Protecting the Federal Power Program

PMAs are at Risk Yet Again

Every few years, misguided proposals surface to reduce the federal budget deficit by changing nearly 100 years of federal policy to alter the ownership, structure, or rates of the federal Power Marketing Administrations (PMAs). These are short-sighted proposals would disrupt long-term contracts, raise consumer rates for electricity, and threaten a partnership that provides irrigation, flood control, navigation, water supply, fish and wildlife management, and recreation.

The threats to the PMAs have reemerged. The President's FY 2019 budget proposal (as well as the infrastructure plan) revives last year's plan to privatize the transmission assets of the federal PMAs—a plan that has been firmly rejected by Congress. As well, the budget proposes overturning decades of policy to shift federal power sales to market-based rates.

Power Customers Pay for These Assets

NCPA members rely heavily on the Western Area Power Administration (WAPA) to serve nearly 700,000 customers in Northern and Central California. WAPA, one of the largest PMAs in the nation, markets and transmits the power generated at the Central Valley Project (CVP) dams located in California. NCPA member utilities purchase 40% of the CVP power—and this resource is a central building block of our members' power supply and aggressive efforts to secure renewable, carbon-free generation. CVP power is sold at rates that cover all of the costs of the federal power system—with interest. There is no taxpayer subsidy; everything is paid for by the customers. As well, CVP power customers provide advance funding to both WAPA and the Bureau of Reclamation to finance upgrades, operations, and maintenance—reducing the need for congressional appropriations and ensuring the reliable and efficient operations of the federal dams and transmission assets.

Privatization Proposal Undermines PMA Customer Investments

The proposed privatization of PMA transmission assets is problematic on many levels. It is especially concerning for the communities and districts that rely on CVP power, as it would do the following:

> Raise consumer costs — Any purchaser of WAPA's transmission assets will seek to recover the purchase price, maximize returns, and a guaranteed profit. These actions will increase transmission costs for all users of WAPA's transmission system;
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> Threaten historic relationships and equity — CVP power customers have paid for the construction and upkeep of WAPA's transmission system in California. If sold to a private party, these payments—and the presumed equity—would be lost, and communities and ratepayers that have carried the cost burden for decades would receive no benefits or return on their substantial investment; and,

Balkanize the system and create potential loss of service in rural areas — If WAPA's assets were broken up to maximize revenue, then assets that serve a reliability function (but minimal commercial value), or less profitable lines serving rural areas, could be discarded.

Shift to Market-Based Rates Hurts Ratepayers and Taxpayers

Ratepayers and taxpayers across the nation would be adversely impacted by privatization. In the case of WAPA, by law, WAPA must set rates at the "lowest possible cost consistent with sound business principles." Since the agency's inception, WAPA has used cost-based rates to recover the government's investment and provide the region with reliable, renewable electricity. In turn, taxpayers have received annual payments from WAPA that fully recover the investment in federal hydropower, with interest—and underwrite a significant portion of the federal investment in these multipurpose dams. Responding to past proposals, Congress barred the government from spending funds to study the idea. Any change in the rate-setting standard for WAPA would require changes in law.

Poor water conditions, misallocation of Central Valley Project Improvement Act (CVPIA) costs, and other cost pressures are stressing the economic viability of CVP power. In fact, CVP power has been trending above market rates in recent years. Critical details of the Administration's market rates proposal are unknown; however, it is unlikely to result in a reduction in rates for CVP power customers. More likely, the plan will result in forcing CVP power customers to pay the higher of cost or market—and siphoning away any benefit of remaining a CVP customer.

Yet it isn't just ratepayers that will lose under this proposal. If CVP power holds no economic benefit compared to other sources, customers will secure alternative power supplies with more reliable providers. Without long-term power sales, CVP power will be sold into short-term markets—which typically produce even less revenue. Taxpayers would be left holding the bag for unpaid bills, unrecovered CVPIA costs, and expensive refurbishments of these multipurpose projects.

Costly Proposals Should be Rejected

Privatization of WAPA's transmission system will raise costs to consumers, adversely impact other project purposes, and threaten grid reliability. Similarly, requiring market-based rates will harm ratepayers, the economy, and taxpayers.

NCPA urges the delegation to reject proposals to privatize PMA transmission assets and sell federal power at market-based rates.