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SENATE

{ REPORT
104-102

BONNEVILLE POWER ADMINISTRATION APPROPRIATIONS REFINANCING ACT

JULY 11 (legislative day, JULY 10), 1995.—Ordered to be printed

Mr. MURKOWSKI, from the Committee on Energy and Natural
Resources, submitted the following

REPORT

[To accompany S. 92]

The Committee on Energy and Natural Resources, to which was referred the bill (S. 92) to provide for the reconstitution of outstanding repayment obligations of the Administrator of the Bonneville Power Administration for the appropriated capital investment in the Federal Columbia River Power System, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

PURPOSE OF THE MEASURE

The purpose of S. 92 is to provide for the reconstitution of outstanding repayment obligations of the Administrator of the Bonneville Power Administration for the appropriated capital investments in the Federal Columbia River Power system (FCRPS).

SUMMARY OF MAJOR PROVISIONS

S. 92 would reset Bonneville's repayment obligation on all outstanding appropriated Federal investments in the FCRPS, as of October 1, 1995. The interest rates under which Bonneville sets power rates to repay the FCRPS investments would thus increase from their relatively low imbedded levels, which average approximately 3.4 percent, to current Treasury interest rates. Treasury interest rates at the time of the resetting of the principal amount of the investments are expected to be substantially higher than the historically imbedded rates.

The total principal amount outstanding on the appropriated investment repayment responsibility, now approximately \$6.7 billion, would be reset to equal the sum of the net present value of the payments, BPA would be expected to make under current practice, plus an increment of \$100 million. The present value would be determined using then current Treasury rates. The bill would lead BPA to recover for return to the Treasury an additional \$100 million in net present value over that which would be returned under existing repayment conditions.

Offer of contract terms

S. 92 also requires BPA to offer certain terms for all existing and future contracts for the sale of electric power and transmission. These terms would protect ratepayers from BPA's setting rates in a manner that conflicts with certain repayment terms provided in this bill. The offered contract terms would also protect against the United States' recovering any return on the subject Federal investments in addition to the return specified. The United States will benefit because the cost certainly provided would make BPA a more appealing electric power supplier and thereby improve BPA's ability to meet its Treasury payment obligations.

Reset principal and interest

Under existing law, BPA is required to establish rates sufficient to meet all of its non-Federal obligations and its repayment responsibilities to the United States Treasury. After first meeting BPA's non-Federal obligations, BPA's receipts in the revolving fund known as the Bonneville Fund pay or repay debt service on bonds BPA may issue and sell to the U.S. Treasury, annual operation and maintenance expenses appropriated in the first instance to the U.S. Army Corps of Engineers and the U.S. Bureau of Reclamation, certain non-interest bearing obligations for reclamation projects in the Pacific Northwest, and myriad capital investments in the FCRPS funded primarily through annual appropriations. The bill addresses this latter class of BPA's Federal repayment responsibilities only.

BPA's current repayment obligation for these investments is to set power and transmission rates sufficient to recover their costs, plus a return on equity at interest rates prevailing at the time construction commenced on the related project, unless such interest rates are otherwise specifically prescribed in law. BPA sets power and transmission rates to recover each investment within the expected useful life of the related facility, while paying highest interest bearing Federal repayment responsibilities first. The bill would not affect this practice, although the bill limits the prepayments BPA may make on the appropriated investments to \$100 million principal amount through fiscal year 2000. While the bill protects against the acceleration of the date by which BPA assumes, for ratemaking purposes, that the investments are to be repaid, it pointedly does not affect administrative authority under current repayment practice to set such due dates that are later than those currently in place. The bill would also not affect the nature of the repayment obligation on these appropriated investments as cumulative preferred dividends. If unpaid, the interest and principal

would still be carried over to future years in which the payment thereon could be tendered.

The bill would, however, raise the investments' rates of return that BPA assumes in setting its power and transmission rates to Treasury rates prevailing at the time of the refinancing transaction. The date of this transaction is October 1, 1995, which coincides with the commencement of BPA's next fiscal year. The new interest rates assigned to the reset principal amount of the various investments will depend on the repayment dates of the respective investments. Thus, in effect, BPA would use the prevailing yield curve to determine the new rate of return for each specific investment.

While the interest rates for most if not all appropriated investments will increase, the nominal principal amount will decrease because each principal amount will be adjusted to the present value of the payments BPA would make therefor under current practice of using a discount rate that is identical to the interest rate of return on the investment to be assigned under this bill. The existing principal balance is approximately \$6.7 billion, and would be reduced to approximately \$4 billion, assuming current discount rates. Once adjusted in this manner, each investment will be increased by a pro rata share of \$100 million, and bear interest at the new interest rate until prepaid, or until the due date, whichever is earlier. This supplement to the present value of BPA's repayment obligation will cause a noticeable but tolerable increase in the costs to be recovered in BPA's rates. It will also result in favorable budget scoring effects.

