interest alone is almost \$100 million. Mr. DeFazio. And they are not going to raise the power rates? This seems to me a miracle, like loaves and fishes.

The gentleman from APPA, could you comment? You guys must

be incredibly inefficient, that is all I can say.

Mr. SCREIBER. Could I-

Mr. DEFAZIO. No, I am talking to the public power folks now if I could.

Mr. Schreiber. Could I just answer one-

Mr. DEFAZIO. Sure.

Mr. Schreiber. You made a comment earlier about transmission. The competition that the investor-owned utilities are facing is on the generation side of the business. Your transmission will continue to be regulated by FERC, distribution will continue to be regulated at the State level, so the fear that you have or the concern that you have that somehow there will be stranded, potential consumers out there I think is not realistic in the world in which companies operate today.

Mr. DEFAZIO. Well, I don't know. We had been talking a little bit about stranded investment earlier, and we heard the figure of \$200 billion from Ms. Moler, that has certainly got to be a concern to the

IOUs and the public power in a retail wheeling atmosphere.

Mr. Schreiber. That is an investor concern, not a customer concern.

Mr. DEFAZIO. Then that gets to customer concerns ultimately because somehow we have got to pay off that \$200 billion of stranded investment. Someone has got to carry the costs, and I suspect it is going to be the ratepayers, probably not the stockholders; and in the case of public power, there aren't stockholders so it has to be

the ratepayers.

Mr. Schreiber. I don't think that is a valid conclusion, either, because the stockholders in these companies are the ones that are bearing the risk that things are going to operate the way they had thought they were going to operate when they made the investment. This is a huge change to them, and I think you are going to see tremendous losses by investors at a time when you have said yourself your customers in your district are finding rates cheaper and cheaper. The customer is the one who is going to benefit through this whole process; the investor is not going to be—

Mr. DEFAZIO. I didn't advocate Ms. Moler's world or retail wheeling because I see the problem of the stranded investment and don't believe it is something you can make an abrupt transition to. And in the case of California, it was totally nonsensical, what they said: We will allow people to add this on to the cost of the new power. So you would have the new power transmitted, which is theoretically cheaper, but by the time you add on all the amortization costs of the sunk investment and the stranded investment, the consumer is going to end up paying in the aggregate more for their power, but there would be two different entities making money on it. It is an interesting world.

The gentleman from APPA, could you comment on that? Just tell

me, I just heard now that the

Mr. RICHARDSON. The question—

Mr. DEFAZIO. The major offer we have out here is pending from a utility that would have to pay 9.5 percent, and they told me—unfortunately, I couldn't get back to ask the gentleman some questions, but I saw in their testimony, 5 percent rate increase over five years. That seems to me to be miraculous.

Mr. RICHARDSON. That is silly as far as I am concerned.

Mr. DEFAZIO. What do you mean, silly?

Mr. RICHARDSON. I can't believe that they can, with the interest rates we are talking about here, with the amount of money they are proposing to put up, that they can meet the conflicting goals of maximizing the return to the revenue and holding ratepayers harmless seems to me to be nonsensical.

Mr. Schreiber. But you are assuming here—

Mr. DEFAZIO. Excuse me, it is this gentleman's time.

Go ahead.

Mr. RICHARDSON. Perhaps you are suggesting, or it is being suggested that they can extract greater efficiencies out of the system; and there is no question in my mind that there are some additional efficiencies that can be extracted from the system. In fact, many of my members see ways that they can, in fact, enhance the value of these resources. It does not involve the sale of Power Marketing Administrations, although it may involve greater responsibility in the hands of the local systems that are paying the bills and directly responsible.

But to think you can squeeze greater efficiencies out of these systems, generate more power and enough power to come up with the difference in the price that would have to be paid when you increase—maximize the value to the Treasury, pay very high interest rates and still hold customers harmless, I don't see how it can be

done.

Mr. DEFAZIO. So we are back to perhaps more than a 5 percent over five years?

Mr. RICHARDSON. Yes.

Mr. Schreiber. But you don't know because this is an economyof-scale business, and through integration—I mean, strategic buyers pay a lot of money for an asset when it fits into the overall system, OK? And so we are dealing in hypotheticals here, and the only way to really know is to set some rules by which bidders will come into—at a date certain and issue their bids.

Now, as far as Tucson is concerned, you asked me what it would be on Tucson's credit. I could structure that deal where it would get an investment grade rating and the bond rating would be probably something on the order of 8 percent, and the overall cost is going to be substantially lower. So, you know, the hypotheticals that we throw out here bear no relevance to what is going on in the marketplace.

The only way to find out is to decide what you think is important, what environmental concerns are important, what consumer concerns are important, the goal of trying to maximize the amount raised to help reduce the amount of Treasury debt that is going to

have to be financed, and see who will pay the highest price.

Mr. DEFAZIO. Now, what if we pass on—we have concerns on the lower Colorado in terms of, you know, the height of the water, so we are going to put restrictions on generation that go to time of

day, amount of water that can be put through the generators—of course, we have flood control concerns—spill at certain times that

is not economic, and all those sorts of things.

Perhaps we should even think of selling the dams as opposed to just—I mean, it would be nice to just buy the generation but, gee, I think maybe the responsibility of operating the flood control and everything else that goes with the dams should be part of the package.

Mr. Schreiber. That is fine. If you want to make that as a part

of the condition of the process.

Mr. DEFAZIO. Wouldn't that lower the value, though, if we are

going to add all those?

Mr. Schreiber. It all affects value. You have public interest concerns. You put those in the bidding documents, and you let investors say what they are worth, and you know, the allowance—the

Alliance has no—we don't compete with anybody, OK?

We are just saying that—let public power, let the co-ops compete. I mean, they have a subsidized cost of capital. I don't know what they are afraid of in getting into a competitive situation where they pay the market-determined price for these assets. I don't understand what their fear is. By definition, you would think they would be winners because they got a lower cost of capital coming right out of the box.

Mr. DEFAZIO. Well, we heard that, apparently, Tucson has had two interests at least, federally tax exempt, or was it State tax exempt?

Mr. RICHARDSON. No, federally tax exempt.

Mr. DEFAZIO. federally tax-exempt bond issuance. So they apparently got a subsidy somehow, too. I don't know how that works.

Mr. Schreiber. But be that as it may, you have set the criteria by which you want to see bids come in at; on a date certain, you

tell everybody to submit their bids.

Mr. DEFAZIO. I think we are going to go forward with a study and an assessment. Whether we get exactly to the point of bids, I guess that is another question. Again, I am puzzled, and I regret I wasn't here for the gentleman from Tucson, but what is their problem that they are not rated? Well, they have issued debt because they have done this \$350 million. Well, why aren't they rated?

Mr. Schreiber. I think they are rated. The fact of the matter is,

they are rated, but they have a noninvestment grade rating.

Mr. DEFAZIO. So then people aren't maybe looking at their management and thinking it is a paragon of efficiency?

Mr. SCHREIBER. I think again you are making a great leap of

faith here.

Mr. DEFAZIO. No, I am just curious. Even BPA has a decent rating, and BPA is a management disaster. I can't imagine what somebody who isn't rated must be doing.

Mr. SCHREIBER. Yeah, but—I mean, you mentioned BPA; they

also had the WPPS situation.

Mr. DEFAZIO. Right. That is a management disaster; it was a very, very bad decision.

Mr. Schreiber. You can look at Tucson's history prior to Mr. Bayless joining the company and you will see a similar type of disaster, OK? That is not—

Mr. DEFAZIO. Well, we may be looking for a new administrator soon, maybe we can bring him over. But my time has long expired.

I thank the Chair for his generosity.

Mr. DOOLITTLE. I thank the witnesses for their testimony. We will ask you to respond to any additional questions we may have in writing, and we will keep the record open for your responses to come in.

With that, we will conclude the subcommittee hearing. Thank

you very much.

[Whereupon, at 2:44 p.m., the subcommittee was adjourned; and the following was submitted for the record:]

HONORABLE SCOTT KLUG'S TESTIMONY ON THE PRIVATIZATION ON THE POWER MARKETING ADMINISTRATIONS BEFORE THE HOUSE RESOURCES SUBCOMMITTEE ON WATER AND POWER RESOURCES

MAY 18, 1995

Privatizing the U.S. Department of Energy's Power Marketing Administrations is an initiative that is long overdue and I am pleased, Mr. Chairman, that this Committee is exploring the various options to remove these functions from the federal government. In the discussions between the Administration and Congress, there is strong consensus on two main points:

- Since the 1930's, the PMAs have served their purpose successfully, to facilitate regional development by providing below market and at cost power.
- 2) The U.S. electric industry is becoming more competitive, i.e. the interconnection of local utilities, the growing significance of independent suppliers, and the use of wholesale power markets. The industry's competitive structure has the potential to reduce the cost of power and increase service reliability. Government subsidized power prevents the American public from enjoying the benefits of increased competition.

Please refer to the attached map of the privatization of power in the world. The United States remains clearly behind the curve in terms of the world economy. We now have the opportunity to save taxpayers approximately \$316 million of appropriations every year by privatizing the PMAs. The annual appropriations for the five administrations are:

Alaska Power Administration (FY95 = \$6.5 million)

- Southeastern Power Administration (FY95 = \$22.5 million)
- Southwestern Power Administration (FY95 = \$21.3 million)
- Western Area Power Administration (FY95 = \$266 million)
- Bonneville Power Administration (Debt = \$3.7 billion)

In anticipation of the deregulation of the power industry and competition on the rise, it would make sense to stop the federal government from marketing this power. The PMAs currently make up nearly 1/3 of the Department of Energy payroll and markets 6 percent of the nation's total energy production. Given current fiscal realities, taxpayers should not be forced to pay for the federal government's competition with the private sector.

In addition to the Administration's proposal and the House Budget Resolution proposal some private utilities have put forth their own ideas of how the PMAs should be privatized. I want to explore these various options and offer my own recommendations on how the PMAs should be privatized. Because the privatization of the Alaska Power Administration is approaching its final stages, I will primarily focus on Southeastern Power Administration, Southwestern Power Administration, Western Area Power Administration and Bonneville Power Administration.

The Current Situation

The four above mentioned PMAs currently owe the Department of Treasury approximately \$14.4 billion. When the debt structure was established for the PMAs, construction costs were generally to be repaid, with interest, within 50 years of the project's beginning service. Operation, maintenance, and interest costs were to be repaid annually.

PMA Debt Owed to the U.S. Department of Treasury

Alaska Power Administration	\$165 million
Southeastern Power Administration	\$1 billion
Southwestern Power Administration	\$678 million
Western Area Power Administration	\$3.6 billion
Bonneville Power Administration	\$9 billion
T	814 A COD
Total	\$14.4 billion

It should also be noted that the above numbers do not include PMA projects currently under construction. These projects will be considered cutstanding debt once they are operational. A perfect example is the Southeastern Power Administration's "Pumpback Project", in which water would be pumped back to the reservoirs when power demand is lower and run the

water back when demand is at it's peak. This project has already spent roughly \$400 million in taxpayers money. Construction has been put on hold for about 5 years now because of environmental concerns for the project. Because the project is neither complete nor operational, the \$400 million is not included in SEPA's current outstanding debt.

Bonneville Power Administration

The debt structure of Bonneville Power Administration is different from the other PMAs. The current BPA total debt load is \$16 billion:

\$7 billion
\$9 billion

Approximately \$9 billion in debt is owed to the Department of Treasury for investments in dams and the transmission system. An additional \$7 billion is owed to the public for the ill-founded nuclear construction program (the Washington Public Power Supply System, WPPSS) that resulted in substantial amounts of non-producing assets - an expensive error.

1

BPA backed bonds issued by the WPPSS to finance three nuclear power projects. The WNP-2 is the only completed nuclear power project. The other two nuclear power projects were suspended in 1982 and have been preserved by BPA since. WPPSS debt service costs BPA over \$700 million annually. In January of this year, however, the construction of the two nuclear plants was terminated. In essence, taxpayers have been financing the construction of these nuclear plants which will never be built.

BPA management decisions also have been expensive for other reasons. Conservation spending has not produced the savings BPA first expected. Decisions regarding the purchase of other resources now suggest contracts for new power are at a cost well above current market levels.

In addition to BPA's flawed management decisions, operational efficiency has not been emphasized over the years. Despite these problems, however, BPA still has a very competitive firm power rate of 2.7 cents per kilowatthour. BPA's rate remains well below that of other traditional suppliers in the northwest and in California. Most of BPA's competition offers firm wholesale power at prices substantially over 3.0 cents per kilowatthour.

The recent emergence of gas turbine generation suppliers, who are taking advantage of current low gas prices, has force BPA to respond, on the margin, to competitors offering contracts at prices slightly over 3.0 cents per kilowatthour. Some loss leaders are even

providing power at less than 3.0 cents per kilowatthour.

Regardless of the current and probably temporary market situation, BPA can take actions to prepare itself for privatization and during the interim contribute to deficit reduction.

PMA Privatization Proposals

• The Administration's PMA Privatization Proposal

The Administration proposes to privatize Alaska, Southeastern, Southwestern and Western Area Power Administrations by transferring the rights to market the power to preference customers with net proceeds totalling \$3.3 billion. I have some concerns that the President's proposal is unnecessarily restrictive because bidders are limited to the current customers on a first right of refusal basis. In addition, PMAs currently have flexibility to raise rates. The Administration's proposal restricts rate increases. As a result, the government will not realize the full amount of deficit reduction benefits that could be generated from the sale.

By limiting the purchasers ability to make rate changes, the proposal also locks in subsidies that the PMAs have assumed for themselves as they determined the interest rates they would pay on amounts owed the Treasury. Generally, the PMAs are repaying debt at interest rates that are well below the government's cost of money at the time the loans were extended to each of the PMAs.

House Budget Resolution PMA Privatization Proposal

Like the Administration's proposal, the House Budget Resolution would privatize Alaska, Southeastern, Southwestern and Western Area Power Administrations for a total of \$3 billion from the sale. Alaska Power Administration would be sold based on the agreements made between the Department of Energy and the APA customers. The three other PMAs would become private corporations. Each of these corporations would own all of the current PMA facilities and the electric generating facilities such as the federal hydroelectric dams (currently owned by the U.S. Army Corps of Engineers and the Bureaus of Reclamation). The PMAs would be sold to the PMAs preference customers for the current outstanding total debt of \$3 billion.

My concerns for the budget resolution proposal mirror my concerns for the Administration's proposal. By limiting the sale to the preference customers and the price to the outstanding total debt to the Department of Treasury, taxpayers are not receiving the full return on their investment in the PMAs.

Proposals for Bonneville Power Administration

BPA is not included in neither the Administration or the House Budget Resolution PMA privatization proposals. There is legislation, however, to refinance BPA's debt owed to the Treasury. This legislation is designed to lock in BPA's current annual subsidy of \$450 million. The Northwest region enjoys the cheapest electricity rate in the country - about 4.8 cents per kilowatthour for residential retail sales. Average rates, nationally, are about 8 cents per kilowatthour. BPA customers, such as the irrigators who use the power to pump water, pay only a fraction of the real value of the water. The remaining cost is paid by taxpayers who provide the \$450 million annual subsidy.

The legislation which has been introduced to refinance BPA's debt, like other PMAs, would arrange debt repayment terms that create a differential (subsidy) between the interest rate BPA pays on debt owed the Treasury and the Treasury's cost of money at the time the loans were extended to BPA. This subsidy under the legislation totals \$250 to \$350 million per year. Partially eliminating this subsidy could produce \$50 to \$100 million or more in revenue per year for deficit reduction. On BPA's \$2 billion plus annual revenue base, \$100 million represents about a 4 percent wholesale rate increase or a 2% retail rate increase. This amounts to about an additional \$2 per month paid by Northwest ratepayers on their monthly electricity bills.

In addition, the Administration and BPA is proposing to recast itself as a government corporation to derive efficiencies not now available under current regulations. Although this assertion is suspect, (but serves BPA's purpose in explaining partly why it is having problems) the proposal, if adopted with stipulated time limits and a solution for WPPS debt, could place BPA on a path toward privatization.

Private Sector PMA Privatization Proposals

Tucson Electric Power Company has placed their bid on WAPA assets in Arizona for \$550 million. The bid is for all WAPA assets in the state of Arizona which includes assets such as the power plants and transmission lines. Tucson Electric's proposal would ensure that any rate increases under Tucson Electric would not differ from rate increases under WAPA. The offer of \$250 million would come from the net present value of taxes to be paid on the WAPA assets after they are sold.

Another proposal from the private sector is from the Otter Tail Power Company. Otter Tail proposes to privatize the Billings Marketing Area of WAPA by conducting a pilot project. This project would be a 5 year contract for Otter Tail to manage, operate and maintain the Billings Marketing Area of the WAPA Pick-Sloan Project. During this time, Otter Tail would takeover the PMA responsibilities for this area and implement strategies to transition rates to market levels. By raising the power rates to market levels, Otter Tail proposes to increase the value of the WAPA assets, thereby preparing it for sale. After the five year contract, the Billings Marketing Area would be up for sale, lease or renewal of contract without any increases. Under this contract, Otter Tail would receive a management fee of one mill/kwh. All revenues in excess of this cost would got directly to the Department of Treasury.

Conclusion

While I raised many concerns about the current proposals to privatize the PMAs, I am not endorsing one approach over the other. There are obviously many different possible implications to take into consideration such as rate shock and environmental concerns. I recommend that the Committee authorize an investment banking firm to study the assets and make recommendations from the private sector's point of view. Because every PMA is different, in some cases, it may make sense to sell directly to the preference customers. In other cases, it may make sense to have an open bid on the assets. My main concern is for the taxpayers to receive the maximum return on their investment.

	Administration's Selling Price	House Budget Resolution Selling Price	Net Book Value
Alaska (APA)	\$63 Million	\$55 Million	*
Southeastern (SEPA)	\$399 Million	\$343 Million	\$1.5 Billion
Southwestern (SWPA)	\$434 Million	\$396 Million	\$797 Million
Western Area (WAPA)	\$2.436 Billion	\$2.260 Billion	\$4.6 Billion
TOTAL	TOTAL \$3.332 Billion	\$3.055 Billion	\$6.9 Billion

Industry Trends in the Global Power Sector

Merrill Lynch -

Tucson Electric Offers \$550 Million For the Arizona Assets of U.S. Utility

By BENJAMIN A. HOLDEN

Staff Repo er of THE WALL ST Tucson Electric Power Co. has offered \$550 million in cash for the Arizona-based assets of the federally owned Western Area Power Administration, say people familiar with the situation.

Charles & Bayless, chairman of Tucson Electric, confirmed that his company bid "in that neighborhood" for WAPA's bid "in that neighborhood" for WAPA's transmission tines, power plants, marketing rights and other assets in the state. Mr. Bayless said his company's bid includes an agreement that rates for existing customers wouldn't rise beyond what they would have absent an accountion.

Momentum toward privatizing WAPA, along with hipper of four other newswap.

along with three of four other power-mar-keting administrations, has accelerated since the Clinton administration called for the dispositions in its flacal 1998 budget.

The self-off could bring an aggregate \$1.7 billion over five years, according to the Department of Energy. But a trade group for investor-owned utilities has put the number closer to 33 billion. People familiar with the situation say Tucson Electric's offer is one of several being pondered by the Office of Management and Budget as the Clinton administration searches for

the Clinton administration searches for sources of revenue to finance tax cuts. WAPA, which markets electric power in 15 states from federally owned power plants, projected 1985 revenue at 3612 million. The agency operates 18,724 miles of high-voltage transmission lines and 259 substations or switchyards. Tucson Electric, a publish; held utility, fact 1994 revenue of 3891.5 million and earnings of 220.7 million, or 13 cents a share.

Because WAPA's assess area't techni-

20.7 million, or 13 cmts a share.

Because WAPA's assets aren't bechnically for sale yet, Tucone Blectric hasn't disclosed its plans. But it has assembled a team of investment bankers and lawyers, including Chase Manhattan Bink, Merrill Lynch & Co. and New Harbor lawestment, along with the Washington, D.C., office of Reid & Priest, to assist with its ofter. People familiar with the situation say the deal would be financed 7% with debt and 30% with new private county.

People familiar with the situation say the deat would be financed 77% with debt and 30% with new private equity.

Mr. Bayless confirmed that he and another Tucson Electric executive have met twice with Eherry Department officials in Washington. In December, the company wrote to President Clinton expressing interest in certain WAPA assets. In February, Mr. Clinton wrote back.

The people familiar with the situation say Tucson Electric sobmitted a detailed bid letter to the government last month, describing the terms and conditions upon which the company would porchase WAPA's Arinon-based assets. The offer said an additional 32% million gain would be realized by the government as a result of the net present value of taxes to be paid on the WAPA assets after privatization.

Bill Wicker, an Energy Department spokesman, said, "We don't comment on specific bids, but we have received many, many expressions of interest from a number of customers who are very interested in buying one of the" power-marketing administration of the power-marketing admini

buying one of the" power-marketing ad-Proper Limitian with the estuation say

Ottertall Power Go., an investor-owned utility in Fergus, Falls, Minn., has bid on the assets of the Billings Marketing Area, also part of WAPA. The bid included a also part of WAPA. The bid included a promised rate reduction. Ottertall serves the eastern half of North Dahota, the western third of Minnesota and the north-eastern corner of South Dahota; Billings Marketing serves Montana, North Dahota, South Dahota, and small parts of Minnesota, lows and Nebraska.

WAPA and Ottertall conden't be reached for comment.

Turnen Electric's Mr. Bawless has been

reached for commont.
Tucum Electric's Mr. Bayless has been
a vocal critic of federally owned power
companies and has urged the government
to sell, the has called them undair competition since they don't pay federal taxes and
can issue tax-free debt. But it and other
companies oppose the Energy Department's plan to give a preference to existing
power-marketing administration customers in the event the assets are sold.
In addition to WAPA the Chinon ad-

in addition to WAPA, the Cliston ad-In addition to WAPA, the Clinton administration wants to sell the Alaxia Power Administration, the Southwestern Power Administration and the Southwestern Power Administration and the Southwestern Power Administration, which has no transmission assets but may still be valuable because of its marketing rights. The Sonneville Power Administration, the IIIth power-marketing administration, is to become a government-owned corporation under the Clinton plan.

The National Rural Electric Cooperative Aspociation, a trade group for the

The National Rural Electric Coopera-tive Association, a trade group for the co-ops that buy much of the power-market-log administrations' power, has apposed the sales. The group says last year the five administrations generated 33.25 billion in revenue and returned 55%, distillion to the U.S. Treasury after expenses. Last month, it U.S. senators, including seven members of the Senate Rarryy Com-mittee, signed a letter compiler the says

mittee, signed a letter opposing the sale of the power-marketing administrations. In the House, more than 50 members have sent a similar letter to Speaker Newt sent a simular Gingrich of Georgia.

WALL STREET JOURNAL

Comparison of PMA Average Prices to "Market Prices" Calculated from IOU Prices for Resale

(cents/kWh)

	PMA	"Market"	Weighted Mkt.	Difference	ence
Alaska	Average 2.49	Range	Average	Absolute Percent	Percent
Bonneville	2.74	2.22-4.94	3.54	0.80	29%
Southeastern					
GA-AL-NC-SC	2.35	2.37-5.97	3.54	1.19	51%
KERR-PHILLPOT	2.11	2.86-4.64	3.82	1.71	81%
JIM-WOODRUFF	2.44	2.61-5.97	4.81	2.37	81%
CUMBERLAND	21.1	1.55-4.12	2.31	1.19	106%
TOTAL	1.89		3.11	1.22	92%
Southwestern	1.23	1.7-5.09	2.76	1.53	124%
Western					
PHOENIX	1.56	2.66-3.48	3.29	1.73	1.11%
SACRAMENTO	2.48	3.34-5.16	3.86		29%
LOVELAND	1.98	2.28-3.94	3.22		63%
BILLINGS	1,36	1.14-4.24	2.13		57%
SALT LAKE CITY	1.80	2.67-3.94	3.35	1.54	86%
TOTAL	1.81		3.09		71%

** Prepared by the EOP Group, Inc. for the Edison Electric Institute

Citizens Against Energy Subsidies

May 4, 1995

The Honorable Mark Adam Foley U.S. House of Representatives 506 Cannon HOB Washington DC 20515

Dear Representative Foley:

The November 1994 election represented a dramatic cry from the American people for change. They want a government that works better and costs less. They want their representatives to take a hard look at this nation's budget and make the tough choices they have to make with their own budgets every single day. For a long time, individual Americans have had to re-examine their spending habits and determine how and where they can spend their hard earned money more effectively. The United States government is being asked to do the same thing.

One policy that needs to be re-examined is federal subsidies provided to government-owned electric utilities and to rural electric cooperatives. Government-owned electric utilities that serve less than 24% of all American electricity consumers are the direct beneficiaries of numerous subsidies that translate into a heavy tax burden to the majority of Americans. In fact, 76% of the nation's electricity consumers don't benefit from these programs at all. The government does not need to be in the electric utility industry.

America's electric power utilities are now entering a new era of competition that will bring enormous benefits and lower costs to all consumers. Citizens Against Energy Subsidies (CAES) is a diverse coalition of taxpayer, consumer activist, senior citizen and small business organizations. We urge you to support privatization of the Power Marketing Administrations (PMA's) through sale to the highest bidder, and without onerous restrictions on the sale of power. If the sale of the PMA's is not based upon a free, fair market sale, the cost to the American taxpayer will be enormous.

CITIZENS AGAINST ENERGY SUBSIDIES

May 4, 1995 Page Two

Additionally, the rural electric loan programs are in dire need of reform. These programs do not make sense in the 1990's and are too costly in today's fiscal environment. Rural America has changed dramatically since the New Deal; it is time for the rural electric loan programs to catch up.

Your support for these important reforms will send a strong message to the American people that you are committed to meeting their demands for a government that costs less and works better for all Americans.

Sincerely

Grover R. Norquist

On behalf of Citizens Against Energy Subsidies:

Americans for Tax Reform

Association of Concerned Taxpayers

Business Leadership Council

Citizens Against Government Waste

Competitive Enterprise Institute

Consumer Alert

Frontiers of Freedom

Independence Institute, CO

National Center for Policy Analysis

National Tax Limitation Committee, CA

National Taxpayers' Union

Pennsylvania Leadership Council

Seniors Coalition

Small Business Survival Committee

United Seniors Association

Yankee Institute, CT

STATEMENT BY ELIZABETH A. MOLER, CHAIR FEDERAL ENERGY REGULATORY COMMISSION

BEFORE THE

SUBCOMMITTEE ON WATER AND POWER RESOURCES UNITED STATES HOUSE OF REPRESENTATIVES

MAY 18, 1995

Mr. Chairman and Members of the Subcommittee:

It's a pleasure to be here this morning to discuss the Federal power marketing administrations (PMAs) and issues related to transferring the PMAs' facilities and functions to non-Federal entities. My testimony will first focus on the Federal Energy Regulatory Commission's limited jurisdiction over the PMAs under existing law. It will then discuss the jurisdictional implications if the PMAs' facilities and functions are transferred to non-Federal entities, and the importance of PMA transmission facilities in light of competitive changes in the electric utility industry.

There are two key points I would emphasize:

First, the electric utility industry, which historically has been comprised of vertically integrated monopolies, is rapidly undergoing a transition to a much more competitive industry. We believe the market for <u>new</u> generation capacity -- that is, those who build new powerplants to generate electricity -- is already

competitive. We are looking at whether <u>existing</u> generation markets can be made more competitive. We believe that a much more efficient wholesale market, where buyers and sellers of generation capacity can easily conduct transactions, will save consumers money and is in the public interest. We are trying to encourage that to happen.

Transmission facilities are now regulated and operated as traditional monopolies. We must change that; and we have proposed a rule that would do so. Competitive generation markets can be achieved only if monopoly controllers of the nation's transmission grid open their transmission systems, on a non-discriminatory basis, to all wholesale users. Some of the PMAs own significant amounts of transmission facilities. Any legislation permitting the transfer of PMA facilities should ensure that the PMA transmission systems are subject to open transmission access requirements being imposed on other transmission owning utilities.

Second, PMA hydroelectric generating facilities are located at Federal government dams operated by the Corps of Engineers or the Bureau of Reclamation. These generation facilities are not under Commission license because they are Federal facilities.

However, they could become subject to mandatory Commission licensing if they are transferred. Any legislation transferring these facilities from federal operations and control should be

clear as to whom, if anyone, is responsible for regulating them. If the Commission is responsible for their regulation, the legislation should specify which project works would come under the Commission's jurisdiction, and should clarify whether and when a licensing process should be undertaken. Congress should resolve the uncertainties associated with these licensing issues in order to facilitate the sale of the PMA facilities and to enhance their market value.

Existing Authority Over PMAs

There are five Federal power marketing administrations: the Alaska Power Administration (Alaska); Bonneville Power Administration (Bonneville); Southeastern Power Administration (Southwestern); and Western Area Power Administration (WAPA). The PMAs market surplus power generated at dams operated by federal agencies, principally the Corps of Engineers and the Bureau of Reclamation. Certain of the PMAs also provide what we call "unbundled" transmission. In brief, that means they make transmission services available to third parties. In marketing power, the PMAs are required to give priority to "preference" customers; they are generally defined as non-investor owned utilities, such as cooperatives and municipalities.

The Federal Energy Regulatory Commission regulates the rates of each PMA. However, our rate authority is very limited. PMAs

are not subject to the regulation (rate and otherwise) that applies to privately owned utilities. While the Commission must confirm and approve PMA power and transmission rates, we do not evaluate PMA rates under the traditional just, reasonable, and non-discriminatory standard applied to public utility rates under the Federal Power Act.

We have particular statutory authority over Bonneville's rates. Pursuant to the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act), the Commission must confirm and approve, on an interim and final basis, Bonneville's rates. Under section 7(a)(2) of the Northwest Power Act, the Commission evaluates Bonneville's rates for sales within the Pacific Northwest region to ensure the rates: (a) are sufficient to repay the Federal investment in the Federal Columbia River Power System over a reasonable number of years after first meeting Bonneville's other costs; (b) are based on Bonneville's total system costs; and (c) insofar as transmission rates are concerned, equitably allocate the costs of the Federal transmission system between all users of the system, Federal and non-Federal.

Under section 7(k) of the Northwest Power Act, the

Commission evaluates Bonneville's rates for sales outside the

Pacific Northwest region to ensure the rates are established:

(a) having regard to the recovery of the cost of generation and

transmission of such energy; (b) so as to encourage the most widespread use of Bonneville power; (c) to provide the lowest possible rates consistent with sound business principles; and (d) in a manner which protects the interests of the United States in amortizing its investments in the projects within a reasonable period.

The Commission also confirms and approves rates of the other PMAs, on a final basis only, pursuant to delegation from the Secretary of Energy. Under the Delegation Order, the Commission evaluates the other PMAs' rates to ensure that the rates are:

(a) the lowest possible consistent with sound business principles; (b) sufficient to recover the costs of producing and transmitting power, including repayment of the Federal investment; and (c) consistent with the assumptions and projections used in developing the rates,

Significantly, the Commission can only approve, disapprove or remand a PMA's proposed rates. Unlike our regulation of public utility rates, the Commission cannot modify a PMA's proposed rates.

In addition to limited rate regulation of the PMAs' voluntary power and transmission rates, the Commission also has limited authority to order them to provide transmission service. Each PMA, with the exception of Southeastern, owns or operates

electric power transmission facilities that are used for the sale of electric energy at wholesale. As such, Alaska, Bonneville, Southwestern and WAPA are "transmitting utilities" as defined in section 3(23) of the Federal Power Act, as amended by the Energy Policy Act of 1992. This means that the Commission can order them to provide transmission services, upon application and pursuant to certain procedural requirements, under sections 211 and 212 of the Federal Power Act. There are special provisions (section 212(i) of the Federal Power Act) that apply only to Bonneville. To date, the Commission has not received any applications under section 211 asking the Commission to order any of these PMAs to provide transmission services. The Commission cannot order the PMAs to provide transmission services under any other provisions of the Federal Power Act nor do we regulate their rates under any other provision of the Federal Power Act.

The Commission has no licensing authority over the hydroelectric generating facilities from which the PMAs market power.

Transfer of PMA Facilities

The Secretary of Energy has recently proposed to study and prepare separate plans to transfer control of the facilities and functions of Southeastern, Southwestern and WAPA to non-federal entities. In addition, H.R. 310 was introduced in the House of Representatives on January 4, 1995. H.R. 310 authorizes and

directs the Secretary of Energy to sell the physical assets, and terminate the operations, of the PMAs.

The regulatory consequences of any legislation will, of course, depend upon the specifics of any adopted proposal.

Depending upon who acquires the PMA assets, that entity could become subject to Commission regulation as a public utility under Part II of the Federal Power Act. In addition, there are implications for the Commission's hydroelectric licensing authority under Part I of the Federal Power Act. If the PMAs' hydroelectric power facilities become non-Federal facilities that use surplus water at a government dam, they would be subject to mandatory licensing by the Commission, unless exempted, or unless a special licensing regime is established, by the legislation.

Transmission/Sales for Resale Issues

If the acquiror of PMA facilities is a public utility, i.e., an investor-owned utility that owns or operates facilities used for transmission in interstate commerce or sales for resale in interstate commerce, it would be regulated by the Commission.

The Commission would regulate the rates, terms and conditions of transmission in interstate commerce, and sales for resale of electric energy in interstate commerce, by such public utility. This would include transmission and sales involving the newly-acquired PMA facilities. All rates, terms and conditions would have to be just, reasonable, and not unduly discriminatory or

preferential under sections 205 and 206 of the Pederal Power Act. The Commission also would regulate any merger, acquisition or disposition of jurisdictional facilities by the public utility, as well as its accounting practices and possibly issuances of securities.

If the acquiror of PMA facilities is not a public utility, for example if it is a municipality or cooperative, the Commission would not have the rate or corporate regulatory authority. We would, however, have limited authority under sections 211 and 212 of the Federal Power Act to order transmission services, on a case-by-case basis, over the newly acquired PMA transmission facilities.

The issue of future jurisdiction over PMA transmission facilities is particularly important given competitive changes in the electric utility industry and the Commission's recently proposed requirements for the majority of owners and controllers of interstate transmission. If the acquiror of PMA assets is not a public utility, it would not be subject to these requirements, discussed below.

Open Access Rulemaking Proposal

On March 29, 1995, the Commission issued a notice of proposed rulemaking that would require all public utilities that own or control interstate transmission facilities to provide non-

discriminatory open access transmission services (Open Access NOPR). Pursuant to our authority to remedy undue discrimination under sections 205 and 206 of the Federal Power Act, we propose to require that all public utilities offer transmission services that are comparable to the services they provide themselves when they use their own transmission systems to make wholesale sales or purchases of electric energy.

We believe that open access is necessary to eliminate existing utility practices that are unduly discriminatory and to have competitive bulk power markets in which all wholesale sellers can reach all wholesale buyers. We concluded that ordering transmission service on a case-by-case basis under section 211 of the Federal Power Act, by itself, is not sufficient to remedy undue discrimination. This is because section 211 service is not a substitute for open access service, i.e., service on request. Many competitive opportunities will be lost if customers have to go through the procedural requirements of a case-by-case request.

The proposed rulemaking recognizes that in order for bulk power markets to be fully competitive, at a minimum all transmission facilities, including those of the PMAs and other non-public utilities, should be available for wholesale transactions under tariffs of general applicability. However, under existing laws, the Commission does not have authority to order open access transmission by non-public utilities. While we can order these entities to provide access on a case-by-case basis under section 211, we cannot order them to provide open access.

Certain of the PMAs, notably Bonneville and WAPA, own significant transmission facilities. These facilities should not be used in the future to block competition and should not be immune from having to offer open access transmission services. Both Bonneville and WAPA have joined the Western Regional Transmission Association, a voluntary regional transmission group (RTG) comprised of public utilities and non-public utilities who have agreed to provide open access to other members of the group. We do not know how Bonneville and WAPA plan to implement their open access commitment. Moreover, there is no assurance that comparable transmission will be available if their transmission facilities are sold. Nor have they agreed to provide open access to non-RTG members.

If any sale or transfer of the PMAs' transmission facilities is to a public utility, the facilities would, under current law, be subject to any open access requirement finally adopted by the Commission. In the event they are not sold or transferred to a public utility, I would recommend that the legislation

specifically require that non-discriminatory open access transmission services be provided by the entities who purchase the transmission facilities under tariffs subject to the jurisdiction of the Commission.

Hydroelectric Licensing Issues

If Congress does not intend to make PMA hydroelectric generating facilities subject to the Commission's licensing jurisdiction, proposed legislation should specifically exempt the facilities from Part I of the Federal Power Act. Because such an exemption might result in the facilities being subject to regulation by a state regulatory authority, the Congress, if it decides to exempt the facilities from FERC's licensing authority, should also address the appropriate role, if any, for state regulatory authority.

If PMA hydroelectric generating facilities are made subject to the Commission's jurisdiction, the legislation should provide guidance as to what, if any, special status these facilities would have. Absent instructions to the contrary, the Federal Power Act would require us to commence licensing proceedings for such facilities. The Federal Power Act requires the Commission to give equal consideration to the developmental and environmental values of a project. Even assuming that the dams at which the generating facilities are located remain federal,

and therefore beyond the Commission's jurisdiction, we would have jurisdiction over power generation facilities located at those dams. They would have to be licensed. A Commission license could, for example, require a reduction in generation in order to benefit water quality and other resource values. The imposition of appropriate environmental mitigation and enhancement measures typically affects the economic benefits of a licensed project. Moreover, the licensing of some of these facilities could take several years. Clearly Congress should address these important licensing issues in order to facilitate the transfer of the PMA facilities. As I said earlier, resolving the uncertainties about licensing should facilitate the sale of the PMA facilities and enhance the taxpayers' return on the facilities.

Summary

As Congress considers transferring the facilities and functions of the PMAs to non-Federal entities, I urge you to consider the importance of PMA transmission facilities in the context of the significant competitive change occurring in the electric utility industry. Any legislation should ensure that the facilities are operated on an open access basis so that the new owners of those facilities cannot use transmission monopoly power to block competition. I also recommend that the legislation clearly indicate who has responsibility for regulating the hydroelectric generating facilities that are

transferred. We would be pleased to work with the Committee and your staff to address these important issues.

I would be happy to answer any questions you may have.

Statement of

Charles E. Bayless

Chairman, President and CEO Tucson Electric Power Company

On Behalf of the Edison Electric Institute

Before the Subcommittee on Water and Power Resources
House Resources Committee
U.S. House of Representatives

On the Potential Transfer of the Power Marketing Administrations
Out of Federal Ownership

May 18, 1995

Good morning, Mr. Chairman and Members of the Subcommittee. I am Charles E.

Bayless, Chairman, President and CEO of Tucson Electric Power Company, a shareholder-owned electric utility which serves over 294,000 customers in southern Arizona. I am here today on behalf of the Edison Electric Institute (EEI). EEI is the association of the nation's shareholder-owned electric utility companies. Member companies of EEI generate approximately 79 percent of all the electricity in the country and provide electric service to 76 percent of all ultimate electric customers in the nation. We appreciate the opportunity to appear today to explain why we support the sale of the Power Marketing Administrations (PMAs) and the principles we believe should govern the sale.

My primary message is that privatizing the PMAs can yield substantially more funds for the federal Treasury than the net present value of the outstanding PMA debt while also providing rate protection to current customers. There are electric utilities interested in purchasing the PMAs. Tucson Electric is one such company. We have "put our money where our mouth is" by making a bid for some of the Phoenix-area assets of the Western Area Power Administration (WAPA) that is significantly above the net present value of the outstanding debt for those assets. It includes an agreement that, as a result of the sale, rates for current customers will not rise above what they would have absent the sale.

SALE OF THE POWER MARKETING ADMINISTRATIONS

EEI's member companies support the sale of the PMAs' transmission systems and the associated federal hydroelectric generating facilities currently operated by the Army Corps of Engineers and the Bureau of Reclamation.

We believe sale of the three PMAs currently under consideration — the Southeastern,

Southwestern, and Western Area Power Administrations — makes sense for a number of reasons.

It is an opportunity to reduce the size and cost of the federal government. It can add billions of

dollars to the federal Treasury at a time when painful cuts are of necessity being made elsewhere.

It can reduce the federal government's role in generating and transmitting electricity while

expanding opportunity for other electricity suppliers. And it can further the nation's energy

policy, which promotes competition in the wholesale electricity market.

Whether these goals will be achieved, or lost, will be determined largely by the terms and conditions of the sale. The overarching principle to guide the terms and conditions of sale should be to maximize benefits to the federal government and to the taxpayers, who are the "owners" of the facilities and the electricity they generate and market, while providing protection from significant rate increases to current customers.

The majority of PMA customers are federal and state agencies, municipal electric systems and electric cooperatives, who by law are entitled to PMA power on a preference basis at the lowest possible rates. Shareholder-owned electric utilities purchase small amounts of excess PMA power, on a non-preference basis, at rates which vary depending on the circumstances of the sale.

The proposed sale of PMA transmission and generation assets raises complex issues. The issues which will most determine the level of benefits to taxpayers and to the economy as a whole, however, fall into four basic categories: first, the sale price, and how it should be set; second, protection of current PMA electricity customers from undue rate increases; third, who shall be

allowed to bid on the facilities; and fourth, how the sale should be financed. I will address each of these areas briefly.

The Sale Price

In its Fiscal Year 1996 budget, the Administration estimated a price of \$4.4 billion for the three PMAs based on the net present value of the PMAs' projected repayment of the federal investment. We believe this sale price, as well as others being considered in Congress, is a gross undervaluation of these assets which short-changes the federal Treasury and the American taxpayers. To put it simply, the PMAs are worth more — and an open bidding process would prove this.

EEI commissioned The EOP Group, a Washington D.C. consulting firm which specializes in identifying government-created business opportunities, to conduct a market-based study of the PMAs. That study shows the combined value of the three PMAs to be just under \$9 billion, more than twice the Administration's estimate. In addition, if the facilities are sold to taxpaying entities, the federal government could reap an income stream from taxes on revenue and interest whose present value exceeds \$1 billion. These figures are based on conservative financial assumptions using standard accounting methodologies. Attached to my written testimony is a copy of the EOP study, including the assumptions.

Tucson Electric Power, when formulating its bid for WAPA's Phoenix-area assets, calculated three values. The first was market value, which was based upon open market sales of comparable assets, and was close to \$1 billion. The second value was based on the cash flow from the existing contracts and was roughly \$500 million. The third, the net debt value, was

closer to \$300 million. Anyone acquiring the assets at \$300 million will receive an asset worth roughly \$1 billion.

The potential sale price of these assets helps refute the claim being made by opponents of a sale that the government will lose a significant cash flow by selling these assets. This simply isn't true. The current cash flow is not a "profit;" it is merely a repayment of taxpayers' dollars used to build and operate these facilities. Because of special rules used by the PMAs, they actually pay back to the Treasury less than what the programs really cost the American taxpayers. However, as indicated earlier, sale of the PMAs to a tax-paying entity would yield an ongoing cash flow for the government.

Protection For Customers

We recognize the need to allay concern about the impact of a sale on rates paid by the PMAs' current customers. EEI asked The EOP Group to examine this issue and calculate the potential rate impact from sale of the three PMAs. The EOP Group projected that, even under a "worst case" scenario, where the sale occurs with no transition time and no special protections for ratepayers, and assuming the \$8.9 billion sale price, almost 85 percent of current preference customers would experience an increase in rates of less than five percent. That is less than the actual, historical increases many of them have experienced due to variations in weather or other factors.

The remaining customers could be protected by mechanisms such as a limit on rate increases as a result of the sale; the use of rebates to offset increases; rate caps; a phase-in approach; or some combination of these. The EOP study estimates that inclusion of rate

protections in the sale would lower the potential sale value by ten percent at most — if that. (This assumes no customer would experience a rate increase of more than five percent in the first five years, with rates then gradually moving to market.) That still leaves a potential cash infusion for the Treasury of more than \$8 billion, plus the tax revenue stream that can be achieved through the sale. This remains substantially more than the present Administration and Congressional estimates. Clearly, the range of possible, workable options has not been fully explored, and it should be.

EEI believes that Congress should address the issue of rate protection up front in legislation authorizing a sale. One of the terms and conditions of the sale could be rate protection, using one of the mechanisms stated above. In fact, specifically including rate protection in the sale legislation is the <u>only</u> way to assure concerned constituents that a sale will not significantly raise their electric rates. Additional protection for current customers can be provided by a requirement that the purchaser honor existing contracts.

The argument that current ratepayers can be protected only by selling these assets to preference customers at the net present value of the current debt is specious. This approach provides no rate protection, especially in a competitive electric market where government-owned utilities and electric cooperatives, whose rates are not subject to review by the Federal Energy Regulatory Commission (FERC) or by state commissions, will be utilizing every means to keep their own rates to retail customers low and accrue additional revenues to help finance business opportunities.

Based on Tucson Electric's estimate of a \$200 million difference between the net debt value of WAPA's Phoenix area assets and the cash flow from existing contracts, the PMAs' assets

represent a potential cash cow — cash which should benefit all American taxpayers, not just a minority of electric consumers. It is important for Congress to understand the one-to-one correspondence between rates and value; the lower the rate path, the less the government will receive from the sale. This is a trade-off which Congress must resolve.

Eligible Purchasers

By specifically addressing the rate protection issue in legislation, Congress can then authorize an open sale process, and let the market set the price and choose the purchasers. EEI advocates a sale process that is open to shareholder-owned utilities, electric cooperatives, municipal electric systems, and non-utility generators. Only a sale that is open to all qualified bidders will achieve the highest possible payment to the Treasury.

One of the questions regularly raised is whether an open sale with prices based on the market will realistically attract any buyers. Because of Tucson Electric's bid, I can speak from personal experience: The answer is a wholehearted "yes." We are pursuing this bid, at a price that will bring the government a higher cash payment than it originally estimated, as well as an income stream and ratepayer protections, because we strongly believe it's a good investment for our customers and our stockholders. Can the federal government afford to foreclose the option to obtain greater benefits through similar agreements around the country? Doing so will be an expensive mistake that will substantially reduce cash flow to the Treasury and limit investment in electricity systems.

There are a number of other parties who have expressed interest in bidding on various PMA assets. Limiting buyers to preference customers will only hold down the purchase price, and is not necessary to ensure ratepayers are protected. This approach perpetuates protectionism for preference customers and limits taxpayer benefits to a select few.

assets in a closed process to the preference customers. The U.S. Department of Energy has been actively engaged in encouraging other nations to privatize their energy sectors. Secretary O'Leary has traveled to a number of countries to promote the benefits of privatization. As the Secretary stated in testimony earlier this year, "By creating a framework where market discipline replaces state domination over the economy, fair and open competition can work to improve investment climates ... Yet most infrastructure projects, including those in the energy sector, have fallen exclusively in the domain of the state, subjecting them to bureaucratic inefficiency and excluding foreign participation." It is ironic that the Department is reluctant to help achieve the same benefits of privatization within the U.S. electric industry. Why does the Administration encourage my company to invest in energy projects overseas but oppose my ability to invest in energy projects in this country? Its actions abroad are inconsistent with the legislation it has proposed here.

We also are disappointed in the assumption included in the House and Senate budget resolutions to make the PMA sale a closed one. It simply does not make sense, as Congress strives for a balanced budget, to leave billions of dollars on the table from privatization of the PMAs' assets.

Some proponents of a closed sale argue that only the preference customers should be able to purchase these assets because they have an "equity investment" in the PMAs. This argument is an absolute myth. That's like saying just because I buy my groceries from Safeway or Giant, I

have an equity investment in the building or in the Safeway corporation, or for that matter, in the farms that produced the food. The preference customers are buying power, buying a service or a commodity does not automatically grant ownership in the selling company or its facilities. In fact, the American taxpayers "own" the PMA facilities because they have built them and paid for their operation with tax dollars. So, in essence, all taxpayers have an "equity investment" in the PMAs, even though only a few of them have ever benefitted from the facilities. For years the vast majority of taxpayers have supported a program from which they received no benefit. The residents of Ohio, Hawaii, and New Jersey, for example, have supported the PMAs through their federal taxes even though the PMAs do not sell electricity in those states. All taxpayers deserve to get the best sale price for these facilities because all taxpayers have paid for them.

Financing

If benefits to the Treasury are to be maximized, it is imperative that federally subsidized financing not be used to finance the sale. This would include tax-exempt bonds or loans provided by, or guaranteed through, agencies such as the Federal Financing Bank or the Rural Utilities

Service. To allow buyers to finance purchase of the PMAs with funds that are, in effect, provided by the federal government would simply trade one federal subsidy for another.

The Energy Information Administration concluded in a 1990 study that more than \$1 billion a year already is lost to the federal Treasury because the PMAs operate under special rules. For example, they have kept old debt, with very low interest rates, on their books decades after it would have been amortized by a private company. The study shows that the PMAs in effect receive an interest rate subsidy worth about \$1.2 billion per year, compared to paying interest

rates equal to private sector rates.

Sale of the PMAs offers the opportunity to end this subsidy. That benefit to taxpayers will be negated, however, if the government reaches right back into taxpayers' wallets to finance the sale. There is a more appropriate source of capital. It is private financing. I know from experience there are any number of sources located around the country who would be happy to discuss financing the purchase of PMA assets.

Other Issues: Transmission Access and Facility Licensing

The PMAs, in particular WAPA, own significant transmission systems which operate as part of the country's integrated transmission grid. However, as an entity of the federal government, the PMAs have been exempt from FERC jurisdiction, with limited exceptions. In the Energy Policy Act, Congress gave FERC the authority to order utilities to provide access to their transmission systems to other utilities, non-utility producers and other participants in the wholesale electricity market. Just recently, FERC issued a major proposed rule which would require shareholder-owned utilities to file open-access tariffs with the Commission. Each shareholder-owned utility must provide transmission services to third parties at rates, terms and conditions comparable to those it provides itself. Ironically, FERC does not have jurisdiction to apply this sweeping rule to transmission systems owned by the PMAs — or, for that matter, to the transmission systems owned by electric cooperatives or government-owned utilities. EEI feels strongly that the PMAs' assets, upon privatization, should be subject to FERC's full jurisdiction. Any transmission access regulations adopted by FERC should apply equally to the PMA facilities being sold.

Another issue the sale must address is the licensing of hydro facilities. Unlike federal hydroelectric facilities, electric utilities must obtain a license for their hydro facilities from FERC. FERC's hydro licensing process is arduous, second only to the Nuclear Regulatory Commission's nuclear licensing process in terms of cost, scope and overall length. It can take anywhere from five to fifteen years to obtain a FERC hydro license.

This commitment of time, money and resources absolutely necessitates that Congress address the issue of licensing in legislation authorizing the sale of the PMAs' assets. Otherwise, it will be virtually impossible for any interested party to obtain the financing necessary to purchase these assets. Just as no bank will make a loan to purchase a house without knowing that there is a clear title to the property, investment firms will be unwilling to finalize financing without knowing that the purchaser of a hydro facility will definitely obtain a FERC license.

Congress can approach the licensing process in several ways. For example, it can continue to exempt these facilities from the FERC licensing process under Part I of the Federal Power Act.

These facilities have been operated by the federal government in accordance with environmental laws and multipurpose requirements for as long as 50 years without a FERC license.

Another approach would be to capture the current operating conditions of the facility as a FERC license, with a specified minimum license term. These conditions would include, among other parameters, minimum flow practices, generation schedules and water quality requirements. Because the purchaser would operate the facility in a manner identical to the federal government, the surrounding environment would not be impacted as a result of the sale. In fact, because of FERC's authority to administer and enforce the terms and conditions of the license, the facility would be subject to improved regulatory oversight. In addition, under FERC's licensing process,

any interested party can file a complaint with FERC that the licensee is not abiding by the conditions of the license.

THE PMA SALE: A BROADER CONTEXT

While the issues just discussed are ones Congress must address in setting the sale, it is important as well to consider the PMAs' sale within the full context of an increasingly competitive wholesale electricity market and the extent to which federal subsidies to government-owned electric utilities and electric cooperatives distort this market.

Federal Subsidies to Utilities

During roughly the first four decades of this century, the federal government instituted a number of programs and policies to spur development and economic growth into what were then primarily remote, rural areas of this country. One of the goals was to ensure that rural and small-town America had electric service. To help accomplish this, the government began selling surplus power from federal dams served by the PMAs. This electricity was sold with a preference for municipal purposes and, later, electric cooperatives. In the 1930s, rural assistance was extended when the Rural Electrification Administration was established to provide low-interest financing to electric ecoperatives to help build electric systems in rural areas. The Tennessee Valley Authority (TVA) also was established to provide flood control protection and electric service in the Tennessee Valley region.

These programs have served the nation well and accomplished their mission. In the early 1930s, only about 12 percent of rural America had electricity. Today, more than 99 percent of rural America is electrified. Yet only one out of ten electric cooperatives' customers are farmers or ranchers. Ironically, the benefits of the federal subsidies do not reach the majority of rural Americans today. This is because the majority of rural Americans receive electric service from shareholder-owned utilities, who do not receive these subsidies. Shareholder-owned utilities provide electric service to almost 60 percent of Americans living in rural areas with fewer than 1,500 people, or in unincorporated rural areas. Small-town America also is predominantly served by shareholder-owned utilities. Almost 80 percent of rural Americans living in areas with a population between 1,500 and 2,500 people receive electric service from shareholder-owned utilities. This Committee may be interested in knowing, for example, that shareholder-owned utilities serve almost 90 percent of rural Americans in California, 80 percent in Alaska, 78 percent in Arizona, 74 percent in Utah, 70 percent in Oregon, and more than 60 percent in New Mexico.

Currently, government-owned utilities or electric cooperatives serve golf courses in Hilton

Head and Myrtle Beach, South Carolina; ski slopes in Aspen and Steamboat Springs, Colorado;

and posh shopping areas and resorts in Scottsdale, Arizona. It is interesting to note that Salt

River Project provides federally subsidized power to Scottsdale, one of the wealthiest

communities in America, while Tucson Electric Power, a shareholder-owned utility, serves the

Navajo Tribal Utility Authority in the remote rural northeast corner of Arizona.

In spite of these changes, preference and other subsidy programs to government-owned utilities and electric cooperatives continue. These programs help prove the axiom that federal programs not only don't die, they don't even fade away. In fact, sometimes they even get bigger. The TVA recently commissioned a study which advocates its selling power outside the TVA fence, thus expanding TVA's role as an electricity supplier. And federal subsidies to government-

owned utilities and electric cooperatives currently cost the federal Treasury and American taxpayers more than \$8 billion in lost revenues every year. Another \$3 billion in foregone revenue is lost to state and local governments.

Government-owned utilities, for example, are exempt not only from federal income taxes but also from state income taxes and, in many cases, other taxes, such as property taxes. They finance their investments with tax-exempt funds and have preferential access to low-price federal hydroelectric power from the PMAs. Electric cooperatives also are exempt from most federal taxes and from state and local income taxes. They receive loans and loan guarantees from the federal government at interest rates below market rates. They also are preference customers of the PMAs. The total amount of federal, state and local revenue foregone each year because of all these subsidies is \$11 billion.

In contrast, shareholder-owned electric utilities paid \$24 billion in taxes in 1993.

Shareholder-owned electric utilities not only pay the highest effective marginal tax rate of any industry, they also pay more in federal, state and local taxes than any other industry in this country. Yet, every year, representatives from the electric cooperatives claim that shareholder-owned utilities are the most heavily subsidized type of utility. What they don't tell you is that the "tax subsidies" available to shareholder-owned utilities, such as accelerated depreciation, are tax code provisions available to any tax-paying corporation. These charges are particularly interesting coming from entities that are generally exempt from having to pay any income taxes even though they provide the same services to American consumers as shareholder-owned utilities. If public power continues to be upset with the "tax breaks" that shareholder-owned utilities enjoy, we have an easy answer make them subject to the same tax system, with the same

so-called "tax breaks" shareholder-owned utilities and other tax-paying corporations receive.

Federal subsidies to government-owned utilities and electric cooperatives obviously have serious impacts on American taxpayers and this country's energy use. Even though all Americans pay higher taxes to fund these subsidies, the benefits reach fewer than one out of every four American consumers. The subsidies also exacerbate the federal deficit. As Congress confronts painful budget choices, doesn't it make sense to reexamine these subsidies when spending reductions in school lunch programs and Medicare and national defense programs are being debated? These subsidies also undermine efforts to use energy wisely and protect the environment by encouraging some consumers to use more electricity than they otherwise might.

The essential question Congress must address is what public policy role, if any, subsidies and preference should continue to have in our national energy policy. They are at odds with efforts to cut federal spending. And they are at odds with recently-passed laws promoting wholesale competition.

Competitive Electricity Markets

Proponents of proposals to sell the PMAs' assets through a closed sale to only preference customers ignore the realities of an increasingly competitive electricity market. Like the airline, banking and telecommunications industries, the electric utility industry is experiencing growing competitive pressures. Competition will continue to grow due to technological developments, legislative initiatives such as the Energy Policy Act of 1992 and evolving federal and state regulation.

Electric utilities used to build almost all of the generating plants required to serve their

customers' needs. Now, non-utility generators provide more than 50 percent of utilities' new capacity needs. FERC's opening of transmission services in the wholesale market will further accelerate wholesale competition.

In addition to this increasingly competitive wholesale electricity market, a growing number of states are looking at ways to make retail electricity markets more competitive. Some states are considering proposals to allow individual consumers to choose their electricity supplier. These proposals are extremely controversial and raise significant issues, including their impact on smaller customers, environmental and social programs, recovery of utility investments made under the current regulatory compacts and federal/state jurisdiction.

Utilities are moving aggressively to respond to these competitive pressures by restructuring their operations, cutting costs, downsizing and developing new opportunities to meet their customers' needs. However, for all electric consumers to benefit from competitive wholesale markets, it is imperative for federal, state and local governments to eliminate the subsidies they provide to certain types of utilities. In a free-enterprise system, federal subsidies to utilities are contradictory with efficient competition.

CONCLUSION

An open sale of the PMAs will promote competition in the wholesale electricity market.

A closed sale will not. A closed sale will only perpetuate government subsidies and preference treatment to certain types of electricity suppliers, actions that are inconsistent with policies promoting efficient competition. If the economic efficiencies of wholesale competition are to be realized by all of society, federal subsidies to power suppliers must end.

We urge Congress to move forward with sale of the PMAs. We urge that it be done through an open sale that maximizes value to the federal Treasury. And we believe that such a move will enhance the development of wholesale competition, to the benefit of all American taxpayers.

