



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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ENERGY AND MINERALS
DIVISION

B-114858

JULY 30, 1979

[Comments on Issue Paper Reference To GAO's Pacific Northwest Report]

The Honorable James H. Weaver
United States House of Representatives

Dear Mr. Weaver:

ABC 00465 BPA

Pursuant to your letter of June 20, 1979--and subsequent discussions with your staff--we briefly reviewed the issue papers prepared by the Bonneville Power Administration (BPA) in support of the Pacific Northwest energy legislation (S. 855, H.R. 3508). Our review focused on determining whether the issue papers correctly present and adequately respond to the recommendations expressed in our August 1978 report to the Congress. 1/

Our comments relate mainly to the BPA's summary document entitled "Why a Congressional Solution is Needed for the Pacific Northwest's Electrical Energy Problems." Their 8-page summary describes our recommendations to the Congress in one-third of a page and concludes that the proposed legislation "meets all of GAO's recommendations save one"--the gradual implementation of replacement cost pricing. The brief treatment does not convince us that the points of contention have been thoroughly analyzed and properly resolved.

BONNEVILLE'S DESCRIPTION
OF OUR RECOMMENDATIONS

BPA's characterization of our recommendations and how the proposed power bill deals with them is quoted below:

"The General Accounting Office in August 1978 issued a report highlighting all of the above [issues facing the region] and suggesting:



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

*Proposed legislation
Hydroelectric
Energy*

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1. That Congress should bring an end to disputes over who should receive available Federal hydro power. (As explained below, this depends on a legislation allocation which in turn depends on purchase authority).
2. That Congress should end disputes over Federal assistance to financing the region's new powerplants.
3. That Congress should use BPA as a 'cornerstone' and should 'direct BPA' to develop a regional electric energy program, encourage conservation, assure public involvement, and protect preference rights.
4. That Congress should grant BPA the authority to sell bonds to fund conservation programs."

* * * * *

"The proposed legislation, S. 1885 and H.R. 3508, treats all of the foregoing issues and meets all of the GAO recommendations save one. The GAO report would also have Congress direct BPA to 'develop and implement a plan for moving the region toward pricing at replacement cost,' by adding year by year an increasing surcharge to the price of Federal hydro power until the year 2000 by which time it would be sold at the average cost of power produced in the region. Suffice it to say here that such a policy would run counter to BPA's congressional mandated policy of setting its rates at levels to reflect the actual overall cost to BPA of acquiring and transmitting power, and that BPA believes the conservation purpose behind this GAO recommendation can be accomplished by vigorous conservation programs of other types."

It is difficult to determine whether BPA's issue paper adequately presents and responds to the recommendations made in our report. However, we do believe two areas should be commented on in more detail than presently presented.

The first is the area of BPA's financial participation in conventional thermal powerplants. The proposed legislation provides such authority while our position was that,

until more information is available, BPA should avoid making firm commitments in the near future to help finance conventional thermal powerplants. This was based on the uncertainties we saw in utility load forecasts, and our analysis that showed if a moderate demand growth rate occurred and moderate conservation incentives were adopted, the thermal generating plants already approved for construction would be sufficient to meet demand through 1995. 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 that 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.

The second area that could be expanded is that dealing with our recommendation to add a surcharge on Federal hydropower and keep the preference customer clause as is. The proposed legislation addresses the regional rate disparity problem caused by low cost Federal power 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 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.

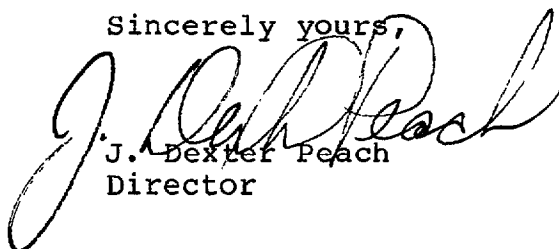
Our report addresses these issues by keeping the preference customer clause as is, but gradually increasing the price of Federal power to accomplish regional rate parity. This portion of our report sometimes has been misinterpreted or incorrectly characterized as a plan to penalize consumers with unnecessary rate increase. In fact, 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 assure the carrying out of 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 through the end of the century were met totally by thermal power. The important difference, of course, is that by investing in conservation and renewable energy sources, the region would not become dependent on external fuel supplies.

