

TESTIMONY OF JOHN HAIRSTON

ADMINISTRATOR AND CHIEF EXECUTIVE OFFICER

BONNEVILLE POWER ADMINISTRATION

HEARING ON

*EXAMINING THE PRESIDENT'S FISCAL YEAR 2025 BUDGET PROPOSAL FOR THE*

*U.S. BUREAU OF RECLAMATION, U.S. FISH AND WILDLIFE SERVICE,*

*NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION,*

*AND THE*

*POWER MARKETING ADMINISTRATIONS*

SUBCOMMITTEE ON WATER, WILDLIFE AND FISHERIES

COMMITTEE ON NATURAL RESOURCES

UNITED STATES HOUSE OF REPRESENTATIVES

MAY 16, 2024

Good afternoon, Chairman Bentz and members of the Subcommittee. My name is John Hairston and I am the Administrator and Chief Executive Officer of the Bonneville Power Administration

(Bonneville). I am pleased to be here today to discuss Bonneville's budget submission for Fiscal Year (FY) 2025 and to discuss Bonneville's current initiatives.

*Role of the Bonneville Power Administration*

Bonneville is a Federal Power Marketing Administration headquartered in Portland, Oregon. It serves a 300,000 square mile area that includes Oregon, Washington, Idaho, western Montana, and parts of northern California, Nevada, Utah, and Wyoming.

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 by the U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation (Reclamation). Together, the 31 Federal hydro projects produce a total of 8,593 average megawatts in an average water year. 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 a substantial majority of the Northwest's high-voltage electric grid. It is Bonneville's responsibility to plan for and fund the development, operations and maintenance of this system, while also preserving and enhancing physical security, cyber-security, and overall system resilience.

Bonneville is fully self-financed, issues bonds directly to the U.S. Treasury, and receives no direct annual appropriations for operations. Bonneville's power rates and transmission rates are

set to recover its costs. Bonneville is currently authorized by the U.S. Congress to have outstanding at any time up to \$13.7 billion of U.S. Treasury bonds through fiscal year 2027. Beginning in fiscal year 2028, an additional \$4 billion will become available to have outstanding for a total of \$17.7 billion of borrowing authority.

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

### *Financial Performance*

In the last fiscal year, Bonneville excelled in difficult market and operational conditions. Bonneville's accomplishments proved the value of resilience in navigating the variability and uncertainty of operating a hydro-based power system and an open-access transmission grid across a large geographic footprint. It was the 13<sup>th</sup> driest year on record, requiring Bonneville to make significant power purchases, driving up expenses. Strategic forecasting, planning, and marketing approaches, combined with actions to preserve liquidity, allowed Power Services to partially offset the power purchase costs. In addition, Transmission Services expertly managed the Federal grid to ensure reliability and maximize capacity, enabling increased sales. Despite the dry year, Bonneville exceeded its agency net revenue target of negative \$332 million by \$75 million.

Both Power Services and Transmission Services ended the year above their thresholds for financial reserves, triggering their reserves distribution clauses (RDC). The RDC amounts of \$285 million for Power and \$130 million for Transmission will be used to reduce customer rates,

reduce debt, support transmission system investment, and the Power RDC can be used to fund specific fish and wildlife investments.

### *Fiscal Year 2025 Budget Overview*

Bonneville is in sound financial condition. Its Fiscal Year 2025 Budget proposes estimated accrued (self-financed) expenditures of \$2,999 million for operating expenses, \$55 million for projects funded in advance by customers and \$1,093 million for capital investments. Bonneville funds its approximate \$4.2 billion in annual cost of operations and investments primarily through power and transmission revenues and borrowing from the U.S. Treasury at market determined interest rates.

### *Debt Repayment and Credit Ratings*

Bonneville made its annual payment to the U.S. Treasury for the 40<sup>th</sup> consecutive year, on time and in full, totaling \$1.02 billion for FY 2023. This demonstrated Bonneville's ability to meet all of its financial commitments. Bonneville expects to make its 41<sup>st</sup> consecutive Bonneville payment to the U.S. Treasury, currently estimated at \$915 million, at the end of this fiscal year, on time and in full.

