

Protecting the Interests of WAPA Customers

Need

Protection against the sale of PMA transmission assets and the imposition of any requirement to sell PMA power at market rates.

Background

The four federal power marketing administrations (PMAs) deliver reliable, cost-based hydroelectric power to various regions of the United States. Approximately 1,200 public power systems and rural electric cooperatives throughout the country buy low-cost, zero-emissions hydropower from the PMAs that market this power from the federal multi-purpose dams.

The Western Area Power Administration (WAPA) is the PMA that delivers power to a 15-state region of the central and western United States that also includes the western third of Minnesota. WAPA's 17,000-mile transmission system carries electricity from 55 hydropower plants operated by the Bureau of Reclamation, the U.S. Army Corps of Engineers and the International Boundary and Water Commission. Minnesota is served by WAPA's Upper Great Plains Region office which provides electricity from the seven dams of the Pick-Sloan Missouri River Program established by Congress in 1944.

WAPA is critical to Minnesota municipal utilities, providing about one-third of the wholesale power needs of 48 public power systems serving over 200,000 people in the western part of the state. The relationship between WAPA and most of the Minnesota municipal utilities it serves has been in place since the 1950s.

Unfortunately, the immediate past administration repeatedly sought to disrupt this long-standing relationship, including via a FY19 and FY20 budget proposals. That administration proposed privatizing the transmission assets of WAPA, along with those of the Southwestern Power Administration and the Bonneville Power Administration, as well as The Tennessee Valley Authority. The 2019 budget estimated that:

- Selling Western Area Power Administration's transmission assets would raise \$580 million.
- Selling Southwestern Power Administration transmission assets would raise \$15 million.
- Selling Bonneville Power Administration transmission assets would raise \$5.193 billion.
- Selling Tennessee Valley Authority transmission assets would raise \$3.671 billion.

The \$9.5 billion that the federal government might receive for selling off these publicly-owned transmission assets will not move the needle much in the federal budget, but the negative impact on the public and not-for-profit entities that rely on those assets would be felt for decades.

Many of these transmission assets have been in place for years and are substantially depreciated. A new owner, likely a for-profit transmission company, would seek to recover the full purchase price plus a rate of return in rates. The result would likely be sharp increases in transmission costs for public agencies, small town municipal utilities, and rural electric co-ops. The modest one-time benefit from selling these assets is simply not worth the ongoing increased cost to not-for-profit entities across the country.

Estimates have been made that the federal government could raise an additional \$1.9 billion over 10 years by charging PMA customers market-based rates instead of the current cost-based rate structure. Such proposals would violate current federal law and would also upset the longstanding beneficial partnership between WAPA and its preference customers. In accordance with federal law, PMA “cost-based” rates are set at the levels needed to recover the costs of the initial federal investment (plus interest) in the hydropower and transmission facilities. The PMAs annually review their rates to ensure full cost recovery. None of the costs are borne by taxpayers. If a deficit is projected, rates are adjusted to eliminate any deficit. Power rates also help to cover the costs of other activities authorized by these multipurpose dams such as navigation, flood control, water supply, environmental programs, and recreation. PMA power is generally low-cost in relation to other sources of electricity because hydropower is a renewable resource and most dams were constructed long ago, when material and labor costs were much lower than today.

The immediate past administration’s proposal would have imposed an unwarranted \$1.9 billion rate increase on small municipal utilities and other not-for-profit and government PMA customers.

MMUA Position

MMUA urges Congress to reject proposals that would disrupt the stable, low-cost, and emission-free power that WAPA provides to many Minnesota communities. For well over half a century there has been a successful partnership between federal power marketing administrations and the communities that receive a federal hydropower allocation, which has helped keep costs low for our customers. Proposals to sell off PMA transmission assets and to require PMA power to be sold at market rates should be rejected.

