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A review of the Pacific Northwest electric-energy situation indicated that the region needs improved leadership in electric-power planning and policymaking. There is also a need for representative citizen involvement in power planning and policymaking in order to develop an acceptable electricity-management program. More information is needed before the Federal Government makes any firm commitment to guarantee the financing of new thermal powerplants in the region. The currently proposed Federal legislation needs to be clarified to assure that the objectives of conservation of energy resources, development of renewable resources, and increased public participation in planning are met. (SC)

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STATEMENT OF
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DIRECTOR, ENERGY AND MINERALS DIVISION
BEFORE THE
SUBCOMMITTEE ON ENERGY AND POWER
OF THE
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
HOUSE OF REPRESENTATIVES

Mr. Chairman:

We appreciate your invitation to discuss our recent report 1/ on the Pacific Northwest electric energy picture and how the results of our work align with the purposes of H.R. 13931, the Pacific Northwest Electric Power Planning and Conservation Act. My statement will discuss the issues and conclusions addressed in our study and relate those to the provisions in the proposed legislation.

Our report looked at the major issues facing Bonneville Power Administration and power planners in the Pacific Northwest. These issues are:

--What supply options does the Pacific Northwest, a region that has primarily depended on hydropower for meeting

1/"Region at the Crossroads--The Pacific Northwest Searches for New Sources of Electric Energy," EMD-78-76, August 10, 1978.

its electrical demand, have for meeting its future power needs?

- How much electrical demand can be met through conservation?
- Who is responsible for regionwide electricity management and how can regionwide input be provided into the decisionmaking processes?
- How can the Federal power be marketed to discourage waste and to decrease regional rate disparities?
- Should the Federal Government underwrite or guarantee the financing of thermal powerplants?
- What role should Bonneville play in resolving these issues?

In reviewing these issues we concluded:

- The Pacific Northwest region needs improved leadership in electric power planning and policymaking. No regional entity is responsible for spearheading the development of a coordinated electricity management program for the region.
- Representative citizen involvement in power planning and policymaking is prerequisite to development of an acceptable electricity management program. Increased opportunities to participate in power planning must be provided to State and local governments, environmentalists, utility customers, and other interested

citizens. Further, the opportunities for participation must be front-end opportunities involving the development of plans.

--More information is needed before the Federal Government makes any firm commitments to guarantee the financing of new thermal power plants in the near future. It is unclear how much energy will actually be needed to meet future load growth. It is possible that the construction of new powerplants could be postponed for many years if the utilities turned increased attention to conservation and energy efficiency. The potential of conservation, combined with the numerous uncertainties present in regional load forecasts, argues against a premature Federal commitment to participate in new generating plants. Our analysis showed that if a moderate forecast proved more realistic than the forecasts of regional utilities and moderate conservation incentives were adopted, the thermal generating plants already approved for construction would be sufficient to meet regional demand growth through 1995. Assuming a 10- to 15-year leadtime for developing thermal plants, this would enable regional policymakers to defer decisions on additional plants until the 1980-85 time period. It also has not been demonstrated that regional utilities cannot secure the capital needed for new generating plants without Federal assistance.

--Conservation and renewable energy technologies deserve thorough consideration as alternatives to thermal powerplants. These alternative energy sources can be added in smaller increments, require less capital and shorter construction schedules, and generally entail fewer serious environmental risks than nuclear and coal-fired plants. Conservation, because it reduces energy waste and frees existing generation for use elsewhere, is recognized as the least expensive source of electricity. In addition, the region may be able to capitalize on its extensive renewable energy potentials more quickly than many power planners predict.

--Bonneville should continue to market Federal hydropower to preference customers in accordance with existing legislation. It would be inequitable to abruptly discontinue deliveries of Federal power to preference customers who have become so dependent on this supply source. However, the pricing of Federal power at true replacement cost would result in greater consumer awareness and greater potential for voluntary conservation. Gradually increasing the rates for Federal hydropower would help accomplish this objective.

RELATION OF CONCLUSIONS
TO PROPOSED LEGISLATION

The objectives of H.R. 13931 to recharter the Bonneville Power Administration to emphasize conservation of energy resources, development of renewable resources, and provide public participation in the development of power programs are most encouraging and are goals recommended in our report. We fully endorse these objectives, but feel the proposed legislation needs to be clarified to assure the objectives are met.