The bill requires that BPA offer certain contract terms in all future and existing contracts for the sale of electric power and the provision of transmission services. These contract terms are intended to discourage a future Congress from amending law in a manner that would exact further returns with respect to an investment once the investment is repaid, or from taking returns on the investment in addition to the principal and interest provided under the bill. The contract provisions assure that if a future Congress were to enact subsequent legislation to circumvent the contract provisions, the parties protected by the contract term could seek compensation against the United States under the Fifth Amendment to the U.S. Constitution. The contract provisions also clarify that a breach by the United States of the contract terms would not be recovered in BPA's rates but rather would be paid by the extant continuing appropriation for the payment of claims against the United States.

These contract provisions will assure BPA's customers that a future Congress or administration will not seek mid-stream to accelerate or increase repayment of the Federally-appropriated investments in the FCRPS. This will enable BPA to maintain a competitive posture in the marketing of its products and enhance BPA's ability to make its Federal repayment obligations on time and in full. It will also bring final resolution to an issue that has for many years absorbed the attention of policy makers in the Washington, D.C. and in the Pacific Northwest.

Colville Tribes Grand Coulee Dam Settlement Act

Section 9 of S. 92 would provide certain appropriations to BPA in connection with payments. BPA would make under the previously enacted Public Law No. 103-436, The Confederated Tribe of the Colville Reservation Grand Coulee Dam Settlement Act, enacted on December 22, 1994. Section 9 of S. 92 would replace section 6 of Public Law No. 103-436. BPA's obligation to make payments to the Tribes under the Settlement Agreement authorized in P.L. 103-436 would not in anyway change if S. 92 were enacted. Likewise, BPA's payments to the Tribes under the Settlement Agreement authorized in the P.L. 103-436, would in no manner be conditioned on or subject to the availability of the permanent appropriation provided under S. 92.

Pursuant to the settlement agreement with the Tribes (Settlement Agreement), BPA is obligated to pay amounts to the Tribes so long as Grand Coulee Dam produces electric power. Section 6 of the Colville Settlement legislation, as enacted, includes Bonneville Fund repayment credit provisions rather than the permanent appropriation included in this bill. By contrast, the Administration's September 15, 1994, proposed Bonneville Power Administration Appropriations Refinancing Act, as well as S. 92 include a permanent appropriation for the Bonneville Fund in lieu of the credits.

These appropriations, like the credits, would partially offset the BPA rate impacts of the annual payments by BPA to the Tribes under the Settlement Agreement. Under either approach, the portion of the settlement borne by Treasury is identical in present value terms. Thus, the taxpayers, through the appropriated amounts under section 9 and amounts paid from the judgment fund to the Tribes under the Settlement Agreement, and BPA's ratepayers, through the BPA's obligations to pay annual amounts under the Settlement Agreement, would each bear an equitable share of the costs of the settlement. The Committee is assured that the same results can be achieved by the permanent appropriation approach as by the provision of permanent repayment offset credits to the Bonneville Fund.

Although the amounts appropriated to BPA in section 9 are made in connection the settlement agreement, BPA may obligate against and expend these amounts for any authorized purpose. In addition, these amounts are made available without fiscal year limitation, meaning that the amounts remain available to BPA until expended. In this manner the amounts appropriated under section 9 are the equivalent of other amounts available in the Bonneville Fund and constitute an "appropriation by Congress for the fund" within the meaning of section 11(a)(3) of the Federal Columbia River Transmission System Act (16 USC. 838i (a)(3)).

The bill would appropriate to BPA, without fiscal year limitation, \$15.25 million in fiscal year 1996, \$15.86 million in fiscal year 1997, \$16.49 million in fiscal year 1998, \$17.15 million fiscal year 1999, \$17.84 million in fiscal year 2000, and \$4.0 million in each succeeding fiscal year so long as BPA makes annual payments to the Tribes under the Settlement Agreement.

The annual amounts appropriated hereunder, including fiscal years 2001 and beyond, will be made available to the BPA Fund at the beginning of the fiscal year in which a payment is due to

the Tribes under the Settlement Agreement. The Settlement Agreement provides that annual settlement amounts are based on a fiscal year's power production from the Grand Coulee project. The amount to be paid to the Tribes in respect of a fiscal year's power production is due on the March 1 following the end of such fiscal year in which power was produced. Thus, for example, Bonneville will calculate the amount due the Tribes on March 1, 2001 for operation of the project in fiscal year 2000. Bonneville will receive a \$4 million appropriation under section 9 on the first day of the fiscal year 2001 in which the related settlement payment is due, October 1, 2000.

