

**Statement of
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Before the
Committee on Natural Resources
U.S. House of Representatives**

September 11, 2012

Chairman Hastings, Ranking Member Markey, thank you for the opportunity to testify on the Federal Power Marketing Administrations (PMAs), and specifically, Secretary Chu's March 16, 2012 Memorandum (Memo) setting forth "foundational goals" that the Department of Energy (DOE) is considering for the PMAs. In order to address these goals, DOE intends to work with each PMA sequentially to develop tailored approaches to ensure each region has the infrastructure necessary to power the U.S. economy. DOE has begun this work with the Western Area Power Administration (WAPA) and our approach to the other PMAs will be revised in light of our experience with WAPA.

PMA PRIMARY MISSIONS: POWER MARKETING AND TRANSMISSION

The PMAs have two primary obligations: (1) marketing electricity to preference customers so as to encourage the most widespread use of federal power at the lowest possible rates to consumers, consistent with sound business principles¹, and (2) maintaining and operating their portion of the Nation's transmission grid.² Below, I will describe these obligations and how they relate to the Secretary's Memo in more detail, but it is important to note from the outset that the overwhelming majority of the goals set forth in the Memo relate to the PMAs' transmission infrastructure and not to the marketing of federally generated power to the preference customers.

¹ This standard – to encourage the most widespread use of Federal power at the lowest possible rates to consumers, consistent with sound business principles — is often simply referred to as "cost-based rates" or "at cost". The truncated versions are used hereafter.

² The PMAs have many responsibilities beyond these two missions. For example, BPA has a third primary mission: fish and wildlife protection.

Power Marketing

Beginning in the late 1800s, the federal government began to build dams with hydroelectric power generation. The dams were initially built primarily for flood control, navigation, or irrigation, while in some systems the selling of the electricity was a secondary consideration. Today, the electricity generated by these federal facilities is incredibly valuable: with water as its fuel source, it is generally inexpensive³ and produced without air-pollution emissions. As the demand for clean energy grows, so does the value of these federal assets. The Secretary is committed to taking good care of the federal hydropower system and the clean energy it represents.

Congress has mandated the electricity generated by federal hydroelectric plants be sold at cost. Congress also specified who in each region should get priority access to this federal electricity, namely the “preference customers.”⁴ Understandably, the preference customers have a strong interest in protecting their ability to purchase cost-based, clean federal electricity. Other consumers in the PMA regions, however, do not have access to this federal electricity, and therefore must build their own generation or purchase electricity on the open market.⁵ To be clear, preference customers also rely on the open market to purchase electricity over and above their allocation of federal hydropower to fulfill their customers’ electricity needs. Hence, both preference and non-preference customers benefit from a robust and competitive electricity marketplace. (Herein the “electricity marketplace” refers not only to the buying and selling of electricity but also includes all facets of generating, delivering, and consuming electricity.)

³ The relative expense of federal hydropower differs from system to system. As a consequence, it is not “inexpensive” for every system.

⁴ “Preference Customers” refers to municipalities and other public corporations and agencies.

⁵ There are exceptions. BPA and WAPA have a few non-preference customers who are grandfathered and able to purchase federal electricity. Certain non-preference customers of BPA receive, from the power revenues, annual benefits for their rural areas.

The Secretary has expressed his continued commitment to driving down consumers' bills while ensuring we have the infrastructure we need to power the U.S. economy. DOE will comply with all applicable laws relating to the rates for the sale of electricity to preference customers, which includes the obligation to sell at the lowest possible cost consistent with sound business principles. This commitment will not waiver as the individual plans are developed. The DOE will continue to support the PMAs' fundamental obligations to operate and maintain the federal hydropower assets and sell their power to preferred customers at cost.

Transmission

In addition to selling federally generated electricity, three of the four PMAs (WAPA, BPA, and SWPA) own and operate 33,700 miles of transmission lines that comprise a significant portion of the Nation's power grid.

To bolster the competitiveness of the electricity marketplace and to ensure the grid's resilience, Congress in 1992 and 2005 passed comprehensive legislation creating obligations on grid operations and reliability. As explained below, the Secretary's Memo is intended, among other things, to ensure the PMAs are complying with these obligations. In cases in which Congress exempted the PMAs from some of these requirements, DOE has further required that the PMAs comply with transmission requirements, to the extent allowed under the PMAs' enabling statutes, to enable market competition and ensure grid resilience. That policy remains in place to this day.