Leading credit ratings agencies have taken note of Bonneville's solid financial footing. Fitch's rating for Bonneville-backed debt is AA, stable; Moody's is Aa1, negative; and S&P is AA-, stable. These ratings reflect that Bonneville's financial policies are working and that Bonneville is well-positioned to lead the region toward a prosperous clean energy future.

### *Financial Planning*

Bonneville adopted an updated Financial Plan in 2022, focusing on core objectives and metrics. These objectives include maintaining cost-management discipline and execution of capital plans; maintaining financial resiliency through adequate reserves, leverage U.S. Treasury borrowing authority; and maintaining high investment-grade credit ratings. These objectives demonstrate Bonneville's commitment to deliver on its public responsibilities and to maintain its position as the region's leading power and transmission provider.

*Bonneville's Strategic Direction:*

In January, Bonneville implemented its 2024-2028 Strategic Plan. The plan charts a path forward guided by six strategic goals: invest in people, enhance the value of products and services; sustain financial strength; mature asset management; preserve safe and reliable system operations; and modernize business systems and processes.

*New Long-Term Power Sales Contracts:*

In March, Bonneville achieved a significant milestone for its commitment to remain the region's low-cost power provider beyond 2028 when current long-term power sales contracts expire. Bonneville released its final Provider of Choice Policy and Record of Decision, laying out the foundation for future long-term contracts. The Policy was developed through a public process in close collaboration with customers and other interested parties. Bonneville will offer to execute Provider of Choice contracts with utilities in late 2025. Power deliveries under these contracts will begin October 1, 2028.

At the heart of the Policy is Bonneville's decision to develop contracts based on a tiered rate construct, which seeks to protect the value of the existing Federal system from unbound acquisition costs, and insulate customers from costs associated with other customers' resource

choices. The Policy maintains these key elements while proposing additional flexibilities and options to help meet customers' and Bonneville's evolving needs.

While the release of the Provider of Choice Policy signifies an important milestone in the contract renewal process with Bonneville's preference utility customers, much work remains. Bonneville has begun a series of policy implementation and contract development workshops to develop details about the products and services outlined in the Policy.

#### *Rates:*

To establish rates for FY 2024 and FY 2025, Bonneville concluded the BP-24 rate proceeding in July 2023 by releasing the Administrator's Final Record of Decision and Final Proposal. Rates went into effect on Oct. 1, 2023, and will be effective through Sept. 30, 2025. The final decision held wholesale power rates effectively flat for the two-year period. Transmission rates are also maintained at their previous levels.

In December, Bonneville announced that it will adopt a three-year rate period for its next Power and Transmission rates process. This rate period will run from FY 2026 through FY 2028 and coincide with the expiration of Bonneville's current long-term power contracts on September 30, 2028. Bonneville decided to close out the contract period with a single three-year Power rate period and align the next Transmission rate period for that same duration. Maintaining common timing between Power and Transmission rate processes allows Bonneville to align its Integrated Program Review (IPR) to show total agency costs over that period. The common timing should also be more efficient with customer time for engaging in rate case work. Bonneville has begun workshops with customers and constituents to identify key issues for the upcoming rates process.

Bonneville is initiating its IPR to discuss with customers and constituents program cost forecasts for the next rate period. Determining program cost forecasts will require important Bonneville decisions to balance cost-management objectives against the need to invest in areas that support the delivery of strategic goals.

### *Western Markets Engagement*

New markets present opportunities to enhance the delivery of reliable, affordable and carbon-free hydropower to Bonneville customers. Bonneville evaluates market engagement from principles based on determining if participation will be consistent with Bonneville's statutory obligations and support its customers' needs and interests. In 2022, Bonneville joined the Western Energy Imbalance Market (WEIM), the real-time energy market operated by the California Independent System Operator (CAISO). Prior to joining the WEIM, Bonneville participated with other regional representatives to develop specific, but limited, authorities for WEIM design and oversight by an independent Governing Body.

Building on that experience, Bonneville is participating in the development of two day-ahead market initiatives underway in the West - the CAISO's Extended Day-Ahead Market and Southwest Power Pool's (SPP) Markets Plus. In July 2023, Bonneville initiated a public process with customers and the public on its decision to participate in either market option.

In April, Bonneville released its staff recommendation and preliminary legal assessment for day-ahead market participation. The staff recommendation is for Bonneville to pursue participation in a day-ahead market and they identified SPP's Markets Plus as the preferred option. The recommendation is based on the current design of both market alternatives and their governance features. Bonneville invited additional comment on its staff assessment of market opportunities

and is continuing to host a series of public workshops. Bonneville plans to issue a draft policy in August and the Administrator's Record of Decision in November.

### *Transmission*

The demand for serving growing loads, bolstering reliability, and integrating clean energy across the Pacific Northwest is driving the need for transmission expansion to deliver energy from geographically dispersed resources to population centers where demand for electricity is expected to grow. In July 2023, Bonneville announced it is moving forward with proposals for more than \$2 billion in multiple transmission substation and line projects to reinforce the regional grid and to respond to its customers' demands while supporting the region's clean energy goals.

Bonneville is also participating in an initiative drawing together regional participants from across the West to develop an approach for regional and interregional transmission planning over a longer planning time horizon. This initiative has formed as the Western Transmission Expansion Coalition, or WestTEC, and is being facilitated by the Western Power Pool. Bonneville is contributing financial support and participating in the leadership and technical analysis of the initiative.

In January, Bonneville announced its adoption of certain reforms to its open access tariff to more efficiently process generation interconnection requests to connect new large generators onto the Federal transmission grid. These tariff modifications were developed with customers and stakeholders through a collaborative process and resulted in a settled tariff case. This important step came at a critical time for the region where, currently, Bonneville's large generator



interconnection queue contains over 400 requests representing over 120 gigawatts of potential new generation.

With the adopted tariff reforms, Bonneville will implement a first-ready, first-served cluster study approach to processing interconnection requests, replacing the previous first-come, first-served serial study process. The new interconnection process included new readiness criteria and the ability to study requests as a group, or cluster, rather than individually in queue order. These improvements will allow Bonneville to offer a more transparent and streamlined process, and provide greater certainty regarding the cost and timing of interconnections.

### *Energy Efficiency*

For more than 40 years, Bonneville has catalyzed conservation as a resource the Pacific Northwest in the development of conservation as a resource to meet power load demands customers place on Bonneville. Conservation, or energy efficiency, is Bonneville's priority resource to address the growth in power load demands across the region. As of last year, Bonneville's cumulative energy efficiency savings totaled 2,583 average megawatts since the passage of the Northwest Power Act in 1980.

### *Fish and Wildlife*

The Federal Columbia and Snake River dams along with climate change, ocean conditions, habitat degradation, predation, harvest, and hatcheries have had adverse impacts on salmon, steelhead, and other native fish populations in the Basin. These fish have tremendous value to the region and to Tribal Nations in the Basin. As a result, Bonneville, the Corps, and Reclamation have made extensive modifications and operational changes to mitigate the impacts of the system's construction and continued operation on fish and wildlife. Since the 1980

Northwest Electric Power Planning and Conservation Act, Bonneville has invested billions of dollars in improved configuration and operation of the dams, as well as in offsite restoration efforts for the benefit of fish and wildlife sponsored by Tribes, states, and local communities. In the last year, Bonneville was a party to two agreements to address longstanding litigation over challenges to the Columbia River System Operations Environmental Impact Statement and associated Endangered Species Act consultations.

Last September, Bonneville and other federal signatories entered into a memorandum of understanding and settlement agreement with the Confederated Tribes of the Colville Reservation, the Coeur d'Alene Tribe, and the Spokane Tribe of Indians related to the blocked area above Chief Joseph and Grand Coulee dams. Bonneville agreed to provide \$200 million over 20 years for these Tribes' second phase of studies to assess reintroduction of specific non-Federally protected salmonid stocks above Chief Joseph and Grand Coulee dams in the upper Columbia River Basin.

Subsequently, the Resilient Columbia Basin Agreement of December 14, 2023, was signed by the U.S. Government, including Bonneville, along with the Confederated Tribes and Bands of the Yakama Nation; the Confederated Tribes of the Umatilla Indian Reservation, the Confederated Tribes of the Warm Springs Reservation of Oregon; the Nez Perce Tribe; the State of Oregon; and the State of Washington - collectively referred to as the "Six Sovereigns," - and a coalition of environmental and fishing advocacy groups led by the National Wildlife Federation.