Asset Valuation Estimates & Impact of Market Prices on Residential Bills

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		Net Book	Unpaid Federal	President's Budget	Std. DCF Valuation Using Market	Potential Increase to President's	NPV of Potential Fed Income Tax on Purchaser
		Value	Investment	Estimate	Rates	Budget	and Bond Buyers
Southeastern (SEPA)		1,539	1,007	606	1,892	+983	+216
Southwestern (SWPA)	Ę	197	669	612	1,815	+1,203	+207
Western (WAPA)	41%	4,577 \$6,913 M	3.433 \$5,139 M	2,863 \$4,384 M	5.182 \$8,889 M	+2 <u>,319</u> +\$4,505 M	+\$1,013 M
: 72- :	Average Wholesale Rates PMA Market Cents/kwh Cents/kwh	olesale Rafe: Market [†] <u>Cents/kwh</u>		mpact on Mr	n Monthly Avg Residentii % of Customers Impacted by increases of: 0 to 5% Over 20%	Impact on Monthly Avg Residential Bills ² % of Customers Impacted by Increases of: 0 to 5% Over 20%	
SEPA	1.89	3.11	_		94%	%0	
SWPA	1.23	2.76	•		73%	3%	
WAPA	1.81	3.09	•		206	0.2%	

1 Based on prices for resale of 20 10Us in SEPA area, 15 in SWPA area, and 29 in WAPA area.

Using unlikely assumption of instantaneous change from current to market rates with no period for transition. increases passed through proportionately to residential, commercial, industrial and other customers. 2 Impacts on customers of municipal distributors and cooperatives.

The EOP Group, Inc.

IMPACT OF MARKET PRICES ON RESIDENTIAL CUSTOMERS OF COOPERATIVES AND MUNICIPAL DISTRIBUTORS¹

	% of Resid	% of Residential Customers Impacted by Bill Increases of:	spacted by Bill In	creases of:
	0 - 5%	5% - 10%	10 - 20%	Over 20%
Southeastern (SEPA)	94%	%9	%0	%0
Southwestern (SWPA)	73%	17%	%	3%
Western (WAPA)	%06	%	1.8%	0.2%

customers. Using unlikely assumption of instantaneous change from current to market rates with no 'Increases passed through proportionately to residential, commercial, industrial and other period for transition.

The EOP Group, Inc.

April 13, 1995

Definitions for Asset Valuation Estimates

"Net Book Value" -- Latest annual report statement of net utility plant including Construction Work in Progress (CWIP)

"Unpaid Federal investment" -- Latest annual report statement of federal appropriation and borrowings from Federal Government to be paid "President's Budget Estimate" -- Privatization Valuation of PMA used in FY 1996 Budget Submission

standard techniques assuming its prices are the current market prices for wholesale power which are determined by averaging the prices for resale by the larger IOUs in or adjacent to the PMA "SId. DCF Valuation Using Market Prices" -- The discounted cash flow (DCF) value of the PMA using

DCF Analysis Assumptions

After transition to market, no rate increases or demand increases during the 20-year period

No changes in raw material costs or other expenses, other than depreciation and annual interest expense used in determining tax liability, during the 20-year period

Tax depreciation: ACRS applied to the <u>full purchase price</u> over 20 years, using the 150% declining balance method and half-year convention

Purchase price reflects fair value of assets, therefore there is no good will subject to longer term

No working capital is required

IOU average income tax rate of 27.4%

Purchase of PMA financed with 50% debt, 50% equity

8.75% discount rate.



TESTIMONY OF

CLYDE WAYNE CREWS, JR.

FELLOW IN REGULATORY STUDIES

COMPETITIVE ENTERPRISE INSTITUTE

BEFORE THE:
SUBCOMMITTEE ON WATER AND POWER RESOURCES
COMMITTEE ON RESOURCES
U.S. HOUSE OF REPRESENTATIVES
MAY 18, 1995

Good Morning, Mr. Chairman, my name is Clyde Wayne Crews, Jr. and I am the Fellow in Regulatory Studies at the Competitive Enterprise Institute. I am very grateful to the subcommittee for the opportunity to appear today. It is a great pleasure for me and for my organization. CEI is a Washington-based public interest group established in 1984 with an annual budget of about \$2 million and a current staff of 24. CEI works to educate and inform policymakers, journalists and other opinion leaders on market-based alternatives to political programs and regulations. CEI also engages in public interest litigation to protect property rights and economic liberty.

The Competitive Enterprise Institute wholeheartedly supports efforts to privatize the Power Marketing Administrations (PMAs). We view the current interest in privatization as merely one manifestation of today's wide scale public commitment to fundamental governmental reform and taxpayer savings. In last year's elections, Americans unambiguously called for limited government and an end to federal overreach. This is a time for stripping away large layers of government rather than halfhearted efforts to make inherently indefensible or inefficient programs work. We need to do this not to cause pain to consumers, but for precisely the opposite reason: to remove artificial benefits to some producers and consumers that threaten to prevent all Americans from sharing in the benefits of the coming deregulated energy environment.

OVERVIEW

The 129 federally owned plants that make up the five PMAs generate about 6% of the electricity sold in the United States according to the Congressional Budget Office in its February 1995 document Reducing the Deficit: Spending and Revenue Options. The PMAs sell wholesale power to legally stipulated "preference customers," the municipal utilities and rural electric cooperatives. Current law requires that the power generated by the PMAs be sold at cost rather than the market price that non-preferred customers face. These non-preferred customers are the investor-owned utilities who sell most of the power generated in the United States.

While we may debate the proper selling price for the PMAs, or the precise techniques needed to protect current affected customers in the event they experience "rate shock" beyond a tolerable level during the transition to a fully private system, certain issues of fairness should be beyond debate but unfortunately are not. The core issues in this debate are two, and they center on the basic legitimacy and fairness of the PMAs:

(1) Certain groups are getting preferential access to cheap federal power while others do not enjoy this privilege. The roughly 75% of power consumers who are serviced by investor-owned utilities ought to have the right not to subsidize--whether directly or indirectly--the 25% who are serviced by the PMAs at below market rates. While the PMAs have something of a noble history in electrifying the U.S., "rural" is no longer

synonymous with "poor," and the most blatant abuses of subsidized energy have started to benefit the well-off in embarrassing ways. You'll look a long time to find poor farmers in "rural" Hilton Head and Vail. And as far as the subsidies to Las Vegas are concerned, Martin Gross put it best in his book The Government Racket: Washington Waste from A to Z. When you "stroll leisurely down the gaily lit Strip (at Vegas), remember that you're about to lose twice. Once at the slots, and the second time when you realize that it's your electricity that's lighting up the night."

(2) Power generation is a commercial activity in which the government has no business and no rational basis for being a player. This is especially true today, given that government's continued involvement-particularly the selling to preferred parties-will prove highly disruptive to retail and wholesale wheeling innovations as they become more widespread and their benefits to consumers become more apparent. Soon we are likely to have choices among power companies paralleling those we now have in long distance phone companies. We are moving toward a fluid marketplace in which all power is market priced rather than regulated based upon cost, as has been the case historically. The existence of the PMAs should not be allowed to undercut this revolution.

Certain developments provide hope. As everyone knows, the Clinton administration has proposed selling marketing rights for three of the five PMAs for an estimated \$3.7 billion, although there is legitimate debate about whether that price is too low. And the Senate, less than 48 hours ago by a vote of 74-25, passed S. 395, a bill to authorize the sale of the Alaska PMA. Given these developments, plus other positive signs like unprecedented interest in Congress, provisions in the Energy Policy Act of 1992 that serve to promote wholesale competition in electricity, the increasing importance of the independent power producers, and the constantly improving interconnection of utilities, we have an opportunity now to significantly improve competitiveness in the electricity market. This opportunity should not be sacrificed merely for the sake of special interests that benefit from below-market-price sales.

There are two key ways in which continued existence of the subsidized PMAs threaten the future competitiveness of the energy market. One is the investor-owned utilities' lack of access to power generated at PMA facilities. The other impediment is that even though municipals and co-ops in any given PMA region legally may purchase power generated outside the PMA region, they have no incentive to do so, since even the economies generated by wheeling are not yet a match for the guarantee of at-cost purchase. A system that will be most efficient for energy consumers is one in which all producers are free to sell to any buyers, and any buyer is free to purchase from any seller. The PMAs preclude the existence of such a marketplace.

ADDRESSING THE ARGUMENTS AGAINST PRIVATIZATION

In addressing the arguments against privatization--primarily the claim that the PMAs are not subsidized--it ought to be pointed out at the outset that it is technically illegal for the government to study the question. Thanks to an amendment attached by Senators McClure and Sasser to the Continuing Appropriations Resolution for FY 1983, and to renewals in subsequent law thereafter, the use of funds by the government for the purpose of conducting "any studies relating to or leading to the possibility of changing from the currently required 'at cost' to a 'market rate' method for the pricing of hydroelectric power" has been prohibited. That means it is technically against the law for the executive branch to even consider this issue.

This law is hard to fathom as anything other than a way to hinder the determination of the nature of the subsidy PMAs receive and to protect PMAs and their beneficiaries from losing their current comfortable status.

Argument #1: PMAs cover their costs and are not subsidized

The PMAs are demonstrably subsidized in several ways, all of which serve to tilt the playing field in favor of the municipal utilities and rural co-ops relative to their investor-owned counterparts:

- (a) Favorable rates to preferred parties: Current law requires that PMAs sell power to municipals and co-ops at cost. CBO states in Reducing the Deficit that the average price charged for electricity by the PMAs to municipal utilities and rural electric cooperatives (the "preference customers") is 2.5 cents per kilowatt-hour (kwh). At the same time, CBO reports that the 1992 average price of electricity for non-PMA wholesale transactions was 4.5 cents, meaning the PMAs are selling power to their preferred customers at just a little over half its market value. Other estimates find PMAs selling power for less than half its market value. CBO proposes that marketing this power to the highest bidder would result in an additional \$1 billion per year to the Treasury, which is an approximate and conservative measure of the rate subsidy provided to the PMAs by taxpayers and non-PMA ratepayers. Those who are not either municipal utilities or rural electric cooperatives rarely have access to these low prices. Also it is not clear that PMAs are passing these low rates on to their customers.
- (b) Low-rate loans with flexible terms: PMAs as a group owe the federal government more than \$10 billion for the cost of construction of existing plants, but they are paying it back on extremely flexible repayment schedules such as 45 or 50 year repayment periods. Further, they are paying that money back at a subsidized rate of about 3.25%. Since the government borrows money at about 8%, taxpayers eat the difference. The PMAs can selectively pay off debt, paying off higher rate debt first while leaving lower rate debt on the books, an option

rarely available to private firms. Nor do PMAs depreciate their assets according to Generally Accepted Accounting Principles as private concerns do, and thus they overstate revenue.

(c) Tax advantages: Investor-owned utilities must pay taxes. Municipal utilities are exempt from federal and state taxes, and co-ops often are exempt. Municipal utilities also may issue tax exempt securities, while co-ops receive subsidized credit through the Rural Utility Service (formerly Rural Electrification Service). This "business" structure-in which PMAs price at cost in a discriminatory manner while their municipal and co-op customers enjoy favorable capitalization and often pay no taxes-is on a collision course with private competitors who do not have these advantages. Either the favorable treatment must go, or the new competitive developments must go, because they ultimately cannot coexist in the electricity marketplace of the future.

(d) Annual federal appropriation: The PMAs received an appropriation of \$345.3 million in fiscal year 1994 and \$272 million in fiscal year 1995. These sums mean that over a billion dollars go to the PMAs every few years. Needless to say, investor-owned facilities do not get this benefit.

Some might say, even if PMAs are subsidized, why is that so bad? Aside from the issue of relative disadvantage for competitors due to selective access to the low cost power, subsidies are actually damaging to society. Taxes, for their part, are widely known to create "deadweight" losses to society by driving a wedge between supply and demand and cutting off trades that otherwise would have taken place. These lost trades are unseen by the public: they do not make the nightly news but simply evaporate. Less well known but equally important is that subsidies like those the PMAs enjoy create deadweight losses as well. Artificially lowering the cost to the producer will make him willing to supply more at any given price--or in economic jargon, shift out his supply curve. But the real resource cost represented by the original pre-subsidy supply curve does not change, and an excess of resources is consumed by power purchasers over what they actually paid for them. These resources are lost forever to society despite the fact that they would have been more highly valued in other uses.

Argument #2: Electricity rates will increase for PMA customers

The problem of rate increases is overstated since PMAs are rarely the exclusive or dominant supplier of power, but to the extent it is true privatization of PMAs can be structured such that impacts are negligible or otherwise minimized, or even a net plus for the PMA consumer. No matter the legislative or logistical difficulties, the problem is not so insurmountable that we need to sacrifice the prospect of an electricity industry of extraordinary productivity for the sake of the survival of an essentially socialistic enterprise. The reason for sale of the PMAs is not to cause pain for customers but to improve the efficiency of the industry so that all customers and future generations

benefit from the coming waves of innovation. Moreover, the corollary to subsidized power users paying too little for their power and potentially facing a rate shock is that non-subsidized users are paying too much. The economies to be gained from combining and integrating PMAs with existing infrastructure are critical to benefiting consumers overall. Freeing up the entire market for a future in which electricity is wheeled across state and regional lines with consumers able to select vendors as they select phone companies promises to keep everyone's rates as low as they can possibly be.

Argument #3: PMA consumers have an "equity ownership" in the PMAs

This argument stems from a serious misconception of the concept of ownership. The core features of ownership are the rights of disposal and transfer of the property in question. PMA customers certainly do not enjoy this right, but merely the right to the electricity that they have contracted for and consumed. The fact that PMA customers through their bills have partly paid to service the debt of the PMAs is not relevant: every customer of every firm that has borrowed money in some sense helps cover that firm's financing costs, since all private firms must charge enough for their product to at least break even.

If customers actually owned the PMAs, the PMAs would already in a sense be privatized, and we could set about negotiating with current owners about buying the facilities rather than waiting for the government, the owner in fact, to make a privatization sale. Furthermore, it is especially ironic for a user of a subsidized service or product to claim an ownership stake in the firm that produces it. Investor-owned utilities and their customers who have been paying the market rate for electricity from non-utility generators--more than what customers of PMAs pay--are not claiming that they own the non-PMA generating facilities or that they have a right to halt the sale of such facilities. In reality and in justice, since taxpayers have been paying full price for their own electricity while also subsidizing the PMAs it is more accurate to say that they are the "owners" of the PMAs and thus have the right to transfer ownership of them through privatization.

Argument #4: Selling the PMAs will result in environmental degradation

CBO noted in Reducing the Deficit that selling electric power at below market rates, since it increases demand and leads to overconsumption of electricity relative to what consumers would purchase at market rates, is inconsistent with the government's energy conservation objectives. And the deadweight losses generated by energy subsidies, some of which may be environmental in nature, have already been discussed. In fact, it is the PMAs themselves that are susceptible to the charge of damaging the environment. Moreover some privatization proposals, such as President Clinton's, seek to minimize environmental impacts by selling only transmission facilities. Issues that would arise in a more comprehensive privatization, such as the impact of the privatization of massive federal dams on irrigation systems, wetlands, flood control,

wildlife preservation or recreation can be addressed through reasonable conditional sales that reinforce these goals where they are appropriate.

Argument #5: Privatization proceeds could not legally be used for deficit reduction

The simplest response to this criticism is that Congress has the power to do what it wants in this regard. If it so chooses, it can alter budget process law so that proceeds from PMA sales reduce the deficit. The President's FY 1995 budget indicates that he will request a legislative fix so that sale proceeds would apply toward deficit reduction. Draft language to privatize the PMAs prepared by Congressman Foley (R-FL) would accomplish this objective by crediting sales proceeds to "miscellaneous receipts" in the budget.

WHAT SHOULD BE DONE

We are a country whose leaders of both political parties in many a speech applaud foreign nations that are undergoing painful transitions to market economies. The pain they endure is caused not by the arrival of capitalism, but the previous absence of it, because it is difficult to shake out established political interests as our own PMA debate illustrates. Nations around the world are taking steps toward privatizing their power generation assets and other infrastructure, and U.S. financial services and consulting firms, some of whom I believe are present today, have provided much of the know-how. These firms can certainly apply that knowledge and experience to the U.S.A., which is merely a mixed economy rather than a centrally planned one.

Ironically, at the same time our executive branch is prohibited by law from studying the impact of a switch to market pricing of hydroelectric power from cost-based pricing, last year's foreign operations appropriations bill provided several hundred million dollars in funding for Russia and the other former Soviet Republics to ease their transition to a market economy, a transition which includes at least partial privatization of the energy sector. In addition, \$8 billion of the Mexico aid package has already been distributed to Mexico and another \$2 billion is about to be. One condition placed on this funding is that in exchange for support of the Peso, Mexico is to vigorously pursue privatization of its governmental programs, including the energy sector.

We should do at home as we ask others to do. Congress should heed the call of the electorate for smaller government and take the following actions with regard to the PMAs, recognizing all the while that the interests of current PMA consumers can be taken into account and satisfactorily addressed.

 Restrictions on government studies of proposals to switch hydroelectric pricing from cost-based to market-based should be eliminated immediately.

- (2) While all PMAs should be privatized, the Congress might consider initially dealing with the problem by establishing a commission similar the Military Base Closure Commission. The commission would assemble a package of facilities to privatize, perhaps across PMA regional lines, submit it to the President for revision, and then hold an up or down vote. This procedure obviously can be generalized to the government at large, as Senator Mack has done with his Spending Reduction Commission which looks at the broad array of government programs, but here I emphasize just PMAs. Alternatively, the Congress could attempt to privatize the five PMAs individually from the easiest case to the hardest, applying the knowledge gained to the greater difficulties at the next level. This has begun with Senate passage earlier this week of the bill to privatize the Alaska PMA, widely considered the simplest case since there are only 2 power plants at issue in Alaska.
- (3) Congress should specify legislatively that the proceeds from privatization shall go deficit reduction.
- (4) As we take steps toward full privatization, Congress should begin to implement full market pricing for the PMAs as CBO suggests, which would reduce the deficit by approximately \$1 billion annually. This could facilitate the march toward privatization if user groups are given an opportunity to purchase a certain percentage of their PMA on favorable terms during the transition to market pricing.

NOTE ON THE MECHANICS OF PRIVATIZATION:

While I'm happy to simply make the previous suggestions and leave the mechanics of privatization up to the investment bankers, the Heritage Foundation suggested a method in 1986, based on the British experiences with Britoil and British Telecom, that may be worth investigating since it helps to address the concerns of customers who potentially could face rate shock but also allows a certain less-than-majority percentage of the stock of the newly privatized firm to be sold at higher post-initial-offering rates, thereby heightening the amount of deficit reduction. The idea is to create a package whose benefits are distributed in such a way that all parties--PMA customers and taxpayers--can potentially be better off with privatization compared to the status quo. In rudimentary and simplistic terms it could work something like this:

(a) a 51% controlling interest in the PMA would be offered to the public at the initial valuation, with current customers of each PMA given the option to purchase stock in proportion to their use of power (perhaps to be paid for in installments on future electric bills). A minimum of 10% of this 51% block of stock could be reserved for small investors like residential or small business customers of the PMA. These small buyers would also receive an option to buy additional shares in the future at the original price if they hold their shares for a prescribed minimal length of time. Heritage states that this allows small investors or former customers to benefit from any increase in value that privatization brings.

(b) The remaining 49% share of stock would be temporarily retained by the government and then sold at the most attractive price. This way the taxpayer wins from any increase in stock value post-privatization, because all the additional funds could be earmarked for deficit reduction.

CONCLUSION

Privatization of the PMAs is long overdue, but even it is merely a first step, a test case, toward limiting the reach of a government that seems to regard no activity as beyond its capability or proper scope. While not easy, there are ways to minimize or even eliminate any hardship associated with PMA privatization, and the benefits to be gained make privatization an unambiguous plus for consumers.

The core issues in this debate are the unfairness of requiring one class of Americans to subsidize the power needs of another, and the impropriety of having government run commercial enterprises competing against and even excluding large chunks of the private sector from access to their output. The latter is especially ominous because government's presence in the marketplace threatens the potential for lower nationwide electricity rates down the road as competition in interstate and inter-regional wheeling heats up and electricity vendor choice becomes a reality for consumers. The notion that some buyers of electricity should be prohibited by law from bidding-without subsidies--on the output of a large chunk of our nation's electricity generating capacity is alien to American business practices and to what we know to be the prerequisites for efficiency and minimum prices in the nationwide marketplace. The potential participation of all of America's generating and transmission capacity is essential in the future marketplace of retail wheeling if we are to supply the electricity needs of Americans most efficiently and at the least cost.

If PMAs do disrupt the otherwise inevitable coming of retail wheeling and consumer choice, their annual costs to society will be far greater than their annual appropriation, the below market rates, and the tax advantages municipal utilities and rural co-ops now enjoy--only the public won't be able to directly perceive those costs. These are the pernicious "hidden costs" of economic regulation that are difficult to tabulate but that nonetheless make the nation worse off whenever and wherever they are imposed.

4

INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS

OPPOSITION TO THE SALE OF THE FEDERAL POWER MARKETING ADMINISTRATIONS

- The federal hydropower program has provided the basic structure for real competition between the consumer-owned electric systems and the investorowned utilities.
- Federal power customers supported the construction of transmission facilities, in lieu of building their own, in order to avoid the expensive duplication of facilities and reduce environmental impacts. They are now dependent on those federal facilities.
- Public power and cooperative systems are highly integrated and interdependent with the federal systems.
- The value of the whole power system is much greater than the sum of the values of the individual facilities.
- System diversities, both geographical and in facilities, are accommodated to maximize the overall system operational efficiencies.

The following considerations, in their aggregate, would negate the benefits of any sales proposal to the taxpayers:

- The reduction in revenues to the U.S. Treasury, if investor-owned utilities are allowed to claim tax incentives on facilities purchased, will significantly offset revenues gained from the sale of the PMAs.
- Federal installations (military, DOE laboratories, etc.) will be faced with large rate increases when they lose their federal power, resulting in increased appropriation requests.
- The proposal is anti-competitive since 75% of cooperatives (and other preference customers) already have rates above those of their competitors and any increase in rates could be catastrophic. (Ultimately the situation would lead to less competition.)
- Concur with identical statements by National Rural Electric Cooperative Association (NRECA)

International Brotherhood of Electrical Workers May 17, 1995 Page 2 of 2

- The PMAs operate as a self-sustaining "no-cost" program of the federal government. PMAs are actually projected to return more than \$1,323 billion in revenues to the Treasury over and above the appropriations request for FY 1996.
- The Department of Energy (DOE) is currently completing a 20 year cash flow projection comparing revenues from the proposed sale of the PMAs to leaving the PMAs as they are now. We believe that analysis will show that the Treasury will receive more than \$1 billion more if we reject the sale.

There is also a misconception among sale proponents that the PMAs can operate more efficiently in the private sector. While in general, we are not opposed to privatization proposals when they make sense, in this case privatization is not the best choice. The facts are:

- The PMAs own and operate more than 32,000 miles of high voltage transmission lines, and have 2,000 miles under contract. The systems employ modern technology to provide the most efficient dispersal of electricity to federal power customers.
- The PMA systems are used to buttress the power capacity owned by the private sector, to provide peaking power, to provide base-load generation, and in some cases, to dispatch federal and private sector power plants, in a highly efficient and reliable way. The value of the systems is much higher than the sum of their parts. Dismantling the systems would diminish the efficiency of these technological resources.
- The PMA systems ensure that no single sector of the electric power industry can secure a monopoly position.

 Concur with identical statements, March 27, 1995 letter to House Speaker from 52 co-signing Members of Congress.



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TESTIMONY OF

Glenn English
Executive Vice President
National Rural Electric Cooperative Association

before the

U. S. House of Representatives

House Resources Committee Water and Power Resources Subcommittee

> Washington, DC May 18, 1995

Chairman Doolittle, Members of the Committee, for the record, I am Glenn English, executive vice president of the National Rural Electric Cooperative Association (NRECA), the association of the nation's 1,000 nonprofit, consumer-owned rural electric systems, which provide electric service to more than 25 million people in 46 states.

The nation's rural electric systems and their consumers are vitally interested in proposals to privatize the federal power marketing administrations. More than 600 rural electric systems in 34 states purchase all or part of their power supply from the power administrations.

Rural electric systems and the federal government wrote one of the first "Contracts with America" when the federal government built these multi-purpose water projects.

The plan was—and is—to recover most of the costs of these projects through the sale of electricity generated by these projects. Rural electric systems and municipally owned systems agreed to purchase federally generated electricity under long-term firm power contracts even though the federal hydropower from each new project was more expensive than then-conventional alternatives, i.e., thermal plants.

To put this in perspective, there was some question, as the nation was turning to the peaceful use of the atom, as to whether these federal projects would ever be economical, since many believed that nuclear power would provide electric power so plentiful and cheap that it would not pay to meter it.

Even so, consumer-owned systems agreed to the partnership with the federal government through the hydropower program because the projects provided economic development benefits in the local areas and the federal power gave them independence from the investor-owned utilities who controlled much of the power supply at that time.

Consumer-owned electric systems have faithfully honored their side of the partnership by repaying a major part of the original investment, with interest, they have built many decades of equity investment in the power facilities of the multi-purpose projects.

This equity investment is more than monetary: It includes other complex and less tangible facets.

- The federal hydropower program has provided the basic structure for real competition between the consumer-owned electric systems and the investor-owned utilities.
- Federal power customers supported the construction of transmission facilities, in lieu of building their own, in order to avoid the expensive duplication of facilities and reduce environmental impacts. They are now dependent on those federal facilities.
- Public power and cooperative systems are highly integrated and interdependent

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with the federal systems

- The value of the whole power system is much grater than the sum of the values of the individual facilities.
- System diversities, both geographical and in facilities are accommodated to maximize the overall system operational efficiencies.

The membership of NRECA, at its annual meeting this year, resolved to oppose any privatization proposal which would result in increased electric rates to rural electric consumers. I have attached a copy of that resolution to this testimony.

Rates and costs are high priority considerations for rural electric systems.

First, 70 percent of rural electric systems already have electric rates that are higher than their neighboring utilities. In 15 percent of the cases, the rate disparity is 40 percent or more.

Second, the electric utility industry is entering an era of unprecedented competition. The traditional recognition of state-regulated, noncompetitive electric utilities may, indeed, already be a relic of the past.

Rural electric systems, because they must invest more per consumer, receive less annual revenue per mile of line, have fewer consumers per mile of line, and with higher rates, are already in a competitively disadvantageous position, and any increase in electric rates would be disastrous.

Third, rural electric systems compete with another distinctive disadvantage: The amount of federal assistance that flows to competitive electric systems.

The Committee may not be aware that investor-owned utilities receive federal assistance of \$5 billion each year through the tax code. This compares to \$1 billion each year for municipal systems and \$265 million each year for rural electric systems.

In the competitive electric utility industry, that enormous subsidy to the investor-owned utilities is an equally enormous competitive advantage.

Rural electric systems, responding voluntarily to the call of the Congress to reduce the cost of government, came forward and cooperated in the legislative reforms that resulted in interest rate increases for rural electric loans and, equally important in this day of budget deficits, cut the cost of the rural electric lending program by 57 percent.

I would point out to the Committee that the investor-owned utilities have not demonstrated that same sense of civic responsibility and have chosen instead to attack and decry the modest assistance received by rural electric systems.

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Now, the investor-owned utilities, with their deep pockets, made possible in part because of the \$5 billion a year in tax breaks they get from the U. S. taxpayers, want to bid up the price of the federal power marketing administrations.

They apparently do not want to compete in this new electric utility environment: They'd sooner buy out their competition.

We believe that the sale of the power marketing administrations to investor-owned utilities is anticompetitive.

When the investor-owned utilities posed arguments in the early 1980s to renew their licenses to continue to operate dams on federal waterways, they said, repeatedly and emphatically, that they had invested heavily in the facilities and to take them away after all that investment would simply be unfair.

We agree with that argument. Consumer-owned electric took a risk to participate in the federal hydropower projects. From day one, they have invested, month by month and year by year, in those projects, and now they have a substantial equity investment in them.

We believe that equity position should be honored.

We were disappointed to find that the privatization of the power marketing administrations was included in the House and Senate budget resolutions. However, the Budget Committee recognized the equity investment of rural electric systems, and I quote: "The proposal essentially recognizes the *de facto* property rights current customers have in these assets."

We continue to oppose any proposal to sell the PMAs that would result in increased electric rates. Nearly 30 million consumers in 34 states would be adversely affected by such rate increases.

We believe that federal and state preference customers, as well as consumer-owned utilities, will be harmed by increases in electric rates.

Even if proceeds from the sale of the PMAs could be applied to deficit reduction, it does seem counterproductive to sell valuable federal assets on the one hand while raising the electric rates to that same federal government on the other hand.

Chairman Doolittle, I appreciate the opportunity to put the views of the NRECA membership before the Committee. I will be happy to answer any questions you might have.

TESTIMONY OF A. JOEL CONNOR VICE PRESIDENT-WHOLESALE MARKETING FOR ALABAMA POWER COMPANY

BEFORE THE SUBCOMMITTEE ON WATER AND POWER RESOURCES OF THE COMMITTEE ON RESOURCES OF THE UNITED STATES HOUSE OF REPRESENTATIVES

May 18, 1995

I. INTRODUCTION

My name is Joe Connor and I am Alabama Power Company's Vice President for Wholesale Marketing. I am a graduate of the University of Alabama where I was awarded a bachelor of science degree in electrical engineering in 1965. Upon graduation, I began work for Southern Company Services, Inc. in the Power Pool Section. I joined Alabama Power in 1981 as the Manager of Electric System Planning and Power Contracts and later became General Manager with additional responsibility for the Fuels Department. In 1990, I was named Manager of Support Services at Miller Steam Plant. In 1993, I was elected Vice President-Operating Services, which included responsibility for daily operations of Alabama Power's fourteen hydro developments. I assumed my present position earlier this year.

I am honored to have the opportunity to appear before the subcommittee to discuss

Alabama Power Company's hydroelectric maintenance program. As a strong proponent of
hydropower, I appreciate the time and effort the subcommittee is spending on the issue of how
best to utilize the hydropower facilities currently owned and operated by the Federal
government.

The purpose of my testimony is to provide the subcommittee with an example of how an investor-owned utility that has a number of hydro projects licensed by the Federal Energy

Regulatory Commission ("FERC") maintains these facilities. Though Alabama Power may have some unique components in its hydro maintenance program, overall, I believe that we are fairly typical of most FERC licensees in this regard. As a result, I believe that by providing an overview of our maintenance program, I can give the subcommittee a good feel for how a government-owned facility would be cared for and maintained if it were privatized. I trust that as the subcommittee learns more about the plant rehabilitation and maintenance programs of licensees such as Alabama Power, especially in comparison with the limitations of such programs at many government-owned hydropower developments, the subcommittee will understand why I believe that many of these facilities can be best and most efficiently operated through privatization.

II. ALABAMA POWER COMPANY'S HISTORY OF HYDROELECTRIC POWER

Alabama Power has a long history of hydroelectric generation. Beginning with the construction of Lay Dam in 1912, Alabama Power constructed six dams prior to 1930. Seven additional dams were constructed in the 1960's, and our last facility was built in 1983. Although Alabama Power began building fossil plants in the 1930's and a nuclear plant in the 1970's, hydroelectric power remains a vital part of our energy mix. Our hydro facilities on the Coosa, Tallapoosa and Warrior Rivers represent approximately 1,600 megawatts of generation capacity, which is 16% of the our total capacity. This capacity provides our customers with efficient, low cost and environmentally sound peaking power. Our fourteen hydro developments also provide some 155,547 acres of reservoir and 3,132 miles of shoreline for recreational opportunities for the general public.

Since their construction, Alabama Power has been the sole owner and operator of these fourteen facilities. We believe that our history of success in hydro operations is in large part related to our commitment to maintain these projects so that they can be operated as efficiently as possible. As we fulfill this commitment, I believe that Alabama Power will continue to generate hydropower for the benefit of Alabamians well into the next century.

III. THE GOALS OF ALABAMA POWER'S MAINTENANCE PROGRAM

Alabama Power's hydroelectric maintenance program is based principally on two fundamental goals. Our first goal is to maintain the facilities in order to maximize each unit's efficiency and availability. If a unit is not properly maintained, its operations will become less efficient, resulting in a decreased amount of kilowatt hours of energy that can be generated. Moreover, by neglecting these units, problems may develop that lead to a forced or unscheduled outage at the facility. If a unit is not available to the system operators, Alabama Power will be forced to use an alternative and most likely more expensive source of generation in order to meet our customers' energy needs. Thus, the availability factor measures the percentage of time a unit is available for generation. Obviously, an unscheduled outage reduces a unit's availability factor. As a result, Alabama Power's maintenance program is designed to prevent such outages and maximize the energy potential of the water resource.

A second and sometimes competing goal of our maintenance program is to minimize the cost of maintaining our projects. As the electric industry becomes more competitive, utilities such as Alabama Power are constantly looking for ways to cut costs. However, we must also ensure that our generating facilities are operable so that service to our customers is not compromised. As a result, Alabama Power is committed to devoting the resources necessary to allow our hydro projects to meet our operational requirements. Even though hydropower is a very old technology, new improvements in equipment are being developed that can result in operational efficiencies. In our maintenance program, we are constantly evaluating these technological improvements to determine whether the benefits are worth the costs of purchasing, installing and maintaining this new technology. If we believe that the benefits do outweigh the costs, Alabama Power is willing to make the capital improvements in order to enhance the value of our hydro facilities. Through balancing the interests of maximizing unit efficiency and availability with maintenance costs, Alabama Power is able to ensure the economic, safe and long-term reliability of our hydro projects.

IV. WORK FORCE

Because labor costs represent a significant percentage of Alabama Power's maintenance budget, work force management is an essential component of our maintenance program. Indeed, because of the dedication of our employees and the culture that exists within our organization, we consider our work force to be one of our greatest strengths not only in the hydro maintenance program but throughout Alabama Power.

One of the most important reasons why our work force is such an asset to the hydro maintenance program is that we have well trained, highly skilled and highly motivated employees who take a personal interest in the success of our hydro operations. Alabama Power's supervisory staff is comprised of highly experienced individuals who have special training in technical and management disciplines and substantial experience in hydro operations.

The balance of our work force is drawn from a pool of employees who typically have a strong background in power plant construction or maintenance. Much of this work force is comprised of multi-craft Hydro Journeymen. This employee classification includes individuals with electrical, mechanical and operational skills. One reason for the success and productivity of these Hydro Journeymen is Alabama Power's extensive training program. For example, in 1994, we provided each employee in this classification with an average of 120 hours of technical training. This training was largely developed internally, using the expertise, knowledge and experience of employees throughout Alabama Power's hydro program.

The employees who participate in hydro maintenance are highly motivated for at least two reasons. First, they are acutely aware of the importance of hydro in our generation mix and understand that the low cost energy produced by these facilities will play a dramatic role in ensuring that Alabama Power is able to maintain its position in today's competitive world. Second, Alabama Power has a compensation system that includes a pay for performance incentive program. In short, our employees know that the better job they do, the higher their income will be.

Because Alabama Power is blessed with a well trained and highly motivated work force that has a unique understanding of and appreciation for our hydro projects, Alabama Power's maintenance program will continue to be successful.

V. PLANT OPERATIONS

One of the most important aspects of Alabama Power's maintenance program is its day to day project operations. We believe that by operating these projects wisely, we can reduce the number of unusual and unexpected maintenance problems. Under our operating guidelines, we typically operate our projects at the unit's "efficient gate" or "best gate." This method of operation is contrasted with "full gate" in which the maximum amount of water possible is allowed to pass through the turbine. While "full gate" operations yield more energy during periods of generation, the project cannot be operated for as long as with a best gate setting because the available water supply is depleted sooner.

By operating our units at "best gate," we can maximize the generation from the limited quantity of water available. This result is possible for a variety of reasons. First, this gate setting, which is determined specifically for each unit, produces the maximum horsepower to the generator shaft with the smallest amount of water. Second, the tailrace level during generation is lower than would be at full gate, which results in more "head" for the project. To put it simply, the more head (meaning the distance the water has to fall), the more energy that can be generated. Third, at best gate, the generator and all associated equipment at the project are operated within design limits. Operating the plant in this fashion reduces the wear and tear on the units, thereby maximizing the life expectancy of all plant equipment.

Alabama Power's plant operators also have available to them a significant amount of data regarding the units they are operating. For example, they have instruments that constantly monitor such variables as vibration and the temperature of the unit. If the temperature gets too high or there is too much vibration, the operator can adjust the flow of water through the turbine in order to minimize the stress on the unit and improve its efficiency. Obviously, making these type adjustments also reduces the need for maintenance and helps minimize

unnecessary forced outages at the plant. It also provides the plant operator with information that is helpful in planning maintenance activity at future scheduled outages.

Finally, in the event of an operational problem, Alabama Power can bring to the project the necessary personnel needed to resolve the problem. Such personnel include other hydro plant crews, fossil plant crews, power generation and engineering support groups, power delivery substation maintenance crews, licensing experts and regulatory compliance support groups. In addition, we are able to call upon the expertise of Georgia Power Company, a sister company within the Southern electric system, and the system's engineering and technical support company, Southern Company Services, Inc. With Alabama Power and Georgia Power having a combined total of approximately 2600 megawatts of hydro capacity (an amount roughly equivalent to the capacity within the Southeastern Power Administration), our projects have a wide range of expertise available at almost a moment's notice. As a result, we are often able to resolve many operational problems without having to take a unit off-line.

VI. ROUTINE MAINTENANCE

During normal plant operations, Alabama Power is constantly performing routine maintenance at the projects. This aspect of Alabama Power's maintenance program begins with daily inspections of the projects. For these daily inspections, we have developed a checklist of potential problem areas. Most of the items on this daily checklist do not contemplate any specific action other than simply making observations. For electrical and mechanical systems and components that do not require daily inspection, we have prepared checklists that are used on either a weekly, monthly or annual basis. These various checklists serve two functions.

First, they are used to evaluate the plant's operating conditions and to detect any system or component that may be showing signs of wear or need of attention. As maintenance issues are discovered, these problems are either resolved during normal project operations or are scheduled to be addressed during the next outage.

Second, these weekly, monthly and annual checklists contain numerous action items that serve preventive or predictive maintenance purposes. For example, plant personnel will clean and lubricate various systems and components in order to avoid significant operational problems that could result in an unscheduled outage. By performing this routine maintenance during plant operations, we are able to observe and correct small problems before they become big and expensive problems. In addition, this routine maintenance also helps to keep unit efficiency high.

VII. SCHEDULED OUTAGES

As you might expect, the peak demand on Alabama Power's electric system occurs during the summer and winter months. Accordingly, during these periods, the performance of our hydroelectric facilities is critical. In order to ensure the full and efficient operation of these projects during the peak period, we remove these projects from service during off peak periods (spring and fall) to perform scheduled maintenance that cannot be accomplished during plant operations. For most of our projects, only one outage a year is necessary. Typically, these outages are conducted during the fall because there is usually lower flow in the rivers in the fall than during the spring. Several of our projects also require a spring outage because of the nature of the turbines installed at these projects.

The outage for each project is scheduled and coordinated by Alabama Power's Reservoir Management group to ensure that too many units are not off-line at any one time. To determine when an outage is to occur, Reservoir Management uses an in-house computer system developed by Alabama Power called the Hydro Optimization Management System ("HOMS"). HOMS allows us to maximize the operations of our fourteen hydroelectric plants by allowing for centralized and coordinated scheduling, management, and operations. Using real time telemetered data of rainfall and inflow in the watersheds, HOMS accurately predicts the water flows that each hydro project can expect, which allows us to schedule our outages in a way that maximizes the use of this water. Furthermore, we may lower the reservoir a few days before the outage to allow additional water storage capacity in that reservoir. This efficiency measure taken to prevent water spillage during the outage is also determined by our HOMS system.

Our Holt and Bankhead projects are located on Corps of Engineers' reservoirs, which were constructed by the Corps for flood control and navigational purposes. While the Corps owns and operates the dams at Holt and Bankhead, Alabama Power owns and operates the powerhouses and generating equipment. As a result of this dual ownership, close cooperation between Alabama Power and the Corps is essential. To this end, Alabama Power has for over 30 years coordinated its power operations with the Corps to ensure that its flood control and navigation purposes are met. Moreover, during outages at Holt and Bankhead, Alabama Power coordinates closely with the Corps so that the Corps will be prepared to modify its operation of the dams as necessary. To assist the Corps in this regard, we share our calculations and predictions of potential changes in river flow conditions, as determined by HOMS.

A typical outage for an Alabama Power hydro facility is approximately 7 to 14 days. Because electric load demands constantly change, river conditions change as the weather changes, and because our hydroelectric capacity is among the cheapest sources of generation on our system, Alabama Power wants to minimize the amount of time these units are off-line. Accordingly, outage crews, which are comprised of Alabama Power employees, usually work around the clock to complete the maintenance activity as quickly as possible. To assist these crews in performing their outage work, Alabama Power has developed a standard checklist to ensure that each unit is thoroughly inspected and that all preventive and predictive maintenance activity is accomplished on time. In addition, these crews address the various maintenance items identified during the routine inspections described above.

Although there are many different maintenance items addressed during an outage, a brief discussion of repairing cavitation damage will provide a good example of outage activity. During generation, the water pressure on the turbine blade and other metallic surfaces around the turbine causes cavitation. This cavitation results in cracks and holes in the metal. Because the turbine is completely flooded during generation, it can only be repaired by draining the water from the unit during an outage. Even though these holes and cracks caused by cavitation are relatively small, over time, the presence of cavitation in the turbine causes significant losses of efficiency. As a result, during outages, we typically inspect the units to determine the extent of the cavitation damage and make repairs where necessary. To repair such damage, we weld the cavitation and the cracks and then sand them to a smooth, polished finish. By spending the time and money to perform this relatively routine maintenance item, the turbine will have an extended life expectancy, which will save us money over the long term.

VIII. PLANT REHABILITATION

Most of the maintenance items addressed during a scheduled outage are relatively minor and routine. However, from time to time, substantial capital improvements are required to replace worn equipment in order to allow continued efficient operations. For example, we know that items such as a unit's turbine assembly are not going to last forever, and that we will need to replace such pieces of equipment periodically. For these types of maintenance items, Alabama Power typically makes budgetary plans as many as ten years in advance to ensure that there is adequate money available for these capital expenditures. Through this plant rehabilitation program, we are constantly conducting studies designed to identify long-term needs and to prioritize those needs so that we can levelize both budget impacts and work loads. Moreover, through these studies, we have been able to formalize our operation and maintenance procedures. Because these procedures are generally followed at all of our facilities, our hydro maintenance program has become much more consistent and effective.

The success of our plant rehabilitation program is evidenced by the fact that the Electric System Board of Ireland has contracted with us to evaluate their hydro operations and maintenance programs for possible improvements. We have been pleased to help this Irish utility improve its hydro program and are honored that Alabama Power was selected to serve as a model of how a successful hydro maintenance program can be run. Though we are very proud of our 75 years of hydro operations, we are constantly searching for ways to improve our maintenance program.

IX. CONCLUSION

Because Alabama Power historically has been dedicated to maintaining its hydro projects, these projects continue to be operated efficiently and for the benefit of our customers who receive tremendous value from this low-cost source of generation. We believe that the success of our maintenance program is demonstrated by the fact that our program goals are continually being met. Generator unit availability for the past five years has been at 96.4% compared to an industry average of 91.3% in this same general time period. During this time, Alabama Power has experienced a minimal amount of unscheduled maintenance outages. Moreover, the cost of maintaining these projects is under control. Since 1976, our enviable plant availability factor has been achieved while our maintenance costs have been reduced by 7%. Our high availability factor and our low maintenance costs are two of the reasons why Alabama Power Company has some of the lowest electric rates in the country. In short, we believe that Alabama Power is meeting one of its major responsibilities as a steward of the valuable natural resources in Alabama by operating our hydro facilities as efficiently and cost effectively as possible and doing so for the benefit of our customers.

Again, I appreciate the opportunity to discuss Alabama Power's hydro maintenance program and I hope that my testimony will prove helpful to the subcommittee's understanding of how a government-owned facility could be maintained if privatized. Alabama Power looks forward to the subcommittee's further consideration of the privatization issue and eagerly awaits the opportunity in the near future to use its hydro maintenance program to enhance the productivity of a government-owned facility.

TESTIMONY OF BRUCE C. DRIVER SPECIAL COUNSEL TO THE LAND AND WATER FUND OF THE ROCKIES

BEFORE THE

WATER AND POWER RESOURCES SUBCOMMITTEE OF THE HOUSE COMMITTEE ON RESOURCES

ON THE TRANSPER OF THE POWER MARKETING ADMINISTRATIONS FROM FEDERAL OWNERSHIP

ON BEHALF OF

THE LAND AND WATER FUND OF THE ROCKIES
NATURAL RESOURCES DEFENSE COUNCIL
GRAND CANYON TRUST

MAY 18, 1995

INTRODUCTION

My name is Bruce Driver. I am Special Counsel to the Energy
Project of the Land and Water Fund of the Rockies ("LAW Fund"). My
business address is 2260 Baseline Road, Boulder, Colorado 80302.

I am appearing today on behalf of the LAW Fund as well as the
Natural Resources Defense Council ("NRDC") and the Grand Canyon
Trust. I appreciate the opportunity to present to the Subcommittee
our positions on PMA asset transfer.

The LAW Fund is a non-profit regional environmental law center serving the Rocky Mountain, Intermountain and Desert Southwest states of the American West. The LAW Fund's Energy Project advocates the adoption of measures that minimize the adverse environmental impacts of meeting the demand for electric energy services in our region. In this regard, we promote greater attention of the region's utilities to energy-efficiency and renewable resources in ways that avoid significant electric rate increases.

To advance our positions, we intervene in state PUC proceedings in Arizona, Colorado, Nevada, New Mexico, Utah and Wyoming. As well, since 1991 we have represented environmental interests in the public procedures surrounding the Western Area Power Administration's ("Western") attempts to deal with customer contract extensions and Integrated Resource Planning. We also work with some of Western's current customers on-the-ground to help devise ways in which they can promote energy conservation and renewable resources on their systems. In short, we believe we are

well-acquainted with electric utility issues here, including how a transfer of Western's assets may affect broad public interests in the region.

The focus of my testimony is on the transfer of assets used in the generation and transmission of electric power marketed by Western. All of the states in which we are active on electric issues are served by utilities who purchase from Western, rather than from either the Southeastern or Southwestern Area PMAs.

Substantively, our testimony addresses the impact of an asset transfer on two primary public interests that are broadly supported in our region: (1) Promotion of sound utility practices, in particular utility diversification into renewable resources and energy-efficiency investment through Integrated Resource Planning and (2) Mitigation of damage to the natural environment of the West's river systems attributable to the construction and operation of federal dams.

Of course, the transfer of Western's assets implicates other federal policy issues, principal among them deficit reduction, the impact on electric rates and the downsizing of the federal government. These are obviously important issues and, thus, we integrate them into our recommendations.

SUMMARY OF MAJOR POINTS

1. Highly important, but poorly understood, issues surround the transfer of Western's assets from federal ownership, management or control. In our view, deciding first to sell or otherwise transfer control of Western's assets and then figuring out how to protect these interests is putting the cart before the horse. As a result, we prefer that Congress act now only to remove the ban on the administration studying the transfer of these assets, but refrain from deciding whether to transfer until a study is completed.

- 2. We are well aware, however, of the momentum to privatize the PMAs. If a speedy decision to privatize is inevitable, we urge Congress to condition the transfer of Western assets on protection of important public interests, among them Integrated Resource Planning, fish and wildlife, recreation, irrigation and water supply.
- 3. In our view, however, conditions may be incapable of protecting some significant public interests. For example, selling Western's transmission assets could further balkanize our region's transmission system and undermine the development of competitive wholesale electric markets in the West. Furthermore, selling the generating turbines raises the specter that the West's rivers will be run primarily to meet utility needs to the disadvantage of other river values. Neither of these developments would be in the public interest. As a result, we urge Congress to consider transferring control over only the entitlement to use power generated by the dams, but not the transmission or generating assets themselves.
 - 4. Over the long run, significant deficit reduction

For example, one possible condition, applicable in the Colorado River Basin, is the establishment of a trust fund, financed by a very small charge added to the sale price, for the purpose of paying to restore the habitat of endangered fish.

attributable to transfer of Western's assets can be obtained only at the expense of electric rate increases. We are sympathetic to the notion that the transfer of Western's assets should not lead to rate increases. On the other hand, there are economic efficiency benefits from letting the price of power from federal resources approach its market value and, thereby, providing significant deficit reduction. Congress should carefully weigh the relative values inherent in reducing the deficit and avoiding rate increases attributable to asset transfer.

5. If there is to be a transfer of Western's assets, Congress should encourage vigorous competition within the electric industry--investor-owned, municipal and cooperatively-owned utilities as well as independent power producers and others--to see who would offer the best package to protect and enhance important public interests. It follows that an automatic preference to existing Western customers to take control of these assets, as suggested in the administration's proposal, is inappropriate.

POLICY ISSUES AND THEIR IMPLICATIONS FOR ASSET TRANSFER

In this section we discuss important public policy issues raised by the transfer of Western's assets as well their implication for congressional action.

A. The need to promote the sustained orderly development of renewable resources and customer energy-efficiency in this region through Integrated Resource Planning

In 1993 and 1994 the LAW Fund conducted a series of meetings in our region with interests who have a stake in the future of the electric industry here--utilities, renewable resource developers,

environmentalists, tribal officials, coal and gas interests and many others. In addition, on our behalf a survey of public opinion was undertaken regarding the support for clean energy policies in the six states in which we are the most active.

As a result of this work, we can say that there is strong support in this region for the electric industry playing its part to mitigate adverse environmental impacts it has helped to cause as well as to take further steps to protect and enhance the natural environment here. Many say they are willing to absorb an increase in their electric rates, especially if it would reduce air pollution. In particular, many support the sustained, orderly development of the region's copious renewable resources as well as utility programs to help their customers conserve energy.

Support for these policies stems not only from the environmental advantages of renewable resources and energy-efficiency, but also from their economic benefits. In this regard, these resources provide important resource diversification advantages that can protect the region against price hikes in the fuel of the region's conventional utility resources, in particular coal- and natural gas-fired powerplants. And they reflect an understanding of how the region's quality of life and economy depend on a clean environment.

In recent years western states and then Congress and Western have begun to exercise leadership in promoting renewable resources and energy-efficiency. The principle vehicle by which these resources are promoted is Integrated Resource Planning ("IRP").

IRP is a procedure in which utilities consider renewable resources, customer efficiency improvements and other electric resources for addition to their system to meet financial and public objectives, such as low electric rates, system cost reductions, resource diversification and environmental improvement.

In Section 114 of the Energy Policy Act of 1992, Congress required Western to promulgate an IRP regulation for its utility customers. In August, 1994 Western proposed IRP rules along with policies to govern the extension of contracts for some its regions. Also included in this package of measures is a resource pool that may be used to mitigate environmental problems on the rivers or to back up intermittent renewable resources, like wind and solar generation, acquired by Western's customers. This package of measures is, generally speaking, wise and appropriate. We believe that it represents a rough consensus among Western's customers and other interests, like ours, regarding how to balance progressive energy policies with the need for certainty of power source and low electric rates.

Western is involved in promoting IRP in two other ways. In most years Western purchases a considerable amount of electricity to meet contract obligations as well as to firm and shape the federal hydro resource. In 1993 alone, roughly 40% of its expenditures went towards the purchase of electricity for these purposes. In December, 1994 Western proposed to use IRP principles in its purchase of electricity. At that time Western also proposed to apply IRP to its transmission construction program, including

considering whether energy conservation might enable the agency to reduce the need for new transmission capacity and save money. We applaud these actions. They are an example of how a federal agency can promote the broad regional public interest in efficiency and environmental improvement through sound IRP.

We are deeply concerned that this package of proposals will be lost in an asset transfer. This would be unfortunate because we believe this package is supported by the region. As a result, we urge Congress not to authorize any transfer of Western's assets without conditions that protect IRP and the resource pool.

B. The need to promote competition in wholesale electric power markets in the West

Spurred by provisions of the Energy Policy Act of 1992 that opened the nation's transmission grid, competition in wholesale electric markets is slowly developing in our region. The benefits from wholesale market competition are numerous, including lower utility costs of service, lower electric rates, greater system reliability and environmental protection. We support the development of wholesale electric competition in the West.

Coordinated transmission operation, planning and expansion is essential to the development of wholesale market competition.

Without coordination of the transmission system, growth in wholesale electric markets will be stunted. At this time, the region's transmission system is fractured among many utility owners, increasing the difficulty of coordination. Western's transmission system, while not operated as one system throughout, adds stability to the region and contributes to coordination.

We do not see how selling Western's transmission assets is consistent with the need to coordinate transmission in the West. In this regard, Western has over 600 customers. Even if only a subset avail themselves of the opportunity to become transferees, ownership or control of the system will pass from one entity to dozens, scores, perhaps even hundreds of utilities. While it is in theory possible to require these transferees to coordinate operation and planning of the new assets they own, we are skeptical that this outcome will come easily. In particular, in the new era of competition in electric service, now spreading even to the retail side of the business, there may be competition for sales and service territory among the transferees, complicating coordination. As a result, we believe that the coordination needed for the development of wholesale markets may best be facilitated by leaving ownership and control of the transmission assets with Western.

C. The need to mitigate the impacts of dam construction and operation on riverine environments and to protect other non-power uses of western rivers

Western markets power from over 50 dams in our region with a combined rated capacity of over 10,000 megawatts. While these dams provide an incomparably low-cost power resource that has sustained rural and municipal economies throughout the West, they have also caused damage to fish, recreational amenities and other aquatic resources in the region. In recent years, a consensus has developed that this damage should be mitigated.

For example, under the Grand Canyon Protection Act of 1992, the Secretary of the Interior is directed to operate Glen Canyon Dam on the Colorado River in such a manner as to protect, mitigate adverse impacts and improve the values for which the Grand Canyon National Park was established. Plans are under development by the Bureau of Reclamation to do so. Similarly, the U.S. Fish and Wildlife Service manages the Recovery Implementation Program for Endangered Fish Species in the Upper Colorado River ("RIP") to reverse the damage done to certain fish species attributable, in part, to construction and operation of Colorado River dams.

Our concerns are but one example of a larger reality: The major rivers in the West that serve to generate power are also used and enjoyed for other purposes, including irrigation, water supply, recreation and the support of fish and other species. Westerners support these other uses with passion. And while we fight with each other over how much protection any one of these uses should receive, we respect each other's values and, ultimately, the need for balance in operating the West's river systems.

Against this backdrop it is proposed that the federal government privatize the ownership, management or control of the power generating turbines contained in the federal dams from which Western markets electricity. In our view, once a utility is in control of the operation of these turbines, hard-to-resist pressures will build to operate the river to maximize the river's value to the utility, likely to the detriment of other uses which westerners support. The balance which an operator like the Bureau of Reclamation can bring to the operation of the rivers to meet multiple uses is jeopardized.

As a result, transfer of control over the turbines to utilities appears inappropriate. Privatizing the control over the entitlement to the power output of the dams, as operated by the federal government to meet multiple uses, should be sufficient.

D. Other important policy issues

1. Deficit reduction and rate increases.

One of the possible benefits of a transfer of ownership, management or control over Western's assets is deficit reduction. That is, sale of these assets will produce a one-time infusion of cash to the federal treasury that has been estimated at upwards of \$2.5 billion. And a sale would remove the need for annual appropriations, adding additional flexibility to system operations as well as reducing the need for some federal employees.

At the same time, the U.S. Treasury would lose the stream of annual revenues generated by Western's rates for the sale of power to its customers, which over time reimburse the Treasury both for capital and operating costs. In this context, whether the transfer of Western's assets will help reduce the deficit depends critically on the asset transfer price.

The administration's asset transfer legislation proposes to set a minimum price for PMA assets equal to the net present value of the principal, interest, and capitalized deficit payments which the U.S. Treasury would be entitled to receive during the remaining period for repayment of these obligations. The intent, we understand, is to avoid rate increases attributable to the transfer, a laudable goal. However, seen over the entire period in

which current repayment obligations are due, a sale price established under this formula offers no deficit reduction at all. By definition, a price based on the net present value of repayment obligations should equal the stream of revenues which Western's ratepayers would have paid the Treasury for the power Western markets. Thus, over time there is no positive gain to the Treasury from such a sale. That the President may be permitted, under the Administration's proposal, to score the cash receipts for a sale of the federal assets as an offset to direct spending for deficit reduction purposes does not overcome this fact.

Thus, if Congress wants to use the transfer of Western's assets to reduce the deficit, it will have to authorize a sales price that will have the effect of raising rates. On this matter, we are sympathetic to those who believe that the asset transfer should not result in electric rate increase. In this regard it is not clear that the benefits to the national economy attributable to real deficit reduction of at most a few billion dollars from an auction of Western's assets to the highest bidders are not outweighed by the negative impacts on it from electric rate increases in the western states.

On the other hand, there are resource allocation benefits from letting the price of power from the federal dams move towards its market value. That is, letting the price reach its market value would communicate a price to users that is much closer to the incremental cost of power than a price based on repayment obligations. This would encourage utility customers to make

investments in cost-effective energy conservation measures. However, pricing power on the basis of its value rather than its cost is the exception rather than the rule in this country. In the end, whatever the efficiency benefits of allowing the price for power from the federal dams to rise above repayment obligations, raising the rates for this power will meet with opposition in the region.

2. Possible unintended consequences of asset transfers Any entity that is able to take control of a portion of Western's assets, especially at a sale price that avoids rate increases, will have an advantage in competitive markets. We think that this advantage may be pressed through predatory competition, namely using this low-priced and valuable resource to cherry-pick or steal the retail customers of neighboring utilities. Of course, such activity is not now lawful in most situations under state public utility law. However, several states, including California and New Mexico, both states in which Western now markets power, are considering legalizing these practices for retail customers. In our view, "retail wheeling," as these practices are known, may become the law in more than a few states within 5-10 years. If so, the potential to use low-cost Western assets for this purpose may be irresistible to some. One way Congress could guard against the use of power from the federal dams for this purpose is to vest the entitlement to the power with the geographical territory now served by utility purchasers rather than with the utilities, themselves.

Another unintended consequence of an asset transfer

implemented without rate increases may be to set the stage for the extraction of the market value of these assets by transferees through sales to other more wealthy third parties. In other words, a transferee purchasing these highly valuable assets could turn around and sell them to the highest bidder, among other things cashing out the federal subsidy. Again, one way to guard against this would be to vest the entitlement to the power with the service territory rather than the utilities. Another is to lease the assets rather than sell them.

