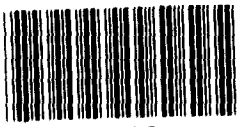
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548



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FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 A.M.
JULY 11, 1983

STATEMENT OF
JOHN W. SPRAGUE, ASSOCIATE DIRECTOR
RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION

BEFORE THE
SUBCOMMITTEE ON MINING, FOREST MANAGEMENT
AND BONNEVILLE POWER ADMINISTRATION
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

We appreciate this opportunity to discuss with you the potential for expanding electric power transmission between the Pacific Northwest and California. We concluded in 1980 that intertie expansion would be beneficial to the Northwest, California, and the Nation as a whole even though the Northwest was projecting power deficits. Recent Northwest forecasts now project power surpluses ranging from 4 to 18 years, therefore, the benefits envisioned in 1980 are even greater today.

Because of the surplus power situation, Bonneville has initiated negotiations with California utilities for short-term (3- to 7-year) contracts for firm surplus energy over the existing lines. Bonneville has also initiated discussions with other Northwest utilities and California utilities for long-term contracts up to 1,500 MW. In addition, Bonneville is studying various intertie expansion alternatives and has initially concluded that all are economically feasible. Although the options appear economically feasible, the financial risks involved have hampered intertie expansion. Before utilities are willing to invest hundreds of millions of dollars on an additional intertie, they want to be assured that risks are at a minimum.

Regarding intertie expansion, investors are concerned about (1) not knowing how much surplus power will be available from the Northwest on a long-term basis (beyond 1990) and uncertainty as to its price, (2) not having secure power deliveries because of Federal legislation that provides for a call-back provision on all Bonneville sales of power for use outside the region, (3) private utilities not having assurance on power allocations because of Federal legislation that provides preference in the allocation of Federal power to public bodies and cooperatives, and (4) public utilities not having access to intertie capacity.

The Federal Government has a strong presence in the Northwest (Bonneville) which could aid in addressing the impediments to intertie expansion. Clearly, Bonneville, has been and should continue to be a facilitator in the intertie negotiations and needs to play a key role in addressing the impediments. Bonneville should work with the Northwest utilities to determine how much Northwest surplus energy is available for marketing to California, how long the surplus will be available, and how the energy will be priced. Bonneville needs to continue to consult with the Canadian provincial Governments to determine how much Canadian energy might be available for export through the Northwest to California and at what price. Bonneville needs to determine whether the legislative restrictions can be addressed in the negotiation process. If not, the Administrator of Bonneville should initiate any legislative changes that would be appropriate to facilitate successful conclusion of the negotiations.

If no agreements on intertie expansion have been reached after 1-year, the Secretary of Energy, based on cost-benefit or other appropriate analyses, may want to seek congressional approval for the two Federal power marketing agencies in these regions, Bonneville in the Northwest and the Western Area Power Administration in California, to develop the most cost effective intertie solutions.

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Mr. Chairman:

We appreciate this opportunity to discuss with you the potential for expanding electric power transmission and transactions between the Pacific Northwest and California. In a 1980 report,[1] we concluded that additional intertie capacity between the Northwest and California would save California about 4 million barrels of oil annually while earning additional revenues for the Northwest. We found that enough non-firm surplus energy existed, primarily in the spring and summer, to justify upgrading the existing direct current (d.c.) line and constructing an additional alternating current (a.c.) line. These benefits were available even though the Pacific Northwest was projecting power deficits.

The power picture has changed in the Northwest over the past few years. The deficit projections of 3 years ago have now changed into power surpluses. For example, the recently issued Northwest Conservation and Electric Power Plan projects firm energy surpluses could last up to 18 years and peak around 3,400 average megawatts (MW) or last about 4 years and peak at about 1,200 average MW. These surpluses assume that power plants under construction will come on-line as anticipated. They also do not include conservation likely to be induced by future rate

[1]"Oil Savings from Greater Intertie Capacity Between the Pacific Northwest and California," EMD-80-100, Sept. 24, 1980.

increases. Because of the changed conditions, and the benefits that could accrue to both regions from intertie expansion, we initiated a follow-up review of our 1980 report to determine the status of the recommendations in that report, identify and examine specific factors affecting expansion of the intertie, and determine what the Federal Government could do to accelerate intertie expansion. Our testimony is based largely on our work over the past several months which is currently being put into report form. Therefore, our views are tentative and subject to modification.