The amounts under this appropriation for fiscal years after fiscal year 2000 are available "so long as the Administrator makes payments to the Tribes." For those fiscal years beginning with fiscal year 2001, the Committee understands that BPA will provide certification to the Secretary of the Treasury that the Grand Coulee project generated electric power in the prior fiscal year and that under the terms of the Settlement Agreement BPA is obligated to make an annual settlement payment therefor to the Tribes. In general, BPA should provide such a notice to the Secretary not less than 30 days prior to the beginning of the fiscal year in which the related payment is due under the settlement agreement, for fiscal years 2001 and beyond only. Once the notice has been received, the Secretary of the Treasury shall make available to the Bonneville Fund the \$4 million on the first day of the fiscal year in which the related settlement payment is due. Thus, for example, within 30 days of the end of fiscal year 2000, BPA will provide a certification to the Secretary of Treasury, the Secretary will, under this appropriation, make \$4 million available in the Bonneville Fund at the beginning of fiscal year 2001, and on March 1, 2001, BPA will pay the Tribes the settlement payment for fiscal year 2000 operations.

Elimination of future below-cost investments

S. 92 proposes to make certain changes to repayment practices relating to appropriated capital investments hereafter made in the FCRPS. These changes address the calculation of interest during construction of the related facility and the determination of the interest rate assigned to the investment once the related facility is placed in service. These changes assure that no additional investments will be made in the FCRPS at interest rates below Treasury's cost of money.

BACKGROUND AND NEED

BPA is at a crossroads. As the power marketer for abundant inexpensive hydroelectric power from the Columbia River and other river systems in the Pacific Northwest, BPA was for many years unhampered by serious competitive pressure. Free for the most part from the constraints that normally attend competition, BPA was able to use its cheap resource mix to achieve revenues that enabled it to pursue the ambitious mandates of the Pacific Northwest Power Planning and Conservation Act of 1980 (Northwest Power Act). Whatever their views of BPA's mandated programs, BPA's customers stayed because BPA was by a substantial margin the low-cost provider, with a reliable and stable bulk electric power

system unequaled in the world. Indeed, low cost Federal hydroelectric power was the key assumption underpinning the Northwest Power Act. The assumption must now yield to a new reality. While the costs of BPA's required fish mitigation efforts under the Endangered Species Act and the Northwest Power Act, and its resource acquisitions (primarily nuclear energy and electric power conservation) have driven BPA's price inexorably upward, other factors have aligned to drive down the costs of alternative sources of electric power. New technology in the form of highly efficient combined cycle gas turbines, declining gas prices caused by open competition and the discovery and exploitation of huge gas deposits in Canada, and the presence of surplus gas generation in California have combined to lure long term BPA customers away from BPA and Federal hydroelectric power.

First and foremost BPA is a business enterprise. It must meet the competition, and maintain a customer base sufficient to fund its statutory responsibilities and to protect the billions of dollars invested in the FCRPS by Federal taxpayers. To protect the investment, BPA is cutting costs dramatically through huge program deferrals, program elimination and staff reductions. These severe cuts are essential to maintaining an adequately low product price. Nonetheless, the Committee realizes that it may not be enough. To maintain a long-term customer base, BPA must be "rate stable," meaning it must be able to assure its customers that they are insulated from important risks of cost escalation.

For many years, several administrations have threatened to change fundamentally the terms upon which BPA satisfies its obligation to return the taxpayers' investment in the FCRPS. These proposals had varying facets but in general would have increased substantially the returns to the Treasury. Faced with these annual threats, BPA's customers are concerned that steeply increased returns to the Treasury may ultimately be visited on them. The bill would eliminate this risk. Yet at the same time it would exact from ratepayers a fair price for eliminating the uncertainty. Analogizing to a common transaction relating to mortgages or other financial contracts, the bill would have BPA and its ratepayers pay a charge to refinance the contract to obtain other favorable terms. At the same time, the bill acknowledges the new reality of the marketplace and seeks to strengthen BPA so that it is positioned in the long run to recoup the Federal investment in full.

The purpose of S. 92 is to assure power purchasers that the Bonneville Power Administration (BPA) will not be forced to raise its rates to noncompetitive levels in order to satisfy possible future changes in law or practice relating to the requirements under which BPA presently repays the Federal capital investment funded by appropriations in the Federal Columbia River Power System (FCRPS). In exchange for providing enhanced certainty in the terms of BPA's repayment responsibilities, the U.S. Treasury will realize additional returns from BPA ratepayers because the bill increases BPA's payments in respect of the investments by a net present value of \$100 million. It is estimated the bill would also reduce the Federal deficit. S. 92 provides additional benefits to the U.S. Treasury because BPA will be better positioned to retain market share and thereby fund all of its responsibilities, including the

fish and wildlife duties under the Northwest Power Act and the repayment obligations to the U.S. Treasury. The bill also clarifies several technical aspects of administrative practice for the repayment of Federal investments in the FCRPS.