COMPETITION TO PROTECT PUBLIC INTERESTS

The foregoing indicates our skepticism at this time regarding the consistency of a Western asset transfer with broad, regional and even national public interests. In this regard, we urge Congress to look before it leaps and not to forget that privatization is not an end in itself, but a means to meet underlying public interests.

If Congress is determined to privatize now, however, we propose privatization only with conditions to protect public interests. And we urge serious consideration whether privatization of transmission and generating assets, as opposed to the entitlement to use the power from the dams, should be transferred.

In addition, the core of any move to privatize should be vigorous competition between utilities and others interested in taking control over the entitlement to use power from the dams or the physical assets themselves to see who can best protect the public interest. That is, we propose that Congress require

bidding among potential asset transferees to see who will offer the strongest package to protect public interest. As such, we oppose a preference for these assets to be vested simply because a utility is a present customer of Western's or for other reasons without regard to protection of public benefits.

Among the criteria of such an open bidding process should be the following:

Which utility or independent power producer would use the hydro resource in the context of IRP?

Which would agree to subordinate its operation of the turbines, if they must be transferred, to other river purposes?

Which would agree to operate its part of the transmission grid as part of an integrated, coordinated entity?

Which would use the hydro resource to help "firm up" intermittent wind and solar resources?

Which would agree to use the cost advantages inherent in the ownership or control of the federal hydro resource to leverage acquisition of renewable resources?

Which would agree to aggressively help its customers improve the efficiency with which they consume electricity?

Which would agree to contribute money to a trust fund to restore Colorado River fisheries?

And so on.

We note that implementation of this competitive bidding proposal would be a way of letting the market determine who is best positioned to protect public interests which have been mainly the province of the federal government. We also note that our competitive bidding proposal would be facilitated by establishment of a sales or other asset transfer price that is not appreciably above that established as a minimum in the administration's proposal.



Senamon Lubra, Privat Accordation

Statement of Alan Richardson, Deputy Executive Director American Public Power Association before the Subcommittee on Water and Power of the House Committee on Resources

May 18, 1995

American Public Power Association is the national service organization representing the interests of the nation's 2,000 local publicly owned electric utilities operating in 49 states, Puerto Rico, the Virgin Islands, and Guam. More than 550 such systems purchase power from federal power marketing agencies (PMAs), including the Western Area Power Administration, the Southwestern Power Administration, and the Southeastern Power administration. In addition, approximately 600 rural electric cooperatives purchase power from these PMAs. A list of all public power purchasers of federal power is attached.

As indicated in the attached resolution approved by the APPA Legislative and Resolutions Committee on April 18, APPA opposes the sale of the PMAs, but supports actions that would protect and enhance their benefits for the federal government and publicly owned electric utilities.

The reasons for APPA opposition include the following points:

1. Sale of PMAs Would Result in Significant Rate Increases

First and foremost, this is an electric consumer protection issue. Approximately 1,100 consumer owned electric utilities (public power systems and rural electric cooperatives) purchase power marketed by Southeastern, Southwestern and Western Area Power Administrations. These not-for-profit utilities provide power to nearly 32 million consumers in 29 states. Their primary goal is to provide this electricity to their consumer-owners at the lowest possible cost. Our opposition to any sale is firmly grounded in the very high probability that any sale will increase rates for these electric consumers.

Opposition to sale based on concern over increased rates is shared by many other organizations, including the Consumer Federation of America. CFA, the nation's largest consumer organization representing 240 consumer groups with a combined membership of 50 million Americans, has consistently opposed sale of the PMAs. CFA's executive director, Steve Brobeck, recently had this to say about proposals to sell

the PMAs: "The consumer position on sale of the PMAs, then, is very clear. Do not sell income-generating public assets that keep electric rates down, especially in high-cost areas, in return for a one-time payment to the "easury."

Concerns over rate increases of consumer owned utilities have intensified as private power companies have raised the prospect of a bidding war for the purchase of the PMAs. If the PMAs were sold to private power companies, the Congressional Research Service suggests that rates would rise by \$1.2 to \$1.3 billion a year, and PMA power would be removed as a "competitive check on private utility costs and rates." CRS said:

In a sense, this alternative brings the fundamental issue of Federal hydropower marketing policy to a head. Since the 1930s, it has been the policy of the Federal Government to market Federal power at cost, encouraging its use. As a result, an entire infrastructure has developed which has significant regional economic implications. Such Federal encouragement of regional development was (and still is in the view of many) an appropriate role for the Federal Government, particularly in rural areas where private incentive was lacking. For those whose economy and way of life are tied to this system, this market pricing alternative must be considered among the worst of the alternatives discussed in this report. The sensitivity of this situation is suggested by the language of current law (P.L. 102-337) prohibiting the study of this option:

Sec. 505. Notwithstanding any other provision of this Act, subsequent Energy and Water Development Appropriations Acts or any other provision of law hereafter, none of the funds made available under this Act, subsequent Energy and Water Development Appropriations Acts or any other law hereafter shall be used for the purposes of conducting any studies relating or leading to possibility of changing from the currently required 'at cost' to a 'market rate' or any other noncost-based method for the pricing of hydroelectric power by the six Federal public power authorities [5 PMAs and TVA], or other agencies or authorities of the Federal Government, except as may be specifically authorized by Act of Congress hereafter enacted.

This approach may maximize the receipts to the Federal Treasury. However, it may also maximize the pain to the consumers and regional economies affected by the change.

In addition to these consumer owned utilities, some 165 federal and state agencies buy electric power directly from federal power marketing agencies. In 1993, they purchased nearly 6 million megawatt-hours of electric energy, and paid a power bill of \$107,133,899. Attached is a list of the agencies, their power purchases, and their power bill.

Investor-owned electric utilities have announced that rates charged by three of the PMAs would increase markedly if they are purchased by IOUs. Their trade association,

the Edison Electric Institute, has concluded that the rates for the Southeastern Power Administration will rise by 64.6% with sale of that agency to IOUs, the Southwestern Power Administration by 124.4%, and the Western Area Power Administration by 70.7%.

All of the federal and state agencies that purchase power directly from these PMAs would realize increases in their electric bills by the percentages indicated, the EEI analysis shows. To cover these extra expenses, taxes or fees would have to be raised or services curtailed. The entities involved include U.S. Air Force bases, federal research laboratories, state medical facilities and prisons, educational institutions, U.S. Navy stations, national parks, U.S. Army posts, and government water projects.

2. PMA Power Has Important Economic Implications for Three Regions

Concern over the consequences of a sale of the PMAs is not simply a matter of what happens to the residential customer at the end of the line. It is also a critical issue for local economies served by current PMA customers. The vast majority of these consumer owned utilities are located in small cities, towns and rural communities. The economic consequences from a sale of the PMAs could be disastrous.

A 1995 study shows that availability of hydroelectric power from federal dams has significant implications for the economies of the three regions served by the Western Area Power Administration, the Southwestern Power Administration, and the Southeastern Power Administration.

A summary of data for 29 affected states shows that nearly 32 million people are served by public power systems or rural electric cooperatives that buy federal power. These residential users are employees and/or customers of commercial and manufacturing establishments which also are served by public power systems and rural electric cooperatives that buy federal power.

In total, adding up 29 states where public power systems and rural electric cooperatives purchase and resell federal power, commercial firms have annual sales of \$579 billion, payrolls of \$76.9 billion, and employment of more than 4.2 million persons. Manufacturing firms account for value added annually in excess of \$80 billion, payrolls adding up to \$30.5 billion, and employment of nearly 1.3 million persons.

These numbers describe the economic base of the communities served by public power systems and rural electric cooperatives in 29 states where federal hydropower is marketed by the Western Area Power Administration, the Southwestern Power Administration, and the Southeastern Power Administration. Cost-based charges for federal power have been an ingrained part of this economic base from the beginning of the construction program that resulted in the creation of 130 federal water resource projects with electric generating capability.

Consumer-owned electric utilities signed up to buy federal power in days when it might not have been the best economic deal, and they paid into the Treasury millions of dollars that have built up the substantial equity in the Western Area Power Administration, the Southwestern Power Administration, and the Southeastern Power Administration. It would be unfair to sell the output of federal dams to the highest bidder and wipe out an earned right which stretches over a period of nearly 50 years and represents an investment on which consumer-owned utilities and their customers rely.

"Electricity is an integral part of the modern economy, and in particular, low-cost PMA power has been used as a vehicle to stimulate economic development," the Congressional Research Service pointed out in a March 7 report.

In an era of global competition, the price of <u>all</u> elements in sales and production become important to commercial firms and manufacturers, including electricity. To raise arbitrarily the price of power from federal dams by allowing private parties to use the facilities as profit centers with market rates could only jeopardize the viability of existing businesses in the 29-state area of the U.S. The effect is like levying a special tax on one element of the population—those served by public power systems and rural electric cooperatives—so as to wipe out prior commitments and to endanger jobs and family income.

3. Issues of Equity and Fairness

Consumer-owned electric utilities have been partners with the federal government in the development of the nation's water resources. Their commitment to purchase power from multi-purpose water projects has helped to underwrite scores of navigation, irrigation and flood control projects developed throughout the country. In the face of substantial opposition from private power interests, they provided the political muscle that resulted in the creation of infrastructure projects that benefit the entire nation. They signed up to buy federal power in days when it might not have been the best economic deal, and they paid into the Treasury millions of dollars that have built up the substantial equity in the system. It is unfair to wipe out the earned right to this financial interest which stretches over a period of nearly 50 years, and represents an investment in which consumer-owned utilities rely.

Economic development in communities served by utilities that purchase federal power has been influenced by the availability of this resource. To pull the rug out from under these cities and towns is a breach of this very successful and long term federal/non-federal partnership in resource development.

Sale of the PMAs also raises a question of fundamental fairness. Ten years ago, the Congress was struggling with policy questions regarding rights and priorities in the relicensing of non-federal hydroelectric facilities. Congress resolved those issues through the enactment of the Electric Consumers Protection Act. This legislation protected customers of utilities holding expiring hydroelectric licenses, avoided unnecessary cost increases, and did not disrupt the competitive balance that exists between private power companies, public power systems and rural electric cooperatives.

Not long after this Act was passed, Senator Richard Shelby, the bill's primary sponsor in the House who was subsequently elected to the Senate, urged his Senate colleagues to oppose sale of the PMAs for the same reasons many had supported his relicensing bill—"to protect electric consumers who are entitled to and rely on PMA power and to encourage competition in the electric utility industry." (Letter from Senator Richard Shelby to his Senate colleagues, January 17, 1987.)

4. Sale of the PMAs Could Undermine Competition

Contrary to the claims of some private power companies, the federal power marketing program was not designed simply to electrify rural America. The right of first refusal, or preference, extended to consumer owned not-for-profit utilities was intended to curb monopoly power by ensuring a source of power supply for competing types of electric utilities, specifically public power systems and rural electric cooperatives. This procompetitive aspect of the federal power marketing program could be seriously undermined by a sale of the PMAs.

Private power companies argue that rural America has been electrified, and the transmission access provisions of the Energy Policy Act of 1992 ensure that all utilities can reach a multitude of power suppliers. They then suggest that since the historic justifications for this right of first refusal have either been met or are no longer valid, these assets should be sold to the highest bidder, which will of course be the largest entities with the deepest pockets.

In fact, sale of the PMAs could seriously undermine the transformation of our electric utility industry from one governed by regulation to one more dependent on competition. A vigorous competitive market demands both a multitude of sellers and buyers. The number of potential purchasers of bulk power within the ranks of the investor owned utility community is steadily diminishing through consolidations and mergers. Consumer owned utilities, as potential purchasers of bulk power, continue to exert a strong and extremely beneficial effect on the market. However, if federal power were to be stripped from the more than 1.100 purchasers of federal power, or if its price were to increase, their continued economic viability would be seriously threatened. They would become easier targets for private power companies, many of whom are already engaged in expanding their market share through the acquisition of their consumer owned utility competitors.

5. IOU Proposals Would Raise Electric Rates

Federal power marketing agencies sell power at cost to consumer-owned electric utilities, who have the first right to purchase, and the PMAs make available transmission, which is integrated with facilities of public power systems and rural electric cooperatives to avoid duplication, cut costs, protect the environment, and enhance efficiency. Selling PMA facilities and output of federal dams to investor owned utilities would create a competitive imbalance, and give private power companies the chance to monopolize

purchase rights in a manner that harms all consumers. It would destroy a Federal/consumer-owned utility partnership that has existed for decades.

On average, investor-owned electric utilities have the highest rates of any of the utility ownership segments in the United States at retail. Contrary to their claims, this is true not because utilities of other ownership get some kind of special assistance, but because IOUs are not as efficient or seek large profits for their shareholders or are controlled by state commissions that impose operational obligations.

In 1993, average revenue per kilowatt-hour, adjusted for common sales composition (residential, commercial, and industrial) was 7.2 cents for IOUs, 6.5 cents for rural electric cooperatives, and 6.1 cents for public power systems.

Average wholesale prices charged by IOUs in the several PMA areas bear no necessary relationship to true "market" prices in those areas. The <u>lowest</u> single supplier price in a particular region would serve as a more accurate proxy for that region's "market" price.

Edison Electric Institute says utilities will buy PMAs based on prices for resale of 20 IOUs in the Southeastern Power Administration service area, 15 IOUs in the Southwestern Power Administration service area, and 29 IOUs in the Western Area Power Administration. However, potential bidders who are aware of the direction of change in the electric power industry (100% of such potential bidders) will not be willing to buy PMA assets valued on the basis of regulated prices they themselves will be unable to force on the market.

The thrust of the IOU argument is that electric rates should be <u>raised</u> to their average costs rather than <u>reduced</u> to market levels. In other words, consumers would be called upon to pay <u>more</u>, not <u>less</u>.

6. PMAs Pay Back Principal With Interest

Customers of the federal power marketing administrations are required by law to pay back the investment in federal hydropower facilities with interest. They are doing so, as shown in the table below:

Status of Repayment as of September 30, 1993 (cumulative dollars in millions)

				Interest	Cumulative	
Power	Power	Operation &	Purchased	paid	repayment	Unpaid
investment2	revenues	maint (O&M)	power	thru 1993	thru 1993	investment

All data are on accrual basis of accounting, except as noted, and are based on the best information available.

² The power investment to be repaid includes irrigation and other nonpower investment assigned to power for repayment for Bonneville and Western.

Alaska	205	144	52	0	53	39	166
Bonneville	12.2603	34,723	5,572	20,825	5,914	2,412	9,848*
Southeastern	1,442	2,325	1,043	65	781	435	1,007
Southwestern	997	2,042	688	520	536	298	699
Western	5,631	11,2105	4.311	3,013	1,911	2,198	3,433
PMA Total	21.658	17.466	11.166	22.554	8.831	5.133	14.525

There may be federal programs that don't work but this isn't one of them. The Federal power program pays for all the investment — with interest — and covers O&M, renewals and replacements plus supporting agriculture. The program is not subsidized. It is a self-supporting capital budget item, not an income/expense entry.

7. Federal Power Marketing Agencies Provide a Steady Revenue Stream

If the government sold the federal power marketing agencies, taxpayers would lose a steady stream of revenue which over time would exceed in value the price of a sale of these assets.

The Congressional Research Service tabulated in a report dated March 7, 1995, appropriations and receipts of four PMAs whose revenues go to the U.S. Treasury. The report showed the following for FY 1995:

PMA	Appropriations	Estimated Receipts		
	(\$ millions)	(\$ millions)		
APA	6.5	11.2		
SEPA	22.4	159.2		
SWPA	21.3	92.5		
WAPA	225.1	378.5		

CRS calculated that these PMAs provided net positive receipts to the U.S. Treasury of \$243.7 million, after subtracting PMAs' FY 1995 appropriations and use of prior year balances.

In commenting on the Clinton Administration's proposal to sell four of the PMAs, CRS pointed out that while the U.S. Treasury would receive a windfall in receipts when monies saved overwhelm the revenues lost as a result of the sale, as the foregone revenues exceed the saving appropriations in the years after the sales, the cash flow actually would contribute to the deficit. "Thus, the fiscal advantage to the Federal Government of selling the PMAs is time-limited," CRS said. "Over the standard five-

5 Net of income transfers of \$109 million.

⁵ Cash rather than accrual basis.

The unpaid investment does not include construction work in progress or capitalized deficits.

year scoring period, the Administration estimates the net receipts at \$3.675 billion. Yet, if the sale were scored over a longer period, the net receipts would be less. In theory, if receipts were scored over the life of the projects involved, the net receipts would be zero."

8. Sale of Assets Does Not Reduce the Deficit

No matter how you change "scoring" rules, selling federal assets like the federal power marketing agencies does not reduce the federal deficit.

Economist Alfred Kahn has said: "Selling off Government assets doesn't do a single thing that we want to reduce the federal budget deficit. It doesn't relieve the pressure on interest rates caused by the Government recourse to capital markets: it merely changes the instruments that Government sells."

Harvard professor Martin Feldstein, former chairman of President Reagan's Council of Economic Advisors, noted about deficit reduction claims in 1986 that:

The administration claims that the Treasury receipts from these sales will reduce the deficit. At first glance this may seem legitimate. But in actuality these government asset sales would be no different from the sale of more government bonds.

Although government accounting methods would make it look as if federal spending and receipts are in better balance, these asset sales would do nothing to lessen the burden of the deficit. That burden occurs because government borrowing to finance the deficit preempts savings that would otherwise be available for private investment in plant and equipment and in housing construction. The administration's proposed asset sales would preempt private savings every bit as much as a federal sale of new debt of the same value.

9. Multi-Purpose Projects Require Coordinated Management

Multiple-purpose water projects generate electricity, which is sold at rates to recover the investment in power facilities, plus interest, and in many cases subsidize irrigation. These projects also provide flood control, navigation, municipal and industrial water supply, wildlife protection and conservation, recreation and salinity control. No non-federal party can step in and act as a surrogate for government in handling these functions. Who decides the priorities on the use of water — the public interest or private pocketbooks? Why should the government sell the cash register and keep unprofitable functions? Would "cream skimming" be allowed so purchasers could pick and choose the best parts?

Agricultural producers in the West benefit from special PMA pumping rates for irrigating arable land. Higher rates resulting from a PMA/power output sale could not

only raise farm costs but actually make major products uneconomic, a result that would dump failed investment in the laps of taxpayers.

Little homework has been done on this issue. What is for sale? How would it be sold? Who will set the price? How much will rates go up? Will taxpayers lose money? If it is a wash, why sell? What happens to existing laws governing these projects? Will federal dam operating expenses be adversely effected? Are there tax consequences? What happens to the federal-state water studies? Would PMA contracts with consumer-owned electric utilities be sold? If so, what, if any, price protection would exist? Has the sale been analyzed to compare a reasonable period of revenue stream with sales receipts to determine what is in the best interest of the taxpayers? What would the government do with the proceeds?

10. Sale of PMAs Would Require Massive Changes in Federal Law

The idea of a PMA sale is fraught with complexity. The Alaska Power Administration has been proposed for sale for seven years, and no deal has yet been consummated — even though it is a fairly simple proposition involving two small single-purpose hydropower projects. The other PMAs are much more complex.

There are literally hundreds of federal statutes relating to the sale of the PMAs. Among the questions that must be addressed are constitutional issues involving impairment of contracts; outstanding obligations and lawsuits related to existing bilateral and multiparty operating practices; Native American, Mexican, and Canadian treaty rights; statutory processes for review of planning, environmental protection, procurement approaches, operational practices, administrative actions, and public meetings; and employee rights under civil service laws, policies, and retirement provisions.

As an example of the problem, consider laws controlling the Bureau of Reclamation, which produces electricity at hydropower projects throughout the West. A codification of these laws through 1982, requires five volumes and covers 3,368 pages.

An overriding fact about the sale of the federal power marketing agencies and output of federal dams is that it could arbitrarily raise electric bills at a time when many Americans are finding their budgets squeezed. President Clinton pointed out in his State of the Union address this year that many people are "working harder for less, they have less security, less income, less certainty that they can even afford a vacation, much less college for their kids, or retirement for themselves." One thing these people do not need is an increase in their electric bills. But that is what could happen if these federal resources are sold.

11. U.K. Privatization Not All It's Cracked Up To Be

"Privatization" is driven more by ideology than by economics. In the United Kingdom, an Oxford University study shows that "...the outstanding feature of the history of the British electricity supply industry since the announcement of the privatization reforms

has been the major transfer of resources that has occurred from consumers of electricity to owners of networks and power stations....In short, investors have enjoyed the electricity experience, but the consumers have not...."

"Britain's massive utilities-privatization effort, touted as the model for the world, is starting to show its flaws," the *Wall Street Journal* reported on March 30, 1995. Excerpts from the news story state this:

"Soaring stock prices at the privatized utilities and fat paychecks for executives who run them have aggered a privatization backlash in the past month. Utilities executives are being hauled before the House of Commons to answer questions on their bonuses. Consumer groups question why household bills are rising even as company profits go through the roof.

"Even Stephen Littlechild, the British academic who dreamed up the industry's rate scheme nearly a decade ago, has conceded in the past week that he misjudged how much money the privatized electric companies could make under the existing rate system."

"Mr. Littlechild, who is also the government's electricity regulator, says he is considering changing the regulatory setup for Britain's 12 regional electricity companies, privatized in 1990. The rate system, set last August, called for price cuts of as much as 18% beginning in April, and it limited future rate increases to annual inflation minus two percentage points.

"Now Mr. Littlechild says he is considering toughening the formula or even forcing companies to refund money to customers, a move that analysts say could cost the industry as much as £2.3 billion (\$3.67 billion)."

"What he's done has blown a hole in the system," says Tony Gilland, an analyst at the Center for the Study of Regulated Industries in London. "People are now seeing the free market as the cause of our problems."

"Between privatization in 1990 and the end of 1994, profits for the regional electricity companies more than doubled, according to the Center for the Study of Regulated Industries. At some water companies profits nearly quadrupled.

"Though Mr. Littlechild says he knew of these gains when he agreed on a plan for electricity rates in August, he was still comfortable that the system was working. It wasn't until late last year, when Trafalgar House PLC launched a takeover of Northern Electric PLC, a regional electric company, that his faith was shaken. Though Trafalgar offered to pay \$1.2 billion for the company, Northern Electric argued that the bid was too low and launched a counterattack to persuade its shareholders to reject the deal.

"The sweetened Northern package included \$500 in perks for shareholders, money that Mr. Littlechild didn't even know Northern Electric had.

"That shock, as well as new evidence of hefty bonuses for many utility executives, prompted Mr. Littlechild to wonder if had been too easy on the companies, and whether all of the companies had been honest about their finances when the current rate package was drawn up.

"Andrew Horne, corporate affairs manager for Northern Electric, acknowledges that the episode has only fed a public perception that shareholders have triumphed over ratepayers under the current system. 'For the next several months there is going to be a fair amount of uncertainty,' he says. 'Customers can probably expect cuts in some form.'"

Observers say that the United Kingdom, in effect, substituted a cartel for a state monopoly. Competitive markets did not develop, industrial rates have risen by as much as 60%, and some utility executives who previously received modest salaries have become millionaires from a culture of high salaries and lucrative share options.

12. Projects Are Valuable Public Assets

Sale proponents would have the government sell the assets — power output — and keep the liabilities — non-income producing project functions like navigation and flood control. At multiple-purpose projects, this is similar to keeping the store but selling the cash register.

When the construction costs and interest are fully repaid, the government will own power plants free and clear and they can continue to produce money for the Treasury. It makes more sense to keep these valuable revenue-producing power plants than to sell them.

Improve Operations of PMAs For Benefit of Consumers, Government

The American Public Power Association's Legislative and Resolutions Committee, on April 18, 1995, reaffirmed its strong and continued opposition to the sale of the federal power marketing administrations and TVA. At the same time, the Committee recognized that opportunities exist to enhance and preserve the value of these federal assets for consumer-owned utility customers and for the federal government and that such opportunities could involve greater customer involvement in PMA, Corps and Bureau operations.

APPA was directed to pursue a process leading to recommendations to that end. The following guidelines for the enhancement of the PMAs for the benefit of consumerowned utilities and the government were developed by an ad hoc task force of members of the American Public Power Association:

- Exclusive right to the transfer of responsibility or control goes to existing consumerowned utilities and state power agencies that presently have federal power allocation.
- Consideration shall be no more than required to pay present value of outstanding debt adjusted to account for assumed risks.
- 3. All existing contracts are honored, as well as renewed.
- Transfer of responsibility or control shall be accomplished on a project, system or regional basis, as appropriate.
- Adequate time is allowed to negotiate details, and all present consumer-owned utilities and state agencies who presently receive federal power have an effective opportunity to participate.
- 6. Environmental responsibilities must be clearly defined.
- Customer enforceable cost-control measures are established for the Corps of Engineers and the Bureau of Reclamation.
- 8. Piecemeal "cream skimming" is avoided.
- Existing federal statutory requirements imposed on the PMAs are revamped or repealed, as appropriate, to recognize changes in responsibility or control.
- 10. Power and transmission services shall be provided at cost-based rates.

I should point out that the above guidelines were developed by an ad hoc task force. They have not been officially endorsed by APPA's policy committee or its membership. However, the task force included several APPA members from each of the regions served by the PMAs (except Alaska) and they clearly reflect the concerns of most members of the Association.

For the most part, the guidelines are self-explanatory. However, a few additional comments are offered in clarification.

First, APPA believes that principles of equity and fairness demand that an exclusive right to the transfer of responsibility or control must be provided to existing consumer-owned utilities and state power agencies that currently have federal power allocations. Anything less than an exclusive right will bring other potential transferees into the picture, thus delaying any transfer.

Second, this right should be extended to <u>current</u> customers, not customers as of some indeterminate date in the future, for example as of the date of any transfer. Many current consumer-owned utility purchasers are receiving power under contracts of relatively short duration. In some cases, these contracts are month-to-month contracts.

The House Budget Committee recommends a preference for existing customers at the date of any transfer. Protracted negotiations could extend beyond the current contract terms. If contracts have not been renewed, a likely prospect given the uncertainties of the future of this program, existing customers might find their interests foreclosed due to nothing more than the passage of time. And yet, these customers are clearly the entities designed to be protected by the House Budget Committee recommendation. This issue of timing should be addressed, perhaps by establishing a date certain for locking in the rights of existing customers.

Third, consideration for any transfer should be no more than required to pay present value of outstanding debt, and this amount should then be adjusted to account for assumed risks. Because Congress has prohibited studies of the transfer of the PMAs, there remains great uncertainty as to what is for sale, and what a reasonable price actually is. This is apparent from the widely divergent figures contained in the Senate Budget Committee (\$1.6 billion) and the House Budget Committee (\$4.1 billion) measures. Any transfer will carry with it attendant liabilities, from costs of environmental impact statements if required, to uncertainties over the availability of the resource. If a transfer is to be pursued, consumers must be held harmless. If they are not, experience with privatization in other countries suggests that the privatization effort is likely not to succeed. The clear definition of environmental responsibilities between the potential transferees and the federal government, set forth in the guidelines, is obviously a critical element that must be taken into account in negotiating a reasonable transfer price. Likewise, statutory requirements currently imposed on the PMAs must be examined, revamped or repealed as appropriate, and again the price paid must reflect any residual transfer of responsibilities to the transferees.

Fourth, adequate time must be provided. In a hearing on privatization before the House Committee on Government Reform and Oversight, subcommittee on government management, information and technology, Andrew Jones, senior manager of Arthur Anderson responsible for coordinating its world-wide privatization activities, counselled against haste. "One of the most significant pitfalls that legislators can fall into is trying to drive the process too fast" he noted. This is good advice to follow here.

More than 1,100 consumer-owned utilities are currently purchasers of PMA power. It would obviously be impractical as well as unwieldy for each of these individual systems to participate in any transfer negotiations on their own behalf. And from what we can gather, they would not follow that course. Instead, they would work cooperatively within their own regions, utilizing existing umbrella organizations and perhaps forming new organizations to serve as their agents. Sufficient time is required for new organizations to be established. It is, of course, possible that not all current consumer-owned utility customers will choose to participate. However, it is essential that they all have an effective opportunity to participate, as well as adequate time to do so.

Fifth, it appears that little attention has yet been paid to the roles of the Bureau of Reclamation and the Corps of Engineers. But these two agencies are critical to the success of any transfer. Setting aside for the moment transmission facilities, the PMAs are simply marketers of power from Bureau and Corps dams. No transfer can succeed if

customer enforceable cost-control measures for the Bureau and Corps are not taken into account.

Finally, balkanization of the PMAs, and the federal generation and transmission facilities, must not be allowed. Discrete systems, both generation combined with transmission, must be preserved, and cherry-picking" or "cream skimming" must be prohibited.

The above guidelines and additional comments only scratch the surface. You will, I am confident, receive many recommendations should you proceed with any proposal to transfer the PMAs to non-federal control. Should you move forward in the context of the budget reconciliation process (or even if you pursue the course of separate legislation) you will need to fashion a framework for any transfer that is sufficiently detailed to ensure that Congressional will is carried out while at the same time allowing adequate flexibility to allow the crafting of different solutions for different PMAs.

I must state again that the above guidelines and additional comments were developed to enhance the value of the PMA assets and resources for current consumer owned utility customers and the federal government. These guidelines can all be accomplished by means short of sale, for example through contracting out of activities, or through the execution of long-term lease arrangements with existing customers or their agents.

Concluding Comments

APPA remains opposed to the sale of the PMAs, for all of the reasons outlined above. While Congress has consistently supported this position in the past, even going so far as to prohibit the expenditure of funds to study the sale of any of the PMAs save Alaska, it is clear that the Administration as well as majorities of both the House and Senate Budget Committees now hold different views.

The Administration has forwarded legislation calling for, first, a study, and subsequently the transfer, of ownership, management or control of Southeastern, Southwestern and Western Area Power Administrations. By suggesting transfer of management or control in addition to transfer of ownership, the Administration has apparently left open the possibility that at least some of its goals, such as reducing federal expenditures, and reducing the number of federal employees involved in PMA operations, can be accomplished through means short of sale. We believe this is clearly the case, and these more limited and probably more realistic options must be considered.

While we remain adamant in our opposition to a sale, we are gratified that the House and Senate Budget Committees as well as the Administration are concerned over the consequences for consumers, local economies and industry structure that would result from a change in the current program. It is apparent that responsible policy makers in Congress and the Administration want to prevent rate increases and preserve the very significant benefits that have grown out of the federal partnership with consumer owned electric utilities. With respect to this last issue, keeping faith with the federal/consumerowned utility partnership, we are particularly pleased that the House Budget Committee

has explicitly recognized the de facto equity that current federal power customers have in the PMA system. Breaking faith and destroying this partnership now would only further undermine the current sentiment of distrust in the federal government that now seems so prevalent.

Before closing, I would like to offer for your consideration the results of a public opinion poll recently commissioned by APPA together with the National Rural Electric Cooperative Association. We conducted this poll to find out what the public thinks about sale of the PMAs. This nation-wide poll of 1,000 voters was undertaken by Hamilton & Staff. We found strong support for current federal policies that encourage the pluralistic electric utility industry, including the present policies that govern the PMAs. We also found that consumers fear turning over federal hydroelectric assets to private, profit-making electric companies.

While there may be a split in opinion on the abstract idea of "privatization," the poll shows that when you get down to the specifics of the federal power marketing agencies, by a margin of nearly 3-1, the public opposes the sale. But, if there is to be a sale, an initial 69% preferred a sale to not-for-profit electric utilities with only 15% preferring a sale to profit-making utilities. As the poll progressed, opinion hardened to 74% favoring sale to not-for-profit utilities, to 14% for private, profit-making utilities.

Obviously, APPA hopes you will listen to our advice and abandon the idea of a sale of the PMAs. But if in the end our advice is ignored, you must above all else protect consumers, protect local economies of communities currently dependent on their continued access to federally generated power, and you must not abandon the current course of promoting competition in the electric utility industry. Stated differently, in whatever course you pursue, you must prevent rate increases and protect the interests of the more than 1,100 consumer-owned electric utilities whose current systems and future resource plans are based on continued access to federal power at cost based rates.

Thank you for the opportunity to testify this morning. I look forward to responding to your questions.

Attachments:

List of public power customers of SEPA, SWPA and WAPA
Resolution adopted by APPA Legislative and Resolutions Committee, April 18, 1995
List of federal and state agency purchasers of SEPA, SWPA and WAPA

Utility Name	State
Southeastern Power Administration	
Albertville Municipal Utilitie	AL
Alexander City City of	AL
Bessemer Electric & Water Serv	AL
City of Athens Utilities	AL
City of Florence Utilities	AL
Courtland Electric Department	AL
Cullman Power Board .	AL
Decetur Utilities	AL
Dothen City of	AL
Evergreen City of	AL
Fairhope City of	AL
Foley City of (Riviera Utilis)	AL
Fort Payne Improvement Auth	AL
Guntersville Electric Board	AL
	AL
Hartford City of Hartselle Utilities	AL
	-
Huntsville Utilities	AL
Lafayette City of	AL
Lanett City of	AL
Luverne City of	AL
Muscle Shoals Electric Board	AL
Opelika City of	AL
Pledmont City of	AL
Robertsdale City of	AL
Russelville Electric Dept.	AL
Scottsboro Electric Power Boar	AL
Sheffield Utilities	AL
Sylacauga City of	AL
Tarrant Electric Dept.	AL
Troy City of	AL
Tuscumbia Electricity Dept.	AL
Tuskegee City of	AL
Chattahoochee City of	FL
Quincy City of	FL
Acworth City of	GA
Adel City of	GA
Albany Water Gas & Light Comm	GA
Barnesville City of	GA
Blakely City of	GA
Brinson Town of	GA
Buford City of	GA
Cairo City of	GA
Calhoun City of	GA
Camilla City of	GA
Cartersville City of	GA
Chickamauga Electric System	GA
College Park City of	GA
Commerce City of	GA
Covington City of	GA
Crisp County Power Comm	GA
Dalton City of	GA
Doerun City of	GA
Douglas City of	GA
East Point City of	GA
Elberton City of	GA
Eliaville City of	GA
Felroum City of	GA
Fitzgerald Wtr Lgt & Bond Comm	GA
Forsyth City of	GA

Public Power Systems that Received Power from SEPA, SWPA or WAPA in 1993

Utility Name	State
Fort Valley Utility Comm	GA
Grantville City of	GA
Griffin City of	GA
Hampton City of	GA
Hogansville City of	GA
Jackson City of	GA
La Fayette City of	GA
La Grange City of	GA
Lawrenceville City of	GA
Mansfield Town of	GA
Marietta City of	GA
Monroe Water Light & Gas	
Monticello City of	GA
Moultrie City of	GA
Newnan Wtr Sewer & Light	
Norcross City of	GA
Palmetto City of	GA
Quitman City of	GA
Sandersville City of	GA
Sylvania City of	GA
Sylvester City of	GA
Thomaston City of	GA
Thomasville City of	GA
Washington City of	GA
West Point City of	GA
Whigham City of	GA
Benton Electric System	KY
Bowling Green Municipal U	
Franklin Electric Plant Boar	
Fulton Electric System	KY
Glasgow Electric Plant Boa	
Henderson City Utility Com	
Hickman Electric System	KY
Hopkinsville Electric System	
Mayfield Electric & Water S	
Monticello Electric Plant Bo	
Murray Electric System	KY
Paducah Power System	KY
Princeton Electric Plant Box	
Russellville Electric Plant B	
Aberdeen Electric Departm	
Amory Electric & Water De	
Canton Municipal Utilities	MS
City of Itta Bena	MS
City of Leland Electric Dept	
	MS
Clarksdale Public Utilities	
Columbus Light & Water D	
Durant Light & Water Dept.	
Greenwood Utilities Commi	
Holly Springs Electric Dept	
Kosciusko Light & Water D	
Louisville Electric System	MS
Macon Electric Department	
Municipal Energy Agency of	
New Albany Light, Gas & V	
Okolona Electric Departme	
Oxford Electric Department	
Philadelphia Utilities	MS
Public Service Commission	
Starkville Electric System	MS

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Apax Town of Ni Ayden City of Ni Cherryville City of Ni Cherryville City of Ni Cherryville City of Ni Cherryville City of Ni Concord City of Ni Conceilus City of Ni Conceilus City of Ni Conceilus Town of Ni Cedenton Town of Ni Cedenville Public Works Comm Ni Forest City Town of Ni Cedenville Utilities Comm Ni Cedenville Town of Ni Cedenville To	
Apex Town of Ayden Town of Belhaven Town of Behson Town of Benson Town of Cherryville City of Conceilius City of Deltas Town of Desvel Town of Edenton Town of Elzabeth City City of Enfield Town of Farmville Town of Farmville Town of Fayetteville Public Works Comm Forest City Town of Fremont Town of Granite Falls Town of Granite Falls Town of Hamilton Town of Hobgood Town of Hobgood Town of Hookerton Town of Huntersville Town of Kinston City of La Grange Town of La Grange Town of Laurinburg City of Lincolnton City of Monroe City of Monroe City of Monroe City of Monroe City of New Bern City of New	
Ayden Town of Behaven Town of Behaven Town of Benson Town of Miles Benson Town of Miles Bostic Town of Miles Town of Mile	
Beltsven Town of Benson Town of Benson Town of Benson Town of Bostic Town of Cherryville City of Cherryville City of Clayton City of Concord City of Concord City of Deltas Town of Beltsabeth City City of Elizabeth City City of Elizabeth City City of Enfield Town of Farmville Town of Farmville Town of Fayetteville Public Works Comm Forest City Town of Fremont Town of Gastonia City of Granite Falls Town of Hertford City of Hobgood Town of Hookerton Town of Kings Mountain City of Laurinburg City of Louisburg Town of Louisburg Town of Louisburg Town of Morroe City of Morganton City of Morganton City of Morganton City of Morganton City of New Bern City of New Bern City of New Bern City of New Orleans	
Benson Town of Boetic Town of Boetic Town of Cherrylie City of Cherylie City of Clayton City of Concord City of Concord City of Dalias Town of Dalias Town of Dalias Town of Edenton Town of Enfield Town of Farmville Town of Farmville Town of Farmville Town of Fremont Town of Gastonia City of Granite Falls Town of Hamilton Town of Hobgood Town of Kings Mountain City of Ladias Town of Landias Town of Landias Town of Landias Town of Louisburg Town of Monoroe City of Morganton City of Normon City of Morganton City of Normon City of Nor	
Bostic Town of Cherryville City of Cherryville City of Clayton City of Concord City of Concord City of Dallas Town of Draxel Town of Edenton Town of Elizabeth City City of Enfield Town of Farmville Town of Farmville Town of Fayetteville Public Works Comm Forest City Town of Fremont Town of Gastonia City of Granite Falls Town of Greenville Utilities Comm Hamilton Town of Hobgood Town of Hobgood Town of Kings Mountain City of Kinston City of Landis Town of Laurinburg City of Lincolnton City of Monroe City of Newton City of Newt	C
Cherryville City of Clayton City of Concord City of Concord City of Concord City of Concord City of Dallas Town of Draxel Town of Edenton Town of Edenton Town of Eltzabeth City City of Enfield Town of Farmville Town of Farmville Town of Fayetteville Public Works Comm Forest City Town of Fremont Town of Gastonia City of Granite Falls Town of Greenville Utilities Comm Hamilton Town of Hertford City of Hobocart Town of Hookerton Town of Kings Mountain City of Kings Mountain City of Kings Mountain City of Laurinburg City of Laurinburg City of Louisburg Town of Laurinburg City of Louisburg Town of Monroe City of Monroe City of Morganton City of Morganton City of New Bern City of New	
Clayton City of Concord City of Concord City of Concord City of Dallas Town of Descriptor City City of Edenton Town of Elizabeth City City of Enfield Town of Farmville Town of Farmville Town of Fayetteville Public Works Comm Forest City Town of Fremont Town of Gastonia City of Granite Falls Town of Greenville Utilities Comm Hamilton Town of Hookerton Town of Hookerton Town of Kings Mountain City of Kings Town of Laurinburg City of Louisburg Town of Louisburg Town of Louisburg Town of Morroe City of Morganton City of Morganton City of Morganton City of Morganton City of Normon City of Morganton City of Normon Cit	C
Concord City of Cornelius City of Dalias Town of Draxel Town of Edenton Town of Edenton Town of Edenton Town of Edenton Town of Elizabeth City City of Enfield Town of Farmville Town of Farmville Town of Farmville Town of Fremont Town of Gastonia City of Granite Falls Town of Hamilton Town of Hobgood Town of Huntersville Town of Landis Town of Landis Town of Landis Town of Landis Town of Lumberton City of Morparton City of Normon City of Normon City of Normon City of Morparton City of Normon Ci	C
Cornelius City of Dallas Town of Dravel Town of Elzabeth City City of Elizabeth City City of Enfield Town of Farmville Town of Farmville Town of Fayetteville Public Works Comm Forest City Town of Fremont Town of Gastonia City of Granite Falls Town of Greenville Utilities Comm Hamilton Town of Hobgood Town of Hobgood Town of Huntersville Town of Kings Mountain City of Kinston City of La Grange Town of Laurinburg City of Lincolnton City of Monroe City of Monroe City of Monroe City of Monroe City of Newton City of	C
Dallas Town of Dravel Town of Sedenton Town of Sedenton Town of Sedenton Town of Sedenton Town of Selected Town of Sermiville Public Works Comm Forest City Town of Ni Farmville Public Works Comm Forest City Town of Ni Fremont Town of Ni Gastonia City of Granite Falls Town of Ni Greenville Utilities Comm Ni Hamilton Town of Ni Hertford City of Hobgood Town of Ni Houserton Town of Ni Kings Mountain City of Ni Kings Mount City of Ni Kings Mountain City of Ni K	C
Drexel Town of Edenton Town of Edenton Town of Edizabeth City City of Enfield Town of Farmville Town of Farmville Town of Farmville Town of Fayetteville Public Works Comm Forest City Town of Fremont Town of Gastonia City of Granite Falls Town of Greenville Utilities Comm Hamilton Town of Hertford City of Hobgood Town of Hookerton Town of Hookerton Town of Kings Mountain City of Kings Mountain City of Kings Mountain City of Kings Mountain City of Kings Town of Laurinburg City of Louisburg Town of Louisburg Town of Louisburg Town of Morroe City of Morganton City of Morganton City of Morganton City of Morganton City of Normon City of Morganton City of Normon Ci	C
Edenton Town of Elizabeth City City of Enfield Town of Farmville Town of Forest City Town of Fremont Town of Gastonia City of Granite Falls Town of Hamilton Town of Hertford City of Hobgood Town of Huntersville Town of Kings Mountain City of Kinston City of La Grange Town of Laudis Town of Lumberton City of Lincolnton City of Morganton City of Normo City of Normo City of Normo City of Morganton City of Morganton City of Normo City of	C
Elizabeth City City of Enfield Town of Farmville Town of Farmville Town of Farmville Public Works Comm Forest City Town of Fremont Town of Gastonia City of Granite Falls Town of Greenville Utilities Comm Hamilton Town of Hobgood Town of Hobgood Town of Hobgood Town of Huntersville Town of Kings Mountain City of Kinston City of La Grange Town of Laurinburg City of Lincolnton City of Monroe City of Monroe City of Monroe City of Monroe City of North Monroe City of Monroe City of North Monro	C
Enfield Town of Farmville Town of Farmville Public Works Comm Forest City Town of Forest City Town of Forest City Town of Gastonia City of Granite Falls Town of Greenville Utilities Comm Hamilton Town of Hertford City of Hobogood Town of Hookerton Town of Huntersville Town of Huntersville Town of Kings Mountain City of Mornary City of Mornary City of Mornary City of Mornary City of Now Bern City of New Bern City of Nordary City of Nordary Mount City of Sociand Neck Town of Seima Town of Sheiby City of Nordary Cit	C
Farmville Town of Fayetteville Public Works Comm Forest City Town of Forest City Town of Fremont Town of Gastonia City of Granite Falls Town of Greenville Utilities Comm Hamilton Town of Hertford City of Hobgood Town of Hookerton Town of Hookerton Town of Hookerton Town of Huntersville Town of Kings Mountain City of Laurinburg City of Louisburg Town of Louisburg Town of Louisburg Town of Mornoe City of Morganton City of Morganton City of Morganton City of Morganton City of Norwood Ci	C
Fayetteville Public Works Comm Forest City Town of Fremont Town of Sastonia City of Gastonia City of Granite Falls Town of Greenville Utilities Comm Hamilton Town of Hobgood Town of Kings Mountain City of Kinston City of La Grange Town of Ladis Town of Ladis Town of Laurinburg City of Lincolnton City of Midden Town of Monroe City of Morganton City of Morganton City of Morganton City of Norwood N	C
Fayetteville Public Works Comm Forest City Town of Fremont Town of Sastonia City of Gastonia City of Granite Falls Town of Greenville Utilities Comm Hamilton Town of Hobgood Town of Kings Mountain City of Kinston City of La Grange Town of Ladis Town of Ladis Town of Laurinburg City of Lincolnton City of Midden Town of Monroe City of Morganton City of Morganton City of Morganton City of Norwood N	C
Fremont Town of Gastonia City of Granite Falls Town of Greenville Utilities Comm Hamilton Town of Hertford City of Hobgood Town of Hookerton Town of Huntersville Town of Kings Mountain City of Kinston City of La Grange Town of Laurinburg City of Lincolnton City of Morroe City of New Bern City of New Bern City of New Horn City of Not Springs Town of Robersonville City of Not Statesville City of Not Statesville City of Not Washington City of Not Washington City of Not Waynesville City of Not Waynesville City of Not Waynesville City of Not	C
Fremont Town of Gastonia City of Granite Falls Town of Greenville Utilities Comm Hamilton Town of Hertford City of Hobgood Town of Hookerton Town of Huntersville Town of Kings Mountain City of Kinston City of La Grange Town of Laurinburg City of Lincolnton City of Morroe City of New Bern City of New Bern City of New Horn City of Not Springs Town of Robersonville City of Not Statesville City of Not Statesville City of Not Washington City of Not Washington City of Not Waynesville City of Not Waynesville City of Not Waynesville City of Not	C
Gastonia City of Granite Falls Town of Graenville Utilities Comm Hamilton Town of Hertford City of Hobgood Town of Hookerton City of Kings Mountain City of La Grange Town of La Grange Town of Laurinburg City of Lincolnton City of Louisburg Town of Lumberton City of Midden Town of Morroe City of Morganton City of Morganton City of Morganton City of Morganton City of Norwood Norw	C
Greenville Utilities Comm Hamilton Town of Hertford City of Hobgood Town of Hookerton City of Kinston City of La Grange Town of Landis Town of Landis Town of Landis Town of Luncinton City of Lincolnton City of Morroe City of Norroe City of Nor	C
Greenville Utilities Comm Hamilton Town of Hertford City of Hobgood Town of Hookerton City of Kinston City of La Grange Town of Landis Town of Landis Town of Landis Town of Luncinton City of Lincolnton City of Morroe City of Norroe City of Nor	C
Hamilton Town of Herifford City of Nichton City of Nichton Town of Hobgood Town of Nichton Town of Nichton City of Nichton Cit	C
Hertford City of Hobgood Town of Hookerton Town of Hookerton Town of Huntersville Town of Kings Mountain City of La Grange Town of La Grange Town of Landis Town of Laurinburg City of Lincolnton City of Louisburg Town of Lumberton City of Midden Town of Morroe City of Morganton City of Nowthon City of Newton City of Nowthon City of Nowthon City of Nowthon City of Scotland Neck Town of Seima Town of Seima Town of Sheiby City of Sotland Neck Town of Statesville City of Tarboro Town of Washington City of Waynesville City of Not	C
Hobgood Town of Hobgood Town of Hobgood Town of Hobokerton Town of Nik Huntersville Town of Nik Kinston City of Nik Kinston City of Nik Kinston City of Nik La Grange Town of Nik Laurinburg City of Nik Laurinburg City of Nik Louisburg Town of Louisburg Town of Louisburg Town of Nik Lumberton City of Nik Maiden Town of Nik Morroe City of Nik Seima Town of Nik Seima Town of Nik Statesville City of Nik Tarboro Town of Nik Washington City of Nik Waynesville City of Nik Morroe City of Nik Waynesville City of Nik Waynesville City of Nik Morroe	C
Hookerton Town of Huntersville Town of Nickings Mountain City of Nickinston City of Nicki	C
Huntersville Town of Kings Mountain City of Nickasson City of Nick	C
Kings Mountain City of Kinston City of Kinston City of La Grange Town of Landis Town of Laurinburg City of Lincolnton City of Louisburg Town of Louisburg Town of Lumberton City of Midden Town of Morroe City of Morganton City of Noveron City of Newton City of Noveron City of Noveron City of Noveron City of Red Springs Town of Red Springs Town of Robersonville City of Scotland Neck Town of Seima Town of Seima Town of Seima Town of Statesville City of Tarboro Town of Washington City of Waynesville City of Noveron City of Waynesville City of Noveron City of Waynesville City of Noveron City of	C
Kinston City of La Grange Town of Landis Town of Laudis Town of Louisburg Town of Micken Town of Malden Town of Malden Town of Morroe City of Morganton City of Norganton City of Pikeville Town of Red Springs Town of Robersonville City of Scotland Neck Town of Seima Town of Shelby City of Smithfield Town of Statesville City of Tarboro Town of Washington City of Waynesville City of Norganton City of Norganton City of Waynesville City of Norganton City of Norganto	C
La Grange Town of Landis Town of Nic Laurinburg City of Laurinburg City of Lincolnton City of Nic Lincolnton City of Nic Lincolnton City of Nic Lincolnton City of Nic Maiden Town of Nic Morroe City of Nic Morganton City of Nic Newton City of Nic Newton City of Nic Red Springs Town of Nic Red Springs Town of Nic Robersonville City of Nic Rocky Mount City of Nic Scotland Neck Town of Nic Scotland Neck Town of Nic Statesville City of Nic Statesville City of Nic Statesville City of Nic Vake Forest Town of Nic Waynesville City of Nic Maynesville City of Nic Waynesville City of Nic Maynesville City of Nic Waynesville City of Nic	C
Landis Town of Laurinburg City of Lincolnton City of Lincolnton City of Louisburg Town of Lumberton City of Maiden Town of Monroe City of Morganton City of Murphy Electric Power Board New Bern City of Newton City of Red Springs Town of Robersonville City of Scotland Neck Town of Seima Town of Shelby City of Statesville City of Not Statesville City of Not Statesville City of Not Washington City of Washington City of Not Not Not Washington City of Not	C
Laurinburg City of Lincolnton City of Louisburg Town of Lumberton City of Maiden Town of Murine City of Murphy Electric Power Board New Bern City of Newton City of Not Springs Town of Not Springs Town of Not Springs Town of Not Scotland Neck Town of Not Scotland Neck Town of Not Seima Town of Not Statesville City of Not Statesville City of Not Statesville City of Not Washington City of Not Waynesville City of Not Waynesville City of Not Waynesville City of Not	
Lincolnton City of Louisburg Town of Lumberton City of Maiden Town of Monroe City of Morganton City of Note Bern City of Note World Town of Pineville Town of Red Springs Town of Rocky Mount City of Scotland Neck Town of Seima Town of Shelby City of Smithfield Town of Statesville City of Tarboro Town of Wake Forest Town of Note Waynesville City of Note Note Note Note Note Note Note Note	C
Louisburg Town of Lumberton City of Maiden Town of Monroe City of Morganton City of Morganton City of Murphy Electric Power Board New Bern City of Newton City of Pikeville Town of Red Springs Town of Robersonville City of Scotland Neck Town of Scotland Neck Town of Shelby City of Statesville City of Not Statesville City of Tarboro Town of Not Statesville City of Not Waynesville City of Not	C
Lumberton City of Maiden Town of Ni Monroe City of Ni Monroe City of Ni Monroe City of Ni Monroe City of Ni Murphy Electric Power Board Niew Bern City of Ni Monroe City of Ni	C
Maiden Town of Minoroe City of Ni Monroe City of Ni Morganton City of Ni Morganton City of Ni Murphy Electric Power Board Ni New Bern City of Ni Newton City of Ni Ni Pikeville Town of Ni Pikeville Town of Ni Red Springs Town of Ni Red Springs Town of Ni Rocky Mount City of Ni Scotland Neck Town of Ni Scotland Neck Town of Ni Seima Town of Ni Seima Town of Ni Statesville City of Ni Statesville City of Ni Tarboro Town of Ni Washington City of Ni Waynesville City of Ni	
Monroe City of Norganton Norganton Norganton Norganton Norganton Norganton Norganton City of Norganton	1
Morganton City of Murphy Electric Power Board Niew Bern City of Niewton Office Niew	
Murphy Electric Power Board New Bern City of Newton City of Newton City of Pileeville Town of Red Springs Town of Robersonville City of Rocky Mount City of Scotland Neck Town of Shelby City of Statesville City of Not Statesville City of Not Statesville City of Not Washington City of Not Waynesville City of Not	
New Bern City of Newton City of Newton City of Niver Pikeville Town of Niver Pikeville Town of Niver N	
Newton City of Newton City of Pikeville Town of New Pikeville Town of New Pikeville Town of New Pikeville City	
Pikeville Town of Nice Pikeville Town of Nice Pikeville Town of Nice Red Springs Town of Nice Robersonville City of Nice Rocky Mount City of Nice Rocky Mount City of Nice Rocky Mount City of Nice Seima Town of Nice Seima Town of Nice Rocky City of Nice Shelby City of Nice Rocky City of Nice Rocky Rocky Of Nice Rocky N	
Pineville Town of Red Springs Town of Nic Robersonville City of Nic Robersonville City of Nic Rocky Mount City of Nic Scotland Neck Town of Nic Serina Town of Nic Shelby City of Nic Shelby City of Nic Statesville City of Nic Statesville City of Nic Washington City of Nic Wayshington City of Nic Wayshington City of Nic Wayshington City of Nic Maynesville City of Nic Maynesville City of Nic Maynesville City of Nic Maynesville City of Nic Nic Nic Maynesville City of Nic	
Red Springs Town of Robersonville City of Rocky Mount City of Scotland Neck Town of Seima Town of Seima Town of Shelby City of Smithfield Town of Statesville City of Tarboro Town of Washington City of Waynesville City of	-
Robersonville City of Rocky Mount City of Rocky Mount City of Scotland Neck Town of Selma Town of Not Selma Town of Not Smithfield Town of Statesville City of Tarboro Town of Wake Forest Town of Washington City of Not Waynesville City of Not	
Rocky Mount City of Scotland Neck Town of Seima Town of No Seima Town of No Sheiby City of Smithfield Town of No Statesville City of Tarboro Town of Wake Forest Town of Washington City of Waynesville City of No Waynesville City of No	
Scotland Neck Town of Not Seima Town of Not Seima Town of Not Shelby City of Not Statesville City of Not Statesville City of Not Tarboro Town of Not Wake Forest Town of Not Washington City of Not Waynesville City of Not	
Seima Town of No Sheiby City of No Sheiby City of No Smithfield Town of No Statesville City of No Tarboro Town of No Wake Forest Town of No Washington City of No Waynesville City of No No Waynesville City of No	
Shelby City of No Smithfield Town of No Stateswille City of No Tarboro Town of No Wake Forest Town of No Washington City of No Waynesville City of No Waynesville City of No	
Smithfield Town of No Statesville City of No Tarboro Town of No Wake Forest Town of No Washington City of No Waynesville City of No	
Statesville City of Not Tarboro Town of Not Wake Forest Town of Not Washington City of Not Waynesville City of Not	
Tarboro Town of Ni Wake Forest Town of Ni Washington City of Ni Waynesville City of Ni	
Wake Forest Town of No Washington City of No Waynesville City of No	
Washington City of No Waynesville City of No	
Waynesville City of N	
WILLIAM CITY OF NO	
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Windsor Town of No Abbeville City of Sc	

Public Power Systems that Received Power from SEPA, SWPA or WAPA in 1993

Utility Name	State
Barnberg City of	sc
Bennettsville City of	SC
Clinton Combined Utility Sys	SC
Due West City of	SC
Easley City of	SC
Gaffney City of	SC
Georgelown City of	SC
Greenwood City of	SC
Greer City of	SC
Laurena City of	SC
McCormick Town of	SC
Newberry City of	SC
Orangeburg City of	SC
Prosperity Town of	SC
Rock Hill City of	SC
Seneca City of	SC
South Carolina PSA	SC
Union City of	SC
Westminster City of	sc
Winnsboro Town of	SC
Athens Utilities Board	TN
Benton County	TN
Bolivar Electric Department	TN
Bristol Tennessee Electric Sys	TN
Brownsville Electric System	TN
Carroll County Electrical Dept	TN
Chattanooga Electric Power Boa	TN
City of Alcos Utilities	TN
City of Maryville	TN
Clarksville Dept. of Electricity	TN
Cleveland Utilities	TN
Clinton Utilities Board	TN
Columbia Power System	TN
Cookeville Electric Department	TN
Covington Electric System	TN
Dayton Electric Department	TN
Dickson Electric Department	TN
Dyersburg Electric System	TN
Elizabethton Electric System	TN
Erwin Utilities	TN
Etowah Utilities Department	TN
Fayetteville Electric System	TN
Gallatin Dept. of Electricity	TN
Greeneville Light & Power Syst	TN
Harriman Utility Board	TN
Humboldt Utilities	TN
Jackson Utility Division	TN
Jellico Electric System	TN
Johnson City Power Board	TN
Knoxville Utilities Board	TN
La Foliette Electric Dept.	TN
Lawrenceburg Power System	TN
Lebanon Electric Department	TN
Lenoir City Utilities Board	TN
Lewisburg Electric System	TN
Lexington Electric System	TN
Loudon Utilities	TN
McMinnville Electric System	TN
Memphis Light, Gas & Water Div	TN

Utility Name	State
Morristown Utility Commission	TN
Mount Pleasant Power System	TN
Murtreesboro Electric Dept.	TN
Nashville Electric Service	TN
Newbern Light & Water Dept.	TN
Newport Utilities Board	TN
Oak Ridge Electric Department	TN
Paris Board of Public Utilitie	TN
Pulaeki Electric System	TN
Ripley Power & Light Company	TN
Rockwood Electric Utility	TN
Sevier County Electric System	TN
Shelbyville Power System	TN
Smithville Electric System	TN
Somerville Electric Department	TN
Sparta Electric System	TN
Springfield Electric	TN
Sweetwater Utilities Board	TN
Trenton Light & Water Dept.	TN
Tullahoma Utilities Board	TN
Union City Electric System	TN
Wealdey County Municipal Elect	TN
Winchester Power System	TN
Bedford City of	VA
Blackstone Town of	VA
Bristol Virginia Utilities	VA
Culpeper Town of	VA
Danville City of	VA
Eliton Town of	VA
Franklin City of	VA
Harrisonburg City of	VA
Martinsville City of	VA
Radford City of	VA
Richlands Town of	VA
Salom City of	VA
Wakefield Town of	VA