Our views on the proposed legislation were documented in September 1978, testimony before the Subcommittee on Energy and Power, House Committee on Interstate and Foreign Commerce, and in a letter report to Congressman Max Baucus (now Senator) in October 1978. In our testimony, we discussed with the Subcommittee our report to the Congress and how that report aligned with the proposed legislation.

In summary, we believe that BPA's collection of issue papers would be more useful to Members of Congress if it included (1) a digest of our report to the Congress (app. I), and (2) a copy of our testimony before the Subcommittee on Energy and Power, House Committee on Interstate and Foreign Commerce (app. II).

Sincerely yours,



J. Dexter Peach
Director

Enclosures - 2

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESSREGION AT THE CROSSROADS--THE
PACIFIC NORTHWEST SEARCHES FOR
NEW SOURCES OF ELECTRIC ENERGYD I G E S T

The Pacific Northwest region has entered a difficult transition period. Most large hydroelectric sites have been developed. Additional large hydropower supplies, long the mainstay of regional electrical supply, are no longer available. Yet power demand will no doubt continue to rise as the population expands and new industrial growth occurs.

Coal-fired and nuclear powerplants are advocated by many power planners as practical ways to meet future electrical needs. But conservation options are also being proposed, as are the potentials for using other renewable energy sources, including geothermal energy; solar radiation; and secondary solar energy forms, such as wood wastes, wind, and small hydro developments. Regional institutions are struggling to develop new electricity management policies which can reconcile future energy needs with the environment and economy.

The region's traditional decisionmaking processes are ill equipped to deal with the problems of transition. No single Federal, State, or local organization is responsible for regionwide electricity management. Furthermore, coordination and planning groups generally do not represent the broad spectrum of regional interests.

In the absence of strong and unified leadership, energy management objectives have not been established and regional institutions are in conflict over forecasting methods, conservation potentials, future energy sources, and power-planning practices. Conflicts have also developed over customers' rights to Federal hydropower and utility requests for Federal assistance in financing new powerplants. These conflicts have prevented the cooperation needed to develop a regional electricity management program.

THE FEDERAL ROLE

The Federal role in constructing and operating power generation and transmission facilities has been significant. Federal dams, built, operated, and maintained by the Bureau of Reclamation and the U.S. Army Corps of Engineers, furnish over 50 percent of the electricity generated in the region. The power generated at these dams is marketed and transmitted throughout the region by the Bonneville Power Administration.

To a great extent, Bonneville represents the Federal presence in energy policymaking. It markets half of the region's electricity and owns and operates high voltage transmission lines capable of carrying up to 80 percent of the region's power. Many regional electric distributors depend exclusively on Bonneville for their power supplies.

Within the region, Bonneville serves publicly owned utilities, Federal agencies, investor-owned utilities, and direct service industries. It is required by law to give publicly owned utilities and Federal agencies first call (preference) on the Federal energy it markets. In fiscal year 1976 preference customers accounted for 41 percent of Bonneville power sales; investor-owned utilities accounted for 10 percent; and direct service industries accounted for 32 percent, which included 29 percent sold to the region's aluminum industry. Another 17 percent of 1976 sales were to customers outside the region, principally California utilities.

Development of the region's major hydro sites, coupled with Bonneville's marketing of Federal power has produced the region's unique energy environment: the Nation's lowest priced electricity, a per capita electricity consumption rate nearly twice the national average, and a high degree of electrical self-sufficiency based on renewable energy sources within the region.

THE SEARCH FOR NEW ENERGY SUPPLIES

In the late 1960s Bonneville and regional utilities forecasted that electrical demand would triple between 1970 and 1990 and concluded that the region needed to supplement its hydro capacity with new forms of generation. From that time regional power planning has emphasized the need for thermal powerplants. According to a 1976 Bonneville report, thermal plants could account for 99 percent of the region's new energy supplies between 1977 and 1997.

Such an aggressive move toward thermal generation represents a significant departure from the region's historic reliance on renewable hydropower. Groups concerned about the high costs and potential environmental hazards of nuclear and coal-fired plants are asking whether conservation measures, together with development of nonconventional renewable energy sources, could reduce the need for thermal facilities. Regional evaluations of these alternatives, for the most part, are fragmented and inconclusive.

