

## About the Bonneville Power Administration

The Bonneville Power Administration (BPA) is a federal agency that markets wholesale electricity from the Columbia River Basin's 30 federal dams and the region's only operating nuclear plant at Hanford. The dams are operated by the U.S. Army Corps of Engineers and the Bureau of Reclamation, and the nuclear plant is operated by Energy Northwest. The BPA's service territory includes Oregon, Washington, and small parts of Idaho, Wyoming, Montana and Utah.

The BPA was established after the Great Depression to market low-cost hydropower to public and private utilities and certain industries in the Pacific Northwest. Close to half of the Northwest's electricity comes from the BPA. The agency also operates 75 percent of the region's high-voltage transmission lines, as well as the Northwest portion of the large interties that ship and receive power from California, the Southwest, Canada, and eastern Montana. In order to voluntarily comply with Federal Energy Regulatory Commission regulations, the BPA has separated its generation business line, headquartered in Portland, from its transmission business line, which has its office in Vancouver, Washington.

The BPA is part of the Department of Energy, but it is not subsidized by U.S. taxpayers. It borrows from the U.S. Treasury for capital investments funded by the sale of treasury bonds. The BPA's annual payment to the Treasury includes principal and interest for all original and new construction of the power system. The BPA pays for the operation and maintenance of generation and transmission facilities through cost-based rates charged to its wholesale customers, such as consumer-owned utilities.

In other words, the taxpayers of the United States own the mortgage owed by the BPA. However, this analogy is inappropriate in one respect: Even after the mortgage is paid, the dams and transmission facilities are still owned by the federal government. In effect, the ratepayers of the Northwest are repaying principal and

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# BPA Regionalization: A Well-Intentioned Mistake

by C. Clark Leone

Senator Gene Derfler and I agree on the challenges facing Bonneville Power Administration (BPA) and the four Northwest states. California's energy roller coaster has certainly led many there to look enviously northward. It is not surprising that BPA was among the multitude of "guilty parties" fingered by California's politicians as they sought to lay blame for their woes at the feet of others. If only the BPA had provided more power, more cheaply, and more often, they argued, Californians could have continued to run their air conditioners with abandon.

Likewise, Sen. Derfler recognizes that politicians from the Northeast and Midwest—neither of which region has a federal marketer of cost-based hydropower—assert that the comparatively lower electric rates of the Northwest result from some subsidy that must be revoked. These self-styled defenders of the public tax dollar want to punish the Northwest and correct this perceived inequity by selling the BPA system to private interests or by imposing market-based rates on BPA's customers.

The threats to the system identified by Sen. Derfler are

real. However, before developing a response to these threats, we must consider the proper strategy. Does the Northwest play defense by denouncing these self-serving attacks and supporting the current federal system? Or do we create a new model, through a regional takeover of the federal system, that seems to provide greater security? Before determining whether regionalization or the existing system is the best option, we must review the facts and the politics.

### Political Strength

According to the Washington, D.C. newspaper *Roll Call*, the Northwest congressional delegation now ranks in the bottom quartile in political power and influence (based on seniority, committee assignments and leadership posts). Despite this lack of influence, the region is blessed with five senators—including both of Oregon's—on the Senate Energy and Natural Resources Committee. While the Northwest delegation may wield some power in this capacity, we cannot realistically expect to impose our solution upon better-positioned adversaries who prefer to see BPA sold to the highest bidder. We are therefore not in a position



## Regionalization of Bonneville Power Administration

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to advocate a regional appropriation of the system.

### Political Allies

The BPA's attackers from outside the region have sought to popularize their cause by pledging a portion of the revenues generated by BPA privatization or the imposition of market-based rates to a variety of public interest causes such as environmental mitigation, renewable resource

owned utilities that consider a regionalization effort to be a threat to the traditional partnership between the federal government and the utilities' customers. The efforts of regionalization's proponents are therefore likely to yield no results.

### Divisive Regional Politics

At the same time as Sen. Derfler calls on

the region to rally together in common defense, his plan pits intra-regional interests against one another. He instigates this fight by questioning the legitimacy of "public preference," the statutory allocation system that provides a first right of purchase to the region's consumer-owned, not-for-profit utilities. He thus sets up a lose-lose scenario for those consumer-owned utilities: either give up your

who seek to maximize the return to the federal government. This has long been a goal of the administration "budget trolls," the entrenched bureaucrats whom former Washington Rep. Al Swift described as emerging yearly to chew on the leg of former Senator Mark Hatfield. While each year Sen. Hatfield successfully thwarted their efforts to extract more money from BPA, this might not be possible were BPA to go up for auction.

There are also private interests who would relish entering the bidding for a jewel such as BPA. Major players such as President Bush's cronies at Enron would not sit idly by, but would doubtless make a higher competing offer. Rather than engage in a bidding war, the Northwest needs to work together to manage and contain BPA's costs.

### Threatened River Operations

Federal legislation to sell BPA would provide for a breaching of the four Lower Snake River dams. Proponents of dam breaching, who for years have sought to turn their cause into a national referendum, would then have their chance. (See Diane Valentine, "Survival Strategy: Choosing Salmon and Losing Dams on the Snake River," Oregon's Future, Vol. 2, No. 2 on our website -ed.) BPA regionalization legislation would likely engender an amendment to make breaching a condition of sale. Legislators from other regions would relish this opportunity to polish their environmental record at no cost to their own constituents.

The region is facing a real crisis today. Volatile wholesale power prices have harmed ratepayers, the region's transmission network is in need of a mas-

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sive upgrade, and the control of that network may be transferred to a new entity (the regional transmission organization) that is likely to give us "less for more." (For more on RTOs, see articles by John Carr and Lon Peters -ed.)

To ensure the future of our hydropower resources, we must defend the existing federal system by addressing the problems that threaten the underlying value of BPA, rather than pursuing ill-fated pipe dreams.

Jay Hutchins for Oregon's Future

## Senator Derfler's plan pits intra-regional interests against one another.

development, and low-income assistance. They are thus attempting to make allies of certain parties within the region, such as environmentalists and local politicians, thereby splitting Northwest interests.

Those championing the regionalization of BPA will face that phalanx of intra- and extra-regional opponents. They will also face opposition from groups that have been traditional allies, such as out-of-state consumer-

rights to out-of-state interests or surrender them to parties within the region. Certainly an intra-regional battle cannot lead to a stable and secure energy future.

### Unsound Economics

If any effort to regionalize were to succeed, we would need to buy BPA at a guaranteed price and avoid entering an uncontrollable bidding war. Regardless of whether a federal budget surplus exists, a sale will attract those

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