Southwestern Power Administration

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Public Power Systems that Received Power from SEPA, SWPA or WAPA in 1993

Utility Name	State
LaCrosse, City of	KS
Lindsborg, City of	KS
Mulvane, City of	KS
Neodesha, City of	KS
Norton, City of	KS
Oakley, City of	KS
Oberlin, City of	KS
Osawatomie, City of	KS
Ottawa, City of	KS
Sharon Springs, City of	KS
St. Francis, City of	KS
Warnego, City of	KS
Wellington Municipal Utilities	KS
Winfield, City of	KS
Abbeville, City of	LA
City of Alexandria	LA
Erath, Town of	LA
Gueydan, Town of	LA
Jonesville, City of	LA
Kaplan, City of	LA
Lafayette City of	LA
Louisiana Energy & Power Auth	LA
Minden Light & Water Dept	LA
Morgan City, City of	LA
Natchitoches City of	LA
New Roads, City of	LA
Plaquemine City Light & Water	LA
Rayne, City of	LA
Ruston	LA
St. Martinville, City of	LA
Terrebonne Parish Utilities Dept	LA
Vidalia, Town of	LA
Vinton Electric Light Dept.	LA
Welsh, City of	LA
Winnfield, City of	LA
Albany, City of	MO
Bethany, City of	Ma
Butler, City of	MO
Cabool, City of	MO
Cameron, City of	MO
Campbell, City of	MO
Carthage City of	MO
Centralia, City of	MO
Chilicothe, City of	MO
Columbia Water & Light	MO
and the second s	
Farmington, City of	MO
Fayette, City of	MO
Fredericktown City Light & Power	MO
Fulton City of	MO
Gallatin Municipal Utilities	MO
Hannibal, City of	MO
Hermann City of	MO
Higginsville City of	MO
Independence Power & Light	MO
Jackson Utilities & Public Works	MO
Kennett City of	MO
Kirkwood, City of	MO
Lamar City of	MO
LaPlata, City of	MO
Lebanon, City of	MO
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Utility Name	State
	7.5
Mecon Municipal Utilities	MO
Malden City of	MO
Marceline Municipal Utilities	MO
Marshall Municipal Utilities	MO
Memphis, City of	MO
Milan, City of	MO
Missouri Jt Municipal EUC	MO
Monroe City, City of	MO
New Madrid City of	MO
Nixa City of	MO
Odessa, City of	MO
Owensville, City of	MO
Palmyra, City of	MO
Paris, City of	MO
	MO
Poplar Bluff City of	MO
Richland, City of	
Rockport, City of	MO
Rolla Municipal Utilities	MO
Salisbury, City of	MO
Shelbina, Colty of	MO
Sikeston City of	MO
Stater, City of	MO
Springfield City of	MO
Stanberry, City of	MO
Thayer City of	MO
	MO
Trenton Municipal Utilities	
Unionville, City of	MO
Vandalia, City of	MO
Waynesville, City of	MO
West Plains City of	MO
Claremore, City of	OK
Comanche City of	OK
Copan Public Works Authority	OK
Cushing, City of	OK
Duncan City of	OK
Eldorado City of	OK
Goltry Public Works Authority	OK
Grand River Dam Authority	OK
Granite City of	OK
Hominy City of	OK
Lexington Town of	OK
Manitou City of	OK
	1000
Miami, City of	OK
Oldahoma Municipal Power Auth	OK
Olustee City of	OK
Pawnee, City of	OK
Pryor, City of	OK
Purcell City of	OK
Ryan Town of	OK
Salisaw, City of	OK
Skiatook Town of	OK
Spiro City of	OK
Stillwater Utilities Authority	OK
Stilwell Utility Dept	OK
Stroud, City of	OK
Tahlequah Public Works Auth	OK
Wagoner Public Works Auth	OK
Walters Public Works Authority	OK
Watumka City of	OK
Yale City of	OK

¥	tility Name	State
В	rownsville Public Utilities Board	TX
C	ity of Jasper Light & Power	TX.
G	ranbury, City of	TX
H	earne, City of	TX
L	berty Municipal Electric Sys	TX
	vingston Municipal Electric	TX
	ains, City of	TX
	arn Rayburn Municipal Pwr Agny	TX
	anger, City of	TX
	eymour, City of	TX
	eatherford Municipal Utility	TX
	hitesboro, City of	TX
Nestern	Area Power Administration	
	c-Chin Indian Community	AZ
	izona Power Authority	AZ
	izona Power Pool Association	AZ
	ty of Fredonia	AZ
	ty of Mesa Electric Utility	AZ
	ectrical Dist No3 Pinal Crity	AZ
	ectrical Dist No4 Pinal Crity	AZ
	ectrical Dist No5 Pinal	AZ
	ectrical Dist No6 Pinal Cnty	AZ
	ectrical District No. 2 of P	AZ
	aricopa County M W C Dist #1	AZ
	avajo Tribal Utility Auth	AZ
	age City of	AZ
	oosevelt Imigation District	AZ
	poseveit Water Consvt Dist	AZ
	afford City of	AZ
	all River Proj Ag I & P Dist	AZ
	natcher City of	AZ
	homo O'Odham Nation	AZ
	eliton-Mohawk Irr&Drain Dist	AZ
	ickenburg Town of	AZ
	ameda City of	CA
	naheim City of	CA
	rusa City of	CA
	nning City of	CA
	ggs City of	CA
	rbank City of	CA
	laveras Public Pwr. Agency	CA
	difornia Dept-Wtr Resources	CA
	otton City of	CA
	est Bay Municipal Util Dist	CA
	endale City of	CA
	idley City of	CA
	syfork PUD	CA
	addsburg City of	CA
	perial Irrigation District	CA
	di City of	CA
	mpoc City of	CA
	s Angeles City of	CA
	etropolitan Water District	CA
	odesto Imigation District	CA
N	edles City of	CA
No	orthern California Power Agny	CA
	lo Alto City of	CA
	sadena City of	CA
	adding City of	CA

Utility Name	State
Riverside City of	CA
Roseville City of	CA
Sacramento Municipal Util Dist	CA
San Francisco City & County of	CA
Sants Clara City of	CA
Shasta Dam Area Pub Util Dist	CA
Shasta Lake	CA
Sonoma County WA	CA
Trinity County Pub Util Dist	CA
Tuolumne County Pub Power Agny	CA
Turlock Irrigation District	CA
Ukiah City of	CA
Vernon City of	CA
Arkansas River Power Authority	co
Aspen City of	co
Burlington City of	CO
Center City of City of Longmont	CO
City of Loveland Department of	CO
Colorado Springs City of	co
Delta City of	co
Deriver Water Board	co
Estes Park Light & Power Dept.	co
Fleming City of	co
Fort Collins Light & Power Dept	CO
Fort Morgan City of	co
Fountain, City of	co
Frederick Town of	co
Glenwood Springs City of	co
Gunnison City of	CO
Haxtun Town of	co
Holyoke City of	CO
Julesburg City of	CO
La Junta Municipal Utilities	CO
Lamar City of	co
Las Animas Municipal Light & Pwr	CO
Oak Creek Town of	CO
Platte River Power Authority	CO
Springfield Municipal Utilitle	CO
Town of Holly	CO
Trinidad Municipal Power & Light	CO
Wray City of	CO
Yuma City of	co
Akron City of	IA
Alta City of	IA
Alton City of	IA
Anita City of	LA.
Anthon City of	IA
Atlantic City of	IA
Aurelia City of	IA
Breda City of	IA
Coon Rapids City of	IA
Coming City of	IA
Denison City of	IA
Fonda City of	1A
Fontanelle City of	IA
Glidden City of	IA
Graettinger City of	IA
Hartan City of	IA
Hartley City of	IA

Public Power Systems that Received Power from SEPA, SWPA or WAPA in 1993

Utility Name	State
Hawarden City of	IA
Hinton City of	IA.
Kimballton City of	IA
Lake Park City of	IA.
Lake View City of	IA.
Laurens City of	IA
Lenox City of	IA
Manilla Town of	IA
Manning City of	0.00
Mapleton City of	IA.
Milford City of	IA
Muscatine City of	IA
Necls City of	IA
New Hampton Municipal Light Plant	LA
Onawa City of	IA
Orange City City of	IA
Paullina City of	IA
Primghar City of	IA.
Remsen City of	IA
Rock Rapids City of	IA
Sanborn City of	IA
Shelby City of	IA
Sibley City of	IA
Sioux Center City of	IA
Spencer City of	IA
Stanton City of	IA.
Villisca City of	IA
Wall Lake City of	IA
Webster City, City of	IA
Woodbine City of	IA
Arcadia, City of	KS
Ashland, City of	KS
Belleville, City of	KS
	KS
Beloit, City of	KS
Burlingame, City of	
Cawker City, City of	KS
Centralia, City of	KS
Dighton, City of	KS
Enterprise, City of	KS
Gardner, City of	KS
Glasco, City of	KS
Gien Elder, City of	KS
Hill City, City of	KS
Laidin, City of	KS
Lincoln Center, City of	KS
Lucas, City of	KS
Mankato, City of	KS
	KS
Osage City, City of	
Osborne, City of	KS
Seneca, City of	KS
St Marys, City of	KS
Stockton, City of	KS
Washington Municipal Power Plant	KS
Ada City of	MN
Adrian Public Utilities Comm	MN
Alexandria City of	MN
Austin, City of	MN
Barnesville City of	MN
Benson City of	MN
Blooming Prairie Public Util	MN

Public Power Systems that Received Power from SEPA, SWPA or WAPA in 1993

Utility Name	State
Breckenridge City of	MN
Detroit Lakes City of	MN
East Grand Forks City of	MN
Elbow Lake City of	MN
Fairfax City of	MN
Fairmont Public Utilities Comm	MN
Fossion City of	MN
Grand Marais Public Utilities	MN
Granite Falls Town of	MN
Halstad City of	MN
Hawley Public Utilities Comm	MN
Henning City of	MN
Jackson City of	MN
Kandiyohi City of	MN
Lake City, City of	MN
Lake Park City of	MN
Lakefield City of	MN
Litchfield Public Utility Comm	MN
Luverne City of	MN
Madison City of	MN
Marshall City of	MN
Meirose Public Utilities	MN
Moorhead City of	MN
Mora Municipal Utilities	MN
Mountain Lake City of	MN
New Prague Municipal Util Comm	MN
Newfolden City of	MN
Nielsville City of	MN
North Branch, City of	MN
	MN
Olivia City of	MN
Ortonville City of	MN
Owatonna Public Utilities	MN
Preston Public Utilities Comm	
Princeton Public Utilities Com	MN
Redwood Falls Public Util Comm	MN
Rochester Public Utilities	MN
Sauk Centre City of	MN
Shelly City of	MN
Sleepy Eye Public Utility Comm	MN
Southern Minnesota Mun Pwr Agny	MN
Spring Valley Public Utilities	MN
Springfield Public Utils Comm	MN
St James City of	MN
St. Peter Municipal Elec Util	MN
Staples City of	MN
Stephen City of	MN
Thief River Falls City of	MN
Tyler City of	MN
Wadena City of	MN
Warren City of	MN
Waseca, City of	MN
Wells Public Utilities	MN
Westbrook City of	MN
Willmar Municipal Utils Comm	MN
Windom City of	MN
Worthington Public Utilities	MN
Cavalier City of	ND
Grafton City of	ND
Hillsboro City of	ND
Hope City of	ND

Public Power Systems that Received Power from SEPA, SWPA or WAPA in 1993

Utility Name	State
Lakota City of	ND
Maddock City of	ND
Northwood City of	ND
Park River City of	ND
Riverdale	ND
Sharon City of	ND
Stanton, City of	ND
Valley City City of	ND
Alliance, City of	NE
Analey City of	NE
Arnold Village of	NE
Auburn City of	NE
Battle Creek, City of	NE
Bayard, City of	NE
Beatrice City of	NE
Beaver City City of	NE
Benkelman, City of	NE
Blue Hill City of	NE
Bridgeport, City of	NE
Broken Bow City of	NE
Burt County Public Power Dist	NE
Burwell City of	NE
Butler County Rural PPD	NE
Callaway Village of	NE
Cambridge City of	NE
Cedar-Knox Public Power Dist	NE
A Company of the Comp	NE
Central City, City of Chappell, City of	NE
	NE
Chimney Rock Public Power Dist	NE
Cozad, City of	NE
Crete City of	
Curring County PPD	NE NE
Curtis City of	NE
Custer Public Power Dist	NE
David City City of	NE
Dawson County PPD	
De Witt Village of	NE NE
Deshier City of	NE
Dorchester, Village of	NE
Elk Creek, Village of	NE
Elkhorn Rural PPD	NE
Emerson, City of	NE
Fairbury City of	NE
Falls City, City of	
Franklin City of	NE
Fremont City of	NE
Gering, City of	NE
Grand Island City of	NE
Grant, City of	NE
Greenwood, Village of	NE
Hestings City of	NE
Holdrege, City of	NE
Howard Greeley Rural PPD	NE
Imperial, City of	NE
Indianola City of	NE
KBR Rural Public Powe Dist	NE
Kimball, City of	NE
Laurel City of	NE
Lexington, City of	NE
Lincoln Electric System	NE

Utility Name	State
Lodgepole, City of	NE
Loup River Public Power District	NE
Loup Valley Rural PPD	NE
Lyman, Village of	NE
Lyons City of	NE
McCook Public Power Dist	NE
Milchell, City of	NE
Morritt, Village of	NE
Mullen, Village of	NE
Municipal Energy Agency of NE	NE
Nebraska City City of	NE
Nebraska Public Power District	NE
Neligh Municipal Power	NE
Norris Public Power Dist	NE
North Central PPD	NE
North Platte, City of	NE
Northeast Nebraska Rural PPD	NE
Northwest Rural PPO	NE
Omaha Public Power District	NE
Ord City of	NE
Oxford Village of	NE
Pender City of	NE
Pierce City of	NE
Plainview City of	NE
Polk County Rural PPD	NE
Randolph, City of	NE
Red Cloud City of	NE
Roosevelt Public Power Dist	NE.
Sargent City of	NE
Schuyler City of	NE
Seward County Rural PPD	NE
Shickley Village of	NE
Sidney, City of	NE
Snyder, City of	NE
South Central Public Power Dist	NE
Southern Nebraska Rural PPD	NE
Southwest Public Power Dist	NE
Spalding Village of	NE
Spencer City of	NE
Stanton County PPD	NE
Stuart City of	NE
Superior, City of	NE
Syracuse City of	NE
Tecumseh City of	NE
Twin Valleys PPD	NE
Wahoo City of	NE
Wauneta Village of	NE
Wayne City of	NE
Wayne County Public Power Dist	NE
West Point City of	NE
Wheat Belt PPD	NE
Wilber City of	NE
Winside Village of	NE
Wisner City of	NE
Wood River City of	NE
York County Rural PPD	NE
Aztec City of	NM
Farmington City of	NM
Gallup City of	NM
Los Alamos County	NM

Utility Name	State
Raton Public Service Co.	NM
Truth or Consequences City of	NM
Boulder City City of	NV
Colorado River Comm of Nevada	NV
Lincoln County Pwr Dist #1	NV
Overton Power Dist #5	NV
Aberdeen	SO
Arlington City of	SD
Aurora City of	SD
Badger City of	SD
Beresford City of	SD
Big Stone City of	SD
Brookings City of	SD
Bryant City of	SD
Burke City of	SO
Colman City of	SD
Estelline City of	SD
Faith City of	SD
Flandreau City of	SD
Fort Pierre City of	SO
Groton City of	SD
Heartland Consumers Power Dist	SD
	SD
Hecia City of	SD
Howard City of	
Langford Town of	SD
Madison City of	SD
McLaughlin City of	SD
Miller City of	SD
Missouri Basin Mun Power Agny	SD
Parker City of	SO
Pickstown	SD
Plerre City of	SD
Plankinton City of	SD
Sioux Falls City of	SO
Tyndall City of	SD
Vermillion City of	SD
Volga City of	SD
Watertown City of	SD
Wessington Springs City of	SO
White City of	SD
Winner City of	SD
Beaver City Corp	UT
Blanding City of	UT
Bountiful City City of	UT
Brigham City Corp	UT
City of Santa Clara	UT
City of Spanish Fork	UT
City of Washington	UT
Enterprise City of	UT
Ephraim City of	UT
Fairview City Corp	UT
Fillmore City Corp	UT
Heber Light & Power Co	UT
Helper City of	UT
Holden Town of	UT
Hurricane Power Committee	UT
Hyrum City Corp	UT
Intermountain Consumer Power Assoc	UT
Kanab City Corporation	UT
Kanosh Town of	UT
Commence of the commence of th	45.

Utility Name	State
Kaysville City Corp	UT
Lehi City City of	UT
Levan Town Corp.	UT
Logan City of	UT
Manti Light & Power	UT
Meadow Town Corp	UT
Monroe City City of	UT
Morgan City Corp	UT
Mt Pleasant	UT
Murray City of	UT
Nephi City Corp.	UT
Oak City Town of	UT
Paragonah Town of	UT
Parowan City Corp	UT
Payson City Corp	UT
Price Municipal Corp	UT
Provo City Department of Energy	UT
Salem City Corp.	UT
Spring City Corp	UT
Springville City of	UT
St George City of	UT
Strawberry Electric Serv Dist	UT
Utah Municipal Power Agency	UT
Algoma Utility Commission	WI
Arcadia Electric Utility	WI
Black River Falls Municipal Elec	WI
Boscobel Municipal Utilities	WI
Cashton, Village of	WI
Cedarburg Light & Water Comm.	WI
City of Cuba City	WI
City of Kaukauna Electric & Water	WI
City of Oconomowoc Utilities	WI
Columbus Water & Light Commiss	WI
Eagle River Light & Water Comm	WI
Elroy, City of	W
Fennimore, City of	W
Florence Utility Commission	WI
Hartford Utilities	WI
Hustisford Utilities	WI
Jefferson Water & Electric Dept	WI
La Farge Municipal Elec Co Lake Mills Light & Water Dept.	WI
	WI
Lodi Municipal Light & Water Util	
Menasha Electric & Water Utili	WI
Merillan, City of	WI
Muscoda Light & Water Utility	WI
New Holstein Public Utility	W
New Lisbon Municipal Light & Water	WI
New London Electric & Water Util	WI
New Richmond City Utilities	WI
River Falla Municipal Utility	WI
Slinger Utilities	WI
Sturgeon Bay Utilities	WI
Sun Prairie Water & Light Comm	WI
Two Rivers Water & Light Utili	WI
Viola Municipal Eletric Util	WI
Waterloo Water & Light Commiss	WI
Waunakse Water & Light Commiss	WI
Waupun Public Utilities	WI
Westby Municipal Water & Light	WI

Utility Name	State
Whitehall Municipal Electric Util	W
Wisconsin Public Power Inc Sys	W
Cody Light	WY
Gillette City of	WY
Lusik Light & Power Department	WY
Midvele Irrigation District	WY
Pine Bluffs Light, Water & Pow	WY
Powell Municipal Electric Diet	w
Torrington City of	WY
Town of Fort Larumie	WY
Town of Guernesy	WY
Town of Lingle	WY
Wheatland Municipal Electric Dist	WY
Wyoming Municipal Power Agency	WY

Source: 1993 Annual Reports for Power Marketing Administrations and APPA data base. Includes utilities that receive power directly from PMAs and those that receive PMA power via a wholesaler, such as a joint action agency, the Tennessee Valley Authority or a generation & transmission cooperative.

Opposition to the Sale of the PMAs

Proposals to sell the federal power marketing administrations (PMAs) keep turning up. Rep. Scott Klug (R-WI) has introduced legislation that would direct the Department of Energy to sell all five PMAs. The Republican Budget Initiative for FY 1995, released last year by the House Budget Committee Republican Caucus, called for selling all the PMAs and, pending disposition of these assets, selling the electricity generated at federal dams "to the highest bidder." Author of this proposal, Rep. John Kasich (R-OH), is now chairman of the House Budget Committee, and his budget resolution for FY 1996 is expected to embrace a similar plan for disposing of the PMAs. Even the Clinton Administration is giving serious consideration to proposing the sale of at least some of the PMAs as part of its FY 1996 budget proposal.

Nor has the Tennessee Valley Authority (TVA) been ignored in the latest round of privatization proposals. Representative Klug and Sen. Russ Feingold (D-WI) have each introduced legislation to disband TVA. But none of these elected officials have proposed the reduction or elimination of the billions of dollars in taxpayer subsidies enjoyed by investor-owned utilities. Public policy proposals that single out certain energy consumers to pay for deficit reductions or massive tax cuts should be labeled for what they are -- unfair and unacceptable.

These proposals have been rejected in the past as bad public policy, and they continue to be bad public policy. As noted in previous APPA resolutions, the sale, transfer or other disposition of the PMAs or the federal powerplants and related facilities could:

- threaten consumer-owned utilities and their customers with uncertainty of supply and significantly higher wholesale power costs;
- undermine the economic stability of more than a quarter-million manufacturing, wholesale, retail and service firms and more than 1 million farms benefiting from the federal power program;
- threaten the ability of consumer-owned utilities to provide reliable electric service at competitive rates, thereby undermining electric utility competition and increasing monopoly in the electric utility industry;
- renege on existing repayment agreements between the United States and federal power customers;
- impede the efficient operation of federal multipurpose water projects that provide flood control, irrigation, water supply and recreation; and
- eliminate a reliable, long-term source of revenues for the U.S. Treasury.

NOW, THEREFORE, BE IT RESOLVED: That the American Public Power Association reaffirms in the strongest possible terms its opposition to the sale, of the federal power marketing administrations or TVA or the powerplants and related facilities for the production and transmission of electricity and that APPA shall pursue a process that will enhance and preserve the value of the assets for consumer-owned utility customers and the PMAs.

BE IT FURTHER RESOLVED: That APPA reaffirms its commitment to the preference principle and cost-based pricing of hydropower generated at federal dams.

Approved by the Legislative and Resolutions Committee of the American Public Power Association on April 19, 1995.

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	Source: TWA Annual Reports		Faderal or				
	Governmental Entity	State	State Gov.	State Govt. PMA Project	Project	MAVH Sales	Revenue
-	ALASKA DEPT OF FISH & GAME	¥	SG	Alaska Power Administration		1,170	37,568
	U.S. AIR FORCE			Borneville Power Administration		61.438	1,491,000
	OF ADIA COORS OF ENGINEERS			Bonnes Ma Donne & designation		•	101 000
•	LIS BUDGALL OF INDIAN AFFAIRS			Bonnes Down Administration		213.002	\$ 108 000
	C.S. BOARD OF INDIAN APPRING			Comment of the Commen		200	438 000
0	U.S. BUREAU OF MINES			Borneyne Fower Agministration		1000	20,000
•	U.S. BUREAU OF RECLAMATION		щ	Bonneville Power Administration		137,860	524,000
-	U.S. DEPT OF ENERGY		ı	Bonneville Power Administration		328,075	7,800,000
00	U.S. NAVY		L	Bonneville Power Administration		420,003	10,134,000
0	FT. SILL ARMY DEPARTMENT	ð		Southwestern Power Administration		156,632	3,163,091
9	MCALESTER ARMY AMMUNITION PLAN	š	u	Southwestern Power Administration		8,528	207,899
=	VANCE AIR FORCE BASE	ð		Southwestern Power Administration		23,967	351,076
12	BUR OF RECLAMATION: PROJECT USE	¥	u	Western Area Power Administration	Central Valley	1,211,825	6,862,986
13	BUR OF RECLAMATION: PROJECT USE	×	u	Western Area Power Administration	Pick-Sloan Miss	32,043	116,592
7	BUR OF RECLAMATION: PROJECT USE	¥	L	Western Area Power Administration	Central Artzona	15,700	286,563
5	CHANDLER HEIGHTS CITRUS	¥	SG	Western Area Power Administration	Self Lake City	1.40	28,982
9	COLORADO RIVER AGENCY	¥	u.	Western Aree Power Administration	Parton-Davis & Selt Lake City	Č	415,380
11	DOLORES PROJECT	¥	u	Western Area Power Administration	Self Lake City	11,063	206,296
9	ED-5 MARICOPA	¥	SG	Western Area Power Administration	Salt Lake City	3,381	59,069
9	ED-8 PINAL (SRP)	¥	SG	Western Area Power Administration	Salt Lake City	2,229	40,073
8	ED-7	¥	SG	Western Area Power Administration	Self Lake City	12,471	215,583
7	GILA BEND AIR FORCE	Z	ŭ.	Western Area Power Administration	Parker-Devis	2,028	18,540
a	LUKE AIR FORCE BASE	¥	u.	Western Area Power Administration	Parker-Davis	1,480	104,834
ĸ	MARINE CORPS AIR STATION YUMA	¥	L.	Western Area Power Administration	Perker-Devis	10,479	86,032
7	NAVAJO AGRI PROJECTS INDUSTRY	¥	u	Western Area Power Administration	Salt Lake City	48,790	881,504
K	OCOTILLO WC DISTRICT	Z	SG	Western Area Power Administration	Salt Lake City	3,196	56,001
8	PAGE MUNI WATER PUMPS	Z	u.	Western Area Power Administration	Salt Lake City	3,275	•
12	PAGE VISITOR CENTER	×	u.	Western Area Power Administration	Salt Lake City	8	•
8	PHOENIX AREA OFFICE	¥	u.	Western Area Power Administration	Parker-Davis	3,773	•
8	QUEEN CREEK IRRIGATION DIST.	Z	SG	Western Area Power Administration	Salt Lake City	4,346	75,208
8	SAN CARLOS IRRIGATION PROJECT	×	u .	Western Area Power Administration	Salt Lake City, Parker-Davis	83,004	786,917
3	SAN TAN IRRIGATION DISTRICT	¥	86	Western Area Power Administration	Salt Lake City	2,675	36,170
8	WILLIAMS AIR FORCE BASE	Z		Western Area Power Administration	Salt Lake City	6,025	122,480
×	YUMA IRRIGATION DISTRICT	×	SG	Western Area Power Administration	Parker-Davis	2,070	30,384
z	YUMA PROVING GROUND	¥	u	Western Area Power Administration	Parker-Davis, SLC & Cent. Az.	33,895	558,073
8	AMES RESEARCH CENTER (NASA)	5	ı	Western Area Power Administration	Central Velley	275,368	10,491,482
8	ARVIN-EDISON WD	ð	SG	Western Area Power Administration	Central Valley	118,922	3,294,863
37	BANTA-CARBONA ID	5	SG	Western Area Power Administration	Central Valley	9,415	286,868

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Other Government		
Sales to Federal and	WA Annuel Reports	
1993 PMA	Source: P	

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BROADVEW WD	8	BEALE AIR FORCE BASE	3	L	Western Area Power Administration	Central Valley	114,133	3,330,417
BYRON-BETHANY TO CALE FORLY AND CALL FACIL MACAVIL CALE FORHIA STATE PRISE & REC. CALE FORMS RESERVE TRAINING CALE AND CORD. CALE AND COLD. CALE AND CORD. CALE AND CORD. CALE AND COLD. CALE AN	8	BROADWEW WD	3	98	Western Area Power Administration	Central Valley	780	34.763
CALLE MEDICAL FACIL VACAVIL. CA. SG. Western Area Power Administration CASTE PARKS & REC. CA. FOR Western Area Power Administration CASTE AIR FORCE BASE CA. F. Western Area Power Administration CASTE AIR FORCE BASE CA. F. Western Area Power Administration CASTE AIR FORCE BASE CA. F. Western Area Power Administration DDE: LAWRENCE BARELEV LAS COC. LAWRENCE ENFRANCE CASTE AIR FORCE BASE CA. F. Western Area Power Administration DDE: LAWRENCE ENFRANCE CASTE AIR FORCE BASE CA. F. Western Area Power Administration DDE: LAWRENCE ENFRANCE CASTE AIR FORCE BASE CA. F. Western Area Power Administration DDE: LAWRENCE ENFRANCE CASTE AIR FORCE BASE CA. F. Western Area Power Administration DDE: LAWRENCE BASE CA. F. Western Area Power Administration CASTE AIR FORCE BASE CA. F. Western Area Power Administration CASTE AIR FORCE BASE CA. F. Western Area Power Administration CASTE AIR FORCE BASE CA. F. Western Area Power Administration CASTE AIR STATION: LEADRE CA. SG. Western Area Power Administration CASTE AIR STATION: LEADRE CA. SG. Western Area Power Administration CASTE AIR STATION: LEADRE CA. SG. Western Area Power Administration CASTE AIR STATION: LEADRE CA. SG. Western Area Power Administration CASTE AIR STATION: LEADRE CA. SG. Western Area Power Administration CASTE AIR STATION: LEADRE CA. SG. Western Area Power Administration CASTE AIR STATION: LEADRE CA. SG. Western Area Power Administration CASTE AIR STATION: LEADRE CA. SG. Western Area Power Administration CASTE AIR STATION: LEADRE CA. SG. Western Area Power Administration CASTE CONTON AIR STATION: LEADRE CA. SG. Western Area Power Administration CASTE CONTON AIR STATION: CASTE CONTON CASTE CONTO	8	BYRON-BETHANY ID	3	86	Western Area Power Administration	Central Valley	4746	154,270
CALE TATE LIMITS SACRAMENTO CALEFORNIA STATE PARIS & REC. CA. SG. Western Area Prover Administration CALEFORNIA STATE PARIS & REC. CA. SG. Western Area Prover Administration CASTLE AIR FORCE BASE CA. F. Western Area Prover Administration DECLANDECE BASE CA. F. Western Area Prover Administration DDC-LAWRENCE BENEGETY LAB. CA. SG. Western Area Prover Administration DDC-LAWRENCE BENEGETY LAB. CA. F. Western Area Prover Administration DDC-LAWRENCE BENEGETY LAB. CA. F. Western Area Prover Administration DDC-LAWRENCE BENEGETY LAB. CA. F. Western Area Prover Administration DDC-LAWRENCE BENEGETY LAB. CA. F. Western Area Prover Administration DDC-LAWRENCE BENEGETY LAB. CA. F. Western Area Prover Administration DDC-LAWRENCE BASE CA. F. Western Area Prover Administration CASTALORY CORTA LOS. CA. SG. Western Area Prover Administration CASTALORY CORTA LOS. CA. SG. Western Area Prover Administration CASTALORY CORTA LOS. CA. SG. Western Area Prover Administration CASTALORY CORTA LOS. CA. SG. Western Area Prover Administration CASTALORY CORTA LOS. CA. SG. Western Area Prover Administration CASTALORY CORTA LOS. CA. SG. Western Area Prover Administration CASTALORY CORTA LOS. CA. SG. Western Area Prover Administration CASTALORY CORTA LOS. CA. SG. Western Area Prover Administration CASTALORY CORTA LOS. CA. SG. Western Area Prover Administration CASTALORY CORTA LOS. CA. SG. Western Area Prover Administration MANAL ARR STATION - LEMORE CA. F. Western Area Prover Administration MANAL ARR STATION - CENOR CORT. CA. F. Western Area Prover Administration MANAL ARR STATION - CONCORD CASTALORY CORTA LOS. CA. F. Western Area Prover Administration MANAL SCULPARIA CONCORD CASTALORY CASTALORY CONCORD CASTALORY CONCORD CASTALORY CONCORD CASTALO	4	CALIF. MEDICAL FACIL/VACAVIL.	3	SG	Western Area Power Administration	Central Valley	10,148	291,300
CALECRIMS STATE PARIS & REC. CALECRIMS STATE PARIS & REC. CALECRIMS STATE PARIS & REC. CALECRIMS STATE PROVINCE BASE CALECRIMS STATE PROVINCE BASE CALECRICATE AND FORCE BASE CALECTICAL STATE PROVINCE BASE CALECTICAL STATE PROVINCE BASE CALECTICAL STATE PROVINCE BASE CALECTICAL STATE PROVINCE BASE CALEMET AND STATE PROVINCE BASE CALEMET CONTRACT CONTRAC	4	CALIF. STATE UNIV. SACRAMENTO	3	SG	Western Area Power Administration	Central Valley	8	1,562
CAME PARKS RESERVE TRANSING CAME VOCATIONAL BISTITUTE CAME Western Are Power Administration DDE-LAWRENCE REMEMER CAME CAME Western Are Power Administration DDE-LAWRENCE REMEMER CAME WESTER TRANSING CAME WESTER ADDITIONAL REMEMBER CAME WESTER ADDITIONAL TRANSING CAME WESTER AND CAME WESTER ADDITIONAL TRANSING CAME WESTER AND CAME TRANSING CAME WESTER ADDITIONAL COMMINISTATION CAME TALE RIVER TO CAME WESTER ADDITIONAL CONTROLLY CAME WESTER ADDITIONAL CONTR	4	CALIFORNIA STATE PARKS & REC.	3	SG	Weetern Ares Power Administration	Central Valley	133	4,913
CASTE AIR PORCE BASE CASTE AIR CANTRA COURT AIR STATION - LEMORE CASTE AIR CANTRA COURT AIR STATION - LEMORE CASTE AIR CANTRA COURT AIR STATION - LEMORE CASTE AIR CANTRA CANTRAINE CASTE AIR CANTRA CANTRAINE CASTE AIR CANTRA CANTRAINE CASTE AIR CANTRA CANTRAINE CASTE AIR CANTRAINE CASTE CANTRAINE CASTE AIR CANTRAINE CASTE CANTRAINE CASTE AIR CANTRAINE CASTE CANTRAINE CASTE AIR CANTRAINE CASTE CASTE AIR CANTRAINE CASTE AIR CASTE AIR CANTRAINE CASTE AIR CANTRAINE CASTE AIR CASTE AIR CASTE AIR CANTRAINE CASTE AIR CASTE AIR CASTE AIR CANTRAINE CASTE AIR CASTE AIR CASTE AIR CASTE AIR CANTRAINE CASTE AIR CASTE AIR CASTE AIR CASTE AIR CANTRAINE CASTE AIR CASTE AIR CASTE AIR CASTE AIR CASTE AIR CANTRAINE CASTE AIR CASTE AIR CASTE AIR CASTE AIR CASTE AIR CANTRAINE CASTE AIR CASTE AIR CASTE AIR CASTE AIR CASTE AIR CASTE AIR CA	1	CALIFORNIA STATE PRISON/FOLSOM	3	SG	Weetern Area Power Administration	Central Valley	13,030	385,265
CASTIE AIR FORCE BASE	*	CAMP PARKS RESERVE TRAINING	3		Weetern Area Power Administration	Central Valley	1,000	51,340
DOE-LAWRENCE REMAIRET DE CA SG Western Ange Prover Administration DELLANC-EARLIAMATT DE CA SG Western Ange Prover Administration DOE-LAWRENCE BERKELEY LAB CA F Western Age Prover Administration DOE-LAWRENCE BLARE CA F Western Age Prover Administration DOE-STATE SGO CA F Western Age Prover Administration DOE-STATE SGO CA SG Western Age Prover Administration EDWARDS ARE PORCE BASE CA F Western Age Prover Administration CACALAURE NOD CACALAURE SAGE CACALAURE SAGE CACALAURE SAGE CACALAURE SGO CACALAURE SGO CACALAURE SAGE CACACA SGO Western Age Prover Administration GEORGE ARE FORCE BASE CACACA SGO Western Are Prover Administration CACACAA SGO Western Are Prover Administration CACACAA SGO Western Age Prover Administration CACACAA SGO Western Age Prover Administration CACACAA SGO Western Age Prover Administration MARS IS LAND WAY ALLAND STATION - LENORE CACACAA SGO Western Age Prover Administration MARS IS LAND WAY ALLAND STATION - LENORE CACACAA SGO Western Age Prover Administration MARS IS LAND WAY ALLAND STATION - LENORE CACACAA SGO Western Age Prover Administration MARS IS LAND WAY ALLAND STATION - LENORE CACACAA SGO Western Age Prover Administration MARL SUPPORT - TREASURE IS. ANNAL ARE STATION - LENORE CACACAA SCO CACACAA		CASTLE AIR FORCE BASE	3	u	Western Area Power Administration	Central Valley	35,480	1,068,587
DELVEL VOCATIONAL RISTITUTE	4	DAVIS DAM WAREHOUSE	3	u	Western Area Power Administration	Partyar-Dayle	2,182	•
DOE - LAWRENCE BERKELEY LAB CG - LAWRENCE BARRE CA F Western Area Prover Administration DOE - STANFON LEAR ACCEL CA S Western Area Prover Administration DOE - STANFON LEAR ACCEL CA S Western Area Prover Administration CGCRCE AR FORCE BASE CA F Western Area Prover Administration CGCRCE AR FORCE BASE CA F Western Area Prover Administration CGCRCE AR FORCE BASE CA F Western Area Prover Administration CGCRCE AR FORCE BASE CA S Western Area Prover Administration CGCRCE AR FORCE BASE CA S Western Area Prover Administration CGCRCE AR FORCE BASE CA S Western Area Prover Administration CGCRCE AR FORCE BASE CA S Western Area Prover Administration MAN AR STATION - LEARRE CA S Western Area Prover Administration MAN AR STATION - LEARRE CA F Western Area Prover Administration MAN AR STATION - LEARRE CA F Western Area Prover Administration MAN AR STATION - LEARRE CA F Western Area Prover Administration MAN AR STATION - LEARRE CA F Western Area Prover Administration MAN SCUBIET SCC CA S Western Area Prover Administration MAN SCUBIET SCC CA S Western Area Prover Administration MAN SCUBIET SCC CA S Western Area Prover Administration MAN SCUBIET SCC CA S Western Area Prover Administration MAN SCUBIET SCC CA S S Western Area Prover Administration MAN SCUBIET SCC CA S S Western Area Prover Administration MAN SCC CA S S Western Area Prover Administration MAN SCC CA S S Western Area Prover Administration MAN SCC CA S S Western Area Prover Administration MAN SCC CA S S Western Area Prover Administration MAN SCC CA S S Western Area Prover Administration MAN SCC CA S S Western Area Prover Administration MAN SCC CA S S Western Area Prover Administration MAN SCC CA S S Western Area Prover Administration MAN SCC CA S S Western Area Prover Administration MAN SCC CA S S Western Area Prover Administration CA S Western Area Prover Administration CA S Western Area Prover Administration CA S Western Area Prover Adm	*	DELANG-EARLIMART ID	5	80	Western Area Power Administration	Central Valley	4,484	128,459
DOE - LAWRENCE RENCERY LAB CA F Weatern Area Prover Administration DOE - LAWRENCE LAWRENCE LOS - FREST CONTRACTOR COSTAL DE CASTAL DE CA	\$	DEUEL VOCATIONAL INSTITUTE	3	86	Western Ares Power Administration	Central Valley	805'8	287,323
DOE - LAWRENCE LIVERMORE	8	DOE - LAWRENCE BERKELEY LAB	5	L	Western Area Power Administration	Central Velley	8,000	270,188
DOE - STAMFORD LINEAR ACCEL CA F Western Area Proper Administration DOE - STAMFORD LINEAR ACCEL CA 8 Western Area Proper Administration EXTANDAY REPORCE BASE CA F Western Area Proper Administration GEORGE AR FORCE BASE CA F Western Area Proper Administration GEORGE AR FORCE BASE CA F Western Area Proper Administration GEORGE AR FORCE BASE CA F Western Area Proper Administration GEORGE AR FORCE BASE CA SG Western Area Proper Administration GEORGE AR FORCE BASE CA SG Western Area Proper Administration GEORGE BASE CA SG Western Area Proper Administration LUMBAY STRATON - LEADRE CA SG Western Area Proper Administration MAVAL AR STATON - LEADRE CA F Western Area Proper Administration MAVAL AR STATON - LEADRE CA F Western Area Proper Administration MAVAL AR STATON - LEADRE CA F Western Area Proper Administration MAVAL AR STATON - LEADRE CA F	5	DOE - LAWRENCE LIVERMORE	5	u	Western Area Power Administration	Central Valley	187,544	5,170,850
DOE - STANFORD LINEAR ACCEL CA F Western Area Power Administration EAST CONTIN & COSTA ND CA F Western Area Power Administration F. MAJOLE BIOLANT TIBLE CA F Western Area Power Administration CA. ALOUE BIOLANT TIBLE CA F Western Area Power Administration CA. BLAND WARLE BIOLANT TIBLE CA SG Western Area Power Administration CA. BLAND WAYLE SHIPPARD CA SG Western Area Power Administration MARE BI LAND WAYLE SHIPPARD CA SG Western Area Power Administration MAND STATCH WAYLE STATCH - LEMORE CA SG Western Area Power Administration MAVAL ARE STATCH - LEMORE CA F Western Area Power Administration MAVAL ARE STATCH - LEMORE CA F Western Area Power Administration MAVAL ARE STATCH - LEMORE CA F Western Area Power Administration MAVAL ARE STATCH - LEMORE CA F Western Area Power Administration MAVAL SECURITY - STACCALON CA F Western Area Power Administration MAVAL SUPPORT OF REASURE IS	3	DOE - SITE 300	5	u .	Western Area Power Administration	Central Valley	3,186	196,341
EMY CONTRA COSTA ID	2	DOE - STANFORD LINEAR ACCEL.	5		Western Area Power Administration	Central Valley	343,643	8,836,846
EUNDANY TRIBLE CA F Weelern Area Power Administration GEORGE AM FORCE BASE CA F Weelern Area Power Administration GEORGE AM FORCE BASE CA F Weelern Area Power Administration GEORGE AM FORCE BASE CA F Weelern Area Power Administration GENERAL DAMES ID CA SG Weelern Area Power Administration MARE BLAND WAYL ENCRE BASE CA SG Weelern Area Power Administration MARE BLAND WAYL STRON- UNCELLAN AND FEDTE BASE CA F Weelern Area Power Administration MAVAL COMER STATION- DEXON CA F Weelern Area Power Administration MAVAL SQUENTY: SKICKGS ISLAND CA F Weelern Area Power Administration MAVAL SQUENTY: SKICKGS ISLAND CA F Weelern Area Power Administration MAVAL SQUENTY: SKICKGS ISLAND CA F Weelern Area Power Administration MAVAL SQUENTY: SKICKGS ISLAND CA F Weelern Area Power Administration MAVAL SQUENTY: SKICKGS ISLAND CA F Weelern Area Power Administration MAVAL SQUENTY: CA SG Weelern Area Power Administration RAG GULCH WID: CA SG Weelern Area Power Administration RAG GULCH WID: CA SG Weelern Area Power Administration RAG GULCH WID: CA SG Weelern Area Power Administration RAG GULCH WID: CA SG Weelern Area Power Administration RAG GULCH WID: CA SG Weelern Area Power Administration RAG GULCH WID: CA SG Weelern Area Power Administration RAG GULCH WID: CA SG Weelern Area Power Administration RAG GULCH WID: CA SG Weelern Area Power Administration RAG GULCH WID: CA SG Weelern Area Power Administration RAG GULCH WID: CA SG WEELER AND ADMINISTRATION CA SG Weelern Area Power Administration RAG GULCH WID: CA SG WEELER AND ADMINISTRATION CA SG WEE	2	EAST CONTRA COSTA ID	3	80	Western Area Power Administration	Central Valley	1,871	60,263
T. MAJANE HUDAN TRIBE	8	EDWARDS AIR FORCE BASE	3	u.	Western Area Power Administration	Partner-Devis	87,834	795,276
CLEMPCOLUSA ID CA SG Western Area Power Administration (ACENACOLUSA ID CA SG Western Area Power Administration (ACELIAVA IR PATTON - LEADRE CA SG Western Area Power Administration (ACELIAVA IR PATTON - LEADRE CA F Western Area Power Administration (AVAL COMM. STATON - LEADRE CA F Western Area Power Administration (AVAL COMM. STATON - STOCKTON CA F Western Area Power Administration (AVAL SECURITY - SKAGGS ISLAND) CA F Western Area Power Administration (AVAL SECURITY - SKAGGS ISLAND) CA F Western Area Power Administration (AVAL SECURITY - SKAGGS ISLAND) CA F Western Area Power Administration (AVAL SECURITY - SKAGGS ISLAND) CA F Western Area Power Administration (AVAL SECURITY - SKAGGS ISLAND) CA F Western Area Power Administration (AVAL SECURITY - CONCORD CA F Western Area Power Administration (AVAL SECURITY - CONCORD CA F Western Area Power Administration (AVAL SECURITY - CONCORD CA F Western Area Power Administration (AVAL SECURITY - CONCORD CA F Western Area Power Administration (AVAL SECURITY - CONCORD CA F Western Area Power Administration (AVAL SECURITY - CONCORD CA F Western Area Power Administration (AVAL SECURITY - CONCORD CA F Western Area Power Administration (AVAL SECURITY - CONCORD CA F Western Area Power Administration (AVAL SECURITY - CONCORD CA F Western Area Power Administration (AVAL SECURITY - CONCORD CA F Western Area Power Administration (AVAL SECURITY - CONCORD CA F F F F F F F F F	8	FT. MOJAVE INDIAN TRIBE	3		Western Area Power Administration	Parter-Davis	8,822	190,67
JAMES ID	6	GEORGE AIR FORCE BASE	5	L	Western Ares Power Administration	Pertuar-Denie	8,803	90,00
JAME & ID	8	GLENN-COLUSA ID	3	86	L'es Pomer /	Control Valley	5,630	179,130
MANIER OF CAMPAINER OF CAMPAI	3	JAMES ID	ð	90	Western Area Power Administration	Central Valley	3,022	80,369
LUDARE TULE (NATHBACRE ID	8	KERN-TULARE WD	3	80	Western Area Power Administration	Central Valley	3,692	123,110
CAMPET TULE RIVER NO.	5	LINDSAY-STRATHMORE ID	3	80	Western Area Power Administration	Central Velley	184	128,466
MARE BLAND WAYAL SHIPTARD CA Western AND Power Administration MACLELLAN ARE STATION - LEMORE CA Western AND Power Administration MANAL ARE STATION - LEMORE CA Western AND Power Administration MANAL ARE STATION - STOCKTON CA Western AND Power Administration MANAL SUPPORT - TREASURE IS. CA Western AND Power Administration MANAL SUPPORT - TREASURE IS. CA Western AND Power Administration MANAL SUPPORT - TREASURE IS. CA Western AND Power Administration MANAL MEAPONS STAT CONCORD CA Western AND Power Administration MANAL MEAPONS STAT CONCORD CA Western AND Power Administration MANAL MEAPONS STAT CONCORD CA Western AND Power Administration PATTERSON WD CA SG Western AND Power Administration PATTERSON WD CA	g	LOWER TULE RIVER ID	3	SG.	Western Area Power Administration	Contral Velley	3,741	136,307
MANALA AR STATON - LEMORE MANALA AR STATON - LOFFETT CA F Western Are Power Administration MANAL SECURITY - SKALOSS ISLAND MANAL MELPONS STAT. CONCORD MANAL WELPONS	8	MARE ISLAND NAVAL SHIPYARD	5	u.	Western Area Power Administration	Central Valley	130,528	3,710,400
MANAL AR SYTON-LEADRE Western Are Prover Administration MANAL AR SYTON-LEADRE CA F Western Are Prover Administration MANAL COMM. STATION-STOCKTON CA F Western Are Prover Administration MANAL SECURITY. SKACGS ISLAND CA F Western Are Prover Administration MANAL SECURITY. SKACGS ISLAND CA F Western Are Prover Administration MANAL SECURITY. SKACGS ISLAND CA F Western Are Prover Administration MANAL SECURITY. CONCORD CA F Western Are Prover Administration MANAL SECURITY. CONCORD CA F Western Are Prover Administration MANAL SECURITY. CA SC Western Are Prover Administration PATTERSON WD CA SC Western Are Prover Administration PATTERSON WD CA SC Western Are Prover Administration CA CA CA CA CA CA CA C	2	MCLELLAN AIR FORCE BASE	5	u	Western Ares Power Administration	Central Valley	620,023	1,856,131
MANAL ARR STATION - STOCKTON CA F Western ARR STATION - STOCKTON CA F Western ARR Prover Administration MANAL SCURITY - SACKOS SLAND CA F Western ARR Prover Administration MANAL SIPPORT - TREASURE IS. CA F Western ARR Power Administration MANAL SIPPORT CA SC Western ARR Power Administration MANAL SIPPORT CA SC Western ARR Power Administration PATTERSON WD CA SC Western ARR Power Administration MANAL SIPPORT ADMINISTRATION CA SC Western ARR Power Administration RAGUICH WD CA SC WESTER ARR POWER Administration RAGUICH WD CA SC WESTER ARR POWER Administration RAGUICH WD CA SC WESTER ARR PAGE Administration RAGUICH WD CA SC WESTER ARR POWER Administration RAGUICH WD CA SC WESTER ARR PAGE ADMINISTRATION RAGUICH WD CA	8	NAVAL AIR STATION - LEMORE	3	L	Western Area Power Administration	Central Valley	76,782	2,229,232
MAVAL COMM STATON - STOCKTON CA F Western Area Power Administration NAVAL RADIO STATON - DOKON CA F Western Area Power Administration NAVAL SEQUENTS - SKACGGS ISLAND CA F Western Area Power Administration NAVAL SEQUENTS - SKACGGS ISLAND CA F Western Area Power Administration NAVAL WEAPONS STA. CONCORD CA F Western Area Power Administration NORTHERN CALFORNIA YOUTH CTR. CA 5G Western Area Power Administration NORTHERSON WID CA 5G Western Area Power Administration NATERSON WID CA 5G Western Area Power Administration PROVIDENT ID CA 5G Western Area Power Administration RADIO QUICH WID CA 5G Western Area Power Administration RADIO QUICH WID CA 5G Western Area Power Administration RADIO QUICH WID CA 5G Western Area Power Administration RADIO QUICH WID CA 5G Western Area Power Administration RADIO QUICH WID CA 5G Western Area Power Administration RADIO	8	NAVAL AIR STATION - MOFFETT	3		Western Area Power Administration	Central Valley	36,706	1,079,204
MAVAL RUDO STATOOL DOXAN	6	NAVAL COMM. STATION - STOCKTON	5	u.	Western Area Power Administration	Central Valley	16,480	541,570
MAVAL SLEURITY - SKOLOSS ISLAND ANANA SLEURITY - SKOLOSS ISLAND ANANA WEARINA AND POWER Administration NANAL WEAPORT - TREASURE IS. CA F Weelern Aver Power Administration NORTHERN CALF CRAIF CALF CONTOR CA. SG Weelern Aver Power Administration NORTHERS OWN CA. SG Weelern Aver Power Administration PROVIDENT ID. CA. SG Weelern Aver Power Administration RAG GLICH WID. CA. SG Weelern Aver Power Administration RAG GLICH WAS CALCH WAS CALCH AND CA. SG Weelern Aver Power Administration RAG GLICH WAS CALCH WAS CALC WAS CALCH WAS CALCH WAS CALCH WAS CALCH WAS CALCH WAS CALCH WAS	8	NAVAL RADIO STATION - DIXON	5	ı	Western Area Power Administration	Central Valley	6,847	186,880
MWAL VEPPORT - TREASURE IS. CA F Weelen Area Power Administration NORTHERN CALF CRNLC ORD. CA F Weelen Area Power Administration NORTHERN CALF CRNLC ORD. CA SG Weelen Area Power Administration NORTHERN CALF CRNLC CRN. CA SG Weelen Area Power Administration RATERSON WD CA SG Weelen Area Power Administration RAG GULCH WD CA SG Weelen Area Power Administration CA SG Weelen Area Power Administration CA SG Weelen Area Power Administration RAG GULCH WD CA SG Weelen Area Power Administration CA SG Weelen	8	NAVAL SECURITY - SKAGGS ISLAND	5	L	Western Area Power Administration	Central Velley	2,782	78,545
MWALAWERPONS STA CONCORD CA F Western Area Power Administration NORTHERN CALIFORNIA YOUTH CTR. CA SQ Western Area Power Administration NORTON AIR FORCE BASE CA F Western Area Power Administration PROVIDENT ID CA SG Western Area Power Administration RAG GLICH WID CA SG Western Area Power Administration RAG GLICH WID CA SG Western Area Power Administration RAG GLICH WID CA SG Western Area Power Administration RAG GLICH WID CA SG Western Area Power Administration RAG GLICH WID CA SG Western Area Power Administration RAG GLICH WID CA SG Western Area Power Administration RAG GLICH WID CA SG Western Area Power Administration RAG GLICH WID CA SG Western Area Power Administration RAG GLICH WID CA SG Western Area Power Administration RAG GLICH WID CA SG Western Area Power Administration RAG GLICH WID CA SG Western Area Power Administration	2	NAVAL SUPPORT - TREASURE IS.	ð	u.	Western Area Power Administration	Central Valley	30,000	899,112
NORTON AIR FORCE BASE CA SG Weetern Avee Power Administration NORTON AIR FORCE BASE CA F Weetern Avee Power Administration PATTERSON WILD CA SG Western Avee Power Administration PROVIDENT ID CA SG Western Avee Power Administration RECAMATION ID CA SG Western Avee Power Administration RECAMATION ID CA SG Western Avee Administration	7	NAVAL WEAPONS STA CONCORD	3	u.	Western Area Power Administration	Central Valley	10,971	343,807
MATCH AIR FORCE BASE	2	NORTHERN CALIFORNIA YOUTH CTR.	5	86	Western Area Power Administration	Certifial Valley	8,759	291,103
PATTERSON WD	2	7	5		Western Area Power Administration	Parker-Davis	12,826	116,793
PROVIDENT ID CA SG Western Area Power Administration RAG GULCH WD CA SG Western Area Power Administration RECAMATION 181, 2026 BOOSTER CA SG Western Area Power Administration	7	3	5	SG	Western Area Power Administration	Central Valley	2,183	79,704
RAG GULCH WD CA SG Western Area Power Administration of RECLAMATION DIST. 2035 BOOSTER CA SG Western Area Power Administration of	12	PROVIDENT ID	3	SG	Western Area Power Administration	Central Valley	2,080	64,437
RECLAMATION DIST, 2025 BOOSTER CA SG Western Area Power Administration	2	RAG GULCH WD	3	SG	Western Area Power Administration	Central Valley	1,870	62,371
	F	RECLAMATION DIST. 2035 BOOSTER	5	SG	Western Area Power Administration	Central Valley	8	2,083

70,320 30,570 30,570 30,570 30,570 30,570 30,570 418,010 12,700 418,010 418,010 12,700 418,010

	Source: PMA Annua Reports		A			
			Federal or			
	Governmental Entity	State	State Govt.	PMA Project	Project	MWH Sales
82	RECLAMATION DIST. 2035, MAIN	5	SG	Western Area Power Administration	Control Valley	2,140
2	SAN JUAN SUBURBAN WD	ð	SG	Western Area Power Administration	Central Valley	1,06
8	SAN LUIS WD, FITTJE	3	SG	Western Area Power Administration	Central Valley	
5	SAN LUIS WD, KALLJAN	8	SG	Western Area Power Administration	Central Valley	
2	SANTA CLARA VALLEY WD	5	SG	Western Area Power Administration	Central Valley	4,562
8	SHARPE ARMY DEPOT	ð	u	Western Area Power Administration	Central Valley	20,240
3	SHASTA OFFICE	S	u.	Western Area Power Administration	Central Valley	
8	SIERRA CONSERVATION CENTER	5	SG	Western Ares Power Administration	Central Valley	12,450
8	TERRA-BELLA ID	5	SG	Western Area Power Administration	Central Valley	4,484
87	TRACY DEFENSE DEPOT (ARMY)	8	ı	Western Area Power Administration	Central Valley	18,109
28	TRAMS AIR FORCE BASE	5	u.	Western Area Power Administration	Central Valley	71,790
8	TRAVIS WHERRY HOUSING (AF)	8		Western Area Power Administration	Central Valley	5,208
8	UNIV. OF CALIFORNIA, DAVIS	S	SG	Western Area Power Administration	Central Valley	98,98
6	USIA DIXON RELAY STATION	5	u.	Western Area Power Administration	Central Valley	
8	WEST STANISLAUS ID	S	SG	Western Area Power Administration	Central Valley	13,528
8	WESTLANDS WD ASSUMED PT. DEL.	5	SG	Western Area Power Administration	Central Valley	8,842
I	WESTLANDS WD PUMPING PLT. #6-1	5	SG	Western Area Power Administration	Central Valley	1,417
8	WESTLANDS WD PUMPING PLT. #7-1	5	SG	Western Area Power Administration	Central Valley	900'9
8	WESTSIDE ID	5	SG	Western Area Power Administration	Central Valley	5,344
18	ARAPAHOE & ROOSEVELT NAT'L F.	0	ı.	Western Area Power Administration	Loveland	
8	DOE - ROCKY FLATS	8	u.	Western Area Power Administration	Loveland	20,386
8	NATIONAL PARK SERVICE	8	u.	Western Area Power Administration	Loveland	
8	PETERSON AFB	8	u	Western Area Power Administration	Loveland	28,409
5	POWER OPERATIONS OFFICE	8	ı.	Western Area Power Administration	Self Lake City	2,877
8	PUEBLO ARMY DEPOT	00		Western Area Power Administration	Self Lake City	6,837
8	SILT WATER CONSERV. DISTRICT	00	SG	Western Area Power Administration	Saft Lake City	1,348
3	U.S. AIR FORCE ACADEMY	8	14	Western Area Power Administration	Loveland	11,348
8	UINTAH WATER CONSR DIST	8	SG	Western Area Power Administration	Salt Lake City	
8	FERGUS FALLS STATE HOSPITAL	Z	SG	Western Area Power Administration	Pick-Stoen Miss	4,327
101	SW MINNESOTA STATE UNIVERSITY	¥	SG	Western Area Power Administration	Pick-Sloan Mas	33,275
8	WILLMAR REGIONAL TREATMT. CTR.	Z	SG	Western Area Power Administration	Pick-Sloan Miss	3,648
8	HAIDLE PUMP	M	SG	Western Area Power Administration	Pick-Sloan Miss	
9	HAMMOND PUMP	¥	SG	Western Area Power Administration	Pick-Sloan Miss	
Ξ	KINSEY IRRIGATION DISTRICT	M	SG	Western Area Power Administration	Pick-Sloan Miss	
112	MONTANA STATE WATER/HELENA	M	SG	Western Area Power Administration	Pick-Stoan Miss	1,587
113	MONTANA STATE WATER/SIDNEY	TW	SG	Western Area Power Administration	Pick-Sloan Miss	191,1
4	SCHOOL DISTRICT #21	M	SG	Western Area Power Administration	Pick-Sloan Miss	
5	US BUR IND AFFAIRS FRAZER/VALY	M	ı	Western Area Power Administration	Pick-Sloan Miss	
9	US BUR IND AFFAIRS/3-MILE PUMP	M	щ	Western Area Power Administration	Pick-Sloen Miss	
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	1993 PMM Sales to Federal and Other Governmental Entitles	remmen	cal Endities			
	Source: PMA Annual Reports		Farteral or			
	Governmental Entity	*	State God	PMA Project	Project	MWYH Salve
128	MCLEAN-SHERIDAN	2	SG	Western Area Power Administration	Pick-Stoan Mes	196
119	7	2	SG	Western Area Power Administration	Pick-Stoen Miles	5284
13	-	2	SG	Western Area Power Administration	Pick-Sloan Mes	26.075
121	5	2	80	Western Area Power Administration	Pick-Sloan Mas	612
İ		Q	80	Western Area Power Administration	Pick-Stoen Mee	8,262
2	_	Q	86	Western Area Power Administration	Pick-Sioen Mee	178
124	7	9	86	Western Area Power Administration	Pick-Stoen Mes	2,473
5	7	Q	SG	Western Area Power Administration	Pick-Sipen Mee	46,370
28	7	2		Western Area Power Administration	Pick-Sloen Miles	2,961
127	_	¥	80	Western Area Power Administration	Pick-Sloen Mes	7.708
128	HASTINGS REGIONAL CENTER	¥	80	Western Area Power Administration	Pick-Steen Mee	5,386
2		¥	80	Western Aves Power Administration	Pick-Stean Mes	2,479
5	_	¥	98	Western Area Power Administration	Pick-Stean Mas	8,141
131	Ξ	¥	80	Western Area Power Administration	Pick-Sioen Miss	2,080
25	UNIV. OF NEBR LINCOLN	¥	80	Western Area Power Administration	Pick-Steen Mee	100,448
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FRANCIS E. WARREN AFB	¥	ı	Western Area Power Administration	Loveland	16,630	270,97
GOSHEN IRRIGATION DIST.	×	SG	Western Area Power Administration	Loveland	2	8

ce: 1993 Annual Reports for Power Marketing Administrations.