LEGISLATIVE HISTORY

In the 103rd Congress, on July 28, 1994, S. 2332, the Bonneville Power Administration Refinancing Act, was introduced by Senator Hatfield and Senator Murray. On January 4, 1995, S. 92 was introduced by Senator Hatfield for himself and Senator Murray. On March 21, 1995, the Subcommittee on Energy Production and Regulation held a hearing on S. 92.

COMMITTEE RECOMMENDATIONS AND TABULATIONS OF VOTES

The Senate Committee on Energy and Natural Resources, in open business session on June 14, 1995, by a unanimous voice vote with a quorum present, recommends that the Senate pass the bill as described herein.

COST AND BUDGETARY CONSIDERATIONS

The following estimate of costs of this measure has been provided by the Congressional Budget Office:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, June 23, 1995.

Hon. FRANK H. MURKOWSKI,
Chairman, Committee on Energy and Natural Resources, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for S. 92, the Bonneville Power Administration Appropriations Refinancing Act.

Enactment of S. 92 would affect direct spending. Therefore, pay-as-you-go procedures would apply to the bill.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

JAMES L. BLUM
(For June E. O'Neill, *Director*).

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

1. Bill number: S. 92.
2. Bill title: Bonneville Power Administration Appropriations Refinancing Act.
3. Bill status: As ordered reported by the Senate Committee on Energy and Natural Resources on June 14, 1995.
4. Bill purpose: The bill would change the procedures the Bonneville Power Administration (BPA) uses to determine the amounts the agency charges its electricity customers to repay prior government appropriations that financed the construction of the hydroelectric system in the Pacific Northwest. The value to the Treasury of such payments would increase slightly, but BPA would have to commit, in its contracts for the sale of electricity, that it would not

assess any additional charges in the future to cover previously appropriated construction costs. In addition, S. 92 would appropriate funds for future payments BPA is required to make to the Colville Tribe, which otherwise would be financed by charges levied on BPA's customers.

5. Estimated cost to the Federal Government: By restructuring BPA's appropriated debt, S. 92 would increase the debt service payments the agency makes to the Treasury by about \$30 million annually over the 1996–2000 period. At the same time, however, S. 92 would permanently appropriate funds to BPA to pay for part of the federal government's settlement with the Colville Tribe. These changes would increase receipts to the government by an average of \$14 million annually over the five-year period. The following table summarizes these estimated budgetary effects.

[By fiscal year, in millions of dollars]

	1996	1997	1998	1999	2000
Additional offsetting receipts:					
Appropriations repayment					
Estimated budget authority	– 31	– 30	– 31	– 30	– 30
Estimated outlays	– 31	– 30	– 31	– 30	– 30
Reduction in offsetting receipts:					
Colville tribe payments under S. 92					
Estimated budget authority	15	16	16	17	18
Estimated outlays	15	16	16	17	18
Net budgetary impact of S. 92 (direct spending)					
Estimated budget authority	– 16	– 14	– 15	– 13	– 12
Estimated outlays	– 16	– 14	– 15	– 13	– 12

The costs of this bill fall within budget functions 270 and 450.

6. Basis of estimate:

Background

The BPA is responsible for selling electricity generated at federally owned dams in the Pacific Northwest. The agency operates on a self-financing basis and does not receive annual appropriations because it has authority to use receipts from the sale of power to pay for its annual operating costs. In addition to covering such costs, current law and regulations require BPA to set the price it charges for power so that receipts are sufficient to recover a share of the federal government's capital costs of building these dams and hydroelectric facilities.

From the 1930s through 1994, the federal government appropriated \$7.7 billion for construction of the hydroelectric components of the BPA system. At the end of fiscal year 1994, \$6.7 billion in construction costs had not yet been repaid by hydroelectricity consumers. Interest on this sum is accruing at an average annual rate of 3.4 percent. In 1994, BPA collected about \$300 million from its electricity users to make principal and interest payments on the outstanding appropriated construction costs of the system. Under current law and regulations, BPA estimates that over the 1996–2000 period it will collect about \$285 million annually from its customers to make such payments, mostly for interest.

Appropriated debt

This bill would restructure BPA's "appropriated debt," which is generally the money the government spent to construct dams and powerhouses for electricity generation that power consumers are expected to repay. S. 92 would also indirectly affect how BPA repays the bonds it sells to the Treasury under the Federal Columbia River Transmission Act. Funds borrowed under this act are used to build the federal electric transmission system in the Pacific Northwest. BPA has some flexibility in determining when it will repay these bonds to Treasury. Thus, if its schedule for repaying appropriated debt is changed by the enactment of S. 92, the repayment schedule for BPA's Treasury bonds would also change so as to minimize total debt service payments to the Treasury. The table captures this effect by showing the change in total BPA receipts, some of which are used to make Treasury debt service payments, including appropriated debt and Treasury bonds.