Bonneville and the region's electric utilities have taken only limited steps to encourage energy conservation and use of renewable energy sources. These alternative supply sources represent major objectives in the National Energy Plan, and considerable interest in these alternatives exists within the region. Concern about the planned move to thermal generation heightened this interest and has led to conflict over energy supply options and other policy issues. This conflict, along with disagreements over the equity of Federal hydropower distribution and new powerplant financing, has virtually deadlocked regional power planning.

ALTERNATIVE ELECTRICAL ENERGY POLICY SETS

To assist the committees of the Congress and Pacific Northwest policymakers in making choices about the region's electrical energy future, the General Accounting Office (GAO) employed a team of energy consultants to

describe and analyze three alternative electrical energy policies for electricity management.

These cover a broad spectrum of energy policy options and explore the economic, environmental, and social impacts of each through the year 2000. The three policies are the

- thermal/traditional, which characterizes an extension through the year 2000 of energy policies used in the region's hydrothermal power program;
- intermediate, characterized by mild policies to encourage conservation and development of renewable energy sources; and
- renewable/transition, characterized by aggressive policies to encourage energy conservation and develop renewable energy sources.

The consultants used two forecasts: (1) the prediction of regional utilities that electrical energy demand will grow at an annual rate of about 4.8 percent and (2) the forecast used by the Northwest Energy Policy Project, considered the most likely to occur, a growth rate of 2.7 percent.

CONCLUSIONS

The Pacific Northwest region needs improved leadership in electric power planning and policymaking. Although many problems and opportunities inherent in this transition period can be dealt with most effectively on a regional basis, no regional entity is responsible for developing a coordinated regional electricity management program.

Yet a mandate for regionwide policymaking is required so that power planners can chart the region's energy future. Representative planning is needed to develop an acceptable regional electricity management program to include

--increased opportunities for State and local governments to participate in power planning and

--participation also by environmentalists, utility customers, and other interested parties.

Citizen participation should not be limited to after-the-fact reviews of plans developed by Federal agency and electric utility officials. If more open and representative planning is not provided, regional power programs increasingly will be disrupted by legal actions to protect citizen interests.

Forecasting is an issue that will continue to polarize regional opinion until an accepted process is devised. Long-range energy demand forecasts are essential to planning and policy analysis; however, they are so inconsistent that decisionmakers must make every effort to test their objectivity and reasonableness. Even after they are accepted for planning and policymaking use, demand forecasts should be monitored and reevaluated in view of actual demand experience, improvements in forecasting techniques, and load management goals.

It would be unwise for regional policymakers to rush decisions on when and where to build new thermal generation facilities. Some regional power planners contend that shortages are imminent. GAO policy set analysis showed that if the 2.7-percent growth rate proved more realistic than the 4.8-percent growth rate and moderate conservation incentives were adopted, the thermal generating plants already approved for construction would be sufficient to meet regional demand through 1995. The uncertainties associated with utility load forecasts, together with evidence of significant conservation and renewable energy potentials, require a thorough assessment of the alternative supply sources available.

The pricing of electrical energy 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.

Arguments that higher energy prices will automatically lead to economic disaster are not supported by the available facts. Because electric costs are generally a small portion of the total operating costs of commercial enterprises and industries, they rarely become critical to decisionmaking.

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 involve fewer serious environmental risks than nuclear and coal-fired plants. The region may be able to capitalize on its extensive renewable energy potentials more quickly than most power planners predict.


RECOMMENDATIONS

Because of the resources, experience, and expertise represented by Bonneville, the Congress should use Bonneville as a cornerstone in building an updated Federal presence in the region. This need not and should not displace those public and private organizations which have served the region effectively for over 40 years. Federal leadership should build on the coordination and cooperation which have long characterized regional utility operations. Where necessary to help the region meet new energy priorities, institutional changes should be encouraged by new incentives which encourage initiatives and self-direction. The Congress should:

- Relieve Bonneville of its charter responsibility for encouraging the widest possible use of electricity and, instead, charge the agency with regionwide responsibility for leading the development of electricity management plans and programs,

encouraging conservation and the most efficient use of energy, and assuring adequate public involvement in energy planning and policymaking.

