

Testimony of Elliot Mainzer

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“Examining the Policies and Priorities of the Bureau of Land Management, the United States Forest Service, and the Power Marketing Administrations”

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Good morning Chairman Lowenthal. My name is Elliot Mainzer and I am the Administrator of the Bonneville Power Administration (Bonneville). I am pleased to be with you today to describe the significant role Bonneville plays for the communities of the Pacific Northwest. This is a time of swift change in the electric industry, especially in the West. I am proud of how Bonneville is balancing energy and environmental priorities to continue its role as an economic engine of the Pacific Northwest.

Role of the Bonneville Power Administration

Bonneville is a Federal Power Marketing Administration headquartered in Portland, Oregon. Bonneville serves a 300,000 square mile area that includes Oregon, Washington, Idaho, western Montana, and parts of northern California, Nevada, Utah, and Wyoming, with a population of about 13.3 million people. Bonneville markets electric power, provides transmission, and supports development of energy conservation throughout the region. Bonneville markets the electric power produced from 31 Federal hydroelectric projects owned by the U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation (Reclamation). Bonneville also acquires non-Federal power, including the power from one nuclear power plant, the Columbia Generating Station, to meet the needs of its customer utilities.

Bonneville maintains and operates over 15,000 circuit miles of transmission lines and associated facilities over which this electric power is delivered. Bonneville’s system is about three quarters of the Northwest’s high-voltage electric grid. It is Bonneville’s responsibility to plan for and

fund the operations and maintenance of this system, while also preserving and enhancing physical security, cyber security, and overall system resilience.

It is important to emphasize that Bonneville is not for profit. It is fully self-financed and thus does not receive annual appropriations. Bonneville currently has authority to borrow up to \$7.7 billion from the U.S. Treasury which is available to Bonneville on a permanent revolving basis.¹ Bonneville's power rates and transmission rates are set to recover its costs. Its revenues from sales of surplus power help cover some of the power costs and in turn lower its firm power rates.

Bonneville also supports the protection, mitigation, and enhancement of fish and wildlife affected by the development and operation of the hydro system as part of its efforts to preserve and balance the economic and environmental benefits of the Federal Columbia River Power System (FCRPS).

Bonneville Strategic Plan

Last year, Bonneville released its 2018-2023 Strategic Plan, which describes how it will operate in a commercially successful manner while meeting its statutory obligations. Bonneville developed this strategic plan after listening to customers and constituents express their interests in Bonneville's commercial viability and ability to meet those obligations. The strategic plan comes at a moment when Bonneville is midway through 20-year firm power sales contracts with its preference power customers. Those customers are looking to how Bonneville will be positioned to meet their needs beyond the terms of their current contracts. The strategic plan is framed by these goals:

- Strengthen financial health
- Modernize assets and system operations
- Provide competitive power products and services
- Meet transmission customer needs efficiently and responsively

Overview of Bonneville's Financial Condition

Bonneville's Fiscal Year 2018 end-of-year financial results showed the agency, both power and transmission, outperforming rate case expectations. Bonneville's net revenues ended at \$471 million.

Treasury Payment

¹ As of the end of September 30, 2018, total Bonneville outstanding debt was \$14.407 billion of which \$6.699 billion was Federal debt to the U.S. Treasury.

The definitive measure of Bonneville's financial condition is making its annual U.S. Treasury payment in full and on time. The U.S. Treasury payment provides this measure because it is the last financial transaction Bonneville makes each fiscal year and is confirmation that Bonneville has fully met all of its financial obligations for the year.

Bonneville sets its rates to ensure that all of its costs, including the U.S. Treasury payment, can be met from power and transmission revenues. Bonneville has made its Treasury payment in full and on time for 35 consecutive years. In Fiscal Year 2018, the annual Treasury payment was \$862 million including principal and interest. Bonneville's cumulative payments to the Treasury during those 35 years amount to more than \$29.8 billion.²

Credit Ratings

In May 2018, the three major credit rating agencies issued credit ratings on non-Federal debt backed by Bonneville. As of September 30, 2018, \$7.708 billion in non-Federal debt backed by Bonneville remained outstanding. These ratings reflect independent assessments of Bonneville's financial condition. The ratings were:

- Moody's at Aa1 with a stable outlook
- Fitch at AA with a negative outlook
- Standard and Poor's at AA- with a stable outlook

2018 Financial Policies

In 2018, Bonneville completed two policies complementary to the objective in the strategic plan to strengthen its financial health. The Financial Reserves Policy defined the level of financial reserves Bonneville and each business line should hold; how to build financial reserves when they fall below a prescribed level; and a process to consider repurposing financial reserves when they exceed a prescribed level. The policy provides a framework to ensure Bonneville maintains a minimum of 60 days cash on hand for each business line and 90 days for the agency as a whole.

The Leverage Policy creates a strategy to reduce Bonneville's total debt compared to its assets in an effort to strengthen financial health and flexibility. Reducing debt will help Bonneville lower its interest costs, support its strong credit rating, maintain access to borrowing from the U.S. Treasury, and improve financial strength and flexibility.