The existence of firm surplus energy should greatly enlarge the benefits of building additional interties. While no decision has been made to build an additional intertie, actions are being taken to increase the capacity of the existing intertie. The existing d.c. line is being upgraded by 400 MW and operating improvements have achieved an additional 300 MW on the a.c. lines. Because of the projected surpluses, Bonneville has initiated negotiations with California utilities for short-term (3- to 7-year) contracts for surplus firm energy over the existing lines. In addition, Bonneville and other Northwest utilities have initiated discussions with California utilities regarding the potential for long-term contracts up to 1,500 MW. Bonneville has also underway a study of six intertie expansion alternatives and has initially concluded that all alternatives are economically feasible. Most of the discussion surrounds the following four options.

--Upgrade the existing a.c. intertie to 3,200 MW. This would add 400 MW of capacity at a cost of about $2 million and be fully operational by 1984.

--Upgrade the existing a.c. intertie to 4,000 MW. This would add 1,200 MW of capacity at a cost of between $50 and $100 million. Completion would not be until 1986 or 1987.

--Construct a third a.c. line. This would add between 1,500 and 1,800 MW of capacity and cost between $300 and $400 million. Completion would not occur until 1991 or 1992.

--Construct a second d.c. line. This option would add 2,200 MW of capacity at a cost of between $600 and $800 million. Completion would not be until 1990.

While Bonneville believes these options are economically feasible, there has been hesitation on the part of potential investors to go ahead and build an additional intertie. Additions to the intertie system must be funded by various power utilities in the Northwest and California--to include participation by Bonneville and Western Area Power Administration--who anticipate that they will earn enough money to pay for capital costs and in the case of private utilities gain a return on their investment. Before utilities are willing to invest hundreds of millions of dollars on an additional intertie, they want to be assured that risks are at a minimum.

At this time, California utilities appear to have the most concerns about several factors that increase the risk of investing in an additional intertie. Investor concerns include:

--not knowing how much surplus power will be available from the Northwest on a long-term basis (beyond 1990) and uncertainty as to how the Northwest will price the power,

--not having secure power deliveries because of Federal legislation that provides for a call-back provision on all Bonneville sales of power for use outside the region,

--private utilities not having assurance on power allocations because of Federal legislation that provides preference in the allocation of Federal power to public bodies and cooperatives, and

--public utilities not having access to intertie capacity.

Many of the same concerns preceded the construction of the original interties. For example, a major negotiating point before

developing the existing intertie was the effect of Federal preference legislation. After much debate and compromise, capacity allocations to private and public power from the existing intertie were determined.

UNCERTAINTY ABOUT SIZE AND COST OF NORTHWEST SURPLUS

The amount and duration of the surplus energy available is important for several reasons. First, the surplus energy needs to be sufficient beyond the 1980's since it would take until 1990 at the earliest to develop an additional intertie. Second, California utilities are interested in firm surplus energy in order to defer capital expenditures for their own powerplant additions. California utilities would like to purchase surplus energy under long-term contracts (15 years or more) to accomplish this goal.

Recently, several forecasts have been prepared for the Northwest; all of which project energy surpluses. However uncertainty still exists as to how much surplus will be available to market outside the region. California is aware that the Northwest forecasts have gone from a deficit to a surplus situation in a short time period and that the Northwest now has a broad range of projections. Also, questions surround the completion of nuclear powerplants in the Northwest as well as how much conservation potential will be developed. Bonneville is pursuing some conservation, but some groups believe the surplus could be better assured if conservation was more heavily pursued. Surplus Canadian energy lends yet another uncertainty. While the Canadian provinces of British Columbia and Alberta are forecasting surpluses through the end of the century, it is unclear how much of that power will be available for export through the Northwest and at what price. Bonneville officials have been in contact with Canadian officials in an effort to more clearly understand how Canadian surplus will impact energy sales to California.