First, clarification is needed in the conservation and renewable resources provisions. The bill provides that the Administration implement "feasible and cost effective" conservation and renewable resource programs. However, it does not provide adequate guidance in determining what is feasible and cost effective. The bill is also silent on the extent of the conservation and renewable efforts and on the size and nature of the investment needed to implement and carryout such efforts. We recommend the legislation specifically point out that "cost effective" comparisons means cost comparison at the margin and should include environmental and social costs when practical. We would recommend the following definition:

"Cost-effectiveness should be determined by comparing, on a life cycle basis, the unmilded cost of generating, transmitting, and distributing electricity from new thermal supply sources with the cost of energy conservation and/or renewable resource alternatives. Environmental and social

effects should be included when they can be identified. To the extent practical, these effects should also be quantified."

The Administrator should also promote conservation by using his wholesale rate-making authority to encourage retail rates which would provide incentives to discourage waste of energy.

The legislation is in-line with our conclusion that more public involvement is needed in regional power planning and policymaking. Section 4 authorizes the Bonneville Administrator to obtain regional input by establishing two regional Advisory Councils and to prepare a regional power planning and conservation program in consultation with these two Councils and the Governors of the States of Idaho, Montana, Oregon, and Washington. Our concern, however, is that the legislation does not give the Councils' specific responsibilities other than consultation. In performing such important duties as preparing the regional load and resource forecasts and developing the regions conservation programs, the Bonneville Administrator is only required to consult with the Governors and Advisory Councils. The Administrator would appear to have little or no accountability to the public or elected representatives. We recommend that for this very important responsibility, the Advisory Committees be given specific planning and review functions. These should include:

1. Reviewing the regional forecasts.
2. Ensuring that the regional forecasts deal with benefits from conservation.

3. Active and meaningful participation in the formulation of conservation programs.
4. Providing input into decisions to build new thermal generating facilities as opposed to investment in renewable resources.

To provide a more meaningful role, an Advisory Council should have explicitly defined duties as well as independent staff or study capabilities. In addition, the Administrator should, within 60 days, provide written comments to the Councils' and to the people of the Northwest on his reasons for accepting or rejecting the Councils' advice. The Administrator should also be required to periodically update the regional power planning and conservation program and report to the Congress and the people of the Pacific Northwest on the status of programs to conserve electrical energy, develop renewable energy resources, and balance electricity supply and demand.

The two Councils' created would be the Bonneville Utilities' Council, comprised of utility and industry representatives, and the Bonneville Consumers' Council, comprised of representatives appointed by the Northwest Governors. The legislation does not provide reasons for having two Advisory Councils. We believe that one council representing a diverse regional makeup, similar to the Regional Power Planning Board recommended in our report, would be more appropriate. One council would likely provide a greater opportunity to centrally focus ideas and information on key issues. A single council would appear more appropriate

to meet the planning and review responsibilities discussed above.

Another concern regarding the Advisory Councils' as proposed is their potential makeup. It appears the Consumers' Council would provide a non-utility advisory role to the Administrator but in effect could end-up with Public Utility District (PUD) Commissioners as members. The Governors appointees to this Council are to include elected officials. Since PUD Commissioners are local elected officials, they would presumably be available and qualified for such appointments. Therefore, utility officials could be appointed to the Consumers Council. To avoid this, we recommend the legislation be amended to preclude the appointment of utility officials to the Consumer's Council.

We are concerned with the provisions that appear to authorize Bonneville to construct conventional generating resources or, through purchase agreements, underwrite conventional powerplants constructed by utilities. Our analysis showed there would be no immediate need for additional thermal powerplants in the Northwest beyond those presently under construction or licensed if moderate conservation incentives were adopted and a moderate demand forecast occurred. The uncertainties associated with load forecasts, together with the potential of untapped conservation and renewable energy potentials, argue against hurried decisions to build additional thermal generating capacity. Therefore, we do not see any need for Bonneville constructing thermal powerplants

nor, until more information is available, the need for making firm commitments in the near future to help finance conventional thermal powerplants. Even if it were to become clear, given more information, that load growth would be so high as to require additional thermal generation, we do not feel the Federal Government should construct thermal powerplants. It has been GAO's position that the Federal Government not take over functions that the private sector could or has been performing unless it has been demonstrated that the private sector cannot perform the function. We have seen no demonstration that Northwest utilities cannot construct or secure the capital needed for new powerplants without Federal assistance. We do favor, however, authorizing Bonneville to construct, or fund the construction, of facilities which would research, develop, and demonstrate energy conservation and new renewable technologies.

If, however, the Congress should grant Bonneville the authority to underwrite thermal powerplants, then we feel section 6(g) should be amended. This section requires Bonneville to submit any power purchase intentions to the Senate Energy and Natural Resources Committee and House Interior and Insular Affairs Committee for review and execute no contracts until 90 days after submission to the Committees. We believe committing the Federal Government to underwriting a major acquisition such as a thermal powerplant should require more approval than a 90-day non-action by the Congress. We believe that the public interest

is best served when congressional control over activities is exercised through annual reviews and affirmative action on planned programs and financing requirements. To maintain congressional control financing of thermal powerplants by means other than through the appropriations process, Bonneville should submit financing proposals for review by the Congress at the same time it submits an annual budget.

The legislation addresses the regional rate disparity problem and preference customer issue by: (1) extending the benefits of Federal hydropower to include residential customers of privately-owned utilities and (2) marketing power to existing preference customers and new residential customers at an average cost of a pool of power from Federal entities, preference customers and non-preference entities. This appears to be a precedent in that investor-owned utilities have never been assured access to the benefits of Federal hydropower. Bonneville preference customers would be yielding a portion of their total entitlement to the Federal base resource in exchange for a pooling arrangement among themselves, Bonneville, and non-preference entities.

Our report addresses these issues by keeping the preference customer clause as is, but gradually increasing the price of Federal power to accomplish regional rate parity. This portion of our report has been misinterpreted and taken out of context. Our analysis showed the Northwest will face higher power costs if increased demand is met by thermal powerplants rather than

by conservation and renewable resource programs. Thus, the questions to be answered are: how can rate disparities be decreased and power needs be met with minimum capital and environmental costs? Our answer was to gradually increase the price of Federal power until it reaches parity with the average price of producing power in the Northwest. This would eliminate the regional rate disparities and the regional infighting for Federal power. It would also provide a fund of money which could be used to carry out the conservation and renewable resource programs for the entire region. The end result would have the consumers paying about the same rates they would pay if increased power demands were met totally by thermal power.

That concludes my prepared statement. More suggested changes to H.R. 13931 are attached. We would be pleased to answer any questions.

OTHER GAO COMMENTS ON H.R. 13931

1. The legislation gives authority to the Bonneville Administrator for various functions which could require huge sums of money. We think the legislation should make clear that the Administrator will be acting under the direction of the Secretary of Energy. One way to accomplish this would be to add a sentence to Section 9(b) to provide:

"The authority and duties of the Administrator referred to herein are subject to the supervision and direction of the Secretary of Energy."
2. Section 8(b) does not appear to set a limit as to how much debt BPA can have outstanding at any one time through its bonding authority. GAO believes that an aggregate bonding limit, such as is used in the Tennessee Valley Authority bonding authority, should be placed on Bonneville in order to provide greater fiscal control.
3. Section 7(b) authorizes the Administrator to set rates appropriate to a specific sector (residential) but Bonneville only markets at the wholesale level. It provides no guidelines toward how Bonneville can assure the Federal power rates are passed on at the retail level. This should be specified in the legislation.
4. The legislation will not solve rate inequities in the non-residential sectors. As pointed out in our report, several

publicly owned utilities use Bonneville preference power wholly or largely to serve industrial users. It has been argued by some that such industrial consumers are receiving an unfair competitive advantage. The legislation does not appear to resolve this conflict.

5. Since load forecasting is so important to power planning and presently an inexact science, it would appear a range of forecasts (high, middle, low) should be developed by the Administrator so that various supply and demand options can be evaluated over a range of eventualities.