Bonneville has already planned, through its fish and wildlife program, to add at least an additional \$20 million in combined capital and expense funding in FY 2024 and FY 2025 for fish and wildlife efforts throughout the Columbia River Basin on top of its annual program funding

and the September commitments to the upriver Columbia River Tribes. In the December 14, 2023, agreement, Bonneville's financial commitments include and are limited to:

- \$200 million over 10 years in additional capital funding will be available to be directly funded by Bonneville to the U.S. Fish and Wildlife Service for Lower Snake River Compensation Plan hatchery modernization, upgrades, and maintenance, as guided by the priorities of other fishery managers including the Six Sovereigns.
- An additional \$100 million in funding over 10 years for projects that contribute to the restoration of salmon and other native fish populations. To implement this commitment, Bonneville will provide an annual \$10 million payment to the Six Sovereigns in a manner to be agreed upon, to distribute to specific projects, as prioritized by the Six Sovereigns.

#### *Workforce Competitiveness*

This testimony has reviewed a number of accomplishments and initiatives that demonstrate Bonneville's industry-leading technical and policy capabilities. Bonneville has a highly talented and skilled workforce, as demonstrated by this high performance. Bonneville competes for talent within the electric power industry. Its employees are subject to the federal General Schedule and government classification standards.

#### *Columbia River Treaty*

The Columbia River Treaty is an agreement between the United States and Canada, which provides a framework under which they jointly coordinate water operations for flood risk management and hydropower generation. In September 2024, the Treaty shifts to a less-defined approach to flood risk management. The Treaty went into effect in 1964 and is an example of transboundary water resources cooperation.

The United States and Canada are discussing options to improve the Columbia River Treaty regime to better reflect today's realities, and thereby benefit both countries. Bonneville is working with other affected Federal agencies to support the U.S. State Department in these negotiations with Canada to achieve a modernized Columbia River Treaty regime.

#### *Willamette Valley System Power Deauthorization*

While the Federal hydroelectric dams of the Columbia and Snake Rivers are valuable clean energy assets for the Pacific Northwest, Bonneville is concerned by the sharply declining value of Federal hydroelectric generation from Oregon's Willamette Valley. The Willamette Valley System was authorized by Congress primarily for flood risk management, and the 11 dams in the system continue to provide considerable benefits to downstream communities by reducing their flood risk as well as supporting water supply and recreation. Eight of the dams have power generating capability and Bonneville pays approximately 40 percent on average of the joint costs for those dams.

Some of the Willamette dams were built without fish passage facilities, and the Corps is investigating structural measures and implementing operations to provide fish passage at the power-producing Willamette dams. In addition, in the draft Environmental Impact Statement for the Willamette Valley System, the Corps proposed indefinitely extending reservoir operations for fish passage that reduce power generation by more than a third of recent levels of 171 average megawatts. These Willamette dams are among the highest cost projects in Bonneville's hydro portfolio, and the estimated cost of structural measures will add significantly to Bonneville's debt without increasing its revenue or assets. These potential increases in capital and associated repayment costs affect rates for Bonneville's power customers.

In the FY 2020 Energy and Water Appropriations Act, the House Committee report directed the Corps, Reclamation, and Bonneville to report on methods to modernize allocation of project costs among authorized purposes to reflect current benefits. For FY 2021, the House Committee report directed the Corps and Bonneville to continue to work to resolve their approaches to cost reallocation and provide quarterly reports on their progress.

The 2020 Water Resources Development Act directed the Corps to report within two years of passage on the impacts of deauthorizing the power purposes at the Cougar and Detroit/Big Cliff projects of the Willamette Valley System. The 2022 Water Resources Development Act directed the Corps to conduct disposition studies for the power purpose at the eight Willamette dams within 18 months of enactment.

### *Conclusion*

Bonneville continues to deliver tremendous value to the communities served by the Federal power system. Bonneville serves as a cornerstone for the economy of the Pacific Northwest by both meeting its statutory obligations and evolving to support the changing needs of its customers and the region. I am proud of the accomplishments of our people and their dedication to Bonneville's mission. This concludes my testimony, Mr. Chairman, and I will be happy to respond to the Subcommittee's questions.