As part owners and operators of the Nation's transmission grid, the federal government must maintain its aging facilities and, if necessary, update or replace them for the benefit of their consumers. The Secretary is committed to ensuring the PMAs' transmission is managed to

support cost-effective transmission expansion, grid reliability and open, non-discriminatory access consistent with the PMAs' statutory requirements. The federal government can and should be leading the way in ensuring that our Nation has a reliable transmission grid that supports a competitive marketplace.

To be clear, anyone using the PMAs' transmission lines pays for that use, whether or not they are preference customers. As is true for any transportation system supporting a marketplace, at a minimum, our Nation's transmission system should accomplish the following for the electricity marketplace:

- Efficiently and reliably deliver electricity;
- Eliminate barriers to competition and operate in a non-discriminatory fashion; and
- Accommodate the emergence of new technologies and market opportunities/segments.⁶

The proposals described in the Secretary's Memo would seek to accomplish all of these goals, through actions that are in harmony with the PMAs' enabling statutes. And as mentioned previously, the overwhelming majority of the proposed activities relate to the PMAs' obligations and goals for transmission and not to the marketing of federally generated power to the preference customers. As a consequence, the Secretary's Memo will have minimal applicability to the Southeastern Power Administration, which owns and operates no transmission.

TODAY'S ELECTRICITY MARKETPLACE

Today's electricity marketplace differs markedly from that of even 10 years ago. For example:

⁶ These bulleted items refer to both legal requirements and policy goals.

- (1) Security Threats and Natural Disasters: It should come as no surprise that our Nation faces increasing security threats and the electric sector is no exception. By establishing an electric reliability organization and mandating the enactment of reliability standards, including cybersecurity standards, Congress has mandated a hardening of our electric infrastructure against physical threats, natural disasters, and cyber attacks. Protecting the transmission grid is particularly important. Blackouts not only threaten human health and safety, but also cause immense economic injuries to our Nation's businesses.
- (2) Technological Advances: As consumers adopt new or improving technologies and practices such as large electric water heaters used as storage devices, rooftop solar, electric vehicles, and demand-response applications both the transmission grid and the electricity marketplace will face challenges and opportunities.
- (3) State Renewable Portfolio Standards (RPS): Thirty-seven states⁷ have now enacted RPS standards (mandatory) or goals (voluntary). In other words, 37 states have decided to incentivize the production of electricity from renewable sources, which often are variable resources. The electricity transmission system should be flexible enough to accommodate these new sources of generation into the grid.

The Secretary's memo asks the PMAs to effectively respond to the continued changes in the electricity marketplace to better serve their customers and stakeholders within the limits set by their enabling statutes.

CONSUMERS' BILLS

The evolving nature of the electricity system requires the owners and operators of the transmission grid to adapt. As owners and operators of a significant part of the transmission

⁷ In addition to these 37 states, the District of Columbia and Puerto Rico both have an RPS.

grid, the PMAs should explore more effective ways to invest in the future and keep pace with the changing industry. Our overall goal is to keep consumer bills as low as possible while ensuring our Nation has the infrastructure needed to remain competitive in a global economy and accommodate regional choices to meet consumer demand.

JOINT OUTREACH TEAM

WAPA and the DOE have jointly convened the Joint Outreach Team (JOT), which is charged with preparing recommendations to the Secretary in response to his Memo. The JOT held six listening sessions and five substantive workshops throughout WAPA's service territory soliciting comments from customers and stakeholders on the issues presented in the Memo. Additionally, over one hundred written comments have been submitted on-line through JOT@wapa.gov. In advance of the workshops and listening sessions, JOT held a webinar for registered participants and those unable to participate in the workshops and listening sessions. JOT also held a webinar after the workshops and listening sessions providing a high-level summary of those sessions. JOT also held a separate tribal conference call and will shortly be holding a separate tribal webinar as part of its government-to-government consultation plan.

Based on the results of the workshops and listening sessions, input received online and through webinars, WAPA's own internal reviews and reports, external resources, and their own expertise, the JOT will deliberate and develop a set of draft recommendations to the Secretary. Though not legally required, the JOT intends to publish those draft recommendations in the *Federal Register* asking for public and congressional comments. After receiving the comments and revising the draft recommendations, the JOT will submit its final recommendations to the Secretary.

In addition to the JOT outreach, DOE and WAPA held three informational sessions for House and Senate staff during which the workshops and listening sessions were summarized and questions answered.

This work has been and will continue to be a robust collaborative process sensitive to the unique character of each PMA. I look forward to answering your questions.