Starting in fiscal year 1996, the bill would direct BPA and the Treasury to redefine the outstanding appropriated construction costs of the system. The bill would require BPA and Treasury to calculate the net present value of future principal and interest payments on outstanding appropriated construction costs, using a discount rate equal to the average interest rate on outstanding federal borrowing of comparable maturity in September 1995. Under the bill, this net present value amount, plus \$100 million, would be defined as the new outstanding appropriated construction cost of the system. Based on CBO's most recent economic assumptions, and on the planned repayment terms for BPA's currently outstanding appropriated construction costs, we estimate that the applicable discount rate would be about 7 percent, yielding a new outstanding appropriated construction cost for the BPA system of \$4.2 billion.

The bill also would assign a new interest rate to be applied to the new outstanding appropriated construction cost. For system construction costs incurred before fiscal year 1996, the new interest rate would be set by the Treasury, considering the prevailing yields for government securities of comparable maturity in September 1995. For purposes of this estimate, we assume this interest rate would average about 7 percent.

Reducing the outstanding construction cost that must be repaid to the Treasury from \$6.7 billion to \$4.2 billion and increasing the average interest rate on this outstanding sum from 3.4 percent to about 7 percent would require the BPA to collect more money from its electricity customers. Under current law, CBO estimates that debt service repayments to the Treasury would range from about \$720 million in 1996 to about \$780 million in 2000. CBO estimates that under S. 92 these debt service payments to the Treasury would grow to about \$750 million in 1996 and to about \$810 million by 2000. As a result, over the 1996–2000 period, payments to BPA from its customers would increase by about \$30 million annually. The increased payments would be reflected in the budget as increased offsetting receipts to BPA. BPA would use these increased collections to make the additional payments to the Treasury, which would be intragovernmental transactions and would have no net budgetary impact.

BPA has estimated that its electricity rates would have to rise by about one percent in order to make higher payments for outstanding appropriated construction costs of the system. The net rate increase resulting from enactment of this bill would be about one-half percent, however, because section 9 would eliminate the requirement for BPA rate payers to make payments to the Colville Tribe over the 1996–2000 period.

Settlement with Colville Tribe

Section 9 would appropriate about \$83 million to BPA over the 1996–2000 period to make payments to the Colville Tribe. Resulting outlays would average \$16.5 million annually for the five-year period. In addition, the bill would appropriate \$4.1 million annually starting in 2001 and continuing for as long as BPA makes payments to the Colville Tribe under the settlement agreement with the tribe. Under current law BPA will make these payments to the Colville Tribe with funds collected from the sale of power. By appropriating the funds directly, the bill would reduce the costs to be borne by BPA's customers, thus resulting in lower offsetting receipts from the sale of electric power. CBO estimates that this decrease in receipts would total about \$83 million over the 1996–2000 period.

Contract provisions

Section 10 would direct BPA to offer to amend its contracts with customers covering electric power and related services. If desired by customers, BPA would amend current and future contracts for sale of power to provide that, following implementation of this bill, no additional money may be collected by the government from power customers as repayment of outstanding appropriated system construction costs, whether by way of rate increase, rent charges, lease payments, assessments, user charges, or any other fee. The bill would further provide that payment of any settlement amounts for a breach of this contract provision would be made from the Claims and Judgments Fund. The Claims and Judgments Fund is a permanent, open-ended appropriation, and any amounts paid from it would be considered direct spending. Such claims could occur, for example, if future legislation were to raise the interest rate on outstanding appropriated construction costs, or require regular fixed principal payments for repayment of these costs. Since these contract provisions would require the Treasury to compensate BPA rate payers for any increase in costs, there would be no budgetary advantage to charging BPA customers more for repayment of appropriated construction costs. Therefore, it is unlikely that any outlays from the Claims and Judgments Fund would be necessary for this purpose.

7. Pay-as-you-go considerations: Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts through 1998. CBO estimates that enactment of this bill would affect direct spending. Therefore, pay-as-you-go procedures would apply to the bill. The following table summarizes the estimated pay-as-you-go impact of this legislation.

[By fiscal year, in millions of dollars]

	1995	1996	1997	1998
Change in Outlays	0	-16	-14	-15
Change in Receipts	(1)	(1)	(1)	(1)

¹ Not applicable.

- 8. Estimated cost to state and local governments: None.
- 9. Estimate comparison: None.
- 10. Previous CBO estimate: None.
- 11. Estimate prepared by: Kim Cawley.
- 12. Estimate approved by: Robert A. Sunshine, for Paul N. Van de Water, Assistant Director for Budget Analysis.

REGULATORY IMPACT EVALUATION

In compliance with paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee makes the following evaluation of the regulatory impact which would be incurred in carrying out this measure.

The bill is not a regulatory measure in the sense of imposing Government-established standards or significant economic responsibilities on private individuals and businesses.

No personal information would be collected in administering the provisions of the bill. Therefore, there would be no impact on personal privacy.

Little, if any additional paperwork would result from the enactment of this measure.