² Since self-financing was initiated in 1974, Bonneville has repaid \$34.7 billion to the U.S. Treasury of which \$15.0 billion was for principal, \$16.0 billion was for interest, and a total of \$3.7 billion was for irrigation assistance, O&M and pension and other post-retirement benefits.

Also in 2018, Bonneville extended the Regional Cooperation Debt program with Energy Northwest – the owner of the Columbia Generating Station nuclear plant – to refinance debt. The extension of this program will serve to restore or preserve Federal Borrowing capacity.

Bonneville’s Power Rates and the Decisions for the 2020-2021 Rate Period

In November, Bonneville proposed its power rates for Fiscal Years 2020 and 2021. The proposed average Priority Firm Power rate would increase by 2.9 percent over the two-year period, or 1.4 percent annually, to \$36.78 per megawatt-hour. The rate proposal is below the rate of inflation and reflects the progress we have made toward our strategic plan. It is the product of significant program cost reductions that offset upward rate pressures while enabling us to invest in our most valuable work. With the power rates proposal, Bonneville is on track to achieve a sustainable rate trajectory. A final decision for power rates is expected in July 2019.

Revised Transmission Tariff

In many ways, Bonneville’s ability to achieve its strategic goals hinges on the terms and conditions of our transmission tariff – the underpinning of any transmission provider’s business model. There is no question that Bonneville needs a modern tariff that can be modified over time so that the region can take advantage of opportunities in the rapidly changing industry as well as further our objectives for improving the agency’s commercial performance.

Last year, Bonneville engaged in settlement discussions with transmission customers to reach consensus on terms and conditions for a new Bonneville transmission tariff, as well as gain agreement from those customers to convert their current contracts to the new tariff when it becomes effective. This resulted in a settlement package that includes a TC-20 Settlement Agreement on the tariff terms and conditions and a BP-20 Partial Transmission Rates Settlement Agreement that settles transmission and ancillary and control area services rates.

With more than 98 percent of impacted customers signing or signaling their intent to sign the tariff settlement, Bonneville expects to reach a settlement and Bonneville’s Fiscal Year 2020 and 2021 rate case is proceeding with the transmission, and ancillary and control area services rates agreed upon in the settlement.

Bonneville’s Transmission Rates for the 2020-2021 Rate Period

For transmission services, the proposed average rate increase is 3.6 percent, or 1.8 percent annually, under the BP-20 Partial Transmission Rates Settlement. The actual rate increase a customer will experience depends on the products it purchases, its load shape, resource mix, and other costs. A final decision in this matter is expected in July 2019.

Asset Management and Capital Financing

The foundation of Bonneville's value is the base of Federal transmission assets it owns and operates, and the generating resources from which it markets electricity. Bonneville utilizes an asset management strategy to apply best-practice industry standards to manage the lifecycle costs of Federal assets. This is central to maintaining the long-term value and reliability of the power and transmission systems. Achieving these objectives for power requires collaborative, long-term planning with Bonneville's Federal partners, the Corps and Reclamation. Through the Asset Investment Excellence Initiative, the three agencies are establishing a long-term asset investment plan, applying prioritization tools to inform investment decisions to ensure the long term affordability and reliability of the hydropower assets. Bonneville is working collaboratively with the other Federal Power Marketing Administrations, the Tennessee Valley Authority, the Corps, and Reclamation to evaluate opportunities to improve the cost competitiveness of Federal hydropower including a focus on improving acquisition practices, and operations and maintenance efficiencies. This work is also reviewing how joint project costs are allocated among project purposes and how current costs and value for hydropower generation are reflected in those allocations.

Bonneville is continuously engaged in working to assure and enhance the resiliency and reliability of this Federal energy critical energy infrastructure. This work supports residential, commercial, industrial, and defense consumers.

Grid Modernization

In 2018, Bonneville embarked on a cross-agency grid modernization initiative. Our reliance on legacy systems and non-standard commercial practices are costly to maintain and have led us to be conservative in our power and transmission operations, planning, and marketing.

Grid modernization involves improving and modernizing transmission and generation system visibility and controls, and increasing the electricity market skills of our employees. Bonneville is focusing on five areas of effort:

- Operational modernization
- Commercial modernization
- Energy Imbalance Market implementation
- Mission critical information technology improvements
- Improvements to core business practices

Bonneville maintains a public website describing in more detail the scope of its grid modernization initiative and these five areas of effort. For more information see: <https://www.bpa.gov/Projects/Initiatives/Grid-Modernization/Pages/Grid-Modernization.aspx>

Part of the grid modernization scope is Bonneville's evaluation of joining the Western Energy Imbalance Market (EIM) and enabling Federal and non-Federal resources in our service area to access that market. Joining the EIM could optimize the day-to-day operation of the power system and leverage hydropower in a market increasingly driven by intermittent renewable resources. Bonneville conducts monthly public meetings to include its customers and regional constituents in its evaluation of the EIM as it nears a decision to sign an implementation agreement with the EIM market operator this summer.

Energy Conservation

In Fiscal Year 2018, Bonneville achieved 48 average megawatts of energy savings through Bonneville's conservation acquisition programs. Conservation is the highest priority resource for Bonneville to acquire in meeting its customer demand. Bonneville continues to work to refine its energy efficiency goals to target investments to meet identified resource needs.

Regional Collaboration for Restoring Columbia River Fish and Wildlife

Another of Bonneville's challenges is to meet its many fish and wildlife obligations while also contributing to the agency's financial strength and competitiveness. To do so, our Fish and Wildlife program focuses on increasing project performance and cost-effectiveness, while ensuring all funding is directed at projects with high mitigation value.

Last year Bonneville incurred additional costs as the result of a Federal court decision that mandated increased spill at eight dams on the Columbia and Snake Rivers. The court believed the increased spill would help juvenile endangered salmon migrate to the ocean. Bonneville adopted a "spill surcharge" as a way to recover any additional costs associated with decreased power generation. Bonneville Power Services staff estimates the increased spill reduced power generation by a cost of \$38.6 million. Bonneville was able to offset a portion of these costs through reductions in its programs, including the fish and wildlife program, but ultimately charged its power customers an additional \$10.2 million.

For this year's operations, Bonneville and regional partners have arrived at an important agreement signifying a shift in how we address our differences in the region when it comes to the management of the Columbia River System. Bonneville, the Corps, Reclamation and the state of Washington have come to an agreement with the state of Oregon and the Nez Perce Tribe on a flexible spring spill operation while we complete an updated environmental review of Columbia

River System Operations. The flexible spring spill operation will test a new approach to improving salmon survival while managing the value of hydropower generation, giving us the flexibility to generate power during the hours of the day when it is needed most. Through this agreement, we will learn about spill operations that have previously been untested, informing whether there are longer-term, sustainable solutions for spring spill. I want to express my appreciation for the hard work and willingness of our regional partners to come to this agreement.

The environmental review of Columbia River System Operations that I just referenced is the continuing effort to review the multiple purposes of the Columbia River System. The multipurpose Columbia River System serves the entire Northwest, and millions of people have a stake in its operations and environmental health. The people working on the Columbia River System Operations Environmental Impact Statement (CRSO EIS), which is already almost two years in the making, are shaping the future of this system. Their work will determine how Federal agencies balance the congressionally authorized purposes of the System, such as flood control, power generation and irrigation, against growing demands and evolving factors, including environmental impacts.

In January, we announced a new schedule for completing the CRSO EIS. This new schedule responds to an October 2018 Presidential memorandum that called for Bonneville, the Corps and Reclamation to complete the CRSO EIS in 2020. The new schedule has us issuing our Records of Decision in September 2020. The new schedule has allowed us to build efficiencies into the process and become more focused on alternatives. We will continue meaningful collaboration with regional tribes and Federal and state agencies, and we will meet all regulatory requirements for public comment.

Last year, Bonneville and regional partners reached agreements to extend the Columbia Basin Fish Accords by up to four years pending completion of the Columbia River System Operations Review. These agreements, originally signed in 2008, led Bonneville, seven tribes, two Federal agencies, and three states to work together and take hundreds of on-the-ground habitat and hatchery actions over 10 years. The extensions would continue building on our partnerships and sustain cost-effective investments in projects that provide biological benefits to fish and wildlife.

In February, members of the Oregon Congressional delegation held a public meeting to consider efforts to revitalize endangered salmon and steelhead populations in the Willamette Valley of western Oregon. The Federal dams in that valley were built primarily to reduce flooding of the cities on the Willamette River including Portland and Salem. Hydropower was an incidental project purpose when the dams were built and Bonneville has funded the power system's

obligation for mitigating the impacts of the original construction and operations on fish and wildlife. I will continue to monitor these discussions and inform the Subcommittee about potential impacts on power generation.

Columbia River Treaty

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

We are nearing an important date for the Treaty: in 2024, the Treaty shifts from 60 years of prepaid Canadian flood control space to a less-defined flood-risk management approach. Either country also may terminate the agreement at any point after September 2024 with at least 10 years advance notice. This presents the opportunity for both countries to reconsider whether aspects of the Treaty's implementation can be modernized post-2024 so that it better reflects today's realities and continues to provide appropriate benefits to the region.

I am pleased the official negotiations between the United States and Canada for the future of the Treaty have begun. Bonneville is working with the U.S. Department of State in support of these negotiations. As the negotiations continue, the State Department expects to continue to hold periodic public meetings to inform the many interested parties in the Pacific Northwest of its progress.

Conclusion

Mr. Chairman, I am pleased to report the tremendous progress Bonneville made in 2018. Guided by its strategic direction, Bonneville is continuing to deliver on its public responsibilities through a commercially successful business.