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POLICY NOTES

Bonneville Power Rate Proposal Favors Fish Over Families

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by Elaine R. Davis, Senior Research Fellow

The government has long subsidized the price paid by the majority of consumers for electrical power in Washington. In our Policy Brief "Paying for Power: Taxpayer-Subsidized Electricity in Washington State," our analysis concluded that costs would increase by 38% if public power utilities were deprived of the special treatment they receive – costs now paid by all consumers of electricity.

BPA Proposes Higher Electricity Rates

Now the Bonneville Power Administration (BPA) wants to make it worse. Their "subscription" rate proposal, which will be the subject of public hearings and a comment period starting in October, threatens to cut deeply into the pockets of nearly 800,000 families and small farm electricity customers. If BPA gets its way, many residential and small farm electricity users can expect to pay substantially more for their electricity simply because of where they live and who delivers their power.

As the federal government agency responsible for distributing the electrical power produced by federal dams on the Columbia and Snake Rivers, BPA can offer electricity at below-market rates. Government-owned electricity providers, like cities and public utility districts (PUDs), have historically had first claim on this subsidy. Certain industrial customers who are heavy electricity users, like aluminum refineries, have had contracts allowing them to receive BPA power at preferential rates. And, for the last 20 years, because Congress believed that all families and small farmers should share equitably in the region's federal hydropower resources, customers of investor-owned utilities have also been able to receive lower rates. This has been possible through a special program called the Residential Exchange, approved by Congress in the 1980 Northwest Power Act. But, if BPA is allowed to negotiate new power contracts and impose new rates, equity will disappear.

Over the last 20 years utilities in fast growing areas (mainly the I-5 corridor) have had to scramble to meet electrical demand. Government regulations required utilities to purchase or produce power in whatever quantity was necessary in order to serve all comers. In fast growing areas utilities were often caught over a barrel, having to pay premium prices in order to add the needed capacity. So far the residential exchange program has helped to insulate families and small farmers in fast-growth areas from these premium power prices. With its "subscription plan," BPA is effectively proposing to eliminate the residential exchange. If it is allowed to do so, the big losers will be customers of Puget Sound Energy – the private utility serving much of the Puget Sound area – who, through no fault of their own, happen to buy their power from an investor-owned utility.

BPA Plans to Double Its Cash Reserves

Why is BPA doing this? Sure its contracts are up and the nature of the power business is changing, but the truth is simpler. The agency wants to nearly double its reserves from their current level of about $645 million to nearly $1.27 billion by the end of 2006. Interestingly, BPA is not only withholding funds that could return to ratepayers in the form of lower rates, but it is recommending surcharges be levied, if necessary, in order to build these reserves.

In a letter dated July 1, 1999, to several environmental groups including the Northwest Energy Coalition, Sierra Club, Idaho Rivers United, Friends of the Earth, American Rivers, Save Our Wild Salmon, and Trout Unlimited, BPA Senior Vice President Paul Norman explains why:

"Your input over the last 18 months has had a significant influence on the financial package we will be proposing in the rate case…our rate proposal will include a very large provision for cost uncertainty, primarily fish cost uncertainty…" Later in the letter he says, "As you know, the proposal creates unprecedented expected reserves of $1.4 billion by 2006. Our analysis shows that our proposal positions us to cover most of the 18 fish cost scenarios post 2006…"[1]

A Government-Sponsored Shell Game

It is clear how BPA intends to use the funds it is stripping from the old residential exchange program. It wants to pay for fish recovery programs that it hopes Congress might approve someday. A $1.4 billion reserve fund amounts to nearