

**Testimony of Daniel M. James
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**Before the
Subcommittee on Water & Power
Committee on Energy and Natural Resources
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Good afternoon Madam Chairwoman. My name is Dan James and I am the Deputy Administrator of the Bonneville Power Administration (Bonneville). I am pleased to be with you today. I would like to describe the significant role Bonneville plays for the communities of the Pacific Northwest, and then discuss some highlights of Bonneville's financial performance and how Bonneville is implementing its strategic plan. I'll discuss the role Bonneville is playing in evolving Western electricity markets and how Bonneville is meeting its environmental obligations while managing the affordability of its rates.

Role of the Bonneville Power Administration

Bonneville is a Federal Power Marketing Administration (PMA) 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 13.5 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 operated and maintained 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 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 operates on a not for profit basis. 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

¹ As of the end of September 30, 2018, total Bonneville outstanding debt was \$15.032 billion of which \$7.322 billion was outstanding U.S. Treasury debt and appropriations.

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 goals to:

- 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 for power and transmission, outperforming rate case expectations. Bonneville's net revenues ended at \$471 million, which includes the results of debt management actions.

Treasury payment

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

² Since Bonneville was initiated in 1937, 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.

Credit ratings

In May 2019, the three major credit rating agencies issued credit ratings on non-Federal debt backed by Bonneville. As of September 30, 2018, \$7.71 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 negative outlook
- Fitch at AA with a stable 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.

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 July 2019, Bonneville will complete decisions on its rates for power and transmission service for Fiscal Years 2020 and 2021. In November 2018, Bonneville proposed an increase in the average Priority Firm Power rate of 2.9 percent over the two-year period, or 1.4 percent annually, to \$36.78 per megawatt-hour. The proposed rate increase is below the rate of inflation and reflects the progress we have made toward our strategic plan. It is also the product of significant program cost reductions that offset upward rate pressures while enabling us to invest in our most valuable work. With this power rates proposal, Bonneville is on track to achieve a sustainable rate trajectory.

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 Agreement. The actual rate increase a customer will experience depends on the products it purchases, its load shape, resource mix and other costs.

The BP-20 Partial Transmission Rates Settlement Agreement includes the proposed rates for transmission, ancillary and control area services rates that were agreed to as part of a settlement package that also addresses the terms and conditions of transmission service under Bonneville's open access transmission tariff. Administrator Mainzer will make a final decision on the adoption of the proposed rates under the settlement 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 transmission tariff that will apply to all of Bonneville's current and new transmission customers. This resulted in a settlement package that also includes partial settlement of the Fiscal Years 2020 and 2021 transmission, ancillary and control area services rates.

With more than 98 percent of impacted customers signing the tariff settlement, Administrator Mainzer adopted the settlement and the new tariff on March 1, 2019. Bonneville's Fiscal Years 2020 and 2021 rate case is proceeding with the transmission, ancillary and control area services rates agreed upon with the terms and conditions settlement.

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, and 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 PMAs, 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 finding 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.

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

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 Fiscal Year 2019, the Administrator determined not to use the spill surcharge, making up the difference primarily

through expected reductions in spending in other fish and wildlife program areas. For this year's operations, Bonneville and regional partners arrived at the "flexible spill agreement," 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 spill operation is testing 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 new operation, we will start to learn more about the effects of higher spill on fish and other aquatic species that have previously been untested. I believe this information will help inform the development of a longer-term, sustainable solution for the management of the Columbia River.

One of the principles of the flexible spill agreement is that the operation will not cost Bonneville ratepayers more than the cost of the 2018 court-ordered spill. Current Bonneville modeling shows that the 2019 spill operation should be slightly less expensive than 2018. But the operation is still very new so we will be closely monitoring both the financial impacts of flexible spill as well as the biological impacts to salmon and other aquatic species. I want to express Bonneville's 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 the 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 CRSO EIS. 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 will 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 rebuild endangered salmon and steelhead 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 on fish and wildlife from the original construction and operations. As we strive to continue progress to restore salmon above the dams, the additions of fish passage facilities currently under design and possible changes to operations may have significant impact on the reasonableness of power generation at the dams.

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 current realities and continues to provide appropriate benefits to the region.

I am pleased that 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

Madam Chairwoman, I am pleased to report the tremendous progress Bonneville has made. Guided by its strategic plan, Bonneville is continuing to deliver on its public responsibilities through a commercially successful business.