Alliance for Power Privatization Testimony for May 18, 1995

Statement of George A. Schreiber, Jr.

Managing Director

Sector Head, Regulated Industries, Technology and Finance
PaineWebber, Inc.

On behalf of the Alliance for Power Privatization before the Subcommittee on Water and Power Resources House Resources Committee U.S. House of Representatives

On the Privatization of the Federal Power Marketing Administrations and Associated Generation Facilities

May 18, 1995

The Alliance For Power Privatization

701 Pennsylvania Avenue, N.W. Suite 800 Washington, DC 20004 (202) 508-4042

Good Morning, Mr. Chairman and Members of the Subcommittee. I am

George A. Schreiber, Jr., Managing Director, Sector Head, Regulated Industries,
Technology and Project Finance of PaineWebber, Inc. I want to thank you for the
opportunity to provide testimony on the privatization of Power Marketing
Administrations (PMAs), Review of this issue is long overdue and you and
Chairman Young are to be commended for providing leadership over this process.
We have extensive experience worldwide in the privatization of government owned
assets.

I am here today on behalf of the Alliance for Power Privatization (Alliance) and PaineWebber, Inc. The Alliance is an organization that is comprised of interests which are seeking privatization of U.S. government-owned and subsidized electricity assets. The Alliance is made up of independent power producers, investor owned utilities, investment banks, power marketers and other interested parties.

PaineWebber is a major full-service securities firm with a national franchise engaged in four principal businesses: retail sales and marketing, institutional sales and trading, investment banking and asset management. PaineWebber provides financial services to individual and institutional investors, corporations, state and

local governments, and public agencies in the United States and abroad. We have extensive experience worldwide in the privatization of government-owned assets, including the privatization of the electric industry in the United Kingdom. During 1994, PaineWebber underwrote over \$40 billion of domestic new issues for corporate clients and booked revenues in excess of \$4 billion. PaineWebber currently has nearly \$200 billion of client assets under control.

Global capital markets have demonstrated that privatization of Federal government-owned electricity assets can be accomplished in a manner which will produce successful results to all parties. There are three primary benefits to privatization of electricity assets. First, the Federal government can raise a significant amount of capital, an important consideration in light of federal financing requirements. Second, federal, state and local governments will garner on-going tax revenues from these assets being placed on the tax rolls. Third, the Federal government will be withdrawing from an activity in which it is no longer needed. All of this may be accomplished while providing competitive services to all classes of customers. In order to maximize proceeds, these facilities should be offered to all financially viable, interested parties.

The Clinton administration has recently valued PMA assets at \$4.5 billion.

This valuation appears to understate dramatically the potential proceeds which may be available from an open, competitive bidding process. Tariff considerations can be factored into the bidding process to address concerns raised by customers.

Obviously this will have an impact on the price actually paid for these assets, but

the government will receive more proceeds with all the interested parties participating. Tucson Electric Power Company's bid for a subregion of WAPA indicates that the rate issue can be addressed in ways other than pursuit of a "fire sale" strategy. Indeed, it is the Alliance's belief that since these facilities were paid for by all U.S. taxpayers, all U.S. taxpayers should benefit from the highest price possible as determined by the free market.

Today I will review with you some of the activities which have been going on worldwide regarding privatization of government-owned energy assets as well as potential methods for valuing PMA assets for purposes of sale. In addition, I will identify potential methods for financing the purchase of the PMAs. Finally, I will briefly address the rate issue which has so many Congressmen and local representatives concerned.

Section I: Worldwide Privatization Activities

Privatization crosses industry lines — it resulted in the sale of assets in the following industries: telecommunication, electric power, railroads, airports, postal service and water. Privatization also crosses ideological lines, Socialist governments in Spain and Greece, labor governments in Australia and New Zealand, populist governments in Argentina and Mexico, ex-communist governments in Hungary and Poland and Asian governments in Malaysia and Singapore all are privatizing various sectors of their economy. Significant amounts of capital have been raised worldwide. Later in my testimony, under the caption

"Financing of the PMAs," I provide an indication of the amounts provided by the global capital markets.

The list of countries privatizing their electric power industry sector is even longer. See Appendix A. The power industry, across the globe, and currently most intensely in the United States, is shifting from an industry defined by regulated monopolies to an industry driven and restructured by privatization and deregulation. The result of this change will be increased competition for individual utilities, both from other utilities and from non-traditional sources.

The forces which have lead to the sale of government assets to investors, include the following:

- Economic Necessity. Privatization generates more efficient and competitive operations by allowing greater responsiveness to changing or growing economic conditions.
- Ideology. Consumers (and government) have observed and concluded that private ownership is more efficient than public ownership. It is not a service which should be provided by government.
- Technology. The profit motives drives management to pursue all
 possible technological advances in order to lower operating costs.
- Negative Impacts of Government Subsidies. Subsidies unfairly penalize taxpayers and serve to retard economic growth.

Competition. As international trade borders disappear and increasingly
competitive markets emerge, privatization produces more afficient
operations, reducing prices to customers which, in turn, makes them
competitive in the global markets.

It is ironic to note that the U.S. government is spending considerable sums each year to promote the benefits of privatization to foreign governments. In fact, the U.S. and Cuba are about the only nations which are not participating in the privatization trend. The U.S. government is reluctant to proceed with a privatization transaction that will garner the greatest proceeds and result in the most efficient systems. Nevertheless, the United States continues to own and operate the Power Marketing Administrations, which supply a share of the electricity available in certain regions of the country. This is occurring at a time when the Federal government continues to experience massive budget deficits which has lead to the issuance of large amounts of U.S. Treasury debt. It seems illogical for the Federal government to sell any asset at a discount when deficit reduction is so urgently needed.

Section II - Valuation of the PMAs.

President Clinton's FY95 budget request estimated that some \$4.4 billion would be received from the sale of the four smaller PMAs, the Western Area Power Administration, the Southwestern Power Administration, the Southeastern Power Administration and the Alaska Power Administration. Chairman Kasich's (R-

OH) House Budget has put forth a figure of \$4.2 billion. In all cases, the Bonneville Power Administration and TVA have been left out of the equation.

We believe these numbers are significantly below the amount the Federal government may receive from an open, competitive bidding process. The Reagan Administration, when attempting to pursue privatization of the PMAs, estimated potential proceeds to be in the range of approximately \$13 billion. Why the varying degrees of valuation? Since 1986, the DOE and Congress have been precluded from studying or appropriating any funds to analyze the privatization of these facilities. As a result, there is some uncertainty within the federal government as to how to value these assets. There are basically three options for valuing PMA assets. Below is a brief synopsis of alternative analytical methodologies:

- The unpaid balance of debt owed to the Treasury department. This method of asset valuation is sometimes called book value or historic cost valuation. It served as a basis for President Reagan's FY87 budget. This figure reflects the amount of PMA debt owed to the Treasury at a given point in time.
- The present value method. This method is based on the cash flow from the assets over a period of time which is then discounted back to today at a rate which approximates the cost of capital.
- Replacement cost. To determine the replacement cost valuation of an asset, the current cost of building or replacing the existing facilities is

estimated and an appropriate amount for depreciation is then deducted. Replacement cost of the PMA assets had been estimated in 1987 as a part of Reagan's budget to be as high as \$86 billion.

As discussed below, we believe a sale to the highest bidder is the appropriate course of action. Regulatory policies are currently in place to address concerns about the impact on rates. It should be understood that to achieve full value, all necessary licenses and permits, de facto or otherwise should be conveyed to the purchasers.

Section III -- Financing of the PMAs.

We strongly believe that there is ample capital available in the private sector to finance the privatization of the PMAs. The structure of the privatization itself will have a significant impact on the government's success in attracting sufficient private market capital to this endeavor.

Since 1977, privatization transactions have raised nearly \$100 billion in the global capital markets. Nearly 40% of that capital has been raised since 1990. In the utility sector — which incorporates electric, gas distribution, water and telephone assets — approximately \$46 billion has been raised in the global capital markets to fund privatizations since 1984. Over 60% of that capital has been raised since 1990. In addition, two major privatizations of government-owned utility assets are currently on the horizon: the privatization of Deutsche Telecom through a public equity offering sometime in 1996, which will generate estimated

proceeds of over \$9 billion, and the privatization of the state-owned electric company of Italy. Clearly, utility assets worldwide have proven to be very attractive to investors. A PMA privatization, if properly structured, should enjoy similar success.

The type of financing available to support the privatization of the PMAs is necessarily dependent on the structure of the privatization itself. Different forms of financing may be available to fulfill different objectives. In order to attract the capital necessary to privatize the PMAs, appropriate economic incentives should be offered to prospective stockholders in a post-privatized scheme. Ideally, the privatization process should be structured not only to maximize the benefit to the American taxpayers, which will come directly in the form of the proceeds realized as well as indirectly through the elimination of on-going taxpayer subsidization of the PMAs, but also to preserve the flexibility of the prospective purchasers of the PMAs to generate a reasonable return on their investment.

Among the various financing methods that may find application in the privatization of the PMAs through the open bidding process recommended are on-balance sheet financing and off-balance sheet financing. On-balance sheet financing would rely on the financial strength of the purchasing entities themselves in order to meet the interest and principal payments on the debt incurred as well as to provide reasonable returns to the equity holders. Off-balance sheet financing would rely on the financial strength and cash flows of the assets purchased in order to meet the financial obligations of the purchasing entities and to provide

reasonable returns. Either of these methods could be used to finance the purchase of all or part of a PMA's assets.

While it is too early in the process to determine the exact form that the financing may take, we would emphasize the importance of allowing prospective purchasers the freedom and flexibility to structure their bids, from a financial perspective, in the manner that best meets their objectives. We are proposing an approach to privatization that would establish a bid management team with representatives from various constituencies, including Wall Street, to help ensure that such flexibility is preserved and that successful privatization transactions result.

Section IV -- Rate Mitigation Procedures.

Concern has been expressed that preference customers may be confronted with "rate shock" if future rates are set on the basis of the cost base of the successful bidder. It would not be in the taxpayers best interest if Congress overreacted to misleading comments surrounding the rate issue and "gave away" the PMAs at unrealistically low prices. Existing regulatory practices would be expected to minimize the likelihood of excessive rate increases to preference customers as a result of the privatization of the PMAs. Utility accounting rules promulgated by the Federal Energy Regulatory Commission require that the cost of utility plant as recorded on a utility's books and records be established on the basis

 [&]quot;Rate shock" is a term used to refer to the sudden and sizeable increase in a utility's electric rates resulting from placing a major new facility in service.

of the cost of facilities to the first person to devote the property to utility service.

Any premium paid by the purchaser of electric plant which is already in service is separately recorded as an acquisition adjustment. This accounting practice enables state regulatory authorities and the FERC to establish cost-based rates for electric service within their respective jurisdictions which are not unduly inflated by a revaluation of facilities when they are sold by one entity to another.

Where it is determined that otherwise just and reasonable cost-based rates may nevertheless result in an burdensome rate increase to certain classes of ratepayers, rate increases to those customers may be mitigated in a variety of ways. Below is a brief review of the possible rate mitigation alternatives.

- A phase-in or rate moderation plan. Under such a plan, the utility would provide for gradual rate increases over a limited number of years, thereby allowing customers to adjust to price increases. Any such plan would be an integral part of the purchase agreement which must receive regulatory approval of the FERC or the appropriate state regulatory authority.
- A lengthening of the time over which the investment in the newly acquired facilities are to be depreciated. Again, regulatory approval is needed. Lower depreciation rates require lower revenue to cover their cost, thus lowering the amount of additional revenues needed from customers.

An agreement to share with preference customers any savings associated with the integration of the Federally-owned electric utility assets with an investor-owned utility system. Alternatively, a utility could offer to share with preference customers, through lower rates, by allocating a portion of enhanced profits resulting from increased off-system sales to third parties.

We should also recognize that both wholesale and retail markets for electricity are becoming increasingly competitive. Under such circumstances, the focus of the competitive marketplace may be expected to minimize the ability of entities that acquire the generating assets of the PMAs to increase charges excessively to customers presently served by the PMAs. Current electricity market conditions, in the areas served by the PMAs, indicate that customers have alternative sources of electricity available at attractive prices. That being the case, purchasers of PMA assets are constrained by the amount of price increase that can be passed along to customers.

The concern over rate increases has been used by opponents of privatization as a way to justify sale of the PMAs to preferred customers at artificially low prices or no sale of PMAs at all. Not only is this concern overstated, but it is inconsistent with today's market realities and government's need to raise capital.

Section V. An Appropriate Alternative for Privatizing U.S. Federal Electric Facilities.

In a number of the countries in which privatization has occurred, the assets privatized were not sold in competitive market conditions. Instead, the assets were privatized into a market in which no competition among potential purchasers existed. For years, the English government owned and operated the electricity supply system. As a result, there were no private owners who had systems in place into which government assets could be integrated. The fact that no process was in place to review financial and operating results makes comparison with the U.S. system unrealistic.

Here in the United States, the PMAs compete in a vigorous wholesale electricity market. This market has been stimulated by both the Energy Policy Act of 1992 and FERC by relaxing ownership regulations pertaining to generating facilities and by opening access to transmission. These regulatory changes expand the opportunity for more participants in the bidding process. Taking from the Alliance's wide range of experiences, the Alliance has developed the following hybrid approach to privatize the PMAs for the Committee's consideration:

Enact authorizing legislation. Congress could enact legislation that

 (a) requires sale of Federal generation and transmission facilities by a date certain,
 (b) grandfathers existing operating conditions at hydroelectric generating facilities including minimum flows from the dams,
 (c) provides any necessary procedural amendments and license

assignment to facilitate timely transfer of facilities to the private sector, (d) to the extent possible, ameliorates adverse rate impacts through the aforementioned rate mitigation plans, (e) allows current "preference" customers to be relieved from current contract requirements if they so desire, and (f) eliminates laws that currently preclude the study of the issue.

2. Establish a bid management team. The Alliance suggests that an Asset Privatization Working Group be created under the management of the Treasury Department. Possible representatives for this Group could include the Department of Energy, the Bureau of Reclamation, the Army Corps of Engineers, the Department of Treasury, and the Office of Management and Budget, and individuals from outside the government including private industry, investment bankers and economists. Alternatively, the Privatization Working Group could be made up of only members from outside government. In this regard, an RFP could be put out for particular subregions of the PMAs, which could include local interests. In either case, the Asset Privatization Working Group would analyze all relevant issues and recommend the most effective method for privatization of the PMAs in a timely manner.

- Prepare the bid package for each project facility or region. The Asset Privatization Working Group would provide a package that would ensure "transparency" for bidders and would include:
 - (a) An exact description of the facilities to be sold;
 - (b) Historical operation and maintenance information;
 - (c) Existing and future factors influencing output from each facility;
 - Known or potential environmental issues associated with the projects;
 - Requirements for water flow and reservoir management and their impact on plant operations;
 - (f) Sales commitments the purchaser must satisfy;
 - (g) Disclosure of required or anticipated capital improvements;
 - (h) Disclosure of transmission availability;
 - Names of parties that must be involved to be able to transmit power to customers;
 - (j) Bidder requirements; and
 - (k) Selection criteria which will include increase tax receipts to the extent a property is sold to the taxpaying American public.
- 4. Issue the bid package and publicly announce that bids will be accepted at a date certain. Receive and evaluate bids and announce the winner. This stage of the process might also involve further negotiations with the selected purchasers.
- Enact legislation that allows transfer of the facilities to the highest bidder with all necessary licenses and permits in place.
- Transfer the assets and issue necessary licenses and permits to the winning bidder. Once the winning bidder has been identified, the DOE would transfer operation and control of the assets to the purchaser.
 During the time this process is underway, DOE or other relevant

agencies would identify the laws which would need to be amended.

These laws would, like the Alaska situation, be repealed, amended or replaced once the process has been completed.

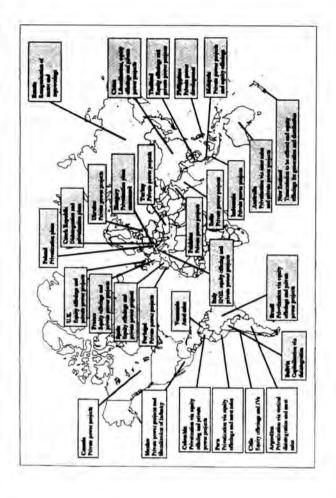
VII. Conclusion

We believe that any federal privatization should achieve two basic goals:

- Maximize proceeds to the Federal government in order to provide significant deficit reduction. All U.S. taxpavers deserve no less.
- Maximize competition so that all consumers, or, in this case ratepayers, will be the ultimate beneficiaries.

In addition, we believe in privatization on philosophical grounds, our nation possesses the world's strongest economy, based on the notion of capitalism. We are watching an historical move in the former Soviet Union as that nation moves to a capitalistic, market-based economic. With the electoral revolution of last November, it would be highly ironic if the U.S. fails to return legitimate private sector enterprises to the business community. In the case of PMAs, it seems clear that a sale open to all will best meet these goals and we urge the Committee to privatize PMAs in such a way.

Thanks to the Subcommittee for allowing me to share my thoughts on this very important subject.



Industry Trends in the Global Power Sector

Arkansas River Domer Anthority

P.O. BOX 70 3409 south main (719) 336-3496 James M. Henderson General Manager

May 12, 1995

Honorable Wayne Allard House of Representatives 422 Cannon House Office Building Washington, D. C. 20515

Dear Congressman Allard:

We understand that on May 18 the House Resources Subcommittee on Water and Power will hold a hearing on the possible sale of the federal Power Marketing Administrations. The Arkansas River Power Authority and its municipal members continue to oppose the sale of the PMAs, especially the Western Area Power Administration. We again urge you to vote against privatizing Western at the expense of the people who receive service from consumer owned electric utilities such as our municipalities.

As we have previously advised you, a sale of Western could have significant adverse consequences for the economies of our communities in Southeast Colorado. If we were to no longer have access to our allocation of federal hydropower, we estimate that replacement power will increase the total cost to our communities by \$2.0-\$2.9 million annually, a cost increase of between 21-30%. Cost increases in this magnitude will have devastating economic impacts on the fragile economies in Southeast Colorado.

We are attaching our previous letter of April 21, 1995, opposing the sale of Western signed by the elected and appointed officials of Holly, La Junta, Lamar, Las Animas, Springfield, and Trinidad, the Board of Directors of the Arkansas River Power Authority, and the Board of Directors of Southeast Colorado Power Association. We respectfully request that you include this letter and the April 21 letter in the record of the Water and Power Subcommittee's hearing. We are enclosing 10 copies for this purpose.

Member Municipalities: Honorable Wayne Allard Page Two (2) May 12, 1995

Please let me know if you or members of your staff have any questions on our position and how a sale of Western could negatively affect our communities.

Sincerely,

James M. Henderson General Manager

grkansas River power guthority

P.O. BOX 70 3409 south main (719) 336-3496 LAMAR, COLORADO 81052 James M. Henderson General Manager

April 21, 1995

Honorable Wayne Allard House of Representatives 422 Cannon House Office Building Washington, D.C. 20515

Dear Congressman Allard:

Attached is a letter opposing the sale of the Western Area Power Administration signed by elected and appointed officials of Holly, La Junta, Lamar, Las Animas, Springfield, and Trinidad, the Board of Directors of the Arkansas River Power Authority, and the Board of Directors of Southeast Colorado Power Association. As noted, all of these entities strongly request that you maintain a position in opposition to the sale of Western.

We are encouraged by the statement in your letter of January 11, 1995, to Jim Henderson of ARPA that "you do not see that there would be any benefit to selling off WAPA". We urge you to reaffirm this opposition to the sale of Western.

Please keep us informed regarding your views on this issue.

John H. Lacke

President

James M. Henderson General Manager

Enclosure

c: Doris Morgan, Director, SE Colorado District Office Norm Bailey, General Manager, Southeast Colorado Power Association

Member Municipalities:

Arkansas River power Hullioney

P.O. BOX 70 3409 south main (719) 336-3496

and



901 W. 3rd. • P.O. Box 521 • La Junta, Colorado (719) 384-2551 (La Junta Area) • Toll Free: 1-800-332-8634

Honorable Wayne Allard House of Representatives 422 Cannon House Office Building Washington, D. C. 20515

Dear Congressman Allard:

The elected officials and power board members from Holly, La Junta, Lamar, Las Animas, Springfield, Trinidad, and the Arkanasas River Power Authority, have joined our colleagues on the Board of Directors of the Southeast Colorado Power Association, to advise you of our strong opposition to the proposed sale of the Western Area Power Administration.

The municipalities signing this letter provide electric service to a population base of over 20,000 people in Southeast Colorado. Our cities and towns are all members of the Arkansas River Power Authority. ARPA obtains over 35% of the electricity needs for its municipal members from the Western Area Power Administration. Southeast Colorado Power Association is a cooperative association that provides electric service to approximately 10,000 metered customers in rural areas of Prowers, Bent, Otero, Baca, Kiowa, Lincoln, El Paso, Las Animas, Crowley, Pueblo, Cheyenne, and Kit Carson Counties. SECPA buys its wholesale electric power from Tri-State Generation and Transmission Association which in turn obtains a significant portion of its power requirements from Western.

We oppose a "privatization" sale of Western because it will raise electric rates for our consumers and negatively impact the economies in Southeast Colorado which we have been struggling to improve. We are encouraged by the statement in your letter of January 11, 1995, to Jim Henderson of ARPA that you "do not see that there would be any benefit to selling off WAPA". We urge you to reaffirm this position in the upcoming debates on the proposed sale of Western.

Everyone is concerned with finding reasonable ways to reduce the federal deficit and balance the budget. We submit that a sale of Western won't accomplish these objectives, but it is certain to hurt our economy and the people in Southeast Colorado. Please consider the following:

Honorable Wayne Allard Page Two (2)

- Taxpayers do not subsidize Western's power program. It pays its own way. Consumerowned utilities make payments for federal power that fully repays the federal investment with interest and covers all operation and maintenance expenses. The financial commitments by power customers made possible the construction of the federal dams with their resulting flood control, pavigation, recreation, and municipal and agriculture water supply benefits. We have honored our side of the bargain and we object to the federal government pulling the plug on our good faith commitments.
- Neither taxpayers nor consumers of electricity will be benefited if Western's public assets are
 "privatized". Purchase of Western by a profit motivated party will result in significant rate
 increases for consumers of municipal and rural electric utilities. Since electricity is an
 essential product, not a luxury, these rate increases will be viewed as tax increases. This
 phantom tax increase will trigger negative economic impacts in all of Southeast Colorado.
- The proposed sale of Western ignores customer equity contributed by municipal and cooperatively-owned utilities over the entire history of the federal power program. These commitments must be recognized.
- When many of the multi-purpose dams were built by the federal government, the hydropower cost exceeded alternative electric power production by coal, gas or oil burning power plants. Despite this fact, municipal and rural electric systems stepped up to the plate and signed long term power contracts to help pay the costs of the water projects. The hydro power provided the basis for competition, giving the smaller consumer-owned utilities an opportunity to survive and gain independence from the dominant investor-owned power companies. Selling Western would undermine economic development and competition.
- A combination of higher costs and decreased reliability of future power supply occasioned by
 a sale of Western will threaten local ownership and control of municipal and rural electric
 utilities.
- If selling off government assets is to be seriously considered, sell the losers not the winners like Western.

Again, we urge you to oppose the sale of Western. We respectfully request that you keep us informed regarding your views on this issue.

Sincerely,

The Colorado communities of Holly, La Junta, Lamar, Las Animas, Springfield, Trinidad, the Arkansas River Power Authority, and Southeast Colorado Power Association, through their respective officials and board members as set forth on the attached signature pages.

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ARKANSAS RIVER POWER AUTHORITY BOARD OF DIRECTORS

James Joshart

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The Town of Holly Board of Trustees

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City Council and Mayor Power Board

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The Town of Springfield Board of Trus	tees and Mayor
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Donita Fleck	_ Trustee
Ferrel hos	Mayor Pro-Tem
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Lay at Christe	f Trustee
Pam Hartley	_ Trustee

The City of Trinidud City Council and Mayor

Alex Casparelli

The City of Trinidud City Council and Mayor

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STATEMENT OF THE SOUTHEASTERN FEDERAL POWER CUSTOMERS, INC. before the

U.S. HOUSE OF REPRESENTATIVES HOUSE RESOURCES COMMITTEE WATER AND POWER RESOURCES SUBCOMMITTEE June 1, 1995

The Southeastern Federal Power Customers, Inc. (SeFPC) represents 238 rural cooperatives and municipally-owned electric systems in the nine states of Alabama, Georgia, Mississippi, Kentucky, North and South Carolina, Florida, Virginia and West Virginia which purchase all or part of their power supply from the Southeastern Power Administration ("SEPA"). The members of SeFPC are committed to providing reliable and economical power and energy to their customers. In some cases, SEPA provides as much as 25 percent of the SeFPC members' power needs and 10 percent of their energy needs. The role the Corps of Engineers ("Corps") and SEPA play in meeting these needs is vital to the well being of the more than 5.8 million customers of SeFPC members.

The SeFPC members join the National Rural Electric Cooperative Association ("NRECA") and American Public Power Association ("APPA") in opposing any proposals to sell the PMAs, whether wholly or by project, and support the comments submitted in this hearing by NRECA and APPA. However, if the sale is pursued, we urge that current power marketing administration customers be given an exclusive right to the transfer of the ownership, or the transfer of responsibility and control, of PMAs at a price that reflects the unpaid debt (i.e., the present value of the future repayment schedule), taking into account risks the purchaser(s) necessarily will assume.

The PMAs market hydroelectric power from dams that were constructed in response to widespread flooding in various parts of the country. Congress realized that, in addition to flood control, the dams presented an opportunity to generate hydroelectric power that could be sold, with the revenues from the sale used to pay for the dam construction and operation.

Federal Power Marketing Administrations were created to market this hydroelectric power in a manner consistent with the public interest. Congress decided that the public interest would be best served when the power was sold to not-for-profit consumer-owned power systems, such as municipally-owned electric systems and rural electric cooperatives. The PMAs market this power in a manner consistent with the public interest. Congress further decided that PMAs would develop cost-based rates that would recover debt repayment for the construction of the dams, all the cost of power facilities and power generation, all renewals and replacement costs, and all the expenses of the PMAs themselves. In addition, the power rates would contain a "joint cost" allocation that would defray the cost connected with other purposes of the dams, such as recreation, navigation and purposes Congress might decide as new dams are built.

We agree with NRECA and APPA that the sale of the PMAs, however structured, would violate principles of equity and fairness. PMA customers entered into a partnership

with the federal government to build a federal hydropower system at a time when it was far from clear that purchasing from Federal Power Marketing Agencies ("PMAs") would prove over time to be economic. The PMA customers have fulfilled their part of the bargain: every dollar invested by the government in the federal water resource projects is paid back—with interest—to the U.S. Treasury by federal hydropower customers within 50 years. The customers have now paid off 30 percent of the debt and, therefore, essentially have built up a 30 percent equity position in the projects. In addition, through their rates, customers pay to the Treasury, overall, roughly 80 percent of the investment associated with all other uses of the dams and lakes they create.

Federal hydropower is an essential ingredient in the mix of power resources relied upon by consumer-owned power systems. Although the federal hydropower was more expensive than other resources when the projects were first built, many eligible preference customers decided to enter into contracts for PMA power because it was an assured source of power which allowed the customers some degree of independence from the monopoly power of investor-owned utility systems. Over time, as PMA customers have steadily paid down the debt, this power has become cheaper in comparison to other sources. The net result is that this is a very economical resource for the customers. Federal hydropower is roughly equivalent to the low-cost generation resources owned by investor-owned utility systems.

PMA rates have the same function in determining the cost of power for preference customers as do any older, less expensive generating resources of an investor-owned utility. The older, lower-cost units are simply blended with the new, higher cost generators to provide today's average cost of power. In neither type of utility is the lower cost of the older units a "subsidized" cost. It is merely a cost which has remained relatively fixed while, in contrast, the cost of newer resources has risen. Just as it would be unfair to deprive investor-owned utilities of their low-cost power, it would be unfair to deprive consumer-owned systems of their right to the depreciated low-cost federal hydropower.

Contrary to the assertions of those who argue to sell the PMAs, PMAs do not result in subsidized utility rates for the nearly 32 million consumers in the areas where PMA power is available. Federal hydropower costs are low because many of the projects were built years ago, in an era of lower interest rates and lower costs. As discussed above, the government investment is being paid back through the steady stream of revenue by current hydropower customers. And, hydropower rates include no profit -- and the power is resold by non-profit, consumer-owned power systems.

The partnership between the federal government and consumer-owned system has proven largely successful in terms of facilitating the economic development of the rural regions served by the PMAs, particularly in SEPA's case. However, it is not the case that PMAs have fulfilled their purpose and are no longer needed. Federal hydropower is more important than ever for consumer-owned power systems. With the advent of a more competitive electric utility industry, utilities with access to older, less expensive power resources are clearly in a better position than those with newer, more expensive resources.

To the extent that consumer-owned systems lose access to less costly hydropower, they will also lose ground in the competition-driven electric utility arena. If investor-owned utilities are allowed to purchase the assets of the federal power marketing agencies, their competitive posture will be greatly enhanced, while the current customers' competitive posture will be greatly eroded.

Moreover, in reliance on their partnership with the federal government, consumerowned systems have not pursued alternative means of obtaining low-cost power. If SEPA is auctioned off to the highest bidder(s), it is no secret that certain investor-owned utilities are eager to purchase the systems or their assets. If investor-owned utilities integrate SEPA's assets into their system, undoubtedly costs to consumers in the area served by SeFPC's members will be significantly higher. While the exact amount of rate increases for SeFPC members will depend on the price at which PMAs are sold and the rates at which customers would buy the same or replacement power, we estimate that if SEPA power were no longer available, SeFPC members would be forced to pay approximately an additional \$161 million annually for replacement power on a regionwide basis. And, as would be the case with any utility, consumer-owned utilities would be required, in order to stay in operation, to pass through a significant amount of the increased costs to ultimate consumers. In recent years, people everywhere in this country have been "hit hard" by rising prices, the tight job market and other economic difficulties. People in the poorer, rural areas served by SeFPC members should not be forced to absorb soaring electricity bills. In short, loss of low-cost SEPA power most likely will result in economic detriment to the rural communities served by PMAs, and could result in extreme financial difficulties for, if not the demise of, consumerowned utilities as well.

This Subcommittee also should consider that sale of the PMAs is ultimately is not the best deal for the federal government in terms of deficit reduction. A March 7, 1995 report issued by the Congressional Research Service ("CRS Study") points out that the government would lose a stream of revenue flowing into the Treasury from four of the PMAs which represents net positive receipts to the government of \$243.7 million, after deducting the amount of the PMAs' FY 1995 appropriations and use of prior year balances. The CRS Study explains that while during the years the sales are actually taking place, the Treasury will receive a "windfall," but that "as the foregone revenues exceed the saved appropriations in the years after the sale, the cash flow actually would contribute to the deficit." CRS Study at 7. The CRS Study concludes that the fiscal advantage of selling the PMAs is time-limited, and that, in theory, if the receipts from the sale of the PMAs are scored over the life of the water resource projects, the net receipts would be zero. Given the findings of the CRS, good business sense would seem to dictate that the federal government hang on to these assets which will be paid off free and clear within the foreseeable future.

In addition, because of the Congressional prohibition of the use of federal funds to study divestiture of the PMAs, there are so many unknowns about the sale of the PMAs that, as APPA states in its testimony, the idea of the PMA sale is "fraught with complexity."

Numerous questions must be answered before the PMAs can be sold off; some of the more

significant questions are: how the sale could and should be structured; how PMAs/their assets should be valued; what will be the net effect on the federal debt; how much will taxpayers be harmed; how numerous statutes pertaining to the sale of PMAs would have to be changed and whether other existing statutes should be amended (such as the Federal Power Act); how existing contractual obligations will be affected; who would control and maintain the multiple-purpose water projects with respect to their functions other than the generation of electricity (e.g., flood control, navigation, salinity control, wildlife protection and others) and how could the water resource projects be functionally separable for the purpose of transferring ownership and/or control and maintenance of the other functions; and, who will determine how the use of water is prioritized. Even after studies are conducted, many of these unknowns are difficult, controversial policy issues that will take time to resolve.

Even if Congress no longer believes it is bound to honor the partnership it entered into with consumer-owned utilities 50 years ago, Congress should give an exclusive right to the transfer of ownership, or of responsibility and control, of PMAs to customers that currently have federal power allocations, rather than auctioning off the PMAs (or their assets) to the highest bidder. If Congress pursues the sale of the PMAs to the highest bidders (which most likely will be investor-owned utilities with their deep pockets), investor-owned utilities will be able to "out price" consumer-owned utilities. Therefore, investor-owned utilities will have a strong competitive advantage over consumer-owned utilities and may even, over time, force consumer-owned utilities out of business. As a result, there would be even fewer competitors in the electric utility industry — and robust competition will develop in the electric industry to the extent that there are a greater number of competitors in the electricity market, not fewer. Thus, if Congress does not sell the PMAs to the current preference customers, it would contravene its clear intent to promote the development of competitive bulk power markets, as expressed in its enactment of the Energy Policy Act of 1992 ("EPAct").

If Congress transfers control of ownership, or responsibility and control, to current preference customers, the sale price should be adjusted to reflect certain risks and related factors the preference customers necessarily will assume. Such factors include: the costs of costs of environmental impact statements; maintenance requirements; the approximately \$90.5 million that has been collected through SEPA rates for Renewals and Replacements, but that has not been spent on projects; and the approximately \$200 million over the next 10 years that will be required to bring the projects up to reliable standards. Preference customers also should receive some protection on risks associated with changes in Federal water policy, such as reallocation of water use or changes in stream flow requirements, that could impact upon the capacity values of the projects. Additionally, Congress should address necessary changes in relevant statutes, including the licensing of the projects under the Federal Power Act.

Finally, we join APPA in urging that: (1) the right to the transfer of ownership, or of responsibility or control, of the PMAs be extended only to current customers, not

customers as of some indeterminate date in the future; (2) consideration for any transfer should be only that amount required to pay the present value of outstanding debt, adjusted for risk; (3) consumers are held harmless if there is a transfer; (4) the necessary changes in relevant statutes and other guidelines are made clear and are taken into account in the determining a reasonable transfer price; and (5) enough time is provided for consumer-owned utility systems to establish any reorganization necessary in order to accomplish a transfer.

Thank you for the opportunity to submit written testimony in this hearing. I would be happy to respond to any questions.

Respectfully submitted,

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G. Stanley Hill
President

Testimony of the Southwestern Power Resources Association Submitted to the Subcommittee on Water and Power, Committee on Resources May 18, 1995

Mr. Chairman and Committee Members:

This testimony concerning proposals to sell the federal Power Marketing Administrations (PMAs) is respectfully submitted on behalf of the Southwestern Power Resources Association (SPRA). SPRA represents the municipally owned electric utilities and rural electric cooperatives that purchase electric energy and capacity from the Southwestern Power Administration (SWPA), one of the nation's five PMAs.

SWPA, like the other four PMAs, is an agency of the Department of Energy that markets the hydroelectric power generated at federal water resource projects. SWPA's power is generated at 24 multipurpose water resource projects operated by the U.S. Army Corps of Engineers [unlike the Bonneville and Western Area Power Administrations, SWPA and Southeastern Power Administration do not obtain any power from Bureau of Reclamation projects]. These Corps projects have an installed hydroelectric generating capacity of 2,158 MW, and in an average year generate 5,570 gigawatthours of electricity. SWPA markets this capacity and energy to electric utilities and certain federal installations in six states – Oklahoma, Kansas, Missouri, Arkansas, Louisiana and Texas – giving first right of purchase, or "preference", to public bodies and cooperatives, in accordance with the provisions of Section 5 of the Flood Control Act of 1944.

To integrate the operation of these hydroelectric generating plants and to transmit power from the dams to its customers, SWPA maintains 1,380 miles of high-voltage transmission lines, 24 substations and 46 microwave and VHF radio sites. This sophisticated system is operated from headquarters in Tulsa, OK, with a dispatch center in Springfield, MO and maintenance crews based in Springfield; Jonesboro, AR; and Gore and Tupelo, OK. Twelve of the 24 generating plants are scheduled directly by SWPA, and 19 contribute to the interconnected system operations. Generation at the five remaining projects is used to serve specific customer loads.

Southwestern's Customers

SWPA has allocated power to 92 preference customers, including 10 generation and transmission (G&T) cooperatives, one distribution cooperative, three military installations, 75 municipal utilities and three municipal joint action agencies. The G&T co-ops and joint action agencies in turn wholesale this power to dozens of other distribution co-ops and municipal utilities.

The American Public Power Association recently commissioned R.W. Beck to quantify, on a state-by-state basis, the benefits of power supplied by the PMAs. This study confirms that SWPA is accomplishing the mission set forth for it by Congress in the 1944 Flood Control Act to

"transmit and dispose of such power and energy [generated at Corps of Engineers multipurpose water resource projects] in such manner as to encourage the most widespread use thereof..."

According to the Beck study, PMA power is distributed as retail electricity to more than 5.8 million people in the six states served by SWPA. Commercial businesses receiving PMA power in these states generate sales exceeding \$99 billion and provide employment to more than 764,000 people earning wages in excess of \$12.2 billion annually. PMA power also supports a substantial manufacturing base. The Beck study reports that manufacturers receiving PMA power in the six SWPA states produced goods with an added value of almost \$9.3 billion. These same plants employed another 132,000 earning a payroll of almost \$3 billion in 1993.

Two important conclusions must be drawn from this study. First, SWPA power is an integral part of the economy in the six states it serves, and any interruption of its supply or increase in its cost would have major negative economic consequences for the region. Second, the allegation that the benefits of PMA power are enjoyed by only a privileged few is false. This myth is being spread by investor-owned electric utilities and a few independent power producers salivating at the prospect of snatching these national resources to perpetuate and extend their market power, and by certain money-grubbing investment bankers who would sell their own mothers if they could make a buck in the transaction. Their motives are transparent, and they serve neither the national interest nor the public interest, but the interests of their shareholders.

'If It Ain't Broke...'

Congress understandably wants to terminate federal programs that don't work and, to achieve a balanced budget in the reasonable future, cut programs and agencies that don't produce reasonable results or returns on the federal dollars expended to support them. But the PMAs fit neither of these categories. Consider the following:

- As quantified earlier, SWPA continues to serve its original mission to "transmit and dispose of
 ... power and energy [generated at Corps of Engineer dams] in such a manner as to encourage
 the most widespread use thereof at the lowest possible rates to consumers consistent with
 sound business principles." Thus, it is achieving its purposes in a cost-effective manner.
- Each year SWPA recovers, through the rates it charges for the wholesale power it distributes, all of its own operation and maintenance costs, as well as those incurred by the Corps of Engineers in operating and maintaining the hydroelectric power plants. Thus, it is not a drain on the federal Treasury.
- In addition, SWPA returns to the Treasury substantial sums over and above its annual costs. For example, in FY 1994 SWPA recovered its costs and collected an additional \$32.2 million. This money is used to retire the original debt incurred by the federal government to build the hydro plants and the attendant infrastructure required to deliver this power to SWPA's customers, plus interest. SWPA is well on schedule to retire the capital costs of its system. As of September 30, 1994, SWPA had returned \$329.9 million of the original federal investment of about \$10 billion, or about 33 percent. The original capital costs of constructing the hydropower facilities at Norfork Dam in Arkansas and Denison Dam on the

Oklahoma-Texas border will be retired this year. In addition, SWPA has paid the Treasury \$554.2 million in cumulative interest.

Congress recognized these facts when it established budget scoring rules that prohibit counting revenues obtained from the sale of federal assets in determining annual deficits. Although revenues from the sale of the PMA assets would retire the long-term federal debt acquired to contruct these facilities, they would not reduce annual deficits. This is because Congress would be giving up a long-term source of annual revenue in exchange for a one-time receipt of funds.

Now the Clinton Administration and the Congress are prepared to abandon this policy in a smokeand-mirrors approach that will make it easier for this Congress to show a balanced budget within seven years, but will make budgeting by future Congresses much more difficult by giving up a reliable source of long-term revenues.

The Clinton budget proposal calls for selling the Southwestern, Southeastern and Western Area Power Administrations at the net present value of the stream of revenues the PMAs would have generated in retiring their remaining debt. The Administration originally estimated this amount to be \$4.5 billion. The budget resolution approved by the U.S. House of Representatives assumes that these same three PMAs would be sold for \$4.18 billion.

To their credit, both the Administration's proposal and the House budget resolution assume that the PMAs will be sold to their existing customers. The House budget resolution specifically "recognizes the *de facto* property rights current customers have in these assets." SPRA is grateful that Congress acknowledges PMA customers have repaid a major portion of the nation's investment in water resource projects and, in many cases, agreed to contracts with an established price that originally was higher than prevailing wholesale rates.

SPRA continues to believe that neither the Administration nor the Congress has demonstrated any real need to sell the PMAs. However, if the Committee is insistent upon moving forward with this proposal, SPRA offers the following comments on what would be necessary for its members to assume ownership and/or operation of SWPA and the Corps power plant facilities:

Exclusive rights to the transfer of responsibility or control of SWPA must go to consumerowned utilities and state power agencies that presently have SWPA power allocations. The House budget resolution assumes that ownership of SWPA assets and Corps power house facilities will be transferred to "the customers who (as of the sale date) buy the federal power." This is substantially different from the Administration's proposal that firm power customers of the PMAs would have the first right to negotiate a purchase of the assets from the Department of Energy. There are two problems with the Administration's proposal. First, by granting the PMA customers the "first right to negotiate," the Administration gives all the clout to DOE. If the customers do not accept any or all of the terms and conditions sought by DOE, the agency can threaten to open negotiations with other parties, leaving the customers in a "take it or leave it" position. Second, by limiting the first right of negotiations to "firm power customers," the Administration would deny this right to at least two SPRA members while at the same time granting it to another federal department. The Sam Rayburn Dam Electric Cooperative has a contract with SWPA to purchase all of the output of the Sam Rayburn Dam in Texas, while the Sam Rayburn Municipal Power Agency has a similar contract to purchase the output of the Robert D. Willis project downstream. Neither of these is a "firm power contract" – the customers get energy when the dams are capable of generating it, and when generation is unavailable due to hydrologic conditions, equipment failure or maintenance, the customers must arrange for themselves alternative sources of power. Because they are not firm power customers, they would apparently be denied the first right to negotiate purchase of SWPA assets under the Administration's proposal.

On the other hand, among SWPA's firm power customers are three Department of Defense installations in Oklahoma. A strict reading of the Administration's proposal would indicate that the Defense Department would have the first right to negotiate for the purchase of SWPA assets. Surely the Administration did not intend that ownership of portions of the federal power system would merely transfer from one federal department to another.

The House budget resolution language would not exclude the two Texas customers from the process. However, it would allow for the Defense Department to participate in the ownership of SWPA. In addition, offering ownership to every utility or agency that is an SWPA customer at the time the PMA is sold creates a problem of its own. From time to time, SWPA generates electricity that is surplus to the needs of its customers with allocations. This power is offered on the grid for purchase by others. By granting the right of ownership to all customers, this language would allow a utility that has made a one-time, small purchase of surplus energy to own a portion of SWPA.

Finally, the House budget resolution states that the existing PMA customers should form "private, tax-paying corporations" to purchase the PMA and power house assets. It is not clear that, in each of the six states served by SWPA, public bodies such as municipal utilities and joint action agencies have the authority to own stock in private, tax-paying corporations. For these reasons, SPRA recommends that, if the Committee insists on moving forward with this proposal, purchase of SWPA assets and the Corps power houses should be limited to consumer-owned utilities and joint action agencies that presently have SWPA allocations.

Consideration should be no more than required to pay present value of the outstanding debt, adjusted for assumed risks. According to tables in the House budget resolution, the resolution assumes SWPA would be sold in FY 1998 for \$574 million. However, according to the most recent calculations by the Department of Energy, the present value in 1998 of the stream of payments that SWPA would generate for the Treasury would be about \$370 million (assuming a 7 percent discount rate). This figure is substantially below the House budget assumptions, and should be used as the starting point for the maximum price for SWPA and the Corps power house assets.

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If the customers were to take over the assets and/or the operation of SWPA and the power houses, they would be assuming substantial risks and liabilities that are now borne solely by the government. Thus, the present value of the assets should be discounted to account for the fact that the government would be shedding these liabilities and the customers would be assuming them.

Adequate time must be allowed to negotiate details of the transaction, and all consumerowned utilities and state agencies that presently have an SWPA power allocation should have an effective opportunity to participate. As demonstrated earlier, SWPA is a complex, sophisticated system encompassing six states, with five offices and almost 200 employees. Negotiations will involve two federal agencies and up to 92 customers. Any negotiations to transfer ownership or control of the SWPA and Corps assets will take some time to hammer out. Because of their complex nature, any attempt to hasten these negotiations to a conclusion could lead to serious unintended consequences for all parties involved.

Environmental responsibilities must be clearly defined. Will an environmental impact statement be required to effect transfer of ownership or control of SWPA? Will multiple EISs be required? If the "deal goes south" and is not consummated, who will bear the costs of the studies and negotiations? All costs incurred or assumed by SWPA normally go into the rate base to be paid by the customers. Customers should be held harmless from assuming these costs if the government is unwilling or unable to ultimately transfer control of the agency to the them.

Who will be given operational responsibilities for determining releases of water through the turbine-generators, the Corps or the new owners of SWPA? If the Corps retains this responsibility, will the new owners of SWPA be compensated for changes in water releases dictated by environmental considerations, new federal policies or impacts on other project purposes of the dams? If the successors to SWPA are compensated for these impacts, how will compensation be determined and paid? All of these questions must be addressed, and the answers will impact upon the liabilities and risks assumed by SWPA's successors, which will subsequently impact on the value of the assets.

Customer enforceable cost-control measures must be established for the Corps of Engineers. Presently the Corps operates and maintains the power houses and charges SWPA for these functions. These costs are in turn passed on the SWPA customers through their wholesale power rates. Neither SWPA nor its customers have much input into any decisions the Corps makes, and little power to correct what they might see to be "gold-plating" or overcharging for these services by the Corps.

Allowing SWPA's customers to assume operation and maintenance of the power houses would solve many of these problems. However, the Corps also assigns "joint use costs" to each project purpose (including power) for its portion of the overall costs of operating and maintaining each lake and dam that is not specific to an individual project purpose. SPRA would propose that, if the customers ultimately purchase the power houses or assume operation of them, the price paid by the customer would constitute payment in full for all future joint use costs assignable to power. In the alternative, costs assigned by the Corps or any other federal agency to power operations

should be made subject to the Administrative Procedures Act. This process would at least give the power customers some input into the decision-making process.

Existing federal statutory requirements imposed on SWPA must be revamped or repealed, as appropriate, to recognize changes in responsibility or control. It has been widely assumed that, if the customers of SWPA were to purchase or take control of the agency's operations, substantial efficiencies could be achieved, thus holding down costs to consumers. However, those efficiencies will never be realized if the customers, as successors to SWPA, are not freed from the operating, hiring, acquisition, accounting, employee benefits and other requirements presently imposed on SWPA. If Congress wants the customers to assume operation of SWPA, it will have to free them from these restraints and allow them to operate as utilities, not as a federal agency.

If the customers are to purchase the power houses, they must be given the right to upgrade or expand generating capacity at any Corps project authorized for power in SWPA's marketing area. At least two Corps projects from which SWPA markets power have blank penstocks to allow for additional generators to be installed. In addition, at least one dam with power production has a reregulation dam downstream where addition of two small hydropower units might be possible. Increasing the energy potential of several projects is possible by rewinding the generators or installing more efficient turbines.

The purchase agreements for the assets of the Alaska Power Administration, which this House has approved, grant the purchasers the exclusive right to upgrade or expand the facilities at any time in the future without obtaining a license or other approval from the Federal Energy Regulatory Commission. If SWPA is to be sold to its customers, they should be afforded a similar exclusive right.

FERC licensing or regulation should be avoided. When DOE negotiated the purchase agreements for the two projects of the Alaska Power Administration, it agreed the purchasers should be exempted from FERC regulation or licensing of the projects. The same exemptions should be extended to SWPA's customers if they assume ownership or operation of hydropower facilities.

Provisions should be made for transferring ownership or operation of SWPA's telecommunications system. As mentioned earlier, SWPA owns 46 microwave and VHF sites. In addition, the agency is just beginning to add fiber optic cable to its telecommunications system. This facilities are vital for real-time data acquisition and control of SWPA's multi-state operations.

Because SWPA is a federal agency, its radio frequencies are not assigned and licensed by the Federal Communications Commission (FCC). Instead, its frequencies are assigned by the National Telecommunications and Information Agency (NTIA) of the Department of Commerce from among the spectrum reserved for federal use.

If ownership or control of SWPA is transferred to its customers, provisions would have to be made to transfer the telecommunications facilities and spectrum, as well. In addition, the

frequencies on which SWPA's microwave system operates are highly coveted by emerging telecommunications technologies, such as personal communications systems, for their outstanding propagation characteristics. Recognizing the value of this spectrum and its importance in maintaining reliable operation of SWPA's system, Congress in 1993 directed that PMA frequencies could not be reassigned and that they should be protected from any interference by other technologies that might ultimately share their spectrum.

If Congress directs the transfer of ownership or operational control of SWPA to its customers, SPRA recommends that the FCC be legislatively directed to issue licenses for each of the SWPA transmitters that would protect them from any interference and would exempt them from any licensing fee or spectrum auction.

SWPA's energy banks must be transferred to the customers at no additional cost. Hydrologic conditions in river basins fluctuate between extremes of drought and flood. In its earlier years of operation, SWPA had no process for capturing excess generation available in the "wet" years to draw up in dry years when the agency could not generate enough energy to meet its contractual obligations to its customers. In wet years the excess generation would be sold as surplus energy, and the additional revenues would be used to make bigger payments on SWPA's outstanding debt. When insufficient hydroelectricity was unavailable in dry years, SWPA would be forced to raise its rates to recover costs of purchasing power from other sources to meet the demands of its customers.

In an effort to levelize these fluctuations in rates, SWPA established "banking" arrangements with utilities. In wet years, some of SWPA's surplus generation sold to other utilities would be "banked" – rather than receiving direct payment, SWPA would have the right to obtain an equal amount of electricity from the utility when SWPA needed outside power in dry years.

Because of an unprecedented number of high water years, SWPA's energy banks have become a substantial asset. As of April 30, 1995, SWPA had accumulated 1,668,362 Mwh in its energy banks. But it is important for the Committee to recognize that, in effect, this energy has already been paid for by SWPA's customers. Had the banking arrangements not been established, this energy would have been sold for cash, which would have been used to retire the principle owed by SWPA to the Treasury. This additional reduction in principle would have reduced the agency's annual revenue requirements, thus leading to a rate reduction to its customers.

SPRA strongly endorsed the establishment of the banking arrangements by SWPA. It has been an effective tool to levelize rate swings. However, the customers have already paid for the energy in the banks and should not be charged again if ownership or control of SWPA is transferred.

Conclusion

The points above illustrate that unraveling SWPA's hydropower operations from the Corps' 24 multipurpose water projects is an extremely complex task. If the Committee goes forward to face this challenge, it should proceed cautiously. The Committee should heed the advice of the House as expressed in the budget resolution that PMA customers have a de facto equity interest in these

projects that should be protected by limiting any sale or transfer of ownership to consumer-owned utilities and joint action agencies that presently have a power allocation from SWPA. The Committee should not overestimate the value of these assets, giving careful consideration to the risks and liabilities that would be assumed by the new owners or operators and that reduce the value of these assets. Great care should be taken to avoid any unintended consequences and to reduce the risks and liabilities through very specific legislative language.

Finally, the Committee should answer the question: Is it worth it?

Statement of Ken Weisel General Manager Missouri Joint Municipal Electric Utility Commission Subcommittee on Water and Power Resources House Resources Committee

May 18, 1995

Mr. Chairman, on behalf of the Missouri Joint Municipal Electric Utility Commission (MJMEUC), I submit this statement as part of the record for the oversight hearing on the possible transfer of the federal power marketing administrations (PMAs). The MJMEUC is a Municipal Joint Utility Commission that began operation in 1980. The Commission obtains for its members electric power and energy required to meet the needs of the municipalities and their consumer owners in the most economical manner. MJMEUC members purchase power and transmission from the Southwestern Power Administration (SWPA).

We believe the Clinton Administration proposal — and the plan recently adopted by the House Budget Committee — to transfer or sell the assets of the PMAs is a short-sighted, one-time revenue raiser which will dismantle a successful federal program and result in lost revenues to the U.S. Treasury.

The PMA sale idea is not only a bad idea, it's bad economic policy. And it's a bad deal for the country. The fact is, the federal power program works. Roughly 32 million people in 29 states are customers of the PMAs. The nation's five power marketing administrations -- Southwestern, Western, Bonneville, Alaska, and Southeastern -- deliver clean, economic hydroelectric power to consumer-owned electric utilities that serve these customers. In addition, 165 federal and state agencies are served by PMA power. Outside of parts of the northeast, the PMAs serve every region of the country.

The program also pays its own way. It doesn't cost the federal government money, it brings money in. Rates for the power generated at federal dams are set by law to repay the full federal investment in the power facilities, with interest. Repayment of these loans, by the way, is on schedule.

The PMA power program provides a steady stream of revenue paid annually to the U.S. Treasury, after subtracting federal appropriations. Indeed, the Congressional Research Service (CRS) estimates that PMA revenues offer net positive receipts of \$243 million annually. If the PMAs are sold, the U.S. will lose a valuable source of revenue. When the capital costs and interest are fully repaid, the power facilities will continue to produce revenue for the U.S. government.

Mr. Chairman, we know it's fashionable these days to eliminate from many programs a role for the federal government. But in this case the role currently played by the government in the distribution and management of PMA power is not only desirable, it's necessary.

For example, several of the facilities that make up the power marketing administrations are multi-function facilities -- they meet the electricity needs of the region, and offer flood control, navigation, water supply, recreation, and wildlife conservation purposes.

The federal government has been the agent charged with operating these facilities in a way that balances the many project interests for nearly half a century. Who else but the federal government will play such a role? Private business groups interested in making a profit? While generation of electricity is clearly a priority for electric consumers, other services performed by multipurpose facilities are both laudatory and important to the region's communities.

The sale of the PMAs is an electric consumer issue. Millions of Americans face increased electric rates if the PMAs are sold or privatized. The Consumer Federation of America, the nation's largest consumer organization that represents more than 50 million Americans, has grave concerns about impending rate hikes, and has consistently opposed plans to sell the PMAs. In addition, the Congressional Research Service has estimated that if PMAs are sold to private companies, electric rates would rise as high as \$1.2 billion to \$1.3 billion a year.

Sale of the PMAs could also undermine competition. The same CRS report suggests that if private companies purchased the PMAs, it would disrupt the current competitive balance in the electric utility industry between private, for profit companies, municipal utilities, and rural electric cooperatives. If sold to private power groups, says CRS, PMA power would be removed as "a competitive check on private utility costs and rates."

We understand the pressures facing the Administration and Congress to come up with fast cash to help pay for tax cuts and help reduce the deficit. We don't understand, however, the logic in selling off the PMAs. If the PMA program no longer worked, was outdated, or past its prime, then we might appreciate the PMA sale proposal. But that's not the case.

We urge you, Mr. Chairman, to stop this complicated, complex plan to sell the PMAs. We note that the proposal to sell the Alaska Power Administration is both fairly benign and noncontroversial. But after seven years of negotiation and deliberation, it's still not a reality. The current proposal to the sell the PMAs, far more difficult than the Alaska deal, also needs a great deal of deliberation.



Colorado
Association of
Municipal

May 15, 1995

The Honorable Wayne Allard House of Representatives 422 Cannon House Office Building Washington, D. C. 20515

Dear Congressman Allard:

We understand that on May 18, the House Resources Subcommittee on Water and Power will hold a hearing on the possible sale of the federal Power Marketing Administrations, including the Western Area Power Administration (WAPA). The Colorado Association of Municipal Utilities (CAMU), a service organization which represents twenty-nine municipally owned electric systems and three joint action agency power suppliers serving over 565,000 citizens in Colorado, continues to oppose the sale of WAPA and we again urge you to vote against privatizing WAPA at the expense of millions of Western citizens who receive service from consumer owned electric utilities such as our municipalities.

A sale of WAPA just doesn't make sense. Taxpayers do not subsidize WAPA. It fully pays its own way, including all O&M, all investment with interest, and even a large portion of water users' and environmental costs. If this revenue producing asset is sold, there will surely be higher electricity costs to the rural citizens of Colorado.

The purpose of the federal hydroelectric marketing program is to assure that benefits from the development of a public resource, such as our national waterways, by the use of public funds, be made available directly to consumers through nonprofit public power communities and rural electric cooperatives. This benefit must never be allowed to provide a profit to a few investors at the expense of all the citizens of the country.

