

~~11,114~~

Monday, July 30, 1979

110099



NOTICE OF HEARING

~~esp~~

COMMITTEE : Subcommittee on Water and Power Resources
House Committee on Interior and Insular Affairs

SUBJECT : Pacific Northwest Energy Matters (HR 3508 & H.R. 4159)

DATE : July 30, 1979

TIME : 9:30 a.m.

ROOM : 1324 Longworth House Office Building

MEMBERSHIP : Abraham Kazen, Jr. (D-Tex.), Chairman

Majority : Representatives Weaver (Oregon), Miller (Calif.),
Patterson (Calif.), Kogovsek (Colo.), Eckhardt
(Texas), Carr (Mich.), Sharp (Ind.), and Won Pat
(Guam)

Minority : Representatives Lujan (N.M.), Johnson (Colo.)
Pashayan (Calif.), Bereuter (Neb) and Evans (V.I.)

PRINCIPAL STAFF : John A. Whittaker, IV, Associate Counsel

GAO WITNESS : *Mr. McCallough*
~~J. Dexter Peach, Director~~, Energy and Minerals
Division *Call Jones*

ACCOMPANIED BY : John W. Sprague, Associate Director, EMD
John A. Burton, Jr., Supervisory Auditor, EMD
Ray Hausler, Supervisory Auditor, Portland
Regional Office

Car reserved in Mr. Peach's name
for 9:15 a.m. - will leave G St., 1st
Basement.

T. Vincent Griffith *vf*
Legislative Attorney
Office of Congressional
Relations

10,932

Testimony
206110
110099



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C.

FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 am EST
July 30, 1979

STATEMENT OF
DOUGLAS L. McCULLOUGH
DEPUTY DIRECTOR, ENERGY AND MINERALS DIVISION
BEFORE THE
SUBCOMMITTEE ON WATER AND POWER RESOURCES
OF THE
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS
HOUSE OF REPRESENTATIVES

Use 0/1907

Dear Mr. Chairman:

We appreciate your invitation to discuss our report 1/ on electricity management in the Pacific Northwest and how the results of our work align with the purposes of H.R. 3508, the Pacific Northwest Electric Power Planning and Conservation Act; and (H.R. 4159, the Northwest Renewable Resources, Conservation, and Energy Planning Act.) My statement will discuss those issues and conclusions addressed in our study which we feel relate in a major way to the proposed legislation.

COMPARING GAO'S CONCLUSIONS
TO THE PROPOSED LEGISLATION

Both H.R. 3508 and H.R. 4159 would re-charter Bonneville to encourage cost-effective conservation, development of

1/"Region at the Crossroads--The Pacific Northwest Searches for New Sources of Electric Energy," EMD-78-76, Aug. 10, 1978.

renewable energy sources, and a representative power planning process. These objectives are consistent with our recommendations and we fully endorse them. There are several areas, however, where the Committee may wish to modify the proposed legislation to assure that these objectives are properly met.

Federal financing of conventional powerplants

Both bills try to assure efficient and adequate power supplies for the region. This is attempted by authorizing Bonneville to purchase power or generating capacity from conventional powerplants if conservation and renewable energy sources are insufficient to meet regional demand growth. H.R. 3508 would authorize Bonneville to purchase thermal power from coal-fired or nuclear plants, while H.R. 4159 would appear to eliminate the nuclear option.

GAO recommends a leadership role for Bonneville in demonstrating:

- the technical and economic feasibility of industrial, commercial, and residential conservation programs;
- load management and power pricing initiatives, and nonconventional energy supply and displacement projects, and;

--the integration of such resources and practices into the planning and operation of the Federal Columbia River Power System.

We think it is (appropriate for Bonneville to help finance and provide technical and administrative support for conservation programs and for nonconventional energy projects.)

Actions of this type--properly approved by a regional power-planning board, the Secretary of Energy, and the appropriate Committees of Congress--could do much to make national energy policy become a reality in the Pacific Northwest.

(^{Have we seen a comparable need?} ~~We do~~ not see a comparable need for Bonneville financial participation in conventional thermal powerplants unless it is clearly shown that (1) conventional thermal plants are the region's most cost-effective alternative, (2) the region needs more conventional plants than those already approved for construction, and (3) regional utilities are incapable of meeting this need without Bonneville sponsorship.) It has been GAO's position that the Federal Government should not take over functions that the private sector could or has been performing unless it has been demonstrated that the private sector is unable to perform. We have seen no demonstration that Northwest utilities are unable to construct or secure private capital needed for constructing conventional powerplants.

Defining cost effectiveness

The definition of cost effectiveness could become a very important factor in Bonneville's decisions on new power sources. H.R. 3508 provides that Bonneville will implement "feasible and cost effective" conservation and renewable resource programs before acquiring thermal generation. However, it does not provide adequate guidance in determining what is feasible and cost effective. We recommend the legislation specifically point out that "cost effective" comparison means cost comparison at the margin and should include environmental and social costs when practical. We would recommend the following definition:

"Cost effectiveness should be determined by comparing, on a life cycle basis, the unmixed cost of generating, transmitting, and distributing electricity from new thermal supply sources with the cost of energy conservation, cogeneration, load management, and/or renewable resource alternatives. Environmental and social effects should be included when they can be identified. To the extent practical, these effects should also be quantified."

H.R. 4159 provides another definition of "cost effective" in Section 3(c).