- Charge Bonneville with a long-term objective of working with private organizations and citizens of the Pacific Northwest to achieve electric self-sufficiency through energy conservation and renewable energy resource use--i.e., a return to the electric self-sufficiency which existed in the region until the development of thermal powerplants. Bonneville should work with regional commissions, State regulatory and planning bodies, electric utilities, and consumer groups to encourage the adoption--on a regionwide or State-by-State basis--of information/education and incentive programs to encourage conservation and further development of the region's renewable energy resources.
- Direct Bonneville to 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 that have become so dependent on this supply source.
- Direct Bonneville to develop and implement a plan for moving the region toward pricing at replacement cost, encourage conservation, and reduce the disparities in regional power rates through the marketing of Federal hydropower. As a first step, an annual surcharge could be added to the price of Federal power in an amount sufficient to bring the total price of hydropower, prior to the year 2000, into parity with the average cost of power produced in the region. The revenues collected by Bonneville through this surcharge could be used to finance a loan and grant fund for regional conservation programs and renewable energy projects. The fund should be managed by Bonneville so as to return surcharge revenues, in the forms of loans and grants, to those that pay the surcharge.

-  --Amend the Federal Columbia River Transmission System Act (16 U.S.C. 838) to permit Bonneville to use its bond authority to obtain money needed in the loan and grant fund for those early years when the surcharge is not adequate to meet demands on the fund--contingent upon the surcharge on Federal hydropower being sufficient to repay all advances made under this authority by no later than the year 2000.
- Until more information is available, avoid making firm commitments in the near future to help finance conventional thermal powerplants in the Pacific Northwest. However, were it to become clear, given more information, that load growth would be so high as to require additional thermal generation, the Congress could reconsider this issue.
- Direct the Secretary of Energy to take the lead in establishing a representative regional power-planning board to exercise regionwide electricity management and to advise the Secretary of Energy; the Administrator of Bonneville; and the Governors of Washington, Oregon, Idaho, and Montana on the development of power plans and policies. The regional power-planning board should include representatives of Federal agencies, State governments, investor-owned and publicly owned utilities, environmental groups, industry, and energy consumers generally, as well as Presidential appointees, one of whom would serve as chairperson. At the board's request, Bonneville would conduct or contract for studies and reports needed to test and evaluate demand forecasts; review decisions involving the selection of new supply sources, including conservation; and determine the adequacy of public participation in energy planning and policymaking.
- Direct Bonneville, working in conjunction with State energy offices, regulatory bodies, and regional utilities and industries, to develop by 1980--and update every 5 years thereafter--a comprehensive electricity management plan for the region.

The electricity management plan should extend 25 years into the future and identify potentially important developments possible within 50 years. The plan should also include specific objectives and action plans to enhance conservation of electricity, development of renewable energy sources, industrial efficiency in electrical use, techniques for reducing the environmental impacts of powerplants and transmission facilities, and public participation in energy planning and policymaking. The comprehensive electricity management plan should include contingency plans outlining early warning systems and practical regional responses to such potential risks as fuel supply interruptions, unscheduled plant failures, transmission line failures, or adverse water or weather conditions. Bonneville's electricity management plans should be submitted to the regional power-planning board for advice and review and to the Secretary of Energy for his concurrence.

- Direct Bonneville to conduct or participate with other Federal agencies in conducting the studies and tests needed to assess more accurately regional potentials for energy conservation and renewable resource development. These studies should include, for both centralized and decentralized applications, more thorough identification of regional sites with high potential for wind energy development; reassessment of the region's untapped hydroelectric potentials, considering new hydro sites, improvements at existing sites, and nonconventional hydroelectric technologies; evaluation of potential solar radiation applications; and more thorough assessment of geothermal development opportunities. At the conclusion of these tests and studies, recommendations for energy conservation or development programs should be made through the regional power-planning board to the Secretary of Energy.

- Require Bonneville to prepare and publish annual financial reports and to report annually to the people of the Pacific Northwest region, the Congress, and the President

on progress and problems in implementing the regional electricity management plan.

AGENCY COMMENTS

The Department of Energy believes the report does an excellent job of assembling a variety of data on the energy situation in the Pacific Northwest and should be useful to the Department of Energy, regional leaders, and the Congress in understanding the various energy options and developing those most appropriate to the region.

Because of items pointed out by the Department, GAO revised the report where applicable. Differences remaining on the impacts of replacement cost pricing on the region's economy and the electric system reliability are discussed in chapter 7.

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C.

FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 A.M. EST
SEPTEMBER 19, 1978

STATEMENT OF
MONTE CANFIELD, JR.
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 unmelded 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.

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.

(990516)

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