We ask that you and this subcommittee take a position opposing such a sale due to the devastating impact it would have on the economy of Colorado cities and towns. We further ask that you include this letter in the record of the Water and Power Subcommittee's hearing. We are enclosing 10 copies for this purpose.

Thank you for this opportunity to present our concerns.

Sincere

William J. Slimak, Executive Director Colorado Association of Municipal Utilities

cc: The Honorable John Doolittle, Chairman

House Resources Subcommittee on Water and Power

cc: Members of House Resources Subcommittee on Water and Power

The Honorable Don Young, Chairman House Resources Committee

The Honorable George Miller, Ranking Member House Resources Committee



City of ...

CHANUTE, KANSAS



May 12, 1995

MUNICIPALLY OWNED GAS, WATER, AND ELECTRIC UTILITIES

The Honorable John Doolittle House Resources Subcommittee on Water & Power 1337 Longworth House Office Bldg. Washington, D.C. 20515

Dear Representative Doolittle:

RE: Power Marketing Administrations

The City of Chanute operates a municipal electric system currently serving approximately 5,500 residential and small commercial customers and purchase power through the Southwestern Power Administration.

We oppose sale of the Power Marketing Adminstrations for the following reasons:

- The sale fails to recognize the equity interest preference customers have in the original investment through past, current and future payments.
- The sale would adversely affect the ultimate customer dependent on public power and would result in higher electric rates for residential customers.
- A sale would lead to higher power costs resulting in a loss of competition and ultimately impacting the price of goods and services especially those consuming significant amounts of energy.
- The sale would lead to further concentration in the power industry, stifling competition and eliminating a publicly owned "benchmark" which serves as a check on private power costs.
- A sale would constitute a breach of the partnership between the federal government and preference customers that entered into good faith agreements to pay for federally constructed facilities and purchase power output.
- A sale would result in higher energy costs for current preference customers and the federal povernment, offsetting any short term gain to the U.S. Treasury.

In summary, it is bad public policy, a breach of good faith and a misguided attempt to address the federal deficit. We are strongly opposed to any sale and respectively request that the committee defeat any sale proposal and remove the federal Power Marketing Administrations sale from any further budget consideration. Please include this statement in the record.

Very Truly Yours

Robert H. Walker City Manager

cc: Subcommittee Members





COMMISSIONERS

Jack Philips

Dr. Fritz Thren

Hob Freeman

Kay Pills Ken Miller Hugh W. Hampon III, Con. Se

P. C. Broc 99 . Phone 3011774-1148 . 1 10 km . Arkaman-2830

May 15, 1995

The Honorable John Doolittle House Resources Committee on Water and Power 1337 Longworth House Office Building Washington, D.C. 20515

RE: Power Marketing Administrations

Dear Congressman Doolittle:

Federal hydro power represents 35-45% of the total annual energy requirements for the city of Clarksville, Arkansas, population 6,000 plus. It's cost is less than half of the energy cost from Clarksville's other supplier, a generation and transmission coop in Oklahoma. This coop's rate is less than half of the wholesale rate of Arkansas' largest investor owned utility.

If the federal government sold its electric generation capability, the best that our citizens can anticipate would be an electric rate increase on the order of 25%. The worst case scenario would be a 100% increase due to Clarksville citizens having to pay other costs attached by the acquiring investor owned utility.

Those in the government who will make the decision should consider the worst case scenario since there are no guarantees that can be offered by way of rate protection.

Notwithstanding some new tax to remedy the projected annual revenue reduction to the U.S. Treasury of \$1.5 billion, the sale of the Power Marketing Administrations should only cost the citizens of Clarksville \$150.00 - \$600,00 per meter per year, which is a large sum of money in this community.

Please include this letter in the official hearing record.

Thank you,

Hugh W. Harrison General Manager

HWH/mjh

cc: Mayor Vinson Senator Dale Bumpers Senator David Pryor Congressman Hutchinson



Office of Public Utilities 218-847-7609 FAX 218-847-8969

May 15, 1995

The Honorable Don Young Chairman House Resources Committee 1324 Longworth House Office Building Washington, DC 20515

Dear Congressman Young:

As a customer of the Western Area Power Administration (WAPA), the Detroit Lakes, Minnesota, Public Utilities takes this opportunity to voice our objection to the proposed sale of the federal Power Marketing Administrations (PMAs). Of particular concern to our community would be the sale and privatization of WAPA.

It is our understanding that the House Resources Subcommittee on Water and Power will be holding a hearing concerning the proposed sale of these federal facilities on Thursday, May 18. We request that our concerns be noted at this hearing and that they be included in the hearing record.

Detroit Lakes, like many WAPA customers, is located in an area where competitive priced electricity is one of the few amenities which we have in order to attract business and industry. There is no doubt that Detroit Lakes would not be a WAPA customer today if the federal government had told us that the plan was to eventually sell and privatize these federal facilities. Detroit Lakes would have then definitely invested in other more secure base load electric generation instead of supporting repayment of a federal project whose benefits would later be taken from us in order to profit others. It must also be remembered that federal power was not always the most economical power supply available.

Commissioners: DUANE P. WETHING, President ARNOLD A. PORKKONEN JAMES THOMAS

Curt Punt SUPERINTENDENT Richard Grabow SECRETARY The Honorable Don Young May 15, 1995 Page 2

However, many public owned utilities, such as Detroit Lakes, contracted for this power with the belief that they would be investing in a long term power supply which would ultimately benefit their customers for years to come, while at the same time supporting programs which benefitted our nation in many other ways. It now seems somewhat ironical that the federal government seems so intent to sell these facilities and thereby substantially increase electric costs to the very same customers who supported and helped to make these federal programs a successful reality.

It must also be considered that the federal power systems is unlike many federal programs in that it pays its own way, including interest on investment. In fact, WAPA's electric sales contribute significantly to the repayment of costs for irrigation, recreation, navigation and certain fish and wildlife mitigation programs which are also public benefits from the federal river dam projects. If the government sells WAPA, it is selling an asset that regularly produces revenue for the federal treasury.

We firmly believe that the sale of these power marketing facilities would make no long term economic sense and even less political sense. Therefore, Detroit Lakes, Minnesota, strongly urges your support in rejecting the sale and privatization of WAPA as well as that of the other PMA's.

We thank you for this opportunity.

Sincerely,

Duane P. Wething, Chairman Public Utilities Commission

DPW:br

DENISON MUNICIPAL UTILITIES

May 16, 1995

W. BROADWAY & 7th ST. P.O. BOX 518 DENISON, IOWA 51442 712-263-4154 FAX 712-263-8767

The Honorable John Doolittle
House Resources Subcommittee
on Water & Power
1337 Longworth House Office Building
Washington, DC 20515

RE: May 18, 1995 Congressional Hearing on federal Power Marketing Administration

Dear Congressman Doolittle:

As your House Resources Subcommittee on Water and Power holds hearings on the federal Power Marketing Administrations, (PMAs) please allow me to offer a view point from one of the customer-owned utilities that purchases power from one of the federal PMAs, WAPA. Our community of 6500 people has operated a municipal consumer owned electric utility since 1914. We have invested through rates in many types of power plants in the 81 years that we have been in operation. Since the early 1960's our rate payers have been investing in a power plant and high voltage electric transmission lines owned by the federal government. The dollars that we have sent to Washington, as we have purchased this electricity, has been sufficient to pay the principal, interest and operating expenses associated with the production and delivering of this hydroelectric power to my community.

Those that are calling for the sale of these federal assets would have you believe that these projects are costing the tax payers of this country alot of money when in fact they cost the tax payers of this country, nothing. They pay there own way and return to the federal treasury, the cost of construction and operation. The mere fact that these projects are allowed to return that federal investment in a planned logical manner is being viewed as inappropriate when in fact it is both appropriate and the reason for the development of the Missouri River multipurpose developments that includes a vast array of interests ranging from recreation to water supply. Those that would argue for changing the rules of the game, now after decades of successful partnership between the federal government and consumer-owned utilities, failed to recognized how the consumer-owned utilities through rates have been paying for the very assets that you are now considering selling out from underneath us, that is wrong.

As the record of this public hearing is prepared I would ask that you include my few comments. On behalf of the customer owners of our municipal utility I would like to thank the committee for allowing us to share with you our great concern with the current mitiative by some, to take away from us a power supply in which we have 35 years of equity. The discussion on this topic is critical to the success of a great many people and businesses. We appreciate the opportunity to share our thoughts with you.

Respectfully,

Brad Roos General Manager

Denison Municipal Utilities

cc: House Resource Committee BR/clm





Timothy Cooper Betty Lane

WARD C Barbara C. Brown Melvin A. Pittman

Threet W. Brown C. Ann Douglas June 1, 1995

Honorable John Doolittle, Chairman House Subcommittee on Water & Power Resources 1337 Longworth House Office Building Washington, D.C. 20515

Dear Congressman Doolittle:

These are the comments of the City of East Point, Georgia, submitted for the May 18, 1995, oversight hearing of your Subcommittee concerning the possible sale or transfer of federal Power Marketing Administration (PMA) projects. We request that this letter be made a part of the official record of your Subcommittee on this issue.

East Point provides a full range of services to its citizens, including power service from power supplied by the Municipal Electric Authority of Georgia (MEAG). These comments do not necessarily represent the viewpoint of MEAG, and are submitted only on our behalf.

We oppose any sale or transfer of any PMA project to anyone that only wants to use it for only a narrow purpose such as power production. Such a transaction would be contrary to public policy because it would necessarily lead to compromising the other public purposes for which these federal projects were established - water supply, flood control, and recreation, among others. These purposes together promote the greatest good for the greatest number, and should be preserved to protect the health, safety and welfare of the citizens in our nation's communities, Achieving all these purposes optimally requires a delicate balance in planning that our communities rely on the federal government to provide with input from their state and local governments. The needs for a federal governmental entity to accomplish these purposes optimally and fairly increases as the population and accompanying development near each PMA project increase.

Honorable John Doolittle May 31, 1995 Page 2

The federal government is the only branch of government that can insure that each State and its communities receive equal and fair treatment in assuring that PMA projects supply their present and future needs for sufficient drinking water supplies, navigation, flood control, recreation and maintenance of sufficient flows to offset the impacts of downstream urban and rural wastewater treatment flows. These public purposes currently relied on from the PMA's are viewed as predominant and are expected eventually to replace or significantly reduce the hydropower benefits the federal government has depended upon to recover the initial costs of and continual maintenance for the PMA projects. Therefore, it would be unrealistic to believe that investor owned utilities or the nation's communities would mutually benefit long term by the sale of the PMA's strictly for their hydropower capabilities. This would only lead to long term conflicts pitting the profitability of the hydropower portion of the PMA project against the health, safety and welfare of the communities dependent on these projects for the public purposes mentioned.

It makes sense for the Subcommittee to consider the hydropower capabilities of the PMA projects as only a secondary purpose of them and not the true and long-standing public purpose originally intended of the PMAs.

The other option presently considered, is the transfer of the projects to the current PMA's preference customers. This option would seem to make better sense than the previous option. The Subcommittee should consider whether this option would assure that the above-stated public purpose uses would be fairly allocated to communities who are not preferred customers. Probably not, and certainly not without an up-front understanding that revenues from the hydropower activities cannot be the controlling factor in the projects operations. Nor can it be the sole source of revenues that will continue the long term maintenance of the projects. The long term financing and management of the PMA projects under this or any option will require a combined effort and close coordination with all entities that have depended on the outputs of the projects. New methods of continued financing

Honorable John Doolittle May 31, 1995 Page 3

of these projects will most likely require a method of assessing costs based on benefits received. This method would be best handled using a flexible scale of benefits, as benefits received will change based on the character of growth of areas around each PMA project.

The City of East Point has seen first hand this changing priority of benefits since it is a community affected by use of the Buford Dam PMA project in the Chattahoochee River basin. All of the PMA project uses stated above, affect East Point to varying degrees.

The City of East Point is a community that presently receives multiple benefits from the PMAs and that would therefore be affected by any sale or transfer of PMA projects. These benefits are:

Through a long-established relationship of contracts. the City is one of Georgia's largest contract holders with Southeaster Power Administration. Through this arrangement the City has received reasonably-priced hydropower which has helped the City stay be competitive with investor-owned utilities by off-setting the higher priced purchased generation that was available during the 1970's. The City views future opportunities for replacing this electric resource in Georgia as diminishing. This is due to the lack of available waterways that will support hydropower and current policies of water resources authorities advocating off-steam storage for environmental If we were no longer competitive, the City reasons. would lose sales and be in a deteriorating position to provide local government services because this source of revenue would be gone.

We would ultimately be impacted should a decision result in the sale or transfer of these projects. Originally, the purposes were for flood control with hydropower and recreation being as a by-product that provided for the economic means to recover the debt service associated with building the dams. Since this time, the nation has grown and the need for Honorable John Doolittle May 31, 1995 Page 4

managing the nation's water resources has become an ever increasing critical factor.

In closing, we urge the Subcommittee to refrain from selling the PMA projects presently, because:

- The purposes of flood control, fair allocations to meet present and future drinking water needs of cities and counties, recreation, water quality protection downstream, and other purposes besides power production, would not be met;
- 2. Cities that have paid for this power over the years and have thereby paid for the projects, would eventually lose this important component of being competitive, and would default on federal loans to develop APPA members, and would have to raise taxes to provide basic services, because power service revenues presently being received, would instead go to investorowned utilities; and
- Control of investor-owned utilities could be secretly obtained by foreign governments hostile to the U.S., who could then shut off crucial power at crucial times to hamper our defence preparedness.

Thank you for allowing us to comment on this proposal.

Respectfully.

Bruce S. DeBolt, Director Public Utilities Department

BSD:jfs



May 25, 1995

Rocks Mountain Office 1405 Arapahoe Ave. Boulder, CO 80302 (303) 440-4901 Fax: 303-440-8052

FOR DELIVERY BY FACSIMILE (202) 225-5929 HARD COPY BY MAIL

The Honorable John T. Doolittle Subcommittee on Water and Power Resources Committee on Resources 0815 O'Neill House Office Building United States House of Representatives Washington, D.C. 20515

Dear Chairman Doolittle:

On May 18, your subcommittee conducted a lengthy oversight hearing on the subject of privatizing several power marketing administrations (PMAs) within the Department of Energy. While the Environmental Defense Fund was unable to testify at that hearing, we have a longstanding interest in the potential fiscal and environmental benefits of privatizing the PMAs or, in the alternative, of marketing the electrical energy produced by these government-owned utilities at market rates. Consequently, we are submitting these written comments for your review and respectfully request that they be included within the hearing record.

As discussed in detail below, we have two principal recommendations:

- First, no PMA sales should be authorized (and no budget savings assumed) until appropriate terms and conditions have been established;
 - Second, once those terms have been established, Congress should mandate that these assets be sold or transferred at their full value to the highest bidder. According to our preliminary calculations, a transfer or sale under these conditions would yield billions of dollars more in revenues

National Headquarters

257 Park Avenue South New York, NY 10010 (212) 505-2100 1875 Connecticut Ave., N.W. Washington, DC 20007 (202) 387-3500 5655 College Ave. Oakland, CA 94618 (510) 658-8008 128 East Hargett St. Raleigh, NC 27601 (919) 821-7793 1800 Guadatepe Austin, TX 787(ii (512) 478-5161

to the United States Treasury than would a sale or transfer under the conditions proposed by the Administration;

- Third, irrespective of when such sales take place, they should be properly "scored" from a budgetary point of view; and
- Fourth, Congress should incorporate into the statute authorizing the sale or transfer of PMA assets a requirement that the federal hydropower facilities that form the core of Western's generation assets be operated in a manner that fully protects public environmental resources.

I. OVERVIEW

Recently, the Secretary of Energy transmitted to the Speaker of the House and to the President of the Senate a proposal for legislation concerning PMAs. That legislation would authorize the Secretary to conduct such studies as are necessary to develop plans for the transfer of the Southeastern, Southwestern, and Western Area Power Administrations out of federal ownership.

The Environmental Defense Fund has extensive experience with the Western Area Power Administration (Western) and other electrical utilities in the West, and we have several recommendations about how the electrical energy resource assets managed by Western could be disposed of to maximize both environmental and fiscal returns. While we assume these recommendations would apply with equal force to the Southeastern and Southwestern Power Administrations, our experience with those entities is extremely limited. Accordingly, we have limited our specific comments and recommendations to the Western Area Power Administration.

II. THE WESTERN AREA POWER ADMINISTRATION

The Western Area Power Administration markets and transmits electrical energy within a 1.3 million square-mile geographic area that encompasses part or all of fifteen states in the central and western parts of the United States. The electrical energy marketed by Western is largely generated at fifty-five plants which are, in turn, operated principally by the Bureau of Reclamation and the U.S. Army Corps of Engineers. In addition, Western's customers rely upon it to purchase firming energy from regional utilities on a least-cost basis -- in part because the amount of hydroelectric energy available for Western to market is not predictable from year to year. See Statement of Mr. William

H. White, Deputy Secretary, U.S. Department of Energy, Before the Subcommittee on Oversight and Investigations, Committee on Natural Resources, U.S. House of Representatives (June 16, 1994).

The Western Area Power Administration is the equivalent of a very large regional utility, by virtue of its statutory authority to market the hydroelectric energy produced at a number of federally constructed and maintained dams across the western United States. Although these federal projects were authorized to achieve multiple purposes, including irrigation, flood control, and recreation, the Bureau and the Corps frequently assigned hydropower production a higher priority than other statutory purposes. Consequently, these hydroelectric facilities have caused profound environmental impacts in the Colorado River and Missouri River basins.

A. Hydroelectric assets and their environmental impacts. For example, Glen Canyon dam is a central feature of the Colorado River Storage Project (CRSP), which consists of four large storage projects on the Colorado River and its tributaries, as well as eleven participating projects throughout the upper Colorado River basin. "The general purpose of CRSP is to initiate the comprehensive development of the water resources of the Colorado River basin." Reclamation Projects Authorization and Adjustment Act of 1992, S. Rpt. 102-267, 102d Cong., 2d Sess. (1992). The more specific purposes of CRSP were to regulate the flow of the Colorado River, store water for beneficial uses, provide for reclamation, and to control floods. The Act also authorized the generation of hydroelectric energy, but only as an incident to these foregoing purposes. Id.

Nevertheless, the production of hydroelectric energy became a dominant objective in daily operation of Glen Canyon dam. By the mid-1980s, the Bureau began to suspect that those operational goals were causing a number of negative consequences for the downstream environment within the Grand Canyon National Park. The Secretary of the Interior initially issued new interim guidelines to limit daily and seasonal operational flexibility at Glen Canyon in order to alleviate those environmental impacts. And in 1992, the Congress formally adopted those interim guidelines as statutory directives and mandated that the Secretary exercise his authorities to "protect, mitigate adverse impacts to, and improve the values" for which Grand Canyon National Park was established.

The Missouri is the other major river basin with hydropower facilities from which Western markets and distributes power. Six large mainstem dams (originally authorized under various Congressional acts passed between 1912 and 1945 and now commonly

referred to as the Pick-Sloan Project) have been constructed and are now operated by the Army Corps of Engineers to provide flood control, hydropower, water supply, water quality, irrigation, navigation, recreation, and fish and wildlife benefits. These benefits, both real and alleged, have not come without their associated costs. In some months the range of instantaneous flows over a twenty-four hour period can exceed 80,000 cubic feet/second (cfs) with ramping speeds greater than 30,000 cfs/hour. See Volume 4 (Hydraulic Studies -- Upstream from Gavins Point Dam), Master Water Control Manual: Missouri River Draft Environmental Impact Study (July 1994). Such wide and rapid fluctuations can have very detrimental effects on natural systems including extreme changes in water temperature, release of waters supersaturated with nitrogen, bank erosion, and down cutting of the river bed, and inundation of river bank and sandbar nesting habitat.

Clearly, facilities such as those in the Colorado and Missouri basins, which were constructed and are now operated by the United States, have tremendous potential for the production of hydroelectric energy. However, these federal assets were authorized as multiple-purpose projects, all of which must be carefully considered before the responsible entity can establish an operating regime that achieves a fair and environmentally sensitive balance among those varied purposes. Conversely, the transfer of Western's underlying assets would almost certainly create incentives for the management of the turbines at these federal projects to maximize hydroelectric energy production -- a situation that poses enormous problems for achieving goals as diverse as preventing flooding in the lower Missouri River to preventing beach erosion within the Grand Canyon. Before transferring either Western's assets or the right to market the energy produced at these facilities, the Congress must decide what entity will make the fundamental decisions about how these hydro facilities are operated.

B. Transmission assets. Western also controls an extensive transmission system that is integrated with the transmission systems of other public and private utilities in the region. As others have testified before this Committee, coordinated transmission operation, planning, and expansion is essential to the continued development of wholesale market competition across the region, with its attendant promise of low unit costs for electrical energy. Any legislation that permits the piecemeal transfer of this transmission system likely would result in the further balkanization of the region's transmission system and would also likely impede the development of both wholesale and retail power markets.

III. RECOMMENDATIONS

It appears to us that while the transfer of Western's assets, or the transfer of rights to market hydroelectric energy produced at federal facilities, creates the opportunity for significantly increasing revenues to the United States Treasury, and could also promote efficient use of electrical energy, these proposals must first confront a number of difficult and complex obstacles. Rather than attempting to paint a clear and precise road map for the Committee, we have chosen to comment on how transactions like the sale of Western should be "scored" from an economic and financial point of view and to suggest several parameters that should guide the Congress in making decisions about the transfer of Western's assets.

A. Budget scoring. In the above-referenced letters to the President of the Senate and the Speaker of the House, the Secretary of Energy notes that the proposed sale price for Western would be based on "the discounted net present value of the principal and interest payments that the Treasury would receive over time." Translating this formula into a sales price using the House Budget Committee Policy Assumptions underlying the fiscal year 1996 Budget Resolution produces a one-time payment in fiscal year 1998 of approximately \$2.687 billion. Netting out offsetting losses in "mandatory receipts" (i.e., the annual principal and interest payments foregone in future years as a consequence of the sale) of \$340 million per year for the period from fiscal year 1999 to fiscal year 2002 leads to a purported savings of at least \$1.327 billion. The actual resulting federal savings whatsoever.

The above estimates do not include an additional \$92-\$230 million per year in savings assumed by the House Budget Committee in the form of reduced discretionary outlays, nor other likely costs (such as those associated with the sale of tax exempt bonds as part of any such "privatization" effort). These estimates (as opposed to methodology) differ significantly from those assumed by the Administration, i.e., an estimated Western sale price of \$2.863 billion at the end of fiscal year 1998, with an offsetting loss of \$194 million in Treasury receipts through fiscal year 2000. (Statement of William H. White, Deputy Secretary of Energy, before the Water and Power Resources Subcommittee of the House Committee on Resources, March 7, 1995.) Neither set of estimates is clear as to time frame, assumed discount rate, or assumed pattern of foregone receipts.

This discrepancy between apparent and actual savings arises from a simple budgetary gimmick by which <u>proceeds</u> are assumed to be based on the discounted net present value of payments to the Treasury over the remaining life of the project, while the <u>loss</u> of those receipts is only considered over the 4-year period (1999-2002). By counting the difference as "savings," we are in fact borrowing against our future, and for a generation hence (after 2002) a \$340 million budget gap is going to have to be filled.

The Environmental Defense Fund cares about such matters because of the implications for both the budget and the environment and because we are certain that this kind of gimmick will be cited as a precedent for other asset sale proposals. Unfortunately, this is already the case for the proposed sale of the Alaska Power Authority, the Southeast Power Administration, the Southwest Power Administration, and — though not yet part of the above budget documents — the federal Central Valley Project and other Bureau of Reclamation facilities and assets. Moreover, in virtually every such instance, important public environmental resources are also at stake — the very same resources that have been and continue to be impacted by a host of prior and current federal subsidy policies.

To correct the flaw, we believe that, at a minimum, all budgetary considerations — including the "valuation" or proposed sale price of federal assets, the loss of mandatory receipts, or other associated savings or losses — should be based on the same essential terms as to time period, discount rate, and other relevant factors. In the above Western example, this would mean a one-time gain to the Treasury of \$2.687 billion, and an associated net-present value loss of \$2.687 billion, plus or minus any other discounted savings or losses associated with the sale, as proposed. Said another way: if asset sale receipts are to be scored as current-year income, only bona fide taxpayer savings should be eligible.

² One way to generate "real" taxpayer savings, and to recoup therewith at least a portion of the associated taxpayer subsidies, is to put these projects out to competitive bid or auction once appropriate terms and conditions have been set. Recognizing that this approach raises concerns over potential ratepayer impacts, Mr. Robert Poole of the Reason Foundation has suggested that they "include provisions that make it easy for customers within the utility's service area to purchase stock at a discount, and possibly with payments made over time." (See A Federal Privatization Agenda, Prepared Testimony before the Senate Budget Committee, March 7, 1995.) However addressed,

B. Sale at market value. Despite our misgivings about the use of budget ploys used to camouflage the consequences of selling public assets, we do not reject the concept of asset disposal out of hand. To the contrary, as described in our recent testimony before the House Committee on Resources, the Environmental Defense Fund sees considerable potential merit in an appropriate devolution of at least certain federal assets and facilities to any of a variety of non-federal interests.

However, our fundamental guiding principle is that the sale or transfer of these assets should be structured in a way that is designed to maximize revenues to the United States Treasury. By that, we mean the Congress should mandate that these assets be sold or transferred at their full market value to the highest bidder, 'rather than at the discounted present net value of expected future receipts.

Our preliminary calculation suggests that the difference between the revenues a sale or transfer would yield under the Administration's proposal (which essentially values Western's assets at 2 cents/kwh), and the revenues a sale or transfer would yield if the assets are valued at roughly their market value (4 cents/kwh) adds up to approximately \$15 billion. Clearly, authorizing the sale or transfer of these assets at their market value would significantly increase revenues that would be available for reducing the federal budget deficit. These policies would also encourage efficient allocation of electrical energy produced at federal facilities by sending a more accurate price signal to wholesale and retail customers. And the policies inherent in this approach would eliminate a series of subsidies that currently surround the marketing of electrical energy by Western and other FMAs.

there'is no inherent reason why those who have long benefitted from the substantial taxpayer subsidies and preferences associated with the federal assets in question should continue to do so today as part of their proposed "privatization."

Transferring the Central Valley Project Out of Federal Ownership, Prepared Testimony of the Environmental Defense Fund before the Water and Power Resources Subcommittee of the House Committee on Resources, April 18, 1995.

Of course, this assumes that the Congress will abandon the preference policy that is embedded in the Administration's proposal.

C. General principles for an asset transfer. Given the extraordinary reach of and complex inter-relationships among these various proposals, it is unwise if not outright foolish to make budgetary assumptions now without a thorough understanding of the terms and conditions under which such sales would, in fact, take place.

Accordingly, we respectfully urge that, whatever the policy merits of the asset sale proposals now being considered, no budgetary credits or savings be assumed until all relevant details have been worked out.

Beyond the above budget concerns, we would like to suggest several additional principles or considerations against which to measure the sale of Western's assets.

First, the provisions of current law that direct how federal hydro facilities may be operated, to protect the environment and to fulfill the non-energy related purposes of the federal facilities, should be reaffirmed;

Second, the Congress should consider retaining ownership of both the federal facilities and the turbines located there, as well as Western's transmission system. This alternative would enable the Congress to force a significant downsizing at the PMAs, including substantial reductions in personnel, producing corresponding reductions in annual discretionary outlays. However, this approach would avoid the balkanization of the transmission system or the loss of a federal role in determining how federal facilities will be operated;

Third, once appropriate terms and conditions have been established, a competitive bidding process open to all interests should be used. There is no reason why existing preferential customers should enjoy exclusive rights or preferences as potential buyers. Instead, the Congress should require that the federal government receive full market value for the assets that were developed at taxpayer expense, in order to protect the taxpayers' fiscal interests and to promote economic efficiency. As one option that is consistent with a number of our recommendations, we encourage the Congress to consider directing that the

⁵ One obvious example is the complex relationship between the Western and the Central Valley Project sale proposals, including but by no means limited to their potential impact on the Central Valley Project Restoration Fund.

> hydroelectric energy produced at federal facilities be conveyed to the highest bidder at periodic intervals; and

Fourth, the Congress should insist that a small percentage of the proceeds generated by the sale or transfer of Western assets be dedicated to a trust fund for the restoration of the environmental values that have been lost or damaged by construction and operation of hydro facilities throughout the region.

In sum, Mr. Chairman, we do not reject out of hand the proposals to transfer or sell the assets of Western and other power marketing administrations. Indeed, we believe that if conducted under the appropriate guidelines, such a transaction could yield significant revenues to the Treasury, while at the same time promoting the protection of environmental values within the Colorado and Missouri River basins.

We appreciate the opportunity to comment on these issues, and would be pleased to discuss them with you at greater length.

Sincerely,

Daniel Luecke Environmental Defense Fund Rocky Mountain Office James Martin Environmental Defense Fund Bocky Mountain Office

c. The Honorable George Miller Attn: Mr. Steve Lanich



Progress through Service

303 - 4th Street NW • P.O. Box 322 • East Grand Forks, MN 56721-0322

May 10, 1995

The Honorable John Doollitle House Resources Subcommittee on Water and Power 1337 Longworth House Office Bldg. Washington, D.C. 20515

Re: Congressional hearing on the federal Power Marketing Administrations

Dear Representative Doolittle:

We understand that the House of Representatives will conduct a subcommittee hearing on the federal Power Marketing Administrations (PMAs) on May 18, 1995. We offer the following statements and ask that they be included in the official hearing record.

The City of East Grand Forks, Minnesots, has a municipally owned electric distribution system which is now and has for many years been a wholesale customer of the Western Area Power Administration (WAPA). WAPA is the city's primary wholesale electricity supplier and furnishes approximately 60% of the annual electric power purchased. The balance of our power is purchased under a wholesale contract with Northern States Power Company.

Sale of the Western Area Power Administration has the potential to substantially increase both the wholesale cost for electricity to East Grand Forks and retail rates for our customers. How substantially? If East Grand Forks had to replace the 60% of wholesale power we purchase from WAPA entirely or had to purchase it at rates similar to what we pay under our contract with NSP, our annual cost for that portion of our wholesale supply would increase from about 1.1 million dollars to more than 2.9 million dollars. This is an increase of about 1.8 million dollars or about 168%. Some people may call this scare tactics. We believe it is proper and necessary to inform our customers of the possible consequence to their retail rates from any actions which materially affect the terms, prices or conditions under which the City receives wholesale power from WAPA.

I have attached copies of spreadsheets showing our current wholesale power costs and calculation of projected costs at prices similar to our current NSP wholesale contract prices. I have also attached calculations and summaries showing the projected impact on retail rates and average annual utility bills for various customer classes.

General Manager Dan Boyce 2 R - 773-1163 Secretary of Commission Bonnie Abel 773-1163 Distribution Superintendent James King 773-0515 Water Plant Superintendent Gary Hullberg 773-1511 The federal Power Marketing Administrations are required by law to sell power at the lowest possible cost consistent with sound business principles. PMA rates are required to recover all costs associated with constructing and operating the federal power program. This includes salaries, operation, repairs, maintenance, transmission costs and repayment of the federal investment in the hydropower facilities over a 50 year period, with interest. PMA revenues also support costs for multi-user projects including flood control, wildlife enhancement, navigation, municipal and industrial water supply, recreation and salinity control. The multipurpose nature of many of the hydropower projects and the operational balance required to meet the variety of competing needs and mandates would make it difficult for private parties to operate. The PMAs represent a long standing contract with the American people that works and makes money.

It seems to us that PMAs are self supporting, revenue generating programs. Why then the various proposals to sell? Using the revenues from the sale of the Power Marketing Administrations to reduce the deficit or pay for a tax cut may be popular politics, but to us it looks like bad economics for our customers, our city and our region and our country. Sale of the PMAs would surrender a long-term revenue stream for a one time cash payment. It is like feeding up the seed grain and then wondering why we can't plant the next year's crop or selling the best milk cow in the herd when it is still producing.

Some people argue that the PMAs interest repayment rates are too low. That is like having the mortgage company say that it could make lots more money on your home loan if they were charging you today's higher interest rate instead of the lower rate in your mortgage contract. True, but not fair and not part of the contract either. Others say that the government is losing money because the PMAs repay the debt with the highest interest first. Again, that may be true, but the PMAs are doing what most citizens do with their personal debt. Who leaves the most debt on the credit card or loan with the highest interest rate? Still others argue that the PMAs should be sold to the highest bidder for as much money as possible. That is like paying ones home mortgage for 20 years only to be told that you will have to bid against your neighbors for a one-time payoff of the mortgage. Either you lose your investment and your home or you have to refinance to pay off what you had to bid. Either way, it may cost you more and again it doesn't seem fair.

Power purchases by Western and other PMA customers have helped to repay a significant portion of the original federal investment with interest. Sale of Western and the other federal Power Marketing Administrations to private parties would, in effect, wipe out this equity contribution paid by PMA customers over the years. If the PMAs were to be sold, give those who have paid the "mortgage" the first chance to refinance and buy them, and not in a bidding war either.

Deficit reduction and tax cuts are reasonable goals, but at what expense and to whom? In looking at the proposed sale of WAPA and the other PMAs, one thing seems clear. Higher rates for electric rate payers and increased costs for doing business are a likely result. Public power customers desire reasonably priced, reliable electric power to help provide a secure and stable economic future for themselves, their families, their businesses and their communities. That is why they have chosen to own and operate their public power system. The citizen-customer-owners of public power electric systems who end up paying much higher prices for electricity will not be winners in this process. The estimates for East Grand Forks indicate retail rates could rise from more than 30% to nearly 70% if the Western Area Power Administration wholesale power were unavailable or had to be purchased at

costs equal to our supplemental wholesale supply. Annual customer electric bills could increase from 20% to nearly 60%. Costs for other PMA customers may vary, but under most sale scenarios, it could mean higher rates. The short term budget results are not worth that long term economic impact. Sale of the PMAs to private parties for the highest price without rate protection for existing firm power customers seems like a selective federal tax on electric certain ratepayers.

A sellout of the PMAs creates no winners - only losers: the government from selling the "cash register" and keeping the expenses, electric customers burdened with higher rates, and American business and industry struggling to remain competitive on the world market. Selling the PMAs could result in major increases in wholesale power rates, not achieve lasting long-term deficit reduction, sell assets that make money while keeping those that do not, and involve a long and complicated legal process. We do not believe the sale of the PMAs is in the best interest of the country.

We conclude our comments with the attached statement of policy principles which will guide our utility's consideration of various options regarding the transfer or sale of the federal Power Marketing Administrations. Thank you for considering our viewpoint on this issue which is so important to the long-term economic survival of so many communities including East Grand Forks, Minnesota.

Sincerely,

Dan Boyce

General Manager Water and Light Department

303 4th Street NW

PO Box 322

East Grand Forks, MN 56721-0322

East Grand Forks Water, Light, Power and Building Commission East Grand Forks Water and Light Department

The City of East Grand Forks through its Water, Light, Power and Building Commission has an allocation of power from the Pick-Sloan Eastern Division of the Western Area Power Marketing Administration which provides about 60 percent of the annual power supply needs of the City.

Changes in the federal power program, including the potential sale of WAPA recently proposed by the Administration and to be considered by Congress, could severely and adversely affect East Grand Forks customers.

We believe it is necessary to preserve the rates, terms and conditions under which East Grand Forks receives the portion of its power supply now represented by the federal power allocation and further believe it is necessary to preserve the City's equity interest in the Pick-Sloan Eastern Division power facilities.

We believe that the following principles must be recognized in any action involving the federal power facilities:

- Public preference in the marketing of hydropower from federal dams must be maintained;
 - 2. No unnecessary or non-cost-based rate increases;
 - The economic and competitive benefits associated with this fuel-free resource must be maintained;
 - Existing federal transmission facilities must be used in a manner consistent with Section 211 of the Federal Power Act and resulting FERC policies;
 - 5. Customer control over operations and maintenance should be enhanced;
 - Cost-effective upgrades and additions to existing facilities should be completed in a timely fashion, and
 - The equity interest of current customers in the existing system must be recognized.

We believe that continued federal ownership and operation of the PMAs is consistent with these principles and is the course of action which we prefer, and

we further believe that transfer of the federal Power Marketing Administrations (PMAs) to parties other than existing firm power customers is completely incompatible with the foregoing principles, and finally

we believe that a transfer of the PMAs to current firm power customers could be structured in a manner that is consistent with our stated principles.

IMPACT OF SALE OF WAPA ON CUSTOMER AVERAGE ANNUAL BILLS

East Grand Forks, Minnesota Water and Light Department Assumed: WAPA power purchased at existing supplemental contract price. This results in calculated average rate increase of 1.974 cents per kWh. This applies to all classes except Large commercial and industrial. Those classes have demand and energy billed separately.

Customer Type	Average kWh Used per customer in 1994	Average cost per customer year 1994	Possible bill increase per customer from WAPA sale	New annual bill per customer after WAPA Sale	Possible % increase in bill
Residential general	8,499	\$452.84	\$167.77	\$620.61	37.05%
Residential general with electric heat	14,336	\$709.68	\$282.99	\$992.67	39.88%
Residential All electric	26,288	\$1,103.01	\$518.93	\$1,621.94	47.05%
Small Commercial	50,429	\$2,662.00	\$995.47	\$3,657.47	37.40%
Large Commercial	1,426,772	\$63,971.00	\$24,941.00	\$88,912.00	38.99%
Industrial	38,935,650	\$1,767,233.00	\$359,878.00	\$2,127,111.00	20.36%
Municipal Departments	73,382	\$2,491.95	\$1,448.56	\$3,940.51	58.13%

Water and Light Department Projected Rate Comparison East Grand Forks, MN

Current retail Rates with existing Wholesale Power Costs vs

All replacement power costed at existing NSP contract rate. WAPA being sold and current rate no longer available Assumed: Assumed: Note: Current NSP contract was result of market based negotiations, ie, the best price.

% Projected average rate with WAPA

Increase power amount at NSP rates \$ per kwh 1994 Avg rate

Customer Rate Class

\$0.06524 \$0.04674 \$0.05194 \$0.05671 \$0.02700 \$0.04787 \$0.03933 \$ per kwh

> Commercial general Residential general

Municipal departments Residential all-electric

Off-peak

38.29% 73.11% 44.19% 51.30%

1994 Average demand rate % Projected average

Projected average demand rate with

WAPA amount at NSP rates \$ per kw

Increase energy rate with WAPA amount at NSP rates \$ per kwh

> 1994 Average energy rate \$ per kwh

28.72% \$0.05020

\$0.03900

Summer season Large Commercial Winter season

33.60%

\$5.11

\$7.25

Increase %

\$ per kw

\$6.96

41.88% 48.72% Assumed PMA (WAPA) was sold. 1994 Use at 1995 Rates With all WAPA purchases replaced at NSP rates. East Grand Forks, Minnesota Water and Light Department

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\$0.0652	\$0.0627	\$0.0560	\$0.0519	\$0.0467	19.7	JUL
\$0.0677	\$0.0652	\$0.0585	\$0.0519	\$0.0467	22.2	NO.
\$0.0682	\$0.0657	\$0.0590	\$0.0519	\$0.0467	22.7	MAY
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\$0.0649	\$0.0624	\$0.0557	\$0.0519	\$0.0467	19.4	FEB
\$0.0653	\$0.0628	\$0.0561	\$0.0519	\$0.0467	19.8	JAN
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is and Light Department

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PROJECTED POWER COST INFORMATION East Grand Folks, Mannesda Water and Light Department



May 12, 1995

The Honorable John Doolittle House Resources Subcommittee on Water and Power 1337 Longworth House Office Bldg. Washington D.C. 20515

RE: Selling PMA's

Dear Representative Doolittle:

The City of Fairfax urges you to oppose the sale of the Power Management Agencies, specifically, Western Area Power Administration. The City of Fairfax purchases seventy percent (70%) of its power from Western Area Power Administration and the balance from Northern States Power

Fairfax is located in rural Minnesota. The economy is dependent on the agricultural sector with a small commercial/industrial tax base. The loss of preference power would increase the utility retail rates by 50% in Fairfax. Forty percent of Fairfax population is 60 years and older and many on a fixed income. Residents in Fairfax are already experiencing an increase in utility rates due to the upgrades required in the wastewater facility and storm water detention requirements.

The sale of Western Area Power and the increase in wholesale rates would cause a severe burden on the utility customers in Fairfax. The City Council urges you to oppose the sale of the PMA's. Enclosed is a Resolution adopted by the Fairfax City Council on February 7, 1995. Please include the Resolution and letter in the official hearing record.

letter in the official hearing record.

Sincerely,

FAIRFAX CITY COUNCIL

Marcia Pelzel City Clerk-Treas.

Enc.





May 15, 1995

Honorable John Doolittle
House Resources Subcommittee
on Water and Power
1337 Longworth House Office Bldg.
Washington D.C. 20515

Re: proposed sale of federal Power Marketing Administrations (PMAs)

Dear Representative Doolittle:

I am writing on behalf of myself and the Commissioners of Franklin PUD to tell you of the catastrophic impact sale of the federal power marketing administrations (PMAs) would have on our customers. Please include my letter in the official record for the Thursday, May 18, 1995 hearing.

The PMAs provide electricity to about 1,100 not-for-profit electric utilities, and directly or indirectly to about 57 million people in 34 states. Locally, our not-for-profit, community-owned electric utility purchases 100 percent of the total electricity used by our community homes and businesses from Bonneville Power Administration (BPA). Franklin PUD pays the federal government for all costs associated with producing the power.

Sale of BPA would hurt every citizen of Franklin County and jeoparaize the economy of every local business and our community as a whole. If the PMAs are sold and cost-based rates abandoned, we estimate that our household customers' rates will rise by at least 30 percent and our business customers' rates will also rise by the same amount.

Sale of the PMAs would hurt not only our community's economy but also that of the entire nation. The economy of Franklin County is agriculturally based. We produce wheat, vegetables, fruit, and wine grapes on irrigated land for our entire nation and for some international markets. Higher electric rates would necessarily mean higher irrigation costs for our farmers. Farmers, unlike manufacturers, are not able to increase prices to cover additional expenses of this magnitude. Many of our farmers would be unable to continue farming. Loss of these farms would immediately impact our local economy and eventually affect our entire country.

Franklin County businesses also process foods and wines for the nation and the world. Increased operating costs for the businesses would be passed along to the consumer, resulting in higher food costs to everyone.

The proposal to sell the PMA's is being touted as a deficit reduction move. However, it will not reduce the federal deficit in the long term. President Clinton has proposed selling the PMAs to obtain a one-time cash infusion over the next five years. This is a short term "fix" that will end in the year 2000. Currently, the PMAs are required by law to repay all their debt with interest, just like private businesses, and they do. That means selling the PMAs would actually result in the loss of a stream of revenue flowing steadily year after year into the Federal Treasury.

Owned by those we serve.

Selling the power generation at these federal facilities would divest our country of national assets that make money and help pay for those that don't. The federal government's oversight of national waterways includes flood control, navigation, irrigation, wildlife conservation, environmental protection, recreation, and salinity control. These are all non-income producing activities, unlike hydroelectric power generation, which raises money. The money raised by hydroelectric power generation now helps to cover the costs of some of these other activities.

In addition, focusing on the PMAs distracts the federal government from the real work that needs to be done to get our country back on track. We are willing to work with our elected officials to end unnecessary programs that cost taxpayers money. And, indeed, there are many programs that have been created in Washington, D.C. that just don't work. But this is not one of them. America's power program is not subsidized by federal taxpayers. Instead, it pays its own way, with revenues being put daily into the Federal Treasury by the consumers who benefit directly from the hydroelectric and nuclear power generated.

For these reasons, we urge you to oppose efforts to sell the federal power marketing administrations. Thank you for your consideration of our request and feel free to contact us any time for further information on this matter. Or contact Debbie Wesslund at the American Public Power Association, 2301 M Street, Washington, D.C. 20037; phone 202-467-2924.

Sincerely,

FRANKLIN COUNTY PUBLIC UTILITY DISTRICT

Kenneth A. Sugden

Manager

LTR 95-214

CC:

James V. Hansen Wayne Allard Richard Pombo Frank A. Cremeans Wes Cooley Helen Chenoweth George P. Radanovich William Thomberry Richard Hastings Nathan Deal Peter DeFazio George Miller Bruce Vento Sam Gejdenson Bill Richardson Calvin Dooley Maurice Hinchey Sam Farr John Shadegg Don Young



BF

City of Gunnison

201 W. Virginia Ave., P.O. Box 239 Gunnison, CO 81230 (303) 641-8000 - (303) 641-8051 FAX

The Honorable John Doolittle
House Resources Subcommittee
On Water and Power
1337 Longworth House Office Building
Washington D.C. 20515

The Honorable John Doolittle

On Thursday, May 18th, the House Resources Subcommittee on Water and Power will hold a hearing on the federal Power Marketing Administrations. This hearing will explore what the sale or transfer of the PMA's could mean to those that receive or otherwise hencefit from federal power. This decision you are undertaking is crucial to many basic philosophies that this country was founded upon. Let me first state that I understand there is a serious problem with our countries finances and agree we must do many things to reduce an imposing deficit

The premise of a free enterprise market system is one great strength of our society. The PMA's, while under government control, provide a microcosm of free enterprise. A product is offered to end users that are paying for the costs of the PMA operations and have been doing so since their inception. It makes no sense in the business world to sell off a money making enterprise. This move would be counterproductive to the intent of deficit reduction. The only real benefit from this sale would be a temporary influx of capital and we would lose the long term opportunity for financial gain.

There is the question of who should control public lands and property. To take public property and put it in control of the private sector is a travesty. No private enterprise should benefit from the public resources without substantial benefit to the whole. This concept of individual profit being derived from public property is one that should receive a high level of scrutiny. Let the profit go to the public and not to private corporations and individuals. Our waters, forests, minerals, and other resources should be utilized for the profit of our public.

The last point I will make is that these projects were built for public benefit. The intrastructure has served our nation well and continues to provide much public support. In return, the beneficiaries of these projects have and continue to pay for the cost of operation and retirement of debt. To take these projects away from the public would be a disservice to those that supported the projects when they were not quite the 'good deal' they are viewed as today. If mismanagement of these projects is a problem, fix the problem. Don't sell the PMA's that have been supported by users for many years. Don't give up our valuable resources for a quick fix scheme. Don't ignore good business management practices just to look good on paper. Let's rethink this unnecessary and unwise approach. Let's be smart with our government and concentrate on real problems. Please include this letter in the official hearing record.

Sincerely:

Kenneth R. Coleman, Public Services Director



"Colorado's Christmas City"

P. O. Box 458 Holly, Colorado 81047 Phone: (719) 537-6622 Fax: (719) 537-6621

MAY 17 1995

May 15, 1995

Honorable John Doolittle House Resources Subcommittee on Water & Power Washington, DC 20515

Dear Chairman Doolittle.

We understand that on May 18 the House Resources Subcommittee on Water and Power will hold a hearing on the possible sale of the federal Power Marketing Administrations. The Town of Holly continues to oppose the sale of the PMAs, especially the Western Area Power Administration. We again urge you to vote against privatizing Western at the expense of the people who receive service from consumer-owned electric utilities such as our citizens.

As we have previously advised you, a sale of Western could have significant adverse consequences for our local and regional economy. Our power supplier, the Arkansas River Power Authority, estimates that our wholesale power bills will increase by over 25% if we no longer have access to our allocation of federal hydropower. Cost increases of this magnitude will have devastating economic impacts on our fragile economy.

A sale of Western just doesn't make good sense. Taxpayers do not subsidize Western's power program. It fully pays its own way through charges for hydropower sold to consumer-owned utilities. If this positive revenue producing asset is sold, it will wind up costing citizens in the rural areas much more for their electricity. Since electricity is a necessity, not a luxury, unnecessary cost increases will be viewed by the consumer as a tax increase.

We understand that the Congress is facing enormous challanges to balance the budget. But if selling off valuable government assets is going to be seriously considered.

the winners like the Power Marketing Administrations.

We respectfully request that you the latter in the record of the Water and Power Subcommittee's hearing. We are enclosing 10 copies for this purpose.

Please let us know if you have any questions on our position or how a sale of Western could negatively impact our community.

Sincerely.

Anthony Garcia, Mayor

cc: Honorable George Miller, Ranking Member House Resources Committee

Members of House Resources Subcommittee on Water and Power

Honorable Wayne Allard House of Representatives

Honorable Don Young, Chairman House Resources Committee



KANSAS KANSAS MUNICIPAL MUNICIPAL ENERGY GAS AGENCY AGENCY

6330 Lamar Avenue, Sulte | 10 Overland Park, Kansas 66202-4247 (913) 677-2884 (913) 677-0804 FAX

May 16, 1995

The Honorable John Doolittle. House Resources Subcommittee on Water and Power 1337 Longworth House Office Building Washington, D.C. 20515

Re Congressional Hearing on PMAs

Dear Congressman Doolittle:

As a representative of Kansas municipals, KMEA is concerned about the negative impact the sale of the PMAs would have on cities and other customers of the PMAs in Kansas. The federal power program is an important part of our members' electric utilities.

We expressed our concern to the Kansas congressional delegation earlier this year by providing them with specific reasons the sale should be rejected (copy of the letter sent to Senator Dole enclosed). Clearly, KMEA is opposed to the sale of the PMAs. In the event the Committee recommends to sell the PMAs, KMEA will then support the position taken by the American Public Power Association (APPA) that they be sold to the customers, under the conditions contained in APPA's testimony.

Your serious consideration of our position will be appreciated. Please include this letter in the official hearing record.

Sincerely,

Gilbert E. Hanson, Jr. General Manager

GEH:db Encl. May 16, 1995 The Honorable John Doolittle Page 2

CC: Members of the House Resources Subcommittee on Water and Power (w/encl.)

> Chairman and Ranking Member of the House Resources Committee (w/encl.)

Kansas Congressional Delegation (w/o encl.)

Mr. Louis Stroup, Jr. (w/o encl.) Kansas Municipal Utilities P.O. Box 1225 McPherson, Kansas 67460

Mr. Alan Richardson (w/o encl.) American Public Power Association 2301 M Street, N.W. Washington, D.C. 20037



May 15, 1995

Honorable Wayne Allard House of Representatives 422 Cannon House Office Building Washington DC 20515

Dear Congressman Allard:

We understand that on May 18 the House Resources Subcommittee on Water and Power will hold a hearing on the possible sale of the federal Power Marketing Administrations. The City of Lamar continues to oppose the sale of the PMAs, especially the Western Area Power Administration. We again urge you to vote against privatizing Western at the expense of the people who receive service from consumer-owned electric utilities such as our citizens.

As we have previously advised you, a sale of Western could have significant adverse consequences for our local and regional economy. Our power supplier, the Arkansas River Power Authority, estimates that our wholesale power bills will increase by over 25 percent if we no longer have access to our allocation of federal hydropower. Cost increases of this magnitude will have devastating economic impacts on our fragile economy. This is not the right federal asset to sell because it generates positive cash flow to the federal Treasury and has historically allowed rural based economies to have access to a competitive source of electric power.

We are attaching our previous letter of April 19, 1995, opposing the sale of Western signed by our Mayor. We respectfully request that you include this letter and the April 19 letter in the record of the Water and Power Subcommittee's hearing. We are enclosing 10 copies for this purpose.

Please contact Leon Sparks, Superintendent, Lamar Utilities Board, if you or members of your staff have any questions on how a sale of Western could negatively affect our community.

Sincerely,

Mayor Pro Tem

CITY OF LAMAR 102 EAST PARMENTER - LAMAR, COLORADO 81052-3239 - 719/336-4376 Letter to Honorable Wayne Allard May 15, 1995 Page 2

Enclosures

cc: Honorable John Doolittle, Chairman House Resources Subcommittee on Water and Power

Members of House Resources Subcommittee on Water and Power

Honorable Don Young, Chairman House Resources Committee

Honorable George Miller, Ranking Member House Resources Committee



April 19, 1995

Honorable Wayne Allard House of Representatives 422 Cannon House Office Building Washington DC 20515

Dear Congressman Allard:

The City of Lamar has owned and operated a municipal electric utility for the benefit of our citizens for over 75 years. Competitively priced electric rates are vital to the economic well-being of our citizens. Unfortunately, efforts to improve our economy will be undermined by the proposals being circulated in Washington to sell off the federal Power Marketing Administrations, including the Western Area Power Administration. We obtain a significant portion of our wholesale electric supply from Western.

We don't understand why a sale of these valuable federal assets is being considered, especially since they generate positive revenue impacts to the Treasury. A sale will translate into higher electric rates for rural based communities such as Lamar.

I am enclosing petitions, signed by over 75 of our citizens, registering their opposition to the proposed sale of the Western Area Power Administration.

We are encouraged by the statement in your letter of January 11, 1995 to Jim Henderson of the Arkansas River Power Authority that "you do not see that there would be any benefit to selling off "WAPA". We urge you to reaffirm this opposition to the sale of Western.

Please keep us informed regarding your views on this issue.

Junearer!

Janet Gehlhausen Mayor, City of Lamar

must Schlhausen

Enclosures

c: Doris Morgan, Director, SE Colorado District Office

LAMAR LITILITIES BOARD 100 NORTH SECOND * LAMAR, COLORADO 81052-2505 * 719/336-7456

PETITION OPPOSING THE SALE OF THE WESTERN AREA POWER ADMINISTRATION

TO: Senator Hank Brown Senator Ben Nighthorse Campbell Representative Wayne Allard

The persons signing this petition are either citizens of the City of Lamar, or customers of the City of Lamar Utilities Board, a municipally-owned electric utility, which serves the city of Lamar and a 167 square mile area around Lamar.

A significant portion of the Board's wholesale supply of electric power is obtained from the Western Area Power Administration, a federal power marketing administration. We understand that proposals are being heard in Washington to sell the Western Area Power Administration to the highest bidder. We are greatly concerned that any such sale will raise our electric rates without providing any economic benefit to the federal treasury.

Higher electric rates will cause further undue economic hardship in our community and other communities in Colorado that receive power from the federal government. Since electricity is a necessity not a luxury, we view any increase in rates caused by sale of these valuable federal assets as nothing more than what it really will be — A TAX INCREASE. We urge each of you to oppose the sale of the Western Area Power Administration.

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(Eleven Petitions like the above were submitted)

BF - FM1

Serving Today's Needs for a Better Tomorrow

May 16, 1995



The Honorable John Doolittle House Resources Subcommittee on Water and Power 1337 Longworth House Office Bldg Washington, DC 20515

RE: Opposition to Sale of Federal Power Marketing Administrations

The County of Los Alamos would like to urge you to oppose efforts to sell the federal power marketing administrations (PMAs). The proposal will hurt every citizen of Los Alamos County and jeopardize the economy of every local business, financially harm the residential electric customers and affect the stability of the Los Alamos National Laboratory (LANL).

The PMAs provide electricity to about 1,100 not-for-profit electric utilities, and directly or indirectly to about 57 million people in 34 states. Locally, our not-for-profit, community-owned electric utility receives an allocation of hydroelectric power from Western Ares Power Administration (Western). This power provides 20 percent of the total electrical energy used by our community homes and businesses. The utility pays the federal government for all the costs associated with production and delivery of the power.

If the PMAs are sold and cost-based rates abandoned, we estimate that our residential and business customers' rates will rise by 14%. To make matters worse, our largest customer, the DOE's Los Alamos National Laboratory, rates will also increase by 14%. Approximately, 80% of the power received from Western is utilized to serve the LANL load.

The sale of the PMAs will hurt our community's economy and that of the entire nation. Higher electric rates not only affect household electric bills, but mean higher costs for manufactured items produced by communities served by the PMAs.

This proposal is being touted as a deficit reduction move. However, it will not reduce the federal deficit in the long term, nor will it generate as much income as has been projected. President Clinton has proposed selling the PMAs to obtain a one-time cash infusion over the next five years. However, this is a short-term fix that will end in the year 2000. Currently, the PMAs are required by law to repay all their debt with interest, just like private businesses, and they do! That means selling the PMAs would actually result in the loss of a stream of revenue flowing steadily year after year into the federal treasure.

Selling the power generation at these federal facilities would divest our country of national assets that make money and help pay for those that do not. The federal government's oversight of national waterways includes flood control, navigation, irrigation, wildlife conservation, environmental protection, recreation and salinity control. These are all non-income producing activities, unlike hydroelectric power generation, which does produce income. The money raised by hydroelectric power generation now helps to cover the costs of some of these activities.

Department of Public Utilities . County of Los Alamas . P.O. Drawer 1030 . Los Alamas, New 87544

The Honorable John Doolittle Page 2 May 16, 1995

In addition, focusing on the PMAs distracts the federal government from the real work that needs to be done to get our country back on track. We are willing to work with our elected officials to end unnecessary programs that cost taxpayers money. And, indeed, there are programs that have been created in Washington, D.C. that just do not work. But this is not one of them. America's power program is not subsidized by federal taxpayers. Instead, it pays it own way, with revenues being transferred on a regular basis into the federal treasury by the consumers who benefit directly from the hydroelectric power generated.

For these reasons, we urge you to oppose efforts to sell the federal power marketing administrations. Please include this statement in the official hearing record. We thank you for your consideration of our request. Feel free to contact us any time for further information on this very important matter.

Sincerely,

D. Chris Ortega Utilities Manager

Information copies:

Pete V. Domenici, NM James V. Hansen, UT Frank A. Cremeans, OH George P. Radanovich, CA John Shadegg, AZ Sam Farr, CA Bill Richardson, NM Jeff Bingaman, NM Wayne Allard, CO Wes Cooley, OR William Thornberry, TX Nathan Deal, GA Bruce Vento, MN Calvin Dooley, CA Steven Schiff, NM Richard Pombo, CA Helen Chenoweth, ID Richard Hastings, WA Peter DeFazio, OR Sam Gejdenson, CT Maurice Hinchey, NY

Cy: The Honorable Don Young Chairman House Resources Committee 1324 Longworth House Ofe Bldg Washington, DC 20515

The Honorable George Miller Ranking Member House Resources Committee 1329 Longworth House Ofe Bldg Washington, DC 20515

Cy: Utilities Board County Council T. Biggs B France file



City of BaInnta

SIXTH AND COLORADO - P.O. BOX 489 LA JUNTA. COLORADO 81050 PHONE 719-384-2578

May 15, 1995

Honorable Wayne Allard House of Representatives 422 Cannon House Office Building Washington, DC 20515

Dear Congressman Allard:

We understand that on May 18 the House Resources Subcommittee on Water and Power will hold a hearing on the possible sale of the federal Power Marketing Administrations. The City of La Junta continues to oppose the sale of the PMAs, especially the Western Area Power Administration. We again urge you to vote against privatizing Western at the expense if the people who receive service from consumer-owned electric utilities such as our citizens.