Similarly, the cost of Northwest power is uncertain. Bonneville has implemented several rate structures since 1979 for non-firm surplus energy. Although discussions have been held, no

long-term contract or rate structure agreeable to both California and the Northwest has been developed. California utilities are reluctant to risk hundreds of millions of dollars for intertie expansion when they cannot calculate what their returns will be due to an unclear pricing policy.

LEGISLATIVE RESTRICTIONS AFFECT SURPLUS EXPORTS

Another problem concerns legal restrictions on the sale of energy outside the region to protect Bonneville's regional customers. The Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act) incorporates limitations contained in the Northwest Preference Act. Intended in part to insure that the Northwest has first call on Bonneville power, these regional preference limitations allow only surplus to be sold by Bonneville for use outside the region. They also require Bonneville to include call back provisions in any contract for the sale of surplus for use outside the region. The call back provisions require Bonneville to stop deliveries; and in some cases, request the return of energy, whenever Bonneville cannot meet the current or future energy requirements of a regional customer. The preference limitations reduce the value of Bonneville's firm surplus energy and, consequently, the rates Bonneville can expect to negotiate with California. They also inhibit opportunities for new long-term contracts for energy with California.

Currently, one option being explored to solve this problem would have Bonneville selling firm surplus energy to non-Federal generating utilities in the Northwest which would agree to sell the energy to California. While some parties view this as a way around the law, others view it as an indirect sale of Federal resources outside the region which could still be restricted by the act.

The Northwest Power Act also incorporates the Federal preference of the Bonneville Project Act. Federal preference provisions give priority in the sale of Federal power to public bodies and

cooperatives. Private utilities are concerned that if more public entities gain access to the line, some of the existing benefits currently shared by the private utilities will be lost to the publics. Power generated from Federal projects is generally much lower cost than alternative sources. As a result, both private and public utilities are interested in obtaining contracts for these resources.

Many of California's public utilities, which would like to purchase power from the Northwest, have been unable to obtain access onto and off of the intertie from the private utilities who control it. As a result, these California publics filed a dispute with the Federal Energy Regulatory Commission claiming that private utilities have entered into anti-competitive practices. After collecting considerable data from both parties, the Commission began hearings in mid-1979 which lasted about 2 years. Currently the case is waiting a decision by the administrative law judge after which time the full Commission will consider the case.

OBSERVATION

Where does this leave us? Expanding the intertie looks beneficial to both regions and the Nation as a whole. The Pacific Northwest would gain from the sale of surplus power and California would gain by purchasing low-cost hydroelectric power. In addition, the Nation would benefit because as California purchases Northwest hydropower, oil and gas-fired generation would be displaced. The major question is how can the impediments be dealt with? The best mechanism for developing an additional intertie would be through parties in both regions negotiating an agreement and then financing its development. The Federal Government has a strong presence in the Northwest (Bonneville) which could aid in addressing these impediments. Clearly, Bonneville has been and should continue to be a facilitator in the intertie negotiations and needs to play a key role in addressing the impediments. Bonneville should work with the Northwest utilities to determine how much Northwest surplus energy is available for marketing to California, how long the surplus will be available, and how the energy

will be priced. As part of this, Bonneville needs to continue to consult with the Canadian provincial Governments to determine how much Canadian energy might be available for export through the Northwest to California and at what price. Concerning the legislative restrictions on the call back of Bonneville power and the preference in the allocation of Federal power to public bodies and cooperatives, Bonneville needs to determine whether they can be addressed in the negotiation process. If not, the Administrator of Bonneville should initiate any legislative changes that would be appropriate to facilitate successful conclusion of the negotiations.

Because of the potential benefits to both regions and the Nation from intertie expansion, and the long construction leadtime, it may be beneficial for a time limit to be placed on Bonneville's efforts to facilitate negotiation. For example, if no agreements have been reached after 1-year, the Secretary of Energy, based on cost-benefit or other appropriate analyses, may want to seek congressional approval for the two Federal power marketing agencies in these regions, Bonneville in the Northwest and the Western Area Power Administration in California, to develop the most cost effective intertie solutions.

This concludes my prepared statement. I will be glad to answer any questions you may have.