EXECUTIVE COMMUNICATIONS

The pertinent communications received by the Committee from the Federal Energy Regulatory Commission setting forth Executive agency relating to this measure are set forth below:

STATEMENT OF JACK ROBERTSON, DEPUTY ADMINISTRATOR,
 BONNEVILLE POWER ADMINISTRATION, DEPARTMENT OF
 ENERGY

It is a pleasure to appear before the Energy Production and Regulation Subcommittee of the Senate Committee on Energy and Natural Resources. My testimony today will focus on S. 92, the "Bonneville Power Administration Appropriations Refinancing Act." The purpose of this legislation is to provide for the reconstitution of outstanding repayment obligations of the Administrator of the Bonneville Power Administration for the appropriated capital investments in the Federal Columbia River Power System. The Administration supports enactment of S. 92.

BACKGROUND

Since the early 1980's, there has been significant discussion over proposals to increase interest rates on outstanding appropriations that financed the Federal Columbia River Power System. Proposals have been made to restructure repayment of the obligations on appropriations, including increasing the interest rates on these obligations,

and repaying them on a fixed amortization schedule over the remaining repayment period rather than on the flexible schedule now in use. These repayment reform proposals would make repayment scheduling more rigid and significantly more costly to Bonneville's customers.

Three years ago Senator Hatfield asked Bonneville and its customers to initiate discussions to find a way to resolve these issues permanently. The result of that was a report proposing various long-term solutions. In the fall of 1993, as part of the President's National Performance Review Initiative, the Administration proposed legislation based on a proposal in the report that called for Bonneville to "buy-out" its outstanding low-interest repayment obligations on appropriations with debt that Bonneville would issue on the open market. Although the proposed legislation was intended to increase the present value of Bonneville's debt service payments to the U.S. Treasury, the legislation was scored as adding to the Federal deficit because Bonneville would have incurred issuance costs and a higher rate of interest than if the buy-out were financed through the U.S. Treasury. That legislation also raised concerns that Bonneville open market access could conflict with the Treasury's overall debt management plans. As a result, that legislation did not move. Since late 1993, Bonneville has consulted with its customers, the Office of Management and Budget, the Department of the Treasury, and Congressional Budget Office staff in an effort to develop legislation that did not present these problems and would benefit both taxpayers and ratepayers.

CURRENT PROPOSAL

The bill before you, S. 92, was introduced by Senator Hatfield and is endorsed by the Administration. This proposal is an important part of Bonneville's efforts to maintain its position as a reliable, low-cost provider of electric power and transmission services in an increasingly competitive environment. Greater transmission capacity, more open transmission access, and low cost generation alternatives are increasing the competitive pressure on Bonneville as a wholesale supplier and on its customers as wholesale buyers. With increased deregulation and new technology in the power industry, Bonneville's customers have more alternative sources of low cost power and easier access to those sources. Several major Bonneville customers are looking seriously at alternative power suppliers, because the gap between the price for alternative power supplies and the price for Bonneville's power has narrowed dramatically (see attached graph), and because of concerns about Bonneville's costs, rate stability and competitiveness. Some of Bonneville's customers have already chosen to purchase some of their load from suppliers other than Bonneville. As these customers look to the future, they see the potential for increases in the Bonneville cost base leading to further increases in rates. One poten-

tial cause of rate increases is the threat of large repayment changes. Bonneville believes that if Bonneville loses too much of its customer base, it will jeopardize Bonneville's ability to repay the Federal investment in the Federal Columbia River Power System and to sustain investments in fish and wildlife mitigation and other key program areas.

This proposal has advantages for both the Federal taxpayer and for the Northwest ratepayer. Both taxpayers and ratepayers benefit because the legislation would help reduce a cloud of uncertainty regarding future Bonneville rates, would better enable Bonneville to maintain its customer base, and would improve its competitive position. The taxpayers benefit from the payment of an additional \$100 million in net present value for the privilege of allowing BPA to refinance its appropriations debt. Last year, when the Administration submitted essentially the same legislation, it estimated that the provisions of that legislation would decrease net Federal outlays by approximately \$45 million over the period of fiscal year 1996 through fiscal year 1998. We expect a similar benefit from this bill.

Northwest ratepayers would also benefit because the repayment reform risk to Bonneville's financial stability and to its rate competitiveness would be resolved. This bill would fix the repayment issue by ending the recurring uncertainty over the terms and conditions of historic, appropriated repayment obligations. The restructured appropriations would be assigned interest rates based on Treasury's prevailing yield curve. Further, it would prescribe that interest rates on capital investment appropriations in the future be based on Treasury market rates prevailing at the time the investments are placed in service. The bill also includes clarifying language regarding Treasury's role in the restructuring transaction.