As we have previously advised you, a sale of Western could have significant adverse consequences for our local and regional economy. Our power supplier, the Arkansas River Power Authority, estimates that our wholesale power bills will increase by over 25% if we no longer have access to our allocation of federal hydropower. Cost increases of this magnitude will have devastating economic impacts of our fragile economy.

A sale of Western just doesn't make good sense. Taxpayers do not subsidize Western's power program. It fully pays its own way through charges for hydropower sold to consumer-owned utilities. If this positive revenue producing asset is sold, it will wind up costing citizens in rural areas much more for their electricity. Since electricity is a necessity, not a luxury, unnecessary cost increases will be viewed by the consumer as a tax increase.

We understand that the Congress is facing enormous challenges to balance the budget. But if selling off valuable government assets is going to be seriously considered, sell the losers not the Winners like the Power Marketing Administrations.

We respectfully request that you include this letter in the record of the Water and Power Subcommittee's hearing. We are enclosing 10 copies for this purpose. Please let us know if you have any questions on our position of how a sale of Western could negatively impact our community.

Sincerely,

Ardeth Sneath

Mayor

Letter to Honorable Wayne Allard May 15, 1995 Page 2

neath

cc: Honorable John Doolittle, Chairman House Resources Subcommittee on Water and Power

Members of House Resources Subcommittee on Water and Power

Honorable Don Young, Chairman House Resources Committee

Honorable George Miller, Ranking Member House Resources Committee



Water A. Cavery Administrator

May 17, 1995

11th & "O" Streets P.O. Box 80869 Lincoln, NE 68501-0869 402/475-4211 402/475-9759 FAX

Administrative Board

Oscar A. Sancherg Chair. Saven P. Bowen Vice Chair. Many 8-tis Sebelary. Charles Arnold Marigh Blosthard Make Blosthard Make Blosthard Lay Scharier.

Shelley R Sunley Assistent Servetary Douglas Gury Level Counsel

The Honorable John Doolittle House Resources Subcommittee on Water and Power 1337 Longworth House Office Building Washington, DC 20515

RE: Hearing May 18 on Federal Power Marketing Administrations

Dear Congressman Doolittle:

I write to express Lincoln Electric System's (LES) opposition to the proposed sale of the federal Power Marketing Administrations, particularly the Western Area Power Administration (WAPA). I respectfully request that this letter be included in the official hearing record of the House Resources Subcommittee on Water and Power hearing on the federal Power Marketing Administrations that will be held May 18, 1995.

Sale of WAPA will have a detrimental impact on Nebraska's ratepayers. The Clinton Administration has estimated that the sale of the Power Marketing Administrations would generate approximately \$3 billion. However, this would be a one time gain for the government coffers with long-term consequences for Nebraska ratepayers. The attached analysis by NMPP Energy estimates that privatization of WAPA would cost Nebraska ratepayers in excess of \$50 million annually. This would require rate increases for electric utilities throughout the state. I have also enclosed a copy of LR 49, a Legislative Resolution expressing the Nebraska Unicameral's opposition to the sale of WAPA.

WAPA, as well as the other Power Marketing Administrations, has served the federal government and Nebraska ratepayers well. WAPA's ratepayers, including those in Nebraska, have repaid to the federal government a significant portion of the original investment, with interest. The current proposal is similar to paying on your home mortgage for 20 years and then having the bank kick you out of your home and selling it to the highest bidder. This proposal provides a one-time benefit for the federal government (bank), with long-term consequences for the ratepayers (mortgagee).

The Honorable John Doolittle Page 2 May 17, 1995

Nebraska ratepayers cannot afford the long-term consequences of selling off the Western Area Power Administration. We respectfully urge your Subcommittee's opposition to this proposal.

Sincerely,

Walter A. Canney LES Administrator

WAC/al

Enclosures

c: Members of the House Resources Subcommittee on Water and Power Congressman Don Young, Chairman, House Resources Committee Congressman George Miller, Ranking Member, House Resources Committee

NMPP Energy Comparison of Existing Public Ownership to Private Ownership of Federal System Based on Post-1989 Allocations

Cit. (C. salara		Cost of Federal Power		
	1994 WAPA Energy	Current Cost (1)	Private Ownership (2)	discussion.
City/System	MWh	S	S S	Increase
WAPA Eastern	MAAII		•	
Division				
DIVINIUII.				
Ansley	364	\$5,180	\$14,560	\$9,380
Arnold	5,798	\$82,506	\$231,920	\$149,414
Aubum	12,743	\$181,333	\$509,720	\$328,387
Beatrice	11,380	\$161,937	\$455,200	\$293,263
Beaver City	1,311	\$18,656	\$52,440	\$33,784
Blue Hill	5,203	\$74,039	\$208,120	\$134,081
Broken Bow	11,558	\$164,470	\$462,320	\$297,850
Burwell	2,557	\$36,386	\$102,280	\$65,894
Callaway	3,885	\$55,284	\$155,400	\$100,116
Cambridge	2,461	\$35,020	\$98,440	\$63,420
Crete	13,701	\$194,965	\$548,040	\$353,075
Curtis	1.745	\$24,831	\$69,800	\$44,969
David City	6,449	\$91,769	\$257,960	\$166,191
Deshler	2,205	\$31,377	\$68,200	\$56,823
DeWitt	2,617	\$37,240	\$104,680	\$67,440
Fairbury	13,841	\$196,957	\$553,640	\$356,683
Falls City	18,222	\$259,299	\$728,880	\$469,581
Franklin	2,418	\$34,408	\$96,720	\$62,312
Fremont	26.486	\$376,896	\$1,059,440	\$682,544
Grand Island	34,820	\$495,489	\$1,392,800	\$897,311
Hastings	46.453	\$661,026	\$1,858,120	\$1,197,094
ndianola	408	\$5,806	\$16,320	\$10,514
Laurel	2,394	\$34,067	\$95,760	\$61,693
Lincoln	140,000	\$1,992,200	\$5,600,000	\$3,607,800
Lyons	2,496	\$35,518	\$99,840	\$64,322
Madison	3,490	\$49,663	\$139,600	\$89,937
Nebraska City	36,234	\$515,610	\$1,449,360	\$933,750
Neligh	885	\$12,594	\$35,400	\$22,806
Ord	5.752	\$81,851	\$230,080	\$148,229
Oxford	2,571	\$36,585	\$102,840	\$66,255
Pender	2,832	\$40,299	\$113,280	\$72,981
Pierca	1,172	\$16,678	\$46,880	\$30,202
Plainview	2,726	\$38,791	\$109,040	\$70,249
Randolph	618	\$8,794	\$24,720	\$15,926
Red Cloud	2,958	\$42,092	\$118,320	\$76,228

02/09/95

NMPP Energy Comparison of Existing Public Ownership to Private Ownership of Federal System Based on Post-1989 Allocations

		Cost of Federal Power		
City/System	1994 WAPA Energy	Current Cost (1)	Private Ownership (2)	Increase
	MWh	\$	\$	\$
Sargent	1,933	\$27,507	\$77,320	\$49,813
Schuyler	23,857	\$339,485	\$954,280	\$614,795
Shickley	248	\$3,529	\$9,920	\$6,391
South Sioux City	7,415	\$105,515	\$296,600	\$191,085
Spalding	4,405	\$62,683	\$176,200	\$113,517
Spencer	425	\$6,048	\$17,000	\$10,952
Stuart	1,270	\$18,072	\$50,800	\$32,728
Syracuse	1,266	\$18,015	\$50,640	\$32,625
Tecumseh	4,041	\$57,503	\$161,640	\$104,137
Wahoo	10,397	\$147,949	\$415,880	\$267,931
Wakefield	1,271	\$18,086	\$50,840	\$32,754
Wayne	9,924	\$141,219	\$396,960	\$255,741
West Point	4,898	\$69,699	\$195,920	\$126,221
Wilber	8,770	\$124,797	\$350,800	\$226,003
Winside	2,462	\$35,034	\$98,480	\$63,446
Wisner	11,368	\$161,767	\$454,720	\$292,953
Wood River	684	\$9,733	\$27,360	\$17,627
Sub-total	525,387	\$7,476,257	\$21,015,480	\$13,539,223
NPPD	704,450	\$10,024,324	\$28,178,000	\$18,153,676
OPPD	386,000	\$5,492,780	\$15,440,000	\$9,947,220
Total	1,615,837	\$22,993,361	\$64,633,480	\$41,640,119
State Agencies				
Beatrice Dev. Center	7,885	\$112,204	\$315,400	\$203,196
Hastings Reg. Center	5,584	\$79,460	\$223,360	\$143,900
Nebraska State Pen.	8,386	\$119,333	\$335,440	\$216,107
Norfolk Regional Ctr.	2,533	\$36,045	\$101,320	\$65,275
Peru State College	1,978	\$28,147	\$79,120	\$50,973
UNL	101,246	\$1,440,731	\$4,049,840	\$2,609,109
UNO	6,213	\$88,411	\$248,520	\$160,109
Wayne State College	1,944	\$27,663	\$77,760	\$50,097
Total	135,769	\$1,931,994	\$5,430,760	\$3,498,766
Eastern Division Total	1,751,606	\$24,925,355	\$70,064,240	\$45,138,885

 ⁽¹⁾ WAPA Eastern Division average cost of 14.23 mills/kWh (does not include wheeling).
 (2) Private ownership cost of 40 mills/kWh (does not include wheeling).

NMPP Energy Comparison of Existing Public Ownership to Private Ownership of Federal System Based on Post-1989 Allocations

City/System	1994 WAPA Energy	Cost of Federal Power		
		Current Cost (1)	Private Ownership (2)	Increase
7.1.0	MWh	\$	\$	\$
WAPA Western				
Division				
Alliance	8,992	\$186,134	\$359,680	\$173,546
Bayard	6,488	\$134,302	\$259,520	\$125,218
Benkelman	1,432	\$29,642	\$57,280	\$27,638
Bridgeport	4,706	\$97,414	\$188,240	\$90,820
Chappell	5,022	\$103,955	\$200,880	\$96,92
Gering	27,538	\$570,037	\$1,101,520	\$531,48
Grant	1,698	\$35,149	\$67,920	\$32,77
mperial	9,318	\$192,883	\$372,720	\$179,83
Kimball	3,154	\$65,288	\$126,160	\$60,87
Lodgepole	258	\$5,341	\$10,320	\$4,97
Lyman	2,196	\$45,457	\$87,840	\$42,38
MEAN	12,741	\$263,739	\$509,640	\$245,90
Mitchell	6,899	\$142,809	\$275,960	\$133,15
Morrill	7,716	\$159,721	\$308,640	\$148,91
Mullen	636	\$13,165	\$25,440	\$12,27
Sidney	5,242	\$108,509	\$209,680	\$101,17
Vauneta	3,154	\$65,288	\$126,160	\$60,87
Subtotal	107,190	\$2,218,833	\$4,287,600	\$2,068,76
NPPD - Western Div.	14,149	\$292,884	\$565,960	\$273,07
Tri-State - Neb.	168,910	\$3,496,437	\$6,756,400	\$3,259,96
Nebraska Western Total	290,249	\$6,008,154	\$11,609,960	\$5,601,80
Nebraska				
Grand Total	2.041.855	\$30,933,509	\$81,674,200	\$50,740,69

⁽¹⁾ WAPA Western Division average cost of 20.7 mills/kWh (does not include wheeling).

⁽²⁾ Private ownership cost of 40 mills/kWh (does not include wheeling).

RESOLUTION

LEGISLATIVE RESOLUTION 49. Introduced by Beutler, 28.

WHEREAS, the Clinton Administration and the Congress of the United States are considering proposals to sell the five federal power marketing administrations, including the Western Area Power Administration, in order to fund a tax cut for middle-income Americans: and

WHEREAS, Nebraska's publicly-owned electric utilities receive low-cost hydroelectric power from federal dams operated by the Western Area Power Administration, the University of Nebraska receives approximately eighty percent of its power from the Western Area Power Administration, and the privatization of the Western Area Power Administration will significantly increase wholesale power costs for electric utilities statewide which will result in increased rates for Nebraska ratepsyers; and

WHEREAS, Nebraska is the only all-public-power state in the nation, with Nebraska's electric utilities offering rates among the lowest ten percent in the nation, and selling the Western Area Power Administration will lessen this rate advantage which will detrimentally impact economic development in Nebraska and will also burden the existing agriculture and business industry in Nebraska, including the fact that a portion of the federal hydropower allocated to Nebraska is specifically designated for irrigation pumping power; and

WHEREAS, the Nebraska Power Association has estimated that this proposal could cost Nebraska ratepayers more than fifty million dollars annually, the proposal is unnecessary and burdensome, and the ratepayers purchasing electricity through the Western Area Power Administration have repaid a major part of the original investment with interest.

NOW, THEREFORE, BE IT RESOLVED BY THE MEMBERS OF THE NINETY-FOURTH LEGISLATURE OF NEBRASKA, FIRST SESSION:

 That the Legislature opposes the sale, transfer, exchange, lease, or other disposition of the Western Area Power Administration due to the significant fiscal impact such a sale would have on Nebraska ratepayers.

2. That the Clerk of the Legislature transmit a copy of this resolution to the President of the United States, the President pro tempore of the United States Senate, the Speaker of the United States House of Representatives, and to the members of the Nebraska delegation to the Congress of the United States.

Laid over.



Rory Weis Superintendent

Trustees: Donald Kenkel Duane Mann Charles Warner, Jr.

The Honorable John Delittle House Resources Subcommittee

on Water and Power 1337 Longworth House Office Building Washington, D.C. 20515

Dear Mr. Doolittle:

On Thursday, May 18, 1995, at 10:00 a.m., your committee on Water and Power will be holding a hearing on the federal Power Marketing Administrations. (I would tike this letter to be a part of the record of that hearing.

On behalf of our customers, and the utility, I am against the sale of the FMA: and wish to offer my support on the current federal power program.

If enacted, such a proposal would have a major impact on our cost of electricity. It could raise our rates anywhere from 30% to 50%! We estimate that each of our customers would pay an average increase of over \$350.00 per year.

In addition to increasing power rates, selling off PMAs violates a fundamental principle underlying the dam facilities. The federal dams were built to serve the public interest. Congress very clearly intended that power generated by federal dams should be treated as a public resource to help assist in economic development. The federal government should not abandon its commitment to support and develop America in order to try and make a quick buck.

Federal dams are multiple purpose facilities and must be managed for more than just power generation. Dam managers must also consider functions like flood control, navigation, water supply, irrigation, recreation, and wildlife enhancement. No private entity could properly or legally balance these complex, and often competing functions. Only the federal government can serve this rele

Congress previously considered an attempt by the Reagan Administration to sell of federal hydropower resources and promptly passed legislation making it illegal to even study the idea. That law is still in force.

I urge you to abandon any effort to sell off federal dams and associated marketing agencies because it is bad economics, bad social policy, and bad politics.

Sincerely.

Rory Weis Superintendent

CC:All members of House Resources Subcommittee on Water & Power Don Young George Miller Executive Director

Member Teiber: Assiniboine & Sioux Tribe of Fort Pack, Poplar, Montana

Cheyenne River Sious Tribe, Eagle Butte, South Dahota

Eagle Butte, South Dakot. Chippens Cree Telle, Box Eller, Montane

Crow Creek Sious Tribe, Fort Thempson, South Dabota

Devil's Lake Sloue Tribe, Fort Totten, North Dahota

Port Bellmap Tribe, Harlem, Montana Kichapon Tribe of Kanasa,

Lower Brule Sious Tribe, Lower Brule, South Dabota

Northern Cheyenne Tribe, Lame Door, Montana

Oglala Siona Tribe, Pine Ridge, South Dakota

Omaha Tribe, Walthill, Nebraska Ponca Tribe of Nebraska, Niobrasa, Nebraska

Prairie Band of Potawetomi, Mayetta, Kanese

Rosebud Sious Tribe, Rosebud, South Dahota

Sec & Fox of Missouri.

Santes Sieux Triba, Niobrara, Nebraska

Sisseton-Wahpeton Dabota Nation, South Dabota

Standing Rock Sjour Tribe, Fort Years, North Dakota

Three Affiliated Tribes, New Town, North Dalecta Turtle Mountain Band of Chippenes, North Dalecta

Winnehago Tribe of Nebraska Winnebago, Nebraska

Yanktım Sicus Tribe Marty, South Dabota

Mni-Sose Intertribal Water Rights Coalition, Inc.

P.O. Box 2890, 514 Mt. Rushmore Road Rapid City, South Dakota 57709-2890

May 16, 1995

The Honorable John Doolittle

House Resources Subcommittee on Water and Power

1337 Longworth House Office Bldg.

Washington, DC 20515

Dear Chairman Doolittle:

Enclosed are two resolutions passed by the Mni Sose Intertribal Water Rights Coalition at its April 27, 1995 Board Meeting. Resolution #95-16 opposes the Administration's proposal for the sale of the Western Area Power Administration (WAPA) while Resolution #95-17 rejects current WAPA estimates of Indian need and requests allocations of power to meet 100 percent of tribal needs.

The Mni Sose Coalition is comprised of 23 federally-recognized Indian Tribes possessing water resources in the Missouri River Basin with a combined membership of over 100,000 enrolled members—roughly ten percent of the Bureau of Indian Affairs' service population. The main objectives of the Coalition are to provide a medium to address issues relating to the protection and development of tribal water resources in the Missouri River basin and to provide technical assistance on behalf of the Coalition's membership. Mni Sose is engaged in active negotiations with WAPA to secure the preference power promised the Tribes under the 1994 Flood Control Act and the various Acts taking lands of the Tribes to establish dams, reservoirs, and power generation and distribution lacilities.

The Missouri River and its tributaries provide an immense natural resource. It drains onesixth of the Nation and its 530,000 square-mile basin is over 2,300 miles long. There are 28 major reservoirs in the basin, including the third, fourth, and fifth largest reservoirs in the United States. Seven hydropower plants use the river for cooling purposes. Nearly four million people use the river for their water supply. Missouri River fisheries generate about 5 million recreational visits each year valued at \$175 million.

Despite historical and legal rights to the water, the 23 Coalition Member Tribes have not participated fully or fairly in the benefits of the Missouri River water resources and its tributaries. Twenty-three percent of the 1,499,759 acres taken for the construction of the dams and reservoirs under the Pick-Sloan plan were lands of the Tribes. Although the Federal government promised irrigation development for the Tribes and participation in the generation of electricity by the Pick-Sloan Project, the Tribes have not received these benefits. The rights of Tribes to share in these hydropower resources were recognized by Congress in the Energy Policy Act of 1992.

Telephone (605)343-6054......FAX (605)343-4722......BBS (605)343-0983

Nearly 350,000 acres of the best of the tribal homelands were taken for the construction of hydropower dams in the upper Missouri River system with the pledge that the Tribes would gain access to low-cost hydroelectrical power. Nonetheless, the Tribes and their members still pay the highest electrical rates in the Nation even though the reservation populations in this area are listed by the Bureau of Census as the most impoverished areas in the Nation and thus have the least ability to pay. Receipt of preference power is desperately needed, not only for heating and light in individual homes, but to provide for municipal use and development of economies on the reservation homelands.

The Western Area Power Administration is now in the final stages of completing an Environmental Impact Statement (EIS) necessary for the determination of allocation of Pick-Sloan generated hydropower to existing and new customers as current contracts expire in the years 2000, 2005, and 2010. The Mni Sose Coalition has actively engaged with WAPA in this process and, for the first time in the 50-year history of the Pick-Sloan Project, is on the verge of receiving an allocation of power necessary to meet the needs of the Tribes in the Missouri River Basin. The threat of the sale of WAPA jeopardizes the success of this continuing and long-term effort.

The Mni Sose Coalition strongly opposes the proposal for the sale of WAPA. If, in fact, Congress does decide that the sale of WAPA should be authorized, then the Mni Sose Coalition insists that any legislation enacted recognize the historic injustice that has precluded the Tribes in the Missouri River Basin from receipt of preference power for over 50 years and include language in any such legislation that will recognize and protect the rights of the Tribes to receive 100 percent of the power necessary to meet their current and future needs.

The Coalition stands firm in opposing the sale of WAPA and requests your support in protecting the rights and needs of the Tribes on any future action that may be taken.

Sincerely,

Richard Bad Moccasin Executive Director

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MNI-SOSE Intertribal Water Rights Coalition, Inc.

Phone (605) 343-6054 - Fax (605) 343-4722 PO Box 226, 514 Mt. Rushmore Rd. Rapid City, South Dakota 57709-0226



MSC 95-16

A RESOLUTION OF THE MNI SOSE INTERTRIBAL WATER RIGHTS COALITION, INC.

A RESOLUTION IN OPPOSITION TO THE SALE OF FEDERAL POWER MARKETING ADMINISTRATIONS.

- WHEREAS, the Mni Sose Intertribal Water Rights Coalition, Inc. (hereinafter called Mni Sose Coalition), is a non-profit corporation that is dedicated to the preservation, enhancement, and protection of the water rights of Indian Tribes in the Missouri River Basin; and
- WHEREAS, the Indian Tribes, by virtue of inherent Tribal sovereignty and the acknowledgment by Congress of Tribal Authority in the area of environmental protection, are the appropriate sovereigns to protect the environment on and near the Reservations, and
- WHEREAS, the Mni Sose Coalition is comprised of twenty-three Indian Tribes located in the Missouri River Basin with vested interests in water rights; and
- WHEREAS, the Mni Sose Coalition promotes the health, education, and welfare of the member tribes, bands, nations and/or Indian communities; and
- WHEREAS, the Missouri Basin Tribes hold valuable reserved Winter's doctrine right to the use of water in the surface water and ground waters of the Missouri River Basin and seeks to protect, preserve, manage and utilize the water reserved by the Tribe and the quality of the water resource for present and future generations of the Missouri River Tribes; and
- WHEREAS, the Missouri River Basin Tribes are eligible to access low cost hydropower as defined in the Energy Policy of 1992; and
- WHEREAS, President Clinton in the Administration's 1996 Budget Proposal sent to Congress in early February has proposed sale or privatization of four federal power marketing agencies, including the Western Area Power Administration, and

- WHEREAS, Such proposals have been made and rejected in the past as bad public policy, however, in a year when Congress and the Administration are each trying to outdo the other in "downsizing" the Federal Government to seek deficit reductions, the proposal now takes on new vitality, and
- WHEREAS, the sale, transfer, or other disposition of the power marketing administrations or the Federal power plants will undermine the economic stability of Indian operated and Indian owned utilities, and threaten the minimal advances made in economic development of Indian Reservations by imposing significantly higher wholesale power costs, and
- WHEREAS, the sale, transfer, or other disposition of the power marketing administrations or the Federal power plants will threaten the ability of Indian publicly owned utilities to provide reliable electric service at competitive rates; thereby undermining utility competition and increasing monopoly in the electric utility industry; and
- WHEREAS, the sale, transfer, or other disposition of the power marketing administrations or the Federal power plants will preclude the formation of new Indian owned electric utilities by denying them allocations from new pools of electric energy as promised in the current power marketing initiatives of WAPA; and
- WHEREAS, the sale, transfer, or other disposition of the power marketing administrations or the Federal power plants will threaten to sidetrack the progress which the power marketing administrations and their Indian utility customers have made toward a sustainable, renewable energy future; and
- WHEREAS, the sale, transfer, or other disposition of the power marketing administrations or the Federal power plants will cut off the beneficial services provided by power marketing agencies to Indian utilities, such as education, planning, design, and operational training, and
- WHEREAS, the sale, transfer, or other disposition of the power marketing administrations or the Federal power plants will impede the efficient operation of multipurpose water projects providing flood control, irrigation water supply, and recreation, and
- WHEREAS, the sale, transfer, or other disposition of the power marketing administrations or the Federal power plants will interfere with or ignore legitimate tribal interests in rights of way agreements and the transfer of such valuable rights without recognition of tribal interests; and
- WHEREAS, the sale, transfer, or other disposition of the power marketing administrations or the Federal power plants will renege on existing agreements or covenants between the United States and the Indian utilities and Indian consumers; now
- THEREFORE, BE IT RESOLVED: That the Missouri River Basin Tribes Tribe expresses in the strongest possible terms its opposition to the sale, transfer, exchange, lease, privatization or other disposition of the federal power marketing administrations or the power plants and related facilities for the production and transmission of electricity, and,

BE IT FURTHER RESOLVED: That the Missouri River Basin Tribes Tribe urges Congress to once again reject the proposal to sell the PMAs or otherwise dispose of the hydropower facilities and the assets employed in generating federal power.

BE IT FURTHER RESOLVED: the Mni Sose Intertribal Water Rights Coalition opposes any proposal for legislation to authorize or direct the sale of the Western Area Power Administration. If any such legislation is considered, the Coalition insists that such legislation provide for the allocation of hydro-power from the Pick Sloan Missouri Basin Program sufficient to meet not less than 100 percent of the needs of the tribes.

CERTIFICATION

We, the undersigned President and Secretary of the Mni Sose Intertribal Water Rights Coalition, Inc. hereby certify that the Mni Sose Board of Directors, of whom Sixteen, constituting a quorum, were present at a meeting hereof and duly called, noticed, convened and held the 27th day of April, 1995 that the foregoing resolution was duly adopted by the affirmative vote of Fourteen members, with None opposing, and Two abstaining.

Gerald Big Crow, PRESIDENT

Mni Sose Intertribal Water Rights Coalition, Inc.

Sheita Oliver-Crawford, SECRETARY Mni Sose Intertribal Water Rights Coalition, Inc.



MNI-SOSE Intertribal Water Rights Coalition, Inc.

Phone (605) 343-6054 - Fax (605) 343-4722 PO Box 226, 514 Mt. Rushmore Rd. Rapid City, South Dakota 57709-0226



MSC 95-17

A RESOLUTION OF THE MNI SOSE INTERTRIBAL WATER RIGHTS COALITION, INC.

A RESOLUTION OF THE COALITION REJECTING CURRENT WAPA ESTIMATES OF INDIAN NEED AND REQUESTING ALLOCATIONS OF POWER IN THE FINAL RULE SUFFICIENT TO MEET ONE-HUNDRED PERCENT OF TRIBAL NEEDS.

WHEREAS, the Mni Sose Intertribal Water Rights Coalition, Inc. (hereinafter called Mni Sose Coalition), is a non-profit corporation that is dedicated to the

preservation, enhancement, and protection of the water rights of Indian

Tribes in the Missouri River Basin; and

WHEREAS, the Indian Tribes, by virtue of inherent Tribal sovereignty and the

acknowledgement by Congress of Tribal Authority in the area of environmental protection, are the appropriate sovereigns to protect the

environment on and near the Reservations; and

WHEREAS, the Mni Sose Coalition is comprised of twenty-three Indian Tribes located

in the Missouri River Basin with vested interests in water rights; and

WHEREAS, the Mni Sose Coalition promotes the health, education, and welfare of the

member tribes, bands, nations and/or Indian communities, and

WHEREAS, the Missouri Basin Tribes hold valuable reserved Winter's doctrine

right to the use of water in the surface water and ground waters of the Missouri River Basin and seeks to protect, preserve, manage and utilize the water reserved by the Tribe and the quality of the water resource for

present and future generations of the Missouri River Tribes; and

WHEREAS, the Missouri River Basin Tribes are eligible to access low cost hydro-

power as defined in the Energy Policy of 1992; and

WHEREAS, the Department of Energy proposes to issue a Final Rule establishing the

resource pool for new customers to be served by the Western Area Power

Administration in the years 2000, 2005, and 2010; now

THEREFORE, BE IT RESOLVED, that the Final Rule promulgated by the Department of Energy for allocation of power to be distributed by the Western Area Power Administration to new customers in 2000, 2005 and 2010, from hydro-power generated by the Pick Sloan Missouri Basin Program -- Eastern Division establish a resource pool sufficient to provide not less than 100 percent of the current and future power needs of the Indian tribes in the Missouri River Basin.

BE IT FURTHER RESOLVED, that Tribes of the Missouri River Basin reject the initial estimates of electrical requirements made by Western based on the concept of a single model. Tribes will take all prudent steps to develop independent estimates, based on the individual desires of the respective Tribes, using the following means, among other:

- Tribal staff and/or
- Western staff and/or
- TEECOMB financing

CERTIFICATION

We, the undersigned President and Secretary of the Mni Sose Intertribal Water Rights Coalition, Inc. hereby certify that the Mni Sose Board of Directors, of whom Sixteen, constituting a quorum, were present at a meeting hereof and duly called, noticed, convened and held the 27th day of April, 1995 that the foregoing resolution was duly adopted by the affirmative vote of Fourteen members, with None opposing, and Two abstaining.

Gerald Big Crow, PRESIDENT

Mni Sose Intertribal Water Rights Coalition, Inc.

Sheila Crawford, SECRETA

Sheila Crawford, SECRETARY Mni Sose Intertribal Water Rights Coalition, Inc.



MEMPHIS LIGHT, GAS AND WATER DIVISION

WILLIAM S. CRAWFORD

May 15, 1995

The Honorable John Doolittle House Resources Subcommittee on Water and Power 1337 Longworth House Office Building Washington, DC 20515

Dear Representative Doolittle:

I am writing to request your opposition to the sale of the federal power market administrations (PMA's). Futhermore, I am requesting this letter be included in the official hearing record.

It is of paramount importance that the PMA's not be sold now or in the future. The Southeastern Power Administration (SEPA), the supplier of power to TVA, is vitally important to the ratepayers in Memphis and Shelby County, Tennessee. The sale of this and the other PMA's will most certainly lead to a substantial increase in electric bills, not only, to the ratepayers in the Tennessee Valley, but also to millions of converge in the U.S. Valley, but also, to millions of consumers in the U.S.

This effort to sell the PMA's must be abandoned for there are no long term benefits from the sale. The PMA's are obligated by law to return all costs of construction, operation and maintenance for federal power production and transmission -- including principal and interest -- over a 50 year period. The existing equipment and infrastructure are valuable public property, and they become more valuable every year as the federal investment is retired. Once the debt is satisfied, the property will continue to be the property revenue-producing assets.

The federal power program helps support the local economies of thousands of communities, large and small. On behalf of the ratepayers of Memphis and Shelby County, Tennessee, I am requesting that you oppose any effort to sell the four PMA's.

Sincerely,

Chairman Don Young

Representative George Miller

Larry Hobart, APPA



NAVAJO TRIBAL UTILITY AUTHORITY

AN ENTERPRISE OF THE NAVAJO TRIBE

May 26, 1995

The Honorable John Dolittle, Chairman Sub-Committee on Water and Power Resources Committee U.S. House of Representatives Washington, D.C. 20515

Re: Hearing on Potential Transfer of Power Marketing Administrations - May 18, 1995

Dear Chairman Dolittle:

In his prepared testimony and, it is reliably reported, during his responses to committee questions, Charles E. Bayless, President, Tucson Electric Power Company, apparently acting on behalf of the Edison Electric Institute, mentioned the Navajo Tribal Utility Authority and the Navajo Nation. This requests that this response to his statements be included in the record accumulated by the Sub-Committee on the Transfer of Power Marketing Administrations and particularly the hearings held on May 18, 1995.

The Navajo Tribal Utility Authority is a wholly-owned public agency and enterprise of the Navajo Nation. Neither Mr. Bayless, Tucson Electric Power Company nor Edison Electric Institute has been authorized to speak for or on behalf of the Authority.

In the course of his prepared remarks, Mr. Bayless contrasted distribution service by government owned utilities and electric cooperatives to certain areas (which EEI never fails to mention) with service by Tucson Electric Power to the Navajo Tribal Utility Authority, "in the remote rural northeast corner of Arizona."

One may infer from this statement that the Tucson Electric Power Company somehow distributes electricity to residents on Navajo lands and is also the most-favored supplier of electricity to the Navajo Nation.

The Honorable John Dolittle, Chairman May 26, 1995 Page 2

Neither inference is true. The Navajo Tribal Utility Authority is the <u>distributor</u> of electricity and Tucson Electric Power Company is a brand new supplier of <u>wholesale</u> power, having been selected in 1993 by the Navajo Authority for a short-term supply. Please note that the power supplied by Tucson is far more expensive than the rest of the wholesale electricity purchased by the Authority.

There is no reason to believe that Tucson is or will be the preferred supplier to the Navajo Nation.

In an effort to escape a bankruptcy filing and to create cash flow, Mr. Bayless' Company underbid other investor owned utilities for a substantial portion of the wholesale power supplied to the Navajo Tribal Utility Authority for resale to its customers. It is extremely important for the Committee to understand that the Navajo Tribal Utility Authority also is a preference purchaser of Colorado River Storage Project power, which is marketed by the Western Area Power Administration.

Contrary to the flippant remarks Mr. Bayless is reported to have made to the effect that "the Navajo Nation would not be affected if the Western Area Power Administration slid into the Grand Canyon," the Committee should know that should the Navajo Tribal Utility Authority lose the ability to purchase preference power from the Colorado River Storage Project and have to replace that power with additional power purchased from Mr. Bayless' Company at its current wholesale rate, the residential rate to consumers of the Navajo Nation (where unemployment approaches 40-50 percent of the available work force) will increase substantially.

A substantial increase in the cost of a vital commodity such as electricity solely by reason of the fact that Colorado River Storage Project power marketing has fallen into the hands of the avaricious, investor owned community is intolerable and will constitute another instance of the failure of the federal Government to live up to its obligations to the Indian Nations.

A more beneficial and constructive Congressional action would simply allow the Navajo Authority to purchase <u>all</u> of its needs from Western Area Power Administration, displacing the onerous high-cost supply from Tucson Electric Power Company.

The Navajo Tribal Utility Authority, as a public agency and enterprise of the Navajo Nation, will most assuredly be adversely impacted should the Western Area Power Administration, and particularly those portions of Western dealing with the Colorado River Storage Project, be sold at a public auction.

The Honorable John Dolittle, Chairman May 26, 1995 Page 3

It is also worth noting that without the Navajo Tribal Utility Authority contracting for a substantial block of Tucson's excess capacity, at the end of 1992, we believe Tucson could have slid into oblivion instead of the Western PMA sliding into the Grand Canyon.

We appreciate the opportunity to have this response included in the Committee's record of the Hearing held on Way 18 of this year.

Very truly yours,

Leland R. Gardner, Chairman

Management Board



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Princeton Electric Plant Board

304 East Legion Drive P. O. Box 508 Princeton, Kentucky 42445 Phone (502) 365-2031 Fax (502) 365-5427

May 15, 1995

The Honorable John Doolittle House Resources Subcommittee on Water and Power 1337 Longworth House Office Blog. Washington, D. C. 20515

RE: May 18 Hearing on the Privatization of the Federal Power Marketing

Dear Senator Doolittle:

Representing Princeton Electric Plant Board, Princeton, Kentucky, I request your assistance in opposing any movement to sell the Federal Power Marketing Administrations. My reasons for this request are stated as follows:

Should our electrical system lose access to federal power, electric rates could increase as much as 19% in our area.

Our customers have been paying for federal facilities through their power rates and have developed an equity in the system that would be wiped out by a sale.

Electric sales from the federal power program produces revenues that help pay for flood control projects and wildlife enhancement. No private entity would manage these functions. Private managers would attempt to maximize profit rather than consider public interest.

There may be parts of the federal government that don't work well, but the federal power program is not one of them.

Please include this letter as a part of the official hearing record. Thank you.

Sincerely,

Kerry GO Vincent, General Manager

SOURCE

Page 2 The Honorable John Doolittle P May 15, 1995 R T cc: James V. Hansen, OT Wayne Allard, CO N C Richard Pombo, CA Prank A. Cremeans, OH E Prank A. Cremeans, OH Wes Cooley, OR Helen Chenoweth, ID George P. Radanovich, CA William Thornberry, TX Richard Hastings, WA T 0 N John Shadegg, AZ Nathan Deal, GA Peter DeFazio, CR S George Miller, CA Bruce Vento, MN Sam Gejdenson, CT Bill Richardson, NM Calvin Dooley, CA 1 Maurice Hinchey, NY Sam Farr, CA E N E R G S 0 U C

E

The Honorable Don Young Chairman House Resources Committee

The Honorable George Miller Ranking Member House Resources Committee W. Dale Den Herder

BF

SIOUX CENTER

Brian Gramentz
UTILITIES MANAGER
Harold Schlebout

Eldon Westra City ATTORNEY BOOM Evans

CITY COUNCILMEN Willis Alberda Myron Toering Ross K. Vernon John Byl John Mark Franken

> 335 1st Avenue N.W. Phone 712/722-0761

> > May 16, 1995

The Honorable John Doolittle House Resources Subcommittee on Water and Power 1337 Longworth House Office Building Washington, D.C. 20515

PAX NO: 202/225-5444

RE: Congressional Hearing on PMAs

Dear Congressman Doolittle:

We strongly urgs you to oppose the sale of the federal Power Marketing Agencies (PMAs). This letter is respectfully submitted for consideration by the House Resources Subcommittee on Water and Power at a hearing to be held on Thursday, May 18. Please include this letter in the official hearing record.

The City of Sioux Center is a rural based community with a population of approximately 5,500. Sioux Center owns and operates its own municipal electric utility. The Sioux Center municipal utility begain purchasing power from the federal government in 1956, at a time when the federal government was attempting to market hydro-power. Our customers have been helping service federal debt for the past 40 years, including interest. To now sell the PMAs, specifically the Western Area Power Administration, will be costly for our customers and is bad business for the federal government.

There is misinformation among sale proponents that the PMAs are a drain on the taxpayer. The facts are: the PMAs operate a self-sustaining "no-cost" program for the federal government. PMAs are actually projected to return more than \$1.3 billion in revenues to the treasury over and above the appropriations request for FY 1996. The Department of Energy is currently completing a 20 year cash flow projection comparing revenues from the sale of the PMAs to leaving the PMAs as they are now. We believe that the analysis will show that the treasury will receive more than \$1 billion more if the sale is rejected.

May 16, 1995 Page 2

There is also misinformation among sale proponents that the PMAs can operate more efficiently in the private sector. We do not feel this is the case with the PMAs. The facts are: the PMAs own and operate more than 32,000 miles of high voltage transmission lines, and 2,000 miles under contract. The systems employ modern technology to provide the most efficient dispersal of electricity to the federal power customers. The PMA systems are used to buttress the power capacity owned by the private sector, to provide peaking power, to provide base-load generation, and in some cases, to dispatch federal and private sector power plants in a highly efficient and reliable way. The value of the systems is much higher than the sum of their parts. Dismantling the systems would diminsh the efficiency of these technological resources.

The PMA systems also insure that no single sector of the electric power industry can secure a monopoly position.

In summary, sale of the PMAs would reduce revenues to the federal treasury, diminish the efficiency of the technological resources, diminish competition, and increase electric rates for millions of Americans. We urge you to do what you can to prevent the sale of the PMAs. Thank you.

Respectfully yours,

Harold Schiebout Utilities Manager

HS/1v

cc: House Resources Subcommittee
The Honorable Don Young, Chairman
The Honorable George Miller, Ranking Member

TOWN OF SPRINGFIELD

748 MAIN - P.O. BOX 4 SPRINGFIELD, COLORADO 81073 PHONE 719-523-4528 - FAX 719-523-6956

Town Manager 719-523-6524

INCORPORATED JANUARY 16, 1889

Carol J. Brown Town Clerk - Treasurer Finance Director

May 15, 1995

Honorable Wayne Allard House of Representatives 422 Cannon House Office Building Washington, D.C. 20515

Dear Congressman Allard:

We understand that on May 18 the House Resources Subcommittee on Water and Power will hold a hearing on the possible sale of the federal Power Marketing Administrations. The Town of Springfield continues to oppose the sale of the PMAs, especially the Western Area Power Administration. We again urge you to vote against privatizing Western at the expense of the people who receive service from consumer-owned electric utilities such as our citizens.

As we have previously advised you, a sale of Western could have significant adverse consequences for our local and regional economy. Our power supplier, the Arkansas River Power Authority, estimates that our wholesale power bills will increase by over 25% if we no longer have access to our allocation of federal hydropower. Cost increases of this magnitude will have devastating economic impacts on our fragile economy. This is not the right federal asset to sell because it generates positive cash flow to the Federal Treasury and has historically allowed rural based economies to have access to a competitive source of electric power.

We are attaching our previous letter of April 18, 1995, opposing the sale of Western signed by our Mayor. We respectfully request that you include this letter and the April 18 letter in the record of the Water and Power Subcommittee's hearing. We are enclosing 10 copies for this ournose.

Please contact Darwin Hansen, Superintendent, Springfield Light & Power, if you or members of your staff have any questions on how a sale of Western could negatively affect our community.

Sincerely.

Jay D. Suhler Mayor

by D. Sulla

JDS/mm

Encl.

TOWN OF SPRINGFIELD

Melvin W. Brisendine Town Manager 719-523-6524 748 MAIN - F.O. BOX 4 SPRINGFIELD, COLORADO \$1073 PHONE 719-523-4528 - FAX 719-523-6956

INCORPORATED JANUARY 16, 1889

Carol J. Brown Town Clerk - Treasurer Finance Director

April 18, 1995

Honorable Wayne Allard House of Representatives 422 Cannon House Office Building Washington, D.C. 20515

Dear Congressman Allard:

The Town of Springfield has owned and operated a municipal electric utility for the benefit of our citizens for over forty-six (46) years. We are proud of our record in delivering low cost, reliable electric service to our citizens in rura; Southeast Colorado. But our track record is being threatened by the proposals being floated in Washington to sell off the federal Power Marketing Administrations, including the Western Area Power Administration. We obtain a significant portion of our wholesale electric supply from Western.

We don't understand why a sale of these valuable assets are being considered, especially since they are positive revenue producing assets to the Treasury and a sale will translate into higher electric rates for small, rural based communities such as Springfield.

I am enclosing petitions, signed by over 107 of our citizens, registering their opposition to the proposed sale of the Western Area Power Administration.

We are encouraged by the statement in your letter of January II, 1995, to Jim Henderson of the Arkansas River Power Authority that "you do not see that there would be any benefit to selling off WAPA". We urge you to reaffirm this opposition to the sale of Western. Finally, we ask that you keep us informed regarding your views on this issue.

Sincerely.

Che, D. Sulle

Jay D. Suhler Mayor

Enclosures

cc: Doris Morgan, Director, SE Colorado District Office

TOWN OF SPRINGFIELD

748 MAIN - P.O. FIOX 4 SPRINGFIELD, COLORADO 81073 PHONE 719-523-4528 - FAX 719-523-6956

Melvin W. Brisendine Town Manager 719-523-6524

INCORPORATED JANUARY 16, 1889

Carol J. Brown Town Clerk - Treasurer Finance Director

PETITION OPPOSING THE SALE OF THE WESTERN AREA POWER ADMINISTRATION

To: Senator Hank Brown Senator Ben Nighthorse Campbell Representative Wayne Allard

The persons signing this petition are citizens of the Town of Springfield, Colorado. We receive electric service from the Town which is a municipally-owned electric utility. A significant portion of Springfield's wholesale supply of electric power is obtained from the Western Area Power Administration, a federal power marketing administration. We understand that proposals are being heard in Washington to sell the Western Area Power Administration to the highest bidder. We are greatly concerned that any such sale will raise our electric rates without providing any economic benefit to the federal treasury.

Righer electric rates will cause further undue economic hardship in our community and other communities in Colorado that receive power from the federal government. Since electricity is a necessity not a luxury, we view any increase in rates caused by sale of these valuable federal assets as nothing more than what it really will be--a tax increase. We urge each of you to oppose the sale of the Western Area Power Administration!

Name	Address
MELKIN BEISENDINE	351 Kansas St. Frangfield, Co sies
Jay A. Saken	801 Russevelt Sir Spring lickly, Cas 21078
CAROL Brown	557 Tepten, Springfield Co 81073
Dance Mc Lonis	800Colo St Springfield, 00 81073
Ham Routes	1201 Santo To Sofla CU 8107
Welman Russes.	12U8 College Sofld, CU STUTS
Thehop illingeness	3338 78 11 Byll 14 8165
High N. Shriff	P.O. BOX 457 SOYA CO 5117
Oscar Escalar	1149 Church St. Jefled Co. 810:

(Six additional pages of names were submitted)



CITY OF TRINIDAD

P. O. Box 880 TRINIDAD, COLORADO 81082 TELEPHONE (719) 846-9543 FAX NO. (719) 846-4140

May 15, 1995

Honorable Wayne Allard House of Representatives 422 Cannon House Office Building Washington, DC 20515

Dear Congressman Allard:

We understand that on May 18th the House Resources Subcommittee on Water and Power will hold a hearing on the possible sale of the federal Power Marketing Administrations. The City of Trinidad continues to oppose the sale of the PMAs, especially the Western Area Power Administration. We again urge you to vote against privatizing Western at the expense of the people who receive service from consumer-owned electric utilities such as our citizens.

As we have previously advised you, a sale of Western could have significant adverse consequences for our local and regional economy. Our power supplier, the Arkansas River Power Authority, estimates that our wholesale power bills will increase by over 25% if we no longer have access to our allocation of federal hydropower. Cost increases of this magnitude will have devastating economic impacts on our fragile economy.

A sale of Western just doesn't make good sense. Taxpayers do not subsidize Western's power program. It fully pays its own way through charges for hydropower sold to consumer-owned utilities. If this positive revenue producing asset is sold, it will wind up costing citizens in rural areas much more for their electricity. Since electricity is a necessity, not a luxury, unnecessary cost increases will be viewed by the consumer as a tax increase.

We understand that the Congress is facing enormous challenges to balance the budget. But if selling off valuable government assets is going to be seriously considered, sell the losers not the winners like the Power Marketing Administrations. Honorable Wayne Allard May 15, 1995 Page 2

We respectfully request that you include this letter in the record of the Water and Power Subcommittee's hearing. We are enclosing 10 copies for this purpose.

Please let us know if you have any questions on our position or how a sale of Western could negatively impact our community.

Sincerely,

Robert W. Fabec

Mayor

xc: Honorable John Doolittle, Chairman House Resources Subcommittee on Water and Power

Members of House Resources Subcommittee on Water and Power

Honorable Don Young, Chairman House Resources Committee

Honorable George Miller, Ranking Member House Resources Committee



Telephone (218) 881-5816

MAY TE MAKE

City of Thief River Falls

UTILITIES DEPARTMENT

P.O. Box 528

Thiel River Falls, MN 56701-0528

May 12, 1995

The Honorable John Doolittle House Resources Subcommittee on Water and Power 1337 Longworth House Office Building Washington, D.C., 20515

Subj: Sale of the Western Area Power Administration, one of the federal Power Marketing Administrations.

Representative Doolittle,

I request this letter be part of the record for the hearing on the sale of the Power Marketing Administrations.

The City of Thief River Falls is opposed to the sale of the federal Power Marketing Administrations. The City purchases 62% of its energy from the Western Power Marketing Administration. An increase in the cost of this power will affect the cost of power to the citizens and businesses of our City.

The City of Thief River Falls is located in the northwest area of Minnesota and has a population of 8,010. The City is working on economic development to attract industry and business. Low electric rates is one of the benefits the City can offer to new industry and business. An increase in power costs due to the sale of WAPA will affect our City's ability to compete in economic development.

Agriculture is a major industry in our area. Electricity is significant for the handling of agriculture products on the farm and at the elevators. An increase in electricity costs will adversely affect the income to the farm economy.

An increase in power costs will affect the cost of living for the citizens of our City and the area around our City.

Sincerely,

Calot lude

Arlo L. Rude Director of Utilities City of Thief River Falls





TULLAHOMA UTILITIES BOARD POWER, WATER AND SEWERAGE SYSTEMS

PHONE 455-4515

901 SOUTH JACKSON STREET TULLAHOMA, TENNESSEE 37388

P. O. BOX 788

May 12, 1995

The Honorable John Doolittle House Resources Subcommittee on Water and Power 1337 Longworth House Office Building Washington, D. C. 20515

Dear Congressman Doolittle:

Please make my objection to the sale of the Power Marketing Administrations a part of the official record of the May 18 hearing.

The power marketing agencies are a source of low cost power benefiting millions across the country and providing revenue to the federal government. We should not succumb to the clamoring of those who would take this investment of the American and divert it to be used as a tool for profit benefiting a few.

To sell the PMAs makes about as much sense as would selling the interstate highway system. There are things that are best provided by the government, and the Power Marketing Agencies fall in this category.

Thank you for your consideration

Sincerely,

TULLAHOMA UTILITIES BOARD

Joe N. Loggins General Manager

JNL gmc

The Alliance for Power Privatization

701 Pennsylvania Avenue, N.W. Suite 800 Washington, DC 20004 (202) 508-4042

June 21, 1995

The Honorable John Doolittle Chairman Subcommittee on Water and Power Resources House Resources Committee 1337 Longworth House Office Building Washington, D.C. 20515

Dear Chairman Doolittle:

I am writing to clarify my oral and written testimony presented before the Subcommittee on May 18, 1995.

During oral testimony, the subject of Tucson Electric Power's (TEP) proposal to purchase a group of the Federal government's Power Marketing Administration assets in Arizona was raised. Congressman DeFazio inquired about the validity of this proposal in light of TEP's credit rating. The fact that TEP's outstanding debt is rated below investment grade by the national rating agencies does not bear on whether or not such a transaction can be financed. Indeed, the financing alternative chosen by TEP has nothing to do with TEP's outstanding debt. Under this financing structure, the credit support for the transaction is the assets that are being financed with equity support from third parties. Employing such a financing technique allows investors to make value judgments with respect to the cash flows emanating from the assets. From my review of the bid, investors would find the TEP proposal to be highly attractive. In fact, I have been involved in transactions with similar structures in my career and I am confident that a structure like this for Tucson could be completed successfully.

The foregoing is intended to clarify and amplify on the aforementioned subject. If I can provide any additional information, please let me know.

Thank you for allowing me to present testimony before the Subcommittee and for permitting me to present this clarifying information.

George A. Schreiber, Jr.

on behalf of the

Alliance for Power Privatization

cc: Kevin C. Fitzgerald

FEDERAL ENERGY REGULATORY COMMISSION WASHINGTON, DC 20439

OFFICE OF THE CHAIR

June 19, 1995

The Honorable John T. Doolittle Chairman Subcommittee on Water and Power Resources Committee on Resources U.S. House of Representatives Washington, D.C. 20515

Dear Mr. Chairman:

During your Subcommittee's May 18 hearing on the Sale of Federal Power Marketing Administrations, you asked for a list of all acts and their requirements with which the Commission must comply in acting on an application to license a hydropower project.

The enclosed list cites all principal acts and their requirements which apply to the Commission's hydropower licensing decisions. The list does not include special, project-specific acts.

I hope that this information is helpful. If I can be of further assistance in this or any other Commission matter, please let me know.

Sincerely,

Blizabeth A. Moler Chair

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Enclosure

LEGISLATION WITH WHICH FERC LICENSING ACTIONS MUST COMPLY

Pederal Power Act (PPA), 16 U.S.C. 55 791a-825r, as amended

The Commission issues licenses to jurisdictional non-federal hydropower projects pursuant to Part I of the Federal Power Act (FPA), as amended from time to time. Recent amendments were enacted in the Electric Consumers Protection Act of 1986, Pub. L. No. 99-495, and in Sections 1701(a) and (d) of the Energy Policy Act of 1992, Pub. L. No. 102-486. Under the Federal Power Act, before licensing any project, the Commission must find the project to be best adapted to a comprehensive plan for improving or developing a waterway or waterways for beneficial public purposes, and it must be satisfied that the project meets the various other requirements of Part I of the Federal Power Act.

Sections 1701(b), 2402, and 2403 of the Energy Policy Act of 1992, Pub. L. No. 102-486

These provisions, which were not amendments to the FPA, respectively define fishways, limit hydropower projects in units of the National Park System, and authorize the Commission to permit the preparation of environmental analysis documents by FERC-approved contractors paid by the applicant.

National Environmental Policy Act, 42 U.S.C. § 4321, et seq.

This act requires the Commission to analyze the potential environmental effects of a proposed action and of reasonable alternatives thereto.

Sections 401 and 404 of the Clean Water Act, 33 U.S.C. 55 1341, 1344

A prerequisite to issuance of a license is the project's receipt of state water quality certification, or waiver thereof, pursuant to Section 401 of this act. Most licensed projects also must obtain from the Corps of Engineers a dredge and fill permit pursuant to Section 404 of this act before they can construct the project.

Fish and Wildlife Coordination Act, 16 U.S.C. 55 661-62

This act requires the Commission to consult with the U.S. Fish and Wildlife Service and the National Marine Fisheries Service before acting on a license application.

National Historic Preservation Act, 16 U.S.C. 5 470

This act requires the Commission, before licensing a project, to consider the project's effects on any site, structure, or object included in, or eligible to be included in, the National Register of Historic Places, and to afford the Advisory Council on Historic Preservation an opportunity to comment.

Endangered Species Act, 16 U.S.C. 55 1531-43

This act requires the Commission to ensure that, inter alia, licensing actions do not jeopardize protected species or their habitat.

Wild and Scenic Rivers Act, 16 U.S.C. § 1271 et seq.

This act bars the Commission from licensing hydropower projects on or adversely affecting river segments designated as, or selected for study for possible inclusion in, the National Wild and Scenic Rivers System.

Pacific Northwest Electric Power Planning and Conservation Act, 16 U.S.C. § 839 et seq.

The act requires the Commission to provide "equitable treatment" to fish and wildlife; take into account "to the fullest extent practicable" the Northwest Power and Conservation Planning Council's fish and wildlife program; and consult and, to the "greatest extent practicable," coordinate actions with other relevant agencies.

Coastal Zone Management Act, 16 U.S.C. § 1451 et seq.

This act bars the licensing of a project within or affecting a state's coastal zone, unless the state concurs with the applicant's certification of consistency with the state's approved coastal zone management program.

Wilderness Act, 16 U.S.C. 5 1132 et seq.

This act bars the licensing of projects within designated wilderness areas.

-3-

Indian Freedom of Religion Act of 1978, 42 U.S.C. § 1996

This act requires the Commission to avoid unnecessary interference with traditional Indian religious practices.



Statement of

Russell C. Notar
President and CEO
National Cooperative Business Association

submitted to the

Resources Committee
Subcommittee on Water and Power Resources

U.S. House of Representatives

May 18, 1995

Chairman Doolittle, ranking Member DeFazio, and distinguished Members of this committee, I am Russ Notar, President and CEO of the National Cooperative Business Association (NCBA), a national, cross-industry membership and trade association representing cooperatives which encompass over 100 million Americans and 47,000 businesses tanging in size from small buying clubs to Fortune 500 companies.

Founded in 1916 and known for many years as the Cooperative League of the USA, NCBA's membership includes cooperative businesses in the fields of housing, health care, finance, insurance, child care, agricultural marketing and supply, rural utilities and consumer goods and services as well as state and national associations of cooperatives. NCBA represents cooperatives before Congress and the federal agencies and promotes and supports cooperatives in the U.S. and overseas through training and technical assistance publications and programs. I am pleased to submit this testimony on behalf of these cooperatives and their members.

For the record, NCBA is strongly opposed to any proposals that would serve to, directly or indirectly, raise electric rates for consumers. Specifically, we are opposed to any sale of the power marketing administrations (PMAs) that would result in higher monthly electric bills for the consumers and businesses that rely on these agencies to light their homes and operate their businesses.

Representing America's Cooperative Business Community

The possibility of consumers having to bear the burden of this sale is bad enough. What makes this proposal even more disturbing is that the federal government is now reneging on a partnership formed long ago with the customers of not-for-profit, cooperatively-owned and community-owned electric utilities.

These consumers have had equity investment of over a half century in the PMAs. Initially, when the federal government was constructing these multi-purpose dams, hydropower was more expensive than alternatives. Even so, cooperatively-owned and community-owned electric utilities agreed to the partnership because the dams provided much needed local economic development benefits, as well as the basic structure for real, stable competition between the consumer-owned and investor-owned utilities.

Pulling the rug out from under these consumers now, simply put, is a breach of faith by the federal government. But to also sock these same consumers with a backhanded tax in the form of higher monthly electric bills goes beyond a question of fairness — it is simply unacceptable. I urge you to use every available means to guarantee that electric rates do not increase as a result of a PMA sale.

The National Cooperative Business Association is not alone in our opposition to higher electric rates. I want to take this opportunity to submit for the record a copy of a letter that was signed by the NCBA, along with twenty-four other national organizations, who join us in our opposition to higher electric rates for millions of hard working American families.

Again, Mr. Chairman, I appreciate the opportunity to speak here today on behalf of the cooperative business association's member consumers and businesses. We appreciate the support of this Committee on this matter of vital importance to our membership. Thank you.

May 11, 1995

The Honorable Newt Gingrich United States House of Representatives Washington, D.C. 20515

Dear Representative Gingrich:

We are opposed to the Administration's proposed sale of the Southeastern, Southwestern, and Western Area Power Marketing Administrations (PMAs). We are also opposed to Congressional efforts to include the Bonneville PMA and the Tennessee Valley Authority (TVA) in this sale.

If these valuable public resources are auctioned off to a profit-driven third party, electric rates would increase for tens of millions of consumers and the competitive balance of the electric utility industry would be destroyed.

Power sales by these PMAs cover all their operating costs and repay the facilities' construction costs, with interest. No one is getting a free or subsidized ride. In fact, a March 1995 Congressional Research Service Report (CRS) shows that the PMAs provide a long-term source of revenue to the U.S. Treasury.

This revenue is financed by the customers of over 1,100 not-for-profit, rural and municipal consumer-owned utilities that pay their own way by purchasing power from the PMAs. These consumers cannot afford a government that raises their electric rates in what amounts to nothing more than a hidden tax increase.

We are also concerned about the "balance of purposes" currently in place — namely the multi-purpose nature of the dams from which the PMAs market their power. These dams are federal projects that provide flood control, water and power supply and environmental benefits. They also safeguard recreation and navigation activities. We do not believe that a private, profit-driven entity can become a full partner in these interests at an almost certain loss of revenue.

We urge you to reject any proposal to sell the PMAs and the TVA and resist the shortsighted temptation of a one-time cash infusion to the government financed by taxing electric consumers.

Thank you for your serious consideration of our views.

