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Power Marketing Administrations: Background and Current Issues

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Summary

The U.S. Department of Energy operates four regional power marketing administrations (PMAs) — the Bonneville Power Administration (BPA), the Southeastern Power Administration (SEPA), the Southwestern Power Administration (SWPA), and the Western Area Power Administration (WAPA). These agencies all operate on the principle of selling wholesale electric power with preference given to publicly or cooperatively owned utilities "at the lowest possible rates to consumers consistent with sound business practices" under the Flood Control Act of 1944 (16 U.S.C. §825s). Maintaining competitive rates sufficient to cover operating costs and repay the federal investment in the hydropower dams and transmission systems amid drought, legal challenges, and customer pressure for cost reductions are some of the challenges faced by these agencies, and issues tied to these challenges may come before Congress.

Introduction

The federal government, through the Department of Energy, operates four regional power marketing administrations (PMAs), created by statute, the Bonneville Power Administration (BPA), the Southeastern Power Administration (SEPA), the Southwestern Power Administration (SWPA), and the Western Area Power Administration (WAPA), each operating in a distinct geographic area (see **Figure 1**).[1] Congressional interest in the PMAs has included diverse issues such as rate setting, cost and compliance associated

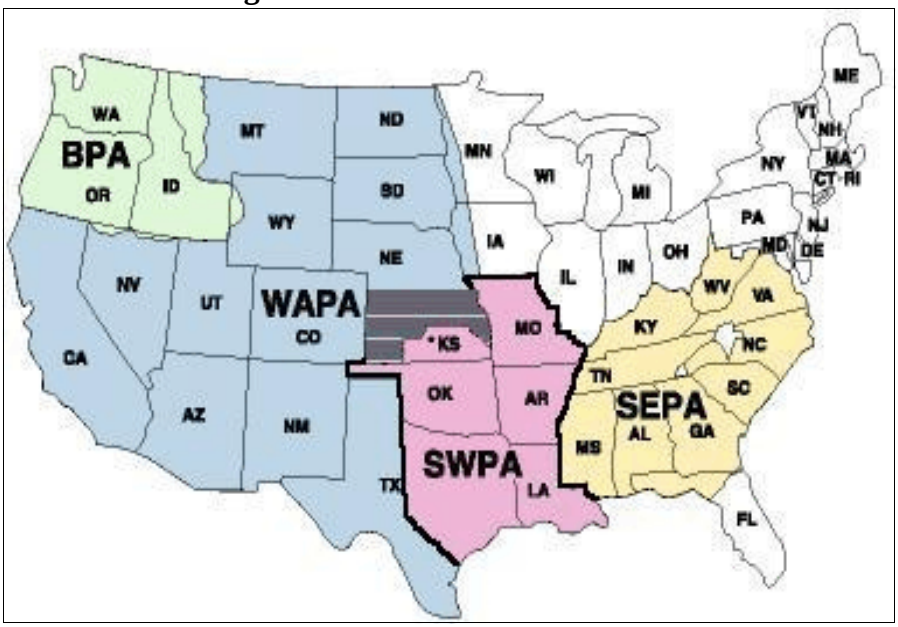
[1] These four PMAs, created between 1937 and 1977, were transferred from the Department of the Interior to the Department of Energy through the Department of Energy Organization Act of 1977, P.L. 95-91. A fifth, the Alaska Power Administration, established in 1967, was sold under authorization of P.L. 104-58. The PMAs sell their power, with preference given to publicly or cooperatively owned utilities, "at the lowest possible rates to consumers consistent with sound business practices" under the Flood Control Act of 1944 (16 U.S.C. §825s). The 1937 Bonneville Project Act (16 U.S.C. §832c), the Reclamation Project Act of 1939 (43 U.S.C. §485h(c)), and the aforementioned Flood Control Act are statutes that stipulate preference to public bodies for the sale of federal power.

with the Endangered Species Act (ESA; P.L. 93-205; 16 U.S.C. §§1531 et seq.), and questions of privatization of these federal agencies.

With minor exceptions,[2] these agencies market the electric power produced by federal dams operated by the Corps of Engineers (Corps) and the Bureau of Reclamation (BOR). PMAs must give preference to public utility districts and cooperatives, and sell their power at cost-based rates set at the lowest possible rate consistent with sound business principles. The PMAs serve 60 million Americans in 34 states.[3]

In general, the PMAs came into being because of the government's need to dispose of electric power produced by dams constructed largely for irrigation, flood control, or other purposes, and to promote small community and farm electrification — that is, providing service to customers whom it would not have been profitable for a private utility to serve. Though PMAs were all created to market federal power, and they share the common mission of providing electricity at cost-based rates with preference to public customers, each PMA also has unique elements and regional issues that affect its business. They will be discussed in alphabetical order.

Figure 1. PMA Service Territories



Source: Derived from: [http://www.wapa.gov/regions/pmadmap.htm].
Note: Both WAPA and SWPA market power in Kansas.

Bonneville Power Administration

Created by the Bonneville Project Act of 1937 (16 U.S.C. §832) just before the completion of two large dams in the Pacific Northwest — Bonneville Dam in 1938 and Grand Coulee Dam in 1941 — BPA was the first PMA. Though it serves a smaller

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[2] For example, BPA purchases the entire output of the Columbia Generating Station, a 1,100-megawatt (MW) nuclear power plant in eastern Washington.

[3] See [http://www.wapa.gov/about/faqpm.htm].

geographical area, BPA is on par with WAPA (which serves the largest area) in the size of its transmission system. The agency constructed and maintains approximately 75% of the high voltage transmission lines in the Northwest, a system of over 15,000 miles of transmission line and approximately 300 substations.[4]

BPA differs from the other three PMAs in that it is self-financed: it receives no federal appropriations. Since passage of the Federal Columbia River Transmission System Act of 1974 (16 U.S.C. §838), BPA covers its operating costs through power rates set to ensure repayment to the Treasury of capital and interest on funds used to construct the Columbia River power system. BPA also has permanent Treasury borrowing authority, which it may use for capital on large projects. This money is also repaid, with interest, through power sales. BPA borrowing authority totals $4.45 billion, through congressional allocations of $1.25 billion on three separate occasions and a final allocation of $700 million in 2003. The agency intends to close FY2007 with approximately $1.7 billion in total borrowing authority remaining.[5] BPA repaid $1.1 billion to the Treasury in FY2006.[6]

Current Issues. Two ongoing issues will likely affect the agency over the long term. The first, a conflict over salmon recovery in the Columbia and Snake Rivers, centers around the operation of the dams that produce the electricity sold by BPA. Environmental, fishing, and tribal advocates have sued the federal government successfully, arguing that the National Marine Fisheries Service (NMFS) Biological Opinion — the regulatory document dictating operation of the dams to ensure survival of species listed as threatened and endangered under the Endangered Species Act (ESA; P.L. 93-205; 16 U.S.C. §§1531, et seq.) — is inadequate to keep the threatened species from extinction. In addition, some parties argue that removing four dams on the Snake River in Washington is the only way to ensure survival of some salmon and steelhead species. The final resolution of the lawsuit, and the ultimate disposition of the Snake River dams, may not allow BPA to sell as much electricity, which would likely increase the power rates.

A second issue concerning BPA is the so-called *regional dialogue*. The regional dialogue refers to the development of a plan to define BPA's power supply and marketing role over the long term. Key elements of the plan are 20-year contracts and a tiered rate methodology for the period following FY2011, when many of BPA's current contracts will expire. A challenge in the regional dialogue is developing a plan that is supported by BPA's customers, and that addresses such issues as service to public utilities, service to direct service industries (such as aluminum smelters), benefits for residential and small farm customers of investor-owned utilities, and long-term cost controls.[7]

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[4] See [http://www.bpa.gov/corporate/About_BPA/].

[5] U.S. Department of Energy, *FY2007 Congressional Budget Request, Power Marketing Administrations*.

[6] See [http://onlinepressroom.net/bonneville/].

[7] *Bonneville Power Administration's Long-Term Regional Dialogue Concept Paper*, Sept. 2005. Available at [http://www.bpa.gov/power/pl/regionaldialogue/09-12-2005_concept_paper.pdf].

Southeastern Power Administration

SEPA is unique among the four PMAs in two ways. It is the smallest PMA, with just over 40 employees, and, unlike the other three agencies, SEPA does not operate or maintain any transmission facilities and thus contracts with other utilities for transmitting the federal power it markets to over 13 million consumers.[8] SEPA, like the other PMAs aside from Bonneville (with its self-funding provision), receives annual appropriations and subsequently repays this funding through power revenues. SEPA's FY2007 appropriation request was $5.7 million.[9]

Current Issues. SEPA may need to contend with reduced generation from one of the dams whose power it markets. The Wolf Creek Dam, a Corps project on the Cumberland River in Kentucky, has had a seepage problem since the late 1960s. A $309 million rehabilitation project is scheduled to run from 2006 to 2014. It is possible that the water elevation behind the dam will need to be reduced, lowering power generation. The dam's powerhouse has a capacity of 270 MW, or roughly 8% of SEPA's total generating capacity.[10]

Southwestern Power Administration

SWPA serves over 100 preference customer utilities with over 7 million end-use customers in the south-central United States. The agency manages nearly 1,400 miles of high-voltage transmission lines with 24 substations. SWPA returns revenues to the U.S. Treasury for repayment, with interest, of the federal investment in generation and transmission facilities and, like SEPA and WAPA, for repayment of annual appropriations.[11] SWPA requested an appropriation of $31.5 million in the President's FY2007 budget.[12]

Current Issues. SWPA has been challenged by low water conditions recently. It has a rain-based water supply — rather than one that is snow-based, like the mountain snowpack water supply of WAPA and BPA — and sells power from a comparatively small reservoir system which stores that water. As of December 2006, the agency has been operating through 21 months of drought. It was forced to call upon a continuing fund in the summer of 2006 to cover the cost of power purchases brought about by drought-reduced generation. Continued dryness in the area would keep SWPA struggling to purchase the power allocated for delivery to its customers.

During the drought period of 2006, access by SWPA to the continuing fund was initially denied by the Office of Management and Budget (OMB), and some Members of

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[8] See [http://www.sepa.doe.gov/Overview/?c=2].

[9] U.S. Department of Energy, *FY2007 Congressional Budget Request — Power Marketing Administrations*; vol. 6 (Feb. 2006), p. 9.

[10] See [http://www.lrn.usace.army.mil/pao/issues/WOLcommo/seepage.htm].

[11] See [http://www.swpa.gov/about.htm].

[12] U.S. Department of Energy, *FY2007 Congressional Budget Request — Power Marketing Administrations*; vol. 6 (Feb. 2006), p. 37.

Congress felt OMB had reinterpreted its policy in granting access to the fund.[13] Continued drought could force SWPA to request access to the fund in FY2007, which may raise the same OMB policy issue for the 110th Congress.

Western Area Power Administration

Created by the Department of Energy Organization Act of 1977 (P.L. 95-91), WAPA is the newest and largest of the PMAs. WAPA's service area covers 1.3 million square miles, and its power — transmitted by a high voltage grid over 17,000 miles long — serves customers in 15 western states. Like the other PMAs, WAPA's electricity comes from federal dams operated by the Corps and BOR. However, it also sells power provided by the International Boundary and Water Commission and markets the United States' 24.3% share (547 megawatts) of the coal-fired Navajo Generating Station in Arizona. In addition to the types of public bodies traditionally served as preference customers by the other PMAs, WAPA has developed a policy to give preference to Native American tribes regardless of their utility status.[14] For FY2007, the agency made a budget request of $191.7 million.

Current Issues. An issue of importance to WAPA is its role in relieving transmission congestion within its marketing area. There are a number of constrained transmission paths in the West whose limited capacity to transfer power may reduce the ability of utilities to serve electric loads on a seasonal or ongoing basis. Examples are the main transmission link between northern and southern California called Path 15, and the transmission corridor between southeastern Wyoming and northeastern Colorado known as TOT 3. While WAPA does not currently have resources to fund construction of new lines or upgrades to these congestion points, the agency is interested in working collaboratively with other affected parties to resolve the problems.[15] WAPA has expertise in transmission design and construction planning, land acquisition, and environmental assessments and may contribute these resources to transmission upgrade projects in the West.

In the President's FY2006 budget request, WAPA, SEPA, and SWPA proposed an alternative to the current method of appropriations that provides for their operating expenses. The FY2006 budget proposal included a plan to reclassify receipts to allow these PMAs to fund their program direction and their operation and maintenance (O&M) expenses through offsetting collections, also known as net-zero appropriations.[16] The PMAs currently deposit receipts into the Treasury and Congress appropriates general Treasury funds to the PMAs for these expenses. Reclassifying the PMA's receipts in this way would make them discretionary budget items (they are now mandatory), putting

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[13] See [http://www.house.gov/list/press/mo08_emerson/pr_060620.html], and [http://www.house.gov/list/press/ok03_lucas/continuingfund.html].

[14] See [http://www.wapa.gov/about/faqpm.htm].

[15] 70 *Fed. Reg.* 69338 (Nov. 15, 2005).

[16] U.S. Department of Energy, *FY2006 Congressional Budget Request — Power Marketing Administrations*, vol. 6 (Feb. 2005).

them on the same side of the ledger as PMA appropriations.[17] An effect of this change may be a reduction in reallocation of PMA appropriations to other efforts, because the subsequent incoming receipts would be reduced by a similar amount. Congress did not agree to this change for FY2006. The proposal was not reported for FY2007, but a renewed proposal to change to a net-zero appropriations approach to PMA operations funding may be an issue for the 110th Congress.

[17] Telephone discussion with Jack Dodd, Western Area Power Administration Assistant Administrator, Power Marketing Liaison Office, Washington, DC, on Dec. 4, 2006.