This proposal calls for Bonneville's estimated \$6.7 billion in outstanding repayment obligations on appropriations at the end of fiscal year 1995, to be restructured by resetting the outstanding principal at the present value of the principal and annual interest that Bonneville would pay to the U.S. Treasury in the absence of this Act, plus \$100 million. Interest rates on the new principal amounts would be re-assigned at prevailing Treasury yield curve interest rates at the time of the transaction, October 1, 1995. The bill also restricts prepayments of the reconstituted obligations to \$100 million in the period from October 1, 1995, through September 30, 2000. Other repayment terms and conditions would remain unaffected. The legislation includes a provision directing Bonneville to offer a contractual commitment to its customers that these appropriations repayment obligations will not be increased in the future.

Included in the bill is the cost of refinancing. This \$100 million cost has been determined based on the unique circumstances of the Federal Columbia River Power System,

and the Administration's position is that it does not establish a precedent, in any way, to be used in debt repayment proposals for the other power marketing administrations. Bonneville customers view the \$100 million as an appropriate payment in return for the contractual commitment that repayment of the outstanding debt will not be altered in the future.

S. 92 also proposes that Bonneville receive appropriations in connection with payments Bonneville will make under the Colville Tribes/Grand Coulee Settlement Act. Under the terms of the settlement, Bonneville makes annual payments to the Colville Tribes beginning at approximately \$15 million in fiscal year 1996, and escalating under provisions in the settlement. Under this bill, Bonneville would receive appropriations of an estimated 100 percent of Bonneville's annual payments to the Colville Tribes in each of fiscal years 1996 through 2000. In fiscal years thereafter, Bonneville would receive approximately \$4 million per year. These appropriated amounts, together with a one-time payment of \$53 million from the Department of Justice Judgment Fund, represent an equitable allocation of the ratepayer and taxpayer costs identified in the Colville Tribes/Grand Coulee Settlement Act. Notwithstanding these appropriations, revenues to the U.S. Treasury would be enhanced in each year through 2009.

This legislation has been designed to minimize the impact on Bonneville's ratepayers. The principal amount to be paid would decrease and the interest payments would increase, with a net increase in power and transmission rates estimated to be $\frac{1}{2}$ percent, or an average of \$14 million per year, for the first five years, and 1 percent thereafter for about the next decade. The rate impact would be phased in during the first few years, recognizing that Bonneville is currently experiencing financial difficulties as a result of several years of drought conditions, substantial new fish mitigation costs, and strong competitive pressures. Recovery from this drought will take a few years. Bonneville has proposed significant new actions to help improve its financial position, including cuts in spending. Bonneville is also looking into other fundamental reforms that could help improve its long term competitiveness. It is important to note that if S. 92 is enacted, Bonneville would continue to fulfill all its existing statutory obligations.

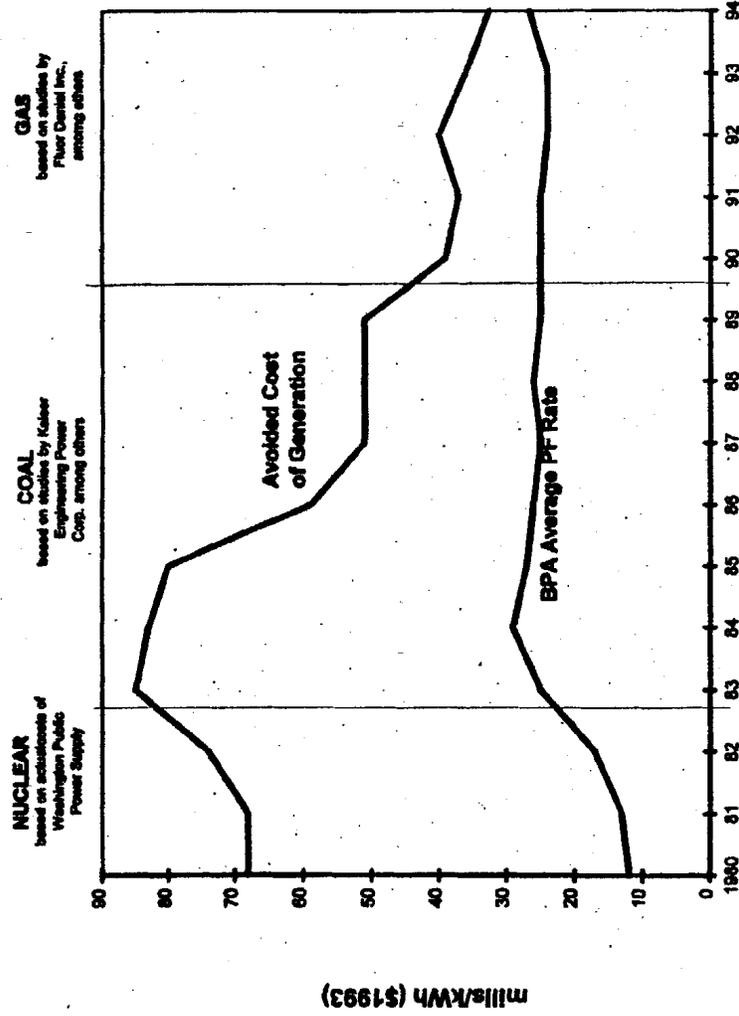
CONCLUSION

In summary, this legislation would result in benefits both to Federal taxpayers and to the Northwest region and it would enhance Bonneville's future competitiveness and stability by removing the risk of future repayment reform. It would also enhance Bonneville's continued ability to meet its annual Treasury payment. It would result in the U.S. Treasury receiving an increase in present value of \$100 million in Bonneville payments to Treasury and in-