Pricing Federal hydropower

Because Bonneville's hydropower is currently priced at rates far lower than most and is sold mostly to preference customers, significant rate disparities have developed within the region. H.R. 3508 addresses the regional rate disparity problem and preference customer issue by: (1) extending the benefits of Federal hydropower to include residential customers of investor-owned utilities, and (2) marketing power to existing preference customers and new residential customers at an average cost of a pool of power from Federal entities, preference customers, and non-preference entities. H.R. 4159 would also extend the benefits of Federal hydropower to the residential customers of investor-owned utilities but would require Bonneville's Administrator to establish separate rate schedules for power acquired from new resources. Under both bills, Bonneville's preference customers would be yielding a portion of their total entitlement to the Federal base resource in exchange for a pooling arrangement among themselves, Bonneville, and non-preference entities.

Our report addresses these issues by keeping the preference customer clause as is, but gradually increasing the price of Federal power to accomplish regional rate parity by the year 2000. Gradually increasing the price of

Federal hydropower until it reaches parity with other rates in the region would reduce rate disparities, increase the potential for voluntary conservation, and encourage development of nonconventional energy sources. Monies derived from gradual price increases could be returned to regional rate payers through loans and grants for cost effective conservation and renewable energy projects. This portion of our report sometimes has been misinterpreted, or incorrectly characterized as a plan to penalize consumers with unnecessary rate increases. What our study indicated, however, is that power prices will likely be raised to near parity levels even if the policy we recommend is not adopted. However, those additional revenues will not be available to finance conservation and nonconventional energy projects. Instead, they will be needed to pay for additional nuclear and coal-fired powerplants--some of which may not be the region's best energy investments.

Both bills will give unrealistic pricing signals to residential consumers by using the Federal hydro base to artificially lower or constrain residential power rates. Such actions would be contrary to the interests of conservation and renewable resource development. If our recommendations are not accepted, we prefer the pricing provisions of H.R. 4159 which appear to use separate rate schedules for

new resources as a means of giving regional power consumers a truer picture of the cost of new power supplies.

Power planning and policymaking

Both bills are consistent with our report in recognizing the need for a more representative regional power planning process.

H.R. 3508 authorizes the Bonneville Administrator to obtain regional input by establishing two regional Advisory Councils: The Bonneville Utilities' Council, comprised of utility and industry representatives; and the Bonneville Consumer's Council, comprised of representatives appointed by the Northwest Governors. We believe that one council with a diverse regional makeup would encourage consumers, utility representatives, and environmentalists to work better together on key issues--such as load forecasting, for example. Because load forecasting is so important to power planning but presently such an inexact science, it would appear that a range of forecasts (high, most-likely, low) should be developed so that various supply and demand options can be evaluated by regional representatives over a range of eventualities. A single council would appear more appropriate to evaluate such forecasts and resolve the important problems facing the region in a timely manner.

We are also concerned that H.R. 3508 does not charge the Advisory Councils with specific planning responsibilities, or provide sufficient accountability for power planning and policymaking. In performing such important duties as preparing the regional load and resource forecasts and developing the region's conservation programs, Bonneville's Administrator is only required to consult with the Governors of the States of Idaho, Montana, Oregon, and Washington, and the Advisory Councils. The Administrator thus would appear to have little accountability to the public or elected representatives. Furthermore, the councils would appear to have little opportunity to participate in developing power plans and policies.

H.R. 4159 appears to deal more effectively with the accountability problem by establishing a Pacific Northwest Electrical Energy Planning Commission composed of Bonneville's Administrator and one gubernatorial appointee each from Idaho, Montana, Oregon, and Washington. The Commission would be charged with developing a comprehensive power and conservation plan, with opportunities for public hearings and comment. This bill does not, however, provide adequate assurance that a diverse mix of regional interests will participate in developing the plan.

Our study concluded that (citizen participation should not be limited to after-the-fact reviews of plans developed

by Federal agency and electric utility officials. If more open and representative planning is not provided, regional power programs increasingly will be disrupted by legal actions to protect citizen interests. Our report recommended that Congress direct the Secretary of Energy to establish a regional power-planning board with representatives of Federal agencies, State governments, investor-owned and publicly-owned utilities, environmental groups, industry, and energy consumers generally, as well as Presidential appointees, one of whom would serve as chairperson.

(~~We are also concerned about controls over Bonneville's bonding authority.~~ ^{in one of the bills,} H.R. 3508 does not appear to set a limit as to how much debt Bonneville can have outstanding at any one time. GAO believes that an aggregate bonding limit, such as is used in the Tennessee Valley Authority bonding authority, should be placed on Bonneville in order to provide greater fiscal control.) H.R. 4159 deals with this question in Section 11(b) by establishing a bonding limit of \$3.5 billion.

That concludes my prepared statement, Mr. Chairman. Other comments on H.R. 3508 and H.R. 4159 are attached. We would be pleased to answer any questions.

OTHER COMMENTS PERTINENT
TO H.R. 3508 AND H.R. 4159

1. Both bills would give broad authority to the Bonneville Administrator for various functions which could require huge sums of money. We think the legislation should make clear that the Administrator will be acting under the direction of the Secretary of Energy. One way to accomplish this would be to add whenever appropriate a provision that:

"The authority and duties of the Administrator referred to herein are subject to the supervision and direction of the Secretary of Energy."

2. Neither bill would appear to deal with possible inequities in industrial power rates. As pointed out in our report, several publicly-owned utilities use Bonneville preference power wholly or largely to serve industrial users. It has been argued by some that such industrial consumers are receiving an unfair competitive advantage. The legislation does not appear to resolve this conflict.
3. H.R. 3508--in Section 7(b)--authorizes the Administrator to set rates appropriate to a specific sector (residential) but Bonneville only markets at the wholesale level. It

provides no guidance as to how Bonneville can assure the Federal power rates are passed on at the retail level. This should be specified in the legislation. H.R. 4159 deals with this problem in Section 5(b)2.