Sincerely,

Genn English Executive Vice President

National Rural Electric Cooperative Association

Executive Director

American Public Power Association

The KIL

Stephen Brobeck
Executive Director
Consumer Federation of America

Linda F. Golodner
President

President National Consumers League

Leland Swenson

President National Farmers Union Victor Ashe President United States Conference of Mayors

J. J. Barry

International President
International Brotherhood of Electrical Workers

Russell C. Notar President and CEO

National Cooperative Business Association

Wayne Nelson

President Communicating for Agriculture Robert E. Barrow National Master National Grange

Dean Swanson

President

National Rural Education Association

Wayne Boutwell

President

National Council of Farmer Cooperatives

Charles M. Loveless Director of Legislative Affairs

American Federation of State, Municipal

and County Employees

Richard O. Fenske Immediate Past President Water Resources Congress

Harry N. Cook President

National Waterways Conference

for Adrided Tom Asbridge

National Director

American Agriculture Movement

eff Faux

President

Economic Policy Institute

Thomas A. Allegretti President

American Waterways Operators

James L. Henry President

Transportation Institute

Thomas F. Donnelly Executive Vice President

National Water Resources Association

Steve Halloran President National Farmers Organization Fredrick D. Palmer General Manager and CEO Western Fuels Association Inc.

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American Public Power Association

2301 M Street N W Washington, D.C. 20037-1484 202/467-2900

June 13, 1995

The Honorable John T. Doolittle, Chairman Subcommittee on Water and Power Resources Committee on Resources U.S. House of Representatives Washington, D.C. 20515

Dear Chairman Doolittle:

Enclosed are my responses to Rep. Cremeans' questions transmitted to me on May 31, 1995.

As requested, I am returning these responses together with a copy of the questions and answers on a 3 1/2 inch disk in WordPerfect file.

Sincerely voure

Alan H. Richardson Deputy Executive Director

Enclosures

Questions For Alan Richardson, American Public Power. (Panel II)

- I. represent Ohio's 6th Congressional District. As you know, Ohio is not a recipient of PMA power. According to DOE, Ohio receives no benefits from electricity produced from federal power facilities. Mr. Richardson, it is my understanding that APPA claims that the current preference power customers have an equity stake in these facilities because they have purchased power from these facilities for so long. How, in light of the fact that PMA's have received appropriations monies from the federal government and been granted low or no interest loans, and when the federal government built the dams in the first place...how can I explain to taxpayers in Ohio that they have no equity stake when other taxpayers claim they do and should receive an asset at below fair market value?
- 2.) As a follow-up question, the APPA claimed in letters in 1993 that NRECA had stated that the tax-exempt status of bonds used by public power systems "results in [public power having] the lowest cost of capital of all utilities and contributes to their having the lowest rates." I would like to hear an explanation regarding the impact of the cost of capital on utility rates.
- 3.) In the same letter, APPA wrote that "NRECA reports that more than 70 percent of all rural electric systems have higher rates than their neighboring utilities." Since there has been a lot of discussion about rate hikes, I would appreciate a clarification of this point from all parties, as it would seem that rate hikes would not be much of a problem in areas served by coops, if nearly three-quarters of them have higher rates than surrounding utilities.
- 4.) In a paper prepared by NRECA's Chief Economist, the NRECA claimed that your organization stated that "tax-exempt financing allows municipals to borrow at rates 25 to 30 percent less than what they would pay if the interest were taxable." NRECA's study went on to say that this subsidy reflects "a cost to the federal government of \$1.2 billion for 1991" and that "whereas federal subsidies to other utilities are severely restricted, tax-exempt financing is available without limitation to meet all capital requirements of city-owned utilities..." I would appreciate your comments on these claims.

June 13, 1995

DUESTION 1 RESPONSE:

This is a question of several parts, and based on several assumptions. Specifically: (1) that "Ohio receives no benefits from electricity produced from federal power facilities"; (2) whether "current preference power customers have an equity stake in these facilities" since "the federal government built the dams in the first place"; (3) that the PMAs have received "low or no interest loans"; and (4) that Ohio taxpayers have a real equity interest and this should be reflected in a sale of the assets at a price that reflects what they could yield if sold to the highest bidder. Each of these deserves an answer.

It is true that no federal power is marketed in Ohio. But it is not true that Ohio residents do not receive benefits from the federal power program. Relatively low cost federal power is an essential ingredient in goods and services produced in hundreds of communities and marketed throughout the U.S. and abroad. The irrigation assistance payments made by federal power customers helps hold down the cost of food and fiber, for the benefit of all consumers. The federal power program has fostered competition within the electric utility industry by assuring a source of power supply for hundreds of public power systems and rural electric power cooperatives. All of these effects of the federal power program benefit consumers throughout the nation, including in Ohio.

As to equity interest, opponents of the existing federal program focus on the legal aspects of the concept of "equity" without considering what is equitable under the circumstances. Federal power customers have repaid, through their power bills, a substantial portion of the federal investment in these power facilities. Relying on over 30 federal laws assuring public power systems and rural electric cooperatives access to this source of power, they have passed up other opportunities to build and own electric generation facilities. In some areas, they have tied their utilities to the federal transmission system. For them, nothing could have been more certain than repeated pledges by the U.S.

Congress that federal power would continue to be available to them at cost-based rates.

This reliance on the federal government clearly gives rise to an "equitable" interest in these resources. This interest is based on reasonable expectations that the federal government would not turn its back on its partners in power and would not reverse decades of federal policy regarding the allocation of federal power.

As to "low or no interest loans", the only <u>no</u> interest loans are those made by the federal government to cover irrigation investments. These investments are repaid in part by the irrigators. Investments that cannot be covered by irrigators are repaid by power users. In this regard, if there are any subsidies in the federal power program, they flow from electricity ratepayers to irrigators. But these "subsidies" – accepted by federal power customers as a cost of developing these federal facilities – benefit not only the irrigators but all consumers of food and fiber.

As to low interest loans, this is a relative matter. In today's market, the interest rates on some of the federal power facilities may appear low. But they were the prevailing interest rates for the federal government when these projects were authorized. They are akin to home mortgage rates three or four decades ago. Today, they seem low. But that doesn't mean the lender today can unilaterally alter those rates. That would clearly be inequitable.

Finally, you have raised the question of how you can explain to your Ohio constituents how these assets can be sold for something less than "fair market" value. This, of course, assumes that these assets should be sold. In fact, there is no sound reason why the government should dispose of assets that have a net positive revenue effect. All taxpayers are very well served under the current system.

Putting aside this question, there is another public policy issue that deserves to be addressed – and that is what is equitable for the taxpayers, including your Constituents in Ohio. Certainly, the U.S. Treasury should recover its

investment, together with interest, if Congress elects to dispose of any of these projects. In no way does this work to the disadvantage of the taxpayers.

When considering this issue, it is very important to keep in mind the totality of taxpayer investments in water infrastructure projects throughout the country. Collectively as taxpayers we have invested billions of dollars in federal infrastructure projects. Every region and every citizen enjoys the benefits of these investments.

Attached for your information is an excerpt from a 1990 report that summarizes federal investments in federal water projects by region, and identifies the percentage of those costs that are reimbursed by the beneficiaries of those projects. This data show that the total of all federal water project costs in the East North Central region of the United States (which includes Ohio) from initiation of the programs to 1980, is \$29,999 million (expressed in constant 1985 dollars). Of this total, only \$240 million, or 0.8 percent is reimbursable to the federal government. For Ohio alone, the total cost of all federal water project investments over the same period is \$7,797 million, of which only 1.3 percent is reimbursable. Federal power customers in other regions, who are repaying the federal investment in federal power facilities, with interest, and subsidizing irrigation investments as well, might well ask why their tax dollars are being spent on projects in Ohio and elsewhere when the beneficiaries of those projects do not assume a similar repayment obligation.

OUESTION 2 RESPONSE:

It is true that the cost of capital for public power is lower than for cooperatives. But this is only a small part of the reason why the retail rates of co-ops are approximately 15 percent higher than public power rates.

In 1993 the average embedded cost of long-term debt capital for public systems was 5.92 percent while the cost for co-ops was 6.46 percent. Also, for this year, the average retail rate of public power systems was 6.1 cents per kilowatt-hour while the rate for co-ops was 7.0 cents, or almost 14.8 percent higher.

If the co-ops' embedded cost of debt capital was the same as public systems in 1993 their average retail rate would have been 6.9 cents instead of 7.0 cents. Still 13.1 percent higher than public power rates.

OUESTION 3 RESPONSE:

General economic factors that affect electric utilities are likely to affect all sectors of the industry. The fact that the rates for one group of utilities are higher or lower than another does not protect it from general economic impacts.

For example, a general increase in short-run coal prices will affect co-ops regardless of whether their rates are already higher than surrounding utilities. The price rise would increase or lessen the rate disparity based on each utility's relative dependence on coal.

QUESTION 4 RESPONSE:

It is true that public power borrowing costs are lower than they would be if they were not tax-exempt. But I hasten to point out that this is because we are units of local government, and, as such, are entitled to issue tax-exempt debt.

I will return to this point in a moment. But first I want to point out that NRECA fails to mention the fact that the borrowing costs of cooperatives are approximately 16 percent lower than they would be were it not for the federal subsidies available to them.

In regard to the cost of tax-exempt financing to the U.S. Treasury, I contend that it is zero – unless we choose to change the way fiscal federalism has operated in this country for almost 200 years. To talk of tax-exempt financing as a subsidy in the conventional sense is mixing apples and oranges.

State and local electric utilities - like police, fire, education, water, waste water treatment, public transportation, public parking, and other such services - are legitimate functions of state and local governments, purposively established and

controlled by local citizens. An attack on the right of state and local governments to issue tax-exempt bonds to finance electric utility operations – by attempting to categorize these bonds as a subsidy – is an attack on the right of state and local governments to issue tax-exempt debt for any activity.

The right to issue tax-exempt debt was not the result of specific congressional action intended as a subsidy in the conventional sense – such as investment tax credits and accelerated depreciation for investor-owned systems, and low-interest loans and other RUS programs for the co-ops. It is a fiscal relation that has evolved between the federal and state and local governments based on the realization that the power to tax is the power to destroy.

Accordingly, each level of government is sensitive to the others' respective governmental roles and functions, and the revenue raising instruments used to fund the functions. For example, state and local governments are not allowed to tax the revenue raising instruments of the federal government, and it is expected that the federal government will not tax the revenue raising instruments that state and local governments rely on.

In regard to the annual dollar loss to the Treasury due to co-op subsidies, the last time APPA estimated this it was about three quarters of a billion dollars. This was based on 1987 data. Since then the amount of RUS debt on the co-ops' books has increased from \$11 billion to \$18.3 billion in 1993, or two-thirds. So it is reasonable to assume that three quarters of a billion dollars, although probably much too low, is still a good indicator of the magnitude of the cost to the Treasury.

Finally, for NRECA to contend that subsidies to co-ops are "severely restricted" is inaccurate. The two-thirds increase in RUS debt recorded on the books of cooperatives during the 6 year period from 1987 to 1993 does not support their claim. As for the investor-owned systems, and I refer to them only because by inference they were included in NRECA's claim, their use of accelerated depreciation is not restricted.

Attachment

FEDERAL WATER PROJECTS COSTS

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TRUMAN PRICE

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February 1990

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EXECUTIVE SUMMARY

This report provides factual information about the allocation of federal funds for water resource projects by region, state, federal agenries, and purposes served.

The report was prepared by Truman Price, Washington, D.C., representative of the Public Power Council, and Alex Radin, representing the Northwest Public Power Association. Congressional Research Service data were augmented by information compiled by Mr. Price.

An important aspect of this study is that it shows the extent to which the cost of federal investments in water resource projects is being repaid by the users. Electric power generation and transmission facilities, irrigation projects and water supply are functions whose costs are repaid, or reimbursed, to the federal treasury.

The region served by the Bonneville Power Administration (BPA) compares favorably with the national average and with other regions in terms of the proportion of the federal investment in water resource development that is being paid back to the federal government. Washington, Oregon, Idaho and the portion of Western Montana served by BPA will repay 65 percent of the total cost of water resource development in those states, whereas the average to be repaid by all nine census regions is 26.1 percent (Table 1)

Of the total federal funds spent for water resource projects from the inception of federal water programs to 1980, the largest amount, \$81.9 billion, was spent for flood control; the second largest, \$64.3 billion, was devoted to navigation. These programs are considered to be in the broad national interest, and their costs are not reimbursed to the federal government.

The cost of power facilities, \$44.7 billion, represents the third largest expenditure in the period to 1980, and is being repaid in full to the federal treasury (Table 5).

Because resources and needs vary from region to region, there is not an equal distribution of spending for water resource projects for all regions. Thus, for example, expenditures for irrigation are limited to western regions, because the federal reclamation program is confined to the 17 western states.

The study also identifies an important change occurring in federal water programs. During the last two decades, investments in flood control, navigation, reclamation and hydropower projects have been surpassed by funding for water quality projects such as municipal wastewater treatment systems.

Spending by the Environmental Protection Agency (EPA) for water quality projects over the past 20 years has increased by \$68.1 billion over such expenditures in the preceding 20 years (Table 3). This shift in emphasis from federal investments in flood control, navigation, reclamation and power to water quality is expected to continue. It is likely that a greater share of federal investments for water projects in the future will go to large metropolitan regions, especially those in the east and the midwest, which have the greatest need for water pollution control facilities.

[!] This figure is larger than that shown for water quality in Table 5 because Table 5 does not include expenditures for the period 1980-1989.

FEDERAL WATER PROJECTS COST

From time to time, questions are raised about the relative amount of federal funds that have been allocated for water resource projects to various states and regions. A variety of additional questions are raised about how these funds have been spent for the several major purposes of project construction. This report is intended to provide factual information which can be used to answer such questions.

Most of the basic data for this report was compiled by the Congressional Research Service (CRS) in a report entitled, "Computer Program Development for Water Resource Obligations." The CRS material was assembled at the request of Representative Al Swift of Washington State to help evaluate the allocation of federal water project dollars over time. Figures included in the report cover the period from the initiation of water resource programs to 1980, and are presented in 1985 constant dollars.

The study covers all major federal agencies which carry out water resource projects, including the U.S. Army corps of Engineers, Bureau of Reclamation, Tennessee Valley Authority, Environmental Protection Agency (EPA), and the Soil Conservation Service.

Unforunately, the CRS study did not provide a breakout of expenditures for certain major project purposes. For example, it did not break out the expenditures for navigation, flood control, power, irrigation, and water supply for multiple purpose projects of the Corps of Engineers and the Tennessee Valley Authority. Also, it did not include expenditures by the EPA for water quality programs made prior to passage of the Clean Water Act of 1972. Further, it did not divide costs of multiple purpose power projects that are common to two states. Without such information the study could not provide an insight

into a variety of questions relating to expenditure distributions by major project purposes, and their reimbursability to the U.S. Treasury.

To make the report more comprehensive and useful, Truman Price, Washington Representative of the Public Power Council, assembled independent data on allocation of costs for federal multiple purpose water projects that include hydroelectric generation (Appendix A). He also obtained information form the 9 regional offices of the Corps of Engineers on water supply allocations and expenditures. Further, he compiled information on water quality expenditures prior to passage of the Clean Water Act of 1972, and obtained information on expenditures since 1980 from the water resource agencies. All of this supplemental cost information was converted to 1985 constardollars using U.S. Department of Commerc. price deflators.5

The data are presented at three basic levels of aggregation:

- I. States
- 2. U.S. Census Regions (Appendix B)
- 3. Nation

In addition to these levels, a special aggregation is presented for the Bonneville Power Administration service area.

Accuracy of the information is very close, but not absolute. For instance, minor costs to be reimbursed from certain recreation facilities constructed since 1964 are not included. Also, costs associated with multiple purpose power projects are deflated using a single year for each

¹ The deflator used to convert nominal dollars into constant dollars is the gross national product implicit price deflator for federal government purchases of goods and services.

project—usually half way between the year construction started and the year the last unit commenced production.

The regional summary table (Table 1) and the detailed summary table (Table 2) indicate that all states and regions of the Nation have benefited from federal investments in water resource programs, although the distribution of water resources, potential for development and other factors make it impossible for each region to share equally in federal investments. For example, the greatest potential for irrigation is in the West: thus, federal expenditures for irrigation have been limited to the 17 western states.

The detailed breakout of costs, however, do not cover mends or include investments made since 1980. Tables 3 and 4, therefore, have been prepared to reflect mends and recent investments. They show, for example, that expenditures by the Environmental Protection Agency for municipal wastewater collection and treatment facilities have been relatively recent and proportionately greater in comparison with the water program investments of the other agencies. EPA expenditures in the last 20 years have increased by \$68.1 billion over expenditures made during the preceding 20 years. By contrast, expenditures of all other agencies for the same periods have decreased by \$7.0 billion.

The trend toward greater proportional investments in water quality is expected to continue. This shift in emphasis from federal investments in flood control, navigation, reclamation and power to water quality will mean that in the future a proportionately greater share of federal investments for water resource projects will likely flow to large metropolitan regions, especially those in the midwest and east, which are heavily impacted by the need for greater water pollution control.

An important consideration in comparing relative federal expenditures by states and regions is the extent of which those expenditures are reimbursable. This study includes power, irrigation and water supply as reimbursable expenses. Thus, in the area served by the Bon-

neville Power Administration, 65.0 percent of the federal expenditures are reimbursable, second only to the Mountain region in the percentage of expenditures that is reimbursable. The average amount to be reimbursed by all nine census regions is 26.1 percent. In addition to costs directly attributable to electric power production and distribution, customers of federal power projects also generally pay that portion of irrigation costs that are beyond the ability of irrigators to pay, and for certain fish and wildlife mitigation and enhancement measures.

Table 5 summarizes federal water project costs by purpose and reinforces the point that all regions have benefited from federal water resource expenditures through a variety of programs. The largest amount spent until 1980 for a single purpose was \$81.9 billion for flood control; the second largest amount, \$64.3 billion, was for navigation. The cost of power facilities, \$44.7 billion, represents the third largest expense by function, but this amount is to be repaid in full to the federal treasury.

Finally, Table 6 summarizes costs by purpose and agency. The Corps of Engineers has played the major role in the construction of power facilities (52 percent), navigation (94 percent) and flood control (86 percent). The Bureau of Reclamation has played the major role in irrigation (97 percent).

In several of the tables, the column labeled "other" refers to various costs not included in the previous categories. They include costs associated with recreation, fish and wildlife, water quality control, beach erosion control, stream flow regulation, area redevelopment and anadramous fish enhancement. With the exception of a very small portion of recreation costs, virtually all costs in this category are non-reimbursable.

Federal water programs have experienced considerable change in recent years, both in scope and emphasis. This report on federal water program expenditures has been prepared to provide an information base that may be used to better answer emerging policy and program questions.

FEDERAL WATER PROJECTS COSTS

Summarized by Region and Reimbursability

(Millions of 1985 Constant Dollars) (From Initiation of Programs to 1980)

Covers costs of the Corps of Engineers, Bureau of Reclamation, Tennessee Valley Authority, Environmental Protection Agency and Soil Conservation Service

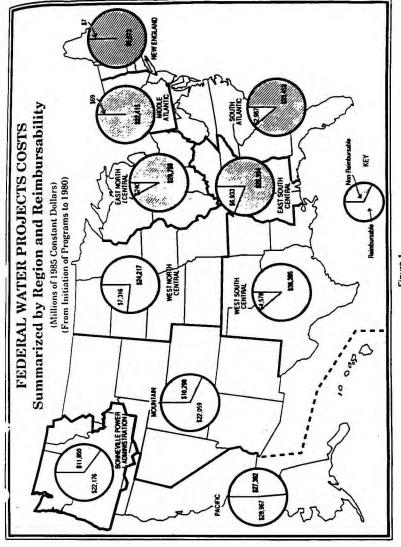


Figure 1

FEDERAL WATER PROJECTS COSTS 1/ SUMMARIZED BY REGION & REIMBURSABILITY (Millions of 1985 Constant Dollars From Initiation of Programs to 1980)

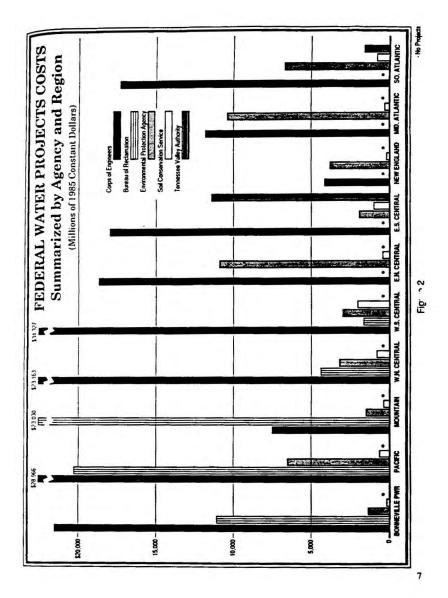
TABLE 1 PAGE 1

	Total	Reimbursable Costs	Non-Reimbursable Costs	Percent Reimbursable
Bonneville Power Administration				
Washington	\$19,383	\$14,286	\$5,097	
Oregon	9.194	4,387	4,807	
Idaho	3,432	1,896	1,536	
Montana (Western)	2,117	1,607	910	92
	TOTAL \$34,126	\$22,176	\$11,950	0.59
Census Region 2/				
Pacific	\$56,359	\$28,967	\$27,392	
Mountain	32,357	22,059	10,298	7
West North Central	31,533	7,316	24,217	
West South Central	40,963	4,578	36,385	
East North Central	59,999	240.	28,759	
East South Central	32,287	6,933	25,354	
New England	9,080	7	8,073	- 0.0
Middle Allantic	22,484	88	22,415	- 0.0
South Allantic	26,419	2,967	23,452	
Total: Nine Census				
Regions	\$280,461	\$73,136	\$207,345	28

I/ Covers costs of the Corps of Engineers, Bureau of Reclamation, Terressee Valley Authority, Environmental Protection Agency, and the Soil Conservation Service. 2' See Appendix B for states within each region.

FEDERAL WATER PROJECTS COSTS

Summarized by Agency and Purpose for States, Regions, and the Nation (From Initiation of Programs to 1980)



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					(From Initiation	From Initiation of Programs to 1988	1980)				
REGIONISTATE			CORI	CORPS OF ENGINEERS				BUREAU	BUREAU OF RECLAMATION	N	
	Pome	trigation	Supply	Nevigation	Flood	Other I/	Power	trigation	Water	Flood	Other
Bonneville Power											
Washington	\$7,115	2	\$55	\$2.385	\$1,093	\$149	\$3,673	19,441	2	\$598	\$73
Oegon	3,406	2	5	1.855	2,130	3	8	192	=	8	47
Meho	1,087			•	401	42	152	879	•	174	718
Montana (Western)	1,179			The second second	219	93	428			137	
TOTAL	\$12,789	892	198	\$4.281	\$3,843	878	\$4,336	54.870	\$22	666\$	\$638
Pacific							100			3	
Washington	\$7,115	2	32	55.385	1,090	8149	22,673	13.03	2	256	273
Oregon	3,408	2	2	1,855	2,130	3	2	192	=	8	13
Caldonia			161	1,787	6,513	90	2,265	6,597	912	822	i
Masks	216			228	900		8				34
Hone				28	35			10			-
TOTAL	810 739	193	1258	\$4.536	\$10.195	\$1,146	\$6.216	\$10.837	8025	81.610	2780
Mountain		188									
Montana	61,626	202		2/18	34 27	\$722	8870	\$655	683	582	818
Steho	1,087			=	4	42	152	3	•	174	2
Wyomang				2	5	*	878	1,197	2	2	147
Calcrado				1	3		1,457	1,665	28	3	462
New Memos					1,190		23	1,117	142	2	3
Arizone				-	92		2,382	2,349	218	#	362
3					9		812	808	673	*	22
Merada				ě	5		1,442	8	237	ē	8
TOTAL	82,713	\$206	000	\$25\$	83,568	8768	\$8,126	\$9,490	\$1,522	\$1,722	\$2,168
West North Central					i		**				
Mercesoca			•	100							
			• ;	900.	0/6/	2	₹,				
Mark Dates	3 3			191	3	3	- 27	276	X	**	
Courte Datasia	271			376	20	97	909	7	8	40	2 2
Metrosta				285	210	459	82	874		191	: 0
Kaman			2	80	2,674			22	10	388	8
TOTAL	21623	Ē	\$25	\$6,963	\$10,282	\$2,070	80718	19618	CH	\$633	952
West South Central Arturass	10715		83	\$3,491	84,419	9903					
Louisiana				4,760	964.9	365					
Oldehema	27		3	1,079	2,695	437		8	186	501	2
Total	Ā		ž	2,949	3,833	1	193	243	432	238	8
TOTAL			9268	\$12,279	\$17,443	81,179	\$193	ž	8198	\$340	8143

		(From Infilation	(From Initiation of Programs to 1980)	oltars to 1980)		L MOE 5
REGIONISTATE	Environmental	38	Total	Reimburseble	Non-Reimbursable	Percent
	Protection	Conservation	Costs	Costs	Costs	Reimbursable
Bonneville Power						
Washington	\$734	582	\$19.383	\$14.286	\$5.097	787
Oregon	2,	29	91.6	4,387	4.807	1.14
daho	132	28	3,432	1,896	1 536	55.2
Montana (Western)	\$	9	2,117	1,607	910	75.9
TOTAL	\$1,340	1718	\$34,126	\$22,176	056'118	65.0
Pacific	TL.O	ğ	E10 387	386 713	\$5.007	111
Dear .		2	200	4 787	4 807	17.7
Caldorna	562	456	28 782	9.865	71831	8
Alasha	137		1.109		969	37.1
Haman	397	=	164	18	673	20
TOTAL	26*9\$	1295	\$56,359	\$28,967	\$27,392	51.4
fountain	9	15	62.53	63 63	63063	S
Klaho	132	2	3,432	1,896	1,536	55.5
Wyoming	\$	12	2.698	2,258	94	7.09
Colorado	376	4	5,337	3,329	2,006	62.4
New Merco	35	3	2,968	1,384	1,604	46.3
Anzona	314	נ	6,377	€36.	1,418	77.8
100	2	8	2.703	2,124	878	78.6
Nevada		0	3,260	2,599	199	79.7
TOTAL	\$1,469	8503	\$32,357	\$22,059	\$10,298	68.2
Vest North Central				1		
Memesota	970.18	ž	27		117.24	
	976	3	0.50	22.	CO. 4	
Morth Datesta		6	3 950	1917	2042	
South Dakota	117	2	4.107	2 926	1,181	71.2
Netraska	235	121	3248	1,063	2,165	33.3
Kansas	355	234	4,602	452	4,150	9.6
TOTAL	13,194	8799	131,533	\$7,316	\$24,217	23.2
Vest South Central Artumas	IKS	0.23	\$10.257	\$1,430	\$9.827	13.9
Louising	909	137	12,388	•	12,388	00
Oldahoma	5	699	6,643	1,165	5,478	
Tours	1,580	983	11,675	1,983	9,692	
TOTAL		\$2,019	\$40,963	54.578	\$96,36\$	11.2

REGION			SOR	CORPS OF ENGINEERS			91	TEMMESSEE VALLEY AUTHORITY	AUTHORITY	
STATE	Power	Irrigation	Water	Navigation	Flood	Other	Power	Navigation	Flood	Office
East North Central										
Weconsin	25			\$1,160	223					
Metrigan				1,640	797	746				
Minois				3,913	5.289	-				
Indiana			52	1,204	1,032					
95			2	2,787	2,249	-				
TOTAL	263		1118	\$10,704	\$6,796	8949				
East South Central										
Kentucky	\$00\$		5	\$2,432	\$2,412	\$102	2378	8763	77	22
Terressee	827			100.	1,240	82	3,265	1.605	1.606	283
Alebans	994			2,369	902	25	1,388	1,751	270	
Mesissippi			6	2,150	3,241	8		2		
TOTAL	81,898		z	\$8,065	\$7,593	703	\$5,031	\$3,722	\$2,347	0163
New England										
-				200	1	2	•			
Mary Partherine				B i	5					
Vermont			•	2	* .	*				
Messchuseffs				8	7101	,				
Phode teland				181	2	-				
Connecticut	ļ		17	8	8	-				
TOTAL			\$24	\$1,531	\$2,541	Ē		- Company of the Comp		
Middle Allentic						960				
Mark TOTA				1007	6.9	3 5				
Description of the last			8	2	30.0	8 8				
MICH			3	65 53	\$6.073	\$149				
South Allentic										
Defenses				168	287	2				
Mandand			83	982	8	11				
District of Columbia				8	8	11				
Virginia	Z		-	20	742	28			9	
West Virginia			8	1,785	1,686	-				
North Carolina	122		24	3	63	=	311	139	330	669
South Carolina	*			1/9	8	\$				
Georgie	1,455			Z	85	222	8	1	12	
Portde	19			2,136	1,454	31				
TOTAL	\$2,474		\$83	89'85	\$5,747	6113	\$410	\$146	\$352	\$700
Mine Consus Berdone	BUL 143	6033	\$11.63	75V 095	\$70.238	87.118	185.441	830 13	69 690	

REGION		Soll Conservation Total Reimbursable	Total	Reimbursable	Non-Reimbursable	Percent
STATE	EPA	Service	Costs	Costs	Costs	Reimbursable
East North Central						
Wisconsin	¥60,18	870	\$2,693	8	\$2,693	•
Mohigan	2,754	*	6,235	8	6,172	0.
Minois	3,073	113	9,369	0	696'6	•
Indiana	1,451	125	3.885	27	3,812	61
Orio	2,574	85	7,797	ğ	7,693	1.3
TOTAL	\$10,886	H24	\$29,999	\$240	\$29,759	9.0
East South Central						
Kentucky	53	95.5	104.78	1965	11417	-
Termessee	743	139	10,928	4,092	6.836	3
Alabama	417	112	7,652	1.854	5,798	24.2
Messissippi	272	009	900'9	6	6,303	00 -
TOTAL	\$1,923	296\$	\$32,287	\$6,933	\$25,354	18.9
New England			6710	5	93.50	
Marie	2	614	91/6	2	DI/e	
New Hampshire	428	SS	908	•	908	00
Vermont	168	9	513	0	513	
Wassachusetts	1,620	15	3,577	1	3,570	- 0.0
Rhode Island	592	0,	109	0	109	
Connecticut	883	29	1,865	•	1,865	
TOTAL	\$3,776	\$177	\$8,080	18	£40'03	0.0
Middle Atlantic						
New York	\$4,927	16\$	946'8\$	8	\$8,946	0.0
New Jersey	2,846	S	996'4	•	4,966	
Pennsylvania	2,613	82	8,572	8	8,503	9.0
TOTAL	\$10,386	\$284	\$22,484	693	\$22,415	~ 0.0
South Atlantic				×		
Delaware	1207	82	\$1,217	2	11,217	
Marytand	1,139	25	2,538	æ	5,509	
District of Columbia	218	0	383	0	383	0.0
Virginia	990'1	119	3,045	592	2,780	
West Virginia	194	35	4,122	æ	4,093	1.0
North Carolina	277	88	3,883	699	3,324	**
South Carolina	532	2	1,907	\$	1,443	243
Georgia	¥.	227	4,072	1,554	2,518	38.2
Florida	1,542	S	5,282	67	5,215	1.3
TOTAL	\$6,688	\$792	\$26,419	\$2,967	\$23,452	11.2

FEDERAL WATER PROJECTS COSTS SUMMARIZED BY AGENCY AND REGION (From Inception of Programs to 1980) (Millions of 1985 Constant Dollars)

TABLE 2 PAGE 5

REGION	CORPS OF	BUREAU OF	ENVIRONMENTAL	SOF	TENNESSEE
	ENGINEERS	RECLAMATION	PROTECTION	CONSERVATION SERVICE	VALLEY
BOWE VILE POWER ADMINISTRATION	\$21,550	\$11,065	\$1,340	1718	2
Pacific	\$28,966	\$20.277	\$6,492	\$624	2
Montain	7,480	23,000	1,489	**	0
W.N. Cartal	23.163	4377	3.194	8	0
W S Central	34.327	939'1	2,962	2,019	0
EN Contra	18,669	•	10,886	5	•
E.S. Cental	17.967	•	1,923	28	11,410
New England	4,127	•	3,776	Ē	•
Mid Allamic	11,814	0	10,366	ž	•
So. Atlantic	17,331	0	6,688	792	1,608
Total	\$163,864	816,848	\$47,816	****	813,600

1/ Bonneville Power Administration Marketing Area included in Pacific and Mountain Census Regions.

Tucson Electric Power Company

220 West Sixth Street P.O. Box 711 Tucson, Arizona 85702

Charles E. Bayless Chairman President & Chief Executive Officer

June 22, 1995

(520) 884-3612 FAX: (520) 884-3991

Congressman John T. Doolittle
Chairman of the House Subcommittee
on Water and Power Resources
1526 Longworth Building
Washington, DC 20515

Dear Congressman Doolittle:

Thank you for the opportunity to testify at your recent hearing concerning the privatization of power marketing authorities. As I stated at the hearing, I welcome the opportunity to submit additional written testimony in response to certain questions that arose.

In particular, I am responding to attacks made after I had departed, on Tucson Electric Power Company's (TEP) employees and management and our bid for certain of the Western Area Power Administration (WAPA) assets. I am clarifying the confusion created by witnesses concerning the payment of taxes.

The attacks on TEP obfuscated the real issue currently before Congress, "Should the assets of the PMAs be sold?" To reach a decision on this question Congress must answer the relevant question "Is there a valid public value for public ownership of electric facilities and is this more valuable than Medicare or veterans benefits?" Is there value when electricity customers on one side of a street have a private power company and pay federal and state income taxes as components of their electric bill while people on the other side of the street don't and are given subsidy through public power?

Once a bid is submitted for PMA assets by an investment grade company, the distracting rhetoric of the hearing will be exposed as a meaningless smoke screen. Congress will begin to address the key questions rather than argue inconsequential opinions.

TEP's BID INTEGRITY

Let me set the record straight regarding TEP's bid. First, the bid resulted from meetings with administration officials representing OMB, DOE and WAPA. Bid development necessitated an exhaustive review of WAPA contracts, rates, debt repayment schedules and financial statements. The TEP bid was not a sham, but

Congressman John T. Doolittle

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June 22, 1995

would have produced value to federal and state governments in the purchase price and in the fact that ownership of these assets by TEP would result in income, property and sales taxes to federal and state agencies.

TEP's BID IMPACT ON CUSTOMER RATES

It was alleged that TEP could not make money on the transaction without a significant rate increase. This opposite is the truth. Our offered purchase price assumed the current WAPA rates and rate methodology. Our offered price would have been adjusted upward if we were to consider rate increases. Completion of the acquisition under the proposed terms would produce a profit for TEP. Additionally, the economic efficiency of integrating WAPA and TEP assets would provide service and cost benefits to customers and additional profit potential to TEP.

TEP's BID FINANCING

Hearing comments erroneously alleged that TEP does not have any money and is insolvent. TEP had not earnings of \$20 million and free cash flow after construction and interest payment of \$85 million in 1994. TEP's past financial difficulties resulted from inappropriate diversification by former management. Those problems have been put behind us during the last 5 years by the new management team.

Another allegation was that TEP would have to issue "junk bonds" in order to finance the acquisition. The proposed acquisition would not be financed on TEP's balance sheet. We proposed project financing, a financing technique used to finance hundreds of projects in the United States. Project financing is based on the credit worthiness of assets and the sales contracts entered into. As stated in our bid, financing is available to complete this transaction. We have contacted several large commercial banks and investment bankers who have assured us that they would finance the transaction that we proposed.

Our bonds are not investment grade; but, our bond ratings have improved in each of the last two years and hundreds of millions of non-investment grade bonds are sold daily on the open market. Doing a new issue in this market is not a difficult task. The only intent of these hearing discussions was to keep the focus away from the real issues.

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June 22, 1995

TAX-EXEMPT FINANCING

it was also noted that TEP was not in a position to oppose tax-exempt financing. TEP has tax-exempt debt outstanding. These financings were done pursuant to Congressional mandated provision for pollution-control facilities and two-county bonds. TEP's proposed transaction would not be done with tax-exempt financing as would a municipal or REA if we were to purchase the WAPA facilities. To the extent that Congress does not believe that existing tax incentives should continue, we would urge you to give them the same close scrutiny that you give any government program.

TEP's MANAGEMENT QUESTIONED

After my departure from the hearing room, a certain Congressman returned to question not only TEP's financial condition but its management. I am proud of TEP's current management. Under it TEP was restored to financial health without bankruptcy, it has received the coveted "Points of Light" award for community responsibility, improved cash flow, has three executives, two nationally recognized as outstanding CEO and outstanding independent energy executive and a citizen of the year. Customer service surveys reflect an 80% improvement in satisfaction. TEP's bid is recognized as progressive leadership both in the federal government and in the electric utility industry. That's why we were asked to speak to you, the Committee, on behalf of the entire investor-owned utilities, some 200 strong, not just on our own behalf.

THE TRUTH ON UTILITY TAX PAYERS

It was stated that neither TEP nor Commonwealth Edison pay taxes, with the implication that this was bad. The allegation was made that I incorrectly stated that Salt River Project (SRP) does not pay taxes. This issue is central to the debate. We must distinguish between sales taxes, property taxes, and income taxes and must understand who pays.

All utilities, private, public, investor-owned and co-ops and rurals pay sales taxes.

Property taxes are paid by all investor-owned utilities, most REAs pay some property taxes and most municipals do not pay any. State statutes will cause this to vary.

Federal and state income taxes are not imposed on publicly-owned utilities but are assessed on privately-owned utilities.

Congressman John T. Doolittle

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The attention to TEP's not paying federal income tax last year obfuscated the real competitive issue. It is true that because of prior losses, we did not pay income taxes last year. TEP did pay alternate minimum tax and has paid millions of dollars in income taxes in prior years.

The investor-owned electric utilities last year paid close to \$7 billion in federal income taxes. Utility investors paid \$5 billion in federal income taxes on the \$15 billion in dividends. The majority of REA and municipal electric power companies last year paid no federal income taxes. The national economic value of correcting this tax gimmick should be evident.

At a time when Congress is called upon to make hard decisions concerning programs that should be cut, Congress must act in the public interest. We point out that if federal aid was totally withdrawn from all public power entities tomorrow, the lights would stay on and the customers would still have service. Weigh the option to the immediate personal impact of cutting veterans' benefits, Medicare and Medicaid, etc. where people will lose benefits. Congress should first examine programs without public policy rationale.

The federal government should proceed with the sale of the PMAs. Congress should specify that the existing contracts must be assumed by the purchaser to insure that rates do not rise faster than they would if the assets were owned by PMAs. The resulting bids will bring maximum value to the federal government, protect ratepayers and increase the quality of service. The loser is one who likes to compete from a position where a subsidy is needed to compete.

Our bid was substantive and we are prepared to go forward. We are absolutely confident that we will obtain the necessary financing. Let Congress deal with facts, not obfuscation, debate not denial, and demonstrate principles not political defenses, and the American people will continue to support Congress. Please have your staff contact me for further information.

Respectfully yours,

Charles E. Bayless

CEB:Ihk



PRESS RELEASE COMMITTEE ON RESOURCES

U.S. HOUSE OF REPRESENTATIVES WASHINGTON, D.C. 20515 (201) 225-7749 or (202) 225-2761 Phone (202) 226-4631 or (202) 225-5929 Fax

May 18, 1995

Contact: Bob Faber (202) 225-8331

Chairman Doolittle: "PMA Transfer Must Benefit Both Rate & Tax Payers"

"The transfer of the Power Marketing Administrations out of federal ownership should be a benefit to both the ultimate ratepayers as well as the taxpayers," said John Doolittle, Chairman of the House Water and Power Resources Subcommittee. Increased efficiency and competition will put pressure on the market to reduce rates. This should go a long way to offset rate increase pressures. "Keeping these sales from adversely affecting rates is the easiest challenge we have in making these transfer," he said.

The federal government no longer needs to be in the business of providing electrical power. There is a mature electric generation and distribution system run by local public and private power organizations. That system has grown up over the past 50 years with about 80% of the electricity generated by investor-owned utilities (IOU's) and about 20% by the public sector power systems. Approximately 99% of Americans have access to electric power.

Currently, the PMA's are experiencing deferred maintenance problems on their facilities. In addition, there is typically a 25% increase in efficiency when this type of facility is transferred out of national ownership. Doolittle observed that, "America has an active program throughout the world to encourage countries to transfer their national power companies into local hands. We should be implementing the same policies here at home."

There are public power policies that should be protected in the transfers. "We can and should provide for limitations on rate increases, to provide a smooth transition from the current situation," Doolittle said at this morning's oversight hearing on the transfers of the PMA's. The trend toward increased competition should be enhanced by this transfer, rather than frustrated thereby. And finally, the federal government should not be left with the liabilities while transferring the revenue-generating resources.

Doolittle stated, "I remain very concerned about our ability to reach these objectives effectively, if we limit all transfers to the existing public power entities. It is unfortunate that there are those who continue to say that the sale of these facilities will cause significant rate increases." The transfer of the PMA's out of federal ownership is an opportunity to raise significant revenue to balance the budget at a time when very difficult choices are facing the American public. At the same time we will make sure that ratepayers are protected in these sales.

. . .

TESTIMONY TO THE
WATER AND POWER RESOURCES SUBCOMMITTEE
HOUSE RESOURCES COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES
MAY 18, 1995

BY GROVER G. NORQUIST

PRESIDENT, AMERICANS FOR TAX REFORM
AND MEMBER OF
CITIZENS AGAINST ENERGY SUBSIDIES

My name is Grover G. Norquist, and I am President of Americans for Tax Reform (ATR), a 60,000 member coalition of individuals, taxpayer groups and businesses concerned with federal tax policy, spending reduction and a balanced budget amendment, and restoring accountability to elected officials. I am also testifying on behalf of Citizens Against Energy Subsidies (CAES), a coalition representing more than 500,000 American taxpayers. We thank you for the opportunity to provide the Resources Committee with our thoughts on the importance of fair-market privatization of the nation's Power Marketing Administrations (PMAs). At the outset, I wish to make it clear that neither ATR nor CAES receives any money from any government entity — federal, state, or local.

ATR has been the taxpayers' voice supporting tax reform and reducing government spending since 1985. Our record supporting a more efficient government that costs less and is less burdensome to the American taxpayer is clear. In fact, last November's election results were a clear signal that the American voters want Congress to make the hard choices necessary to reduce federal deficits and alleviate the tremendous tax burdens we face.

That election represented a dramatic cry from the American people for change. They want their representatives to take a hard look at this nation's budget and make the same kind of tough choices they have to make with their own budgets every single day. For a long time, Americans have had to re-examine their spending habits and determine how and where they can spend their hard earned money more effectively. They are simply asking the United States government to do the same.

Tremendous progress has been made since January 4 toward streamlining government and reducing costs; however, there are difficult decision still to be made if we are going to get a government that works better and costs less.

One policy that needs to be re-examined is federal subsidies provided to government-owned electric utilities and rural electric cooperatives. These subsidies represent an annual loss of federal revenue of more than \$8 billion. Due to this decrease in federal revenues, the government has repeatedly turned to the American people as a source of additional income by increasing taxation.

The federally-subsidized segment of the industry — electric utilities owned by state and local governments, and rural co-operatives — serve roughly 25 percent of the population and enjoy subsidies, preferences and tax exemptions amounting to \$11 billion a year. And the federal government sells cut-rate subsidized power (usually from hydroelectric dams) in 34 states via the five federal Power Marketing Administrations. This subsidized power benefits only about 12 percent of American consumers.

At the same time, shareholder-owned electric utilities, which provide electric service without these federal subsidies, provide electric service

efficiently and reliably to more than three quarters of the population. In 1993, these utility companies paid \$24 billion in federal, state and local taxes.

These expensive programs translate into a heavy tax burden to the majority of Americans and represent a substantial and unfair transfer of revenues from three-fourths of the population to the other fourth. And, with what justification? Originally, these subsidies helped to electrify all of America. However, today more than 99 percent of all Americans have electricity. What's more, 60 percent of rural Americans are now served by unsubsidized shareholder-owned utilities. In fact, 76% of the nation's electricity consumers don't benefit from these programs at all.

The U.S. government does not need to be in the electric business. The free market approach in energy is the best approach. The government needs to get out of the electricity industry — and privatizing the Power Marketing Administrations (PMAs) is the best place to start. The proposed sale of the PMAs is a clear response to the voters' cry for change. Governments all over the world are privatizing industries and the American electric utility industry should be no different.

Some, including the Clinton Administration and some Budget Committee members, are proposing to structure a PMA sale that will generate less than a third of the revenues that a fair market sale would generate. Their approach is to get federal government out of the electricity business but not quite. It would give quasi-government entities a sweetheart deal that will cost the American taxpayer dearly.

From child care tax credits to Medicare to school loans, each and every dollar spent by the federal government is under intense scrutiny. A fair market sale could net the American taxpayers almost \$9 billion with no strings attached.

In today's budget realities, that can go a long way. Although ATR believes any proceeds from this sale should go toward deficit reduction, we thought it would be instructive for the committee to consider the impact \$9 billion could have on today. For instance, \$9 billion can:

- provide 9 million families with two children a \$500 tax cut per child;
- pay the average annual prescription drug bill for more than 18 million seniors;
- pay for more than 90 percent of our nation's veterans compensation and pension programs for FYs 94, 95 and 96;
- · pay for the nation's unemployment insurance program for FY 95;
- fund the entire federal employee retirement program, including civil service and military retirement for FYs 95 and 96 with almost \$1 billion left over;
- · send more than 2 million children to Head Start for one year;
- fund the entire Women's, Infants and Children's (WIC) nutritional program for almost three years.

In addition, the federal treasury will gain other revenues from the sale, including increased tax revenues if private industry is allowed to purchase the PMA assets. Some proposals would sell the PMA's to other government entities with preferred low-interest federal financing. If the sale of the PMAs is not based upon a free, fair market approach, the cost to the American taxpayer will be enormous. American taxpayers have a valuable asset that should be shared by all, not just a select special interest group. This is just another attempt to use American taxpayer money for special interests, and that's not what the voters called for last November. The American public voted for a change, not for inside deals.

America's electric power utilities are now entering a new era of competition that will bring enormous benefits and lower costs to all consumers. But for true competition to exist, all of the players must be able to compete on an equal basis. The federal government should not be subsidizing some at the expense of all American taxpayers. Instead, government policies should encourage a return to the free market where a level playing field invites competition and innovation which will ultimately benefit all taxpayers.

That is why we formed Citizens Against Energy Subsidies (CAES), a diverse coalition of taxpayer, consumer activist, senior citizen and small business organizations. We urge you to support privatization of the Power Marketing Administrations (PMA's) through sale to the highest bidder, and without onerous restrictions on the sale of power.

Current proposals to sell the PMAs for \$3 billion to "preference customers" instead of through a free market projected to bring \$9 billion don't respond to what the American taxpayers were calling for in the election. It simply doesn't make sense to leave almost \$6 billion on the table simply because of a small but vocal minority. If these "special electricity customers" are concerned about potential rate increases, there are ways to mitigate these rate increases until the free market can reduce electricity rates for all Americans, not just a select few. By following the Budget Committee's lead, you will simply be transferring a valuable resource from one government entity to another at bargain basement prices. This is no way to ensure a free, competitive market in the electric industry and it certainly isn't what the American voters called for last November.

Any sale of this important national resource must be designed to protect not only the American taxpayer, but this nation's electricity

consumers as well. As such, we believe that any proposed PMA sale should be designed to meet the following goals:

- Generate maximum revenues for the American taxpayers. This
 can be best accomplished by selling the PMAs at a fair-market,
 public auction to the highest bidder. This will allow all taxpayers
 who have financed these facilities through their tax dollars to
 recoup their investment.
- Protect existing PMA customers from rate increases. A
 mechanism could be developed to protect consumers from
 dramatic rate increases but only for a limited time, until freemarket benefits begin to occur.
- Legislation for the sale of the PMAs should prohibit federally subsidized financing to purchase these valuable assets.
 Financing the purchase of the PMAs with federally subsidized funds is in fact a cross subsidy — simply trading one federal subsidy for another. If public financing is utilized, it's impact on the federal treasury should be considered during the bidding process.

A fair, free-market sale of the PMAs is exactly the type of innovative government action the voters in November demanded. We won't see robust competition in the electric utility industry unless the federal government levels the playing field. Congress can provide this, and several billion dollars of deficit reduction, by privatizing the federal Power Marketing Administrations.

You have before you an opportunity to embrace the same type of bold experimentation that begot these federal subsidies in the first place. This federal program was designed to electrify America. It worked. But times have changed, and today's government policies must reflect our nation's needs today. It's time to move on and adopt energy policies that reflect today's realities. That's clearly a free-market sale of the PMAs.

If Congress is going to take this step toward reducing government costs, take the time to construct a sale that will benefit all American taxpayers, not just a select few. Give the American taxpayer more bang for their buck, put all the PMA's on the open market and sell them for what they're really worth.

Selling the PMAs can be a win-win situation. A fair market sale could net the American taxpayers almost \$9 billion and consumers could be protected. This is exactly the type of government actions the voters called for last November. On behalf of ATR, CAES and more than 500,000 American taxpayers, please don't lose sight of our concerns. Thank you.



For Immediate Release

Contact; Greg Smith (202) 331-1010

CEI TESTIFIES FOR PRIVATIZATION OF PMAS

WASHINGTON DC, May 18, 1995 - "Privatization of Power Marketing Administrations (PMAs) is long overdue, but even it is a first step, a test case, toward limiting the reach of a government that seems to regard no activity as beyond its capability or proper scope," testified Wayne Crews, Fellow in Regulatory Studies at the Competitive Enterprise Institute.

Crews appeared today before the House Subcommittee on Water and Power Resources to discuss proposals to privatize the five Power Marketing Administrations run by the federal government. He argued against the inequities created when the government alters the market price for electricity for preferred customers. "The core issues in this debate are the unfairness of requiring one class of Americans to subsidize the power needs of another, and the impropriety of having government-run commercial enterprises competing against and even excluding large chunks of the private sector from access to their output," Crews stated.

Additional points made by Crews were:

- Certain groups are getting access to cheap federal power while others do not enjoy the privilege.
 The roughly 75% of power consumers who are serviced by investor-owned utilities ought to have the right not to subsidize the 25% who are serviced by the PMAs at below market rates.
- Power generation is a commercial activity in which the government has no business and no rational
 basis for being a player. Soon we are likely to have choices among private power companies
 paralleling those we now have among long distance phone companies.
- A system that will be most efficient for energy consumers is one in which all producers are free to sell to any buyers, and any buyer is free to purchase from any seller. The PMAs preclude the existence of such a marketplace.
- While all PMAs should be privatized, Congress might consider initially dealing with the problem
 by establishing a commission similar to the Military Base Closure Commission.
- The problem of potential rate increases is overstated since PMAs are rarely the exclusive or dominant supplier of power, but to the extent adverse potential exists, privatization of PMAs can be structured such that impacts are minimized or even a net plus for affected customers.

CEI is a non-profit, non-partisan research and advocacy organization dedicated to the principles of free enterprise and limited government. For further information, contact Greg Smith, (202) 331-1010.

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Critises for a Sound Economy 1256 in Street Yew Suite 700 Washington, DC 20005-3908 (2021 763-3670) FAX (2021 763-3670)

May 18, 1995

The Honorable John Doolittle Chairman Water and Power Resources Subcommittee House Resources Committee 1337 Longworth House Office Building Washington, DC 20515

Dear Chairman Doolittle:

Citizens for a Sound Economy (CSE) urges you to allow market forces to work in the utility industry without government interference. CSE does not believe the government belongs in the energy business, subsidizing select parts of the country with taxpayer dollars at the expense of citizens in areas that are not serviced by power marketing administrations [PMAs].

PMAs came into existence to help electrify poor, rural areas that did not have access to power generation. Now, in 1995, 99 percent of rural America has electricity. Overall, PMAs provide only about 6 percent of the nation's electricity. This taxpayer-subsidized electricity benefits a population that is no longer consistently poor or rural.

Why does the government continue to subsidize government-owned PMAs when many members of Congress today speak of the virtues of the competitive private sector? Privatizing public institutions such as PMAs will give further proof that Congress is re-evaluating the role of government down to its core and discarding ideas whose time has passed.

PMAs should be sold in an open bidding process to allow the market to set the price for their assets. The House Budget Committee estimates that selling the Southeastern, Southwestern, and Western area PMAs could bring more than \$4.7 billion in revenues.

By selling the PMAs, taxpayers would benefit both from the profit brought by the actual sale of the PMAs <u>and</u> from the fact that new capital expenditures and operating deficits would be eliminated from the federal budget.

CSE encourages Congress to privatize the PMAs and allow the market, not the federal government, to set the price of electricity.

Sincerely,

Paul Beckner

cc: House Resources Committee

Paul A. Erickson Uplices Manager



Donald J. Virgi

605 North Broadway Wahoo, NE 68066 (402) 443-3222

May 15, 1995

The Honorable John Doolittle House Resources Subcommittee on Water and Power 1337 Longworth House Office Building Washington, D.C. 20515

Dear Congressman Doolittle:

I am writing regarding the potential sale of the Federal Power Marketing Administrations ("PMAs"), namely, the Western Area Power Administration ("WAPA"). No doubt you've been inundated with statistics and foctoids. The aim of this letter is to demonstrate why the potential sale of WAPA is a bad idea. Please include this letter in the official hearing record.

When electricity is offered in a monopolistic environment, an effective and efficient pro-business, pro-economic, pro-local control, utility schemata is in a municipal utility's naturally-local accountability. WAPA is a principal power supply for hundreds of these locally-regulated and accountable municipal utilities. Selling WAPA to the highest bidder could negatively-impact the economies of locally-controlled utilities receiving power from WAPA. Local control could be lost by new WAPA ownership, and higher cost power supply would raise electric rates for millions, while virtually eliminating the smallest of utilities as competitiveness is lost.

WAPA is no model for efficiency. It is wrought with the typical federal bureaucratic waste. Even so, WAPA provides low-cost power to ultimately millions of Americans — all the while serving as a profit center for the federal government after paying its way.

The recent de-bunking of the proposed sale of WAPA (which has been billed ostensibly for "deficit reduction"), has resulted in many municipal utility customers understanding the folly of the idea. The proposed PMA sale is seen by many as no more than a ploy in the name of "down-sizing government", more political window dressing in a time when substance is needed.

Please consider the following:

- WAPA currently provides energy to many state and federal government facilities. If WAPA is sold, won't taxes increase because these government facilities will pay more for energy? If taxes don't increase, the
- WAPA currently provides navigation, irrigation and flood control along river watersheds. Won't taxes
 increase because these functions will not be paid for by the new owners? If taxes don't increase, the deficit
 will
- If the new owners carry out the flood control and navigation, won't electric rates for millions of Americans
 increase to cover these costs? If electric rates don't increase, either taxes or the deficit will. Because, profitmotivated entities aren't going to do it for free.

Honorable John Doolittle May 15, 1995 Page 2

- Since new owners of WAPA will have to pay taxes on the profits they make, won't electric rates for millions
 of Americans increase to cover these costs?
- If WAPA is sold to preference customers (mostly cities) at the unpaid balance, won't local electric rates or local taxes increase for millions of Americans due to the cities' need to borrow the money to purchase WAPA? How will the navigation and flood control functions be paid for then?
- Many large investor-owned utilities are much like the federal government. Large, monolithic, impersonal, high-cost bureaucratic institutions. If you sell WAPA to these institutions, the result in some cases will be loss of local control of utilities to these organizations. Local accountability is lost.
- The federal government agreed years ago that, if we purchased power (recently, through WAPA), thereby paying off the debt to construct the facilities, we would receive low-cost power in the future. Do we now sell-off the "golden egg" at fire-sale prices and abandon the agreements?

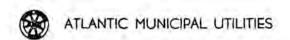
If there's a need to tinker with the system, consider de-bureaucratizing the PMAs. Make them run more like businesses. Release them from the myriad of federal rules they face as a federal agency. Make them more efficient so the federal government can derive even more profit from them. Don't sell a profit center under a politicized myth of "down-sizing." Try fixing it first.

Our country is feeling the negative impacts of unencumbered federal government largess and out-of-control spending. However, Congress's "triage of the patient" resembles an emergency room physician more worried about a patient's hangnait than his broken arm. So, instead of selling the PMAs, why not go after some tough cuts? Then again, can a Congress, incapable of eliminating W.W.II.-era mohair subsidies created for wartime purposes, make meaningful budget decisions? For many, it remains to be seen.

Please contact me if you need more information. Otherwise, please don't sell the PMAs unless first you fail to fix them.

Sincerely,

Paul A. Erickson



(712) 243-1395 15 West 3rd Street P. O. Box 517 Atlantic, Jowa 50022

May 12, 1995

The Honorable Wayne Allard
House Resources Subcommittee
on Water and Power
1337 Longworth House Office Building
Washington, DC 20515

Dear Representative Allard:

During the last few years several proposals have emerged over the privatization of Federal Power Marketing Authorities (PMA's). If the PMA's are sold the negative consequences to the consumer-owners of Atlantic Municipal Utilities would be immense. I ask that you oppose the sale of the PMA's and stop the equivalent of a middle class tax increase on our consumer-owners.

Atlantic Municipal Utilities is a preference customer of the Western Area Power Administration (WAPA), purchasing close to 36% of our power from WAPA. If the PMA's are sold we have conservatively estimated that our replacement cost for WAPA power would be approximately \$1,469,440 annually. This cost represents an annual increase of approximately \$1,041,713 that would be passed on to all AMU consumers. On the basis of our number of consumers AMU would have to initiate a 25% rate increase to generate the additional revenues needed to offset this increased cost. In a time when Congress is proposing tax cuts this proposal would equate to a tax increase for our consumers. This increase would have a disproportionate effect on our lower and middle class consumers.

Atlantic Municipal Utilities and the 136 other consumer-owned electric utilities in Iowa have a strong sense of pride in the efficient and low cost of power delivered to our consumer-owners. A rich tradition of low electrical rates among municipal electric utilities in Iowa and throughout the United States has played an important role in economic development during the growth of this country.

However, the sale of PMA's will mean some major changes in the electricity industry in Iowa. Privatization of electrical utilities in the United States has traditionally meant an increase in electrical rates. In 1993 the average revenue per kilowatt-hour for investor-owned systems was 20 percent above the average rate per kilowatt-hour paid by public power customers in 1993. If the PMA's are privatized the customers of these Federal hydroprojects will see a movement towards the maximization of profits with a rate increase reflecting the average rates of investorowned utilities in the United States. In addition, in the years since becoming a customer of WAPA we have created a great deal of equity with our investment in the hydropower structures and transmission systems that serve AMU. This equity would be lost if the PMA's are sold.

The Federal government cannot afford to look past the long term implications that such an action will have on the consumer-owners of public power systems for the short term benefit of the sale of PMA's. There may be parts of the federal government that don't work well, but the federal power program is not one of them. It pays its way with interest.

Thank you for your time and action on this very important issue facing Atlantic Municipal Utilities 4, 700 consumer-owners and several other public power communities throughout the United States.

Sincerely,

ATLANTIC MUNICIPAL UTILITIES

John H. Bilsten

Regulatory Compliance Specialist

92-403 (376)