crease net receipts to the Treasury. We urge the swift adoption of this legislation.

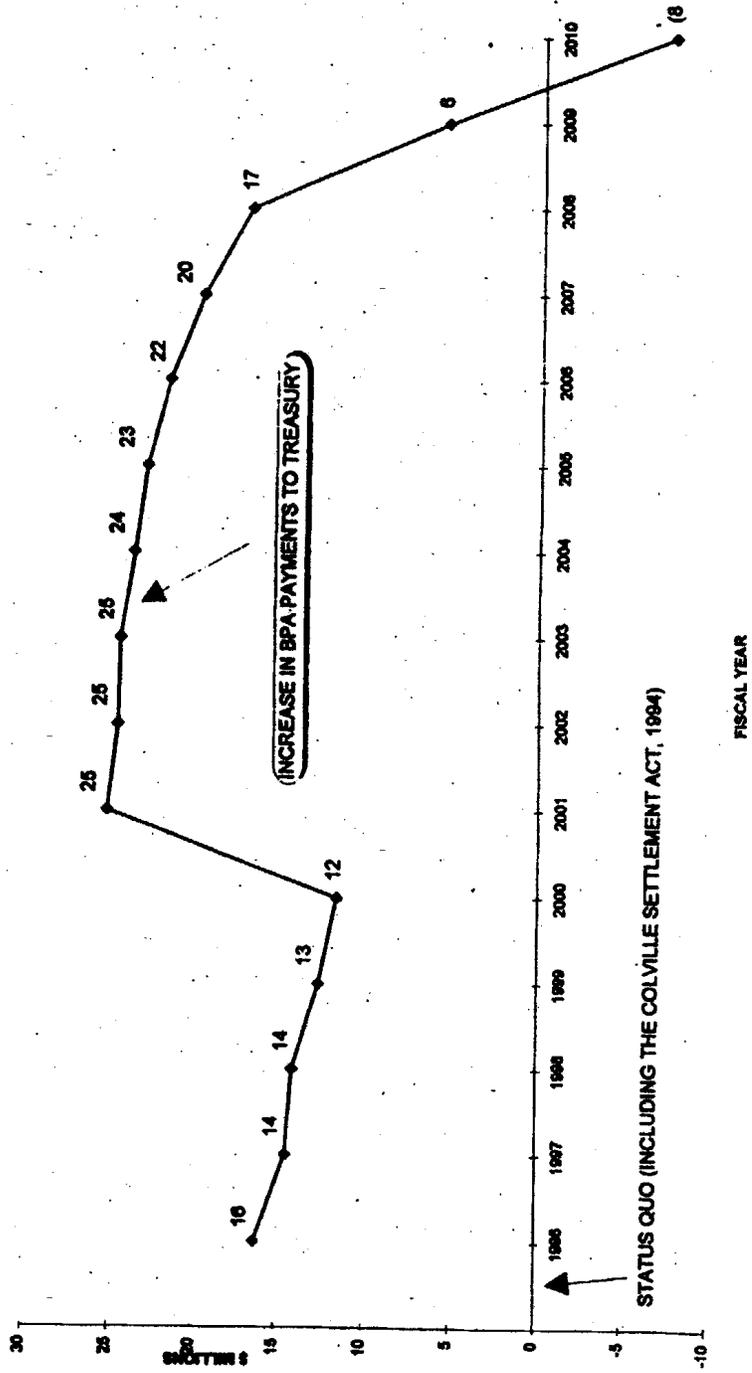
Mr. Chairman, that completes my testimony, and I will be glad to answer any questions.

AVOIDED COST OF GENERATION VS. BPA AVERAGE RATE



Major uncertainties requiring resolution are repayment reform and fish costs

**BENEFITS TO U.S. TREASURY OF BPA APPROPRIATIONS REFINANCING ACT
(50 YEAR NET PRESENT VALUE EQUALS \$100 MILLION)**



STATUS QUO (INCLUDING THE COLVILLE SETTLEMENT ACT, 1994)

FISCAL YEAR

(INCREASE IN BPA PAYMENTS TO TREASURY)

CHANGES IN EXISTING LAW

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, the Committee notes that no changes in existing law are made by S. 92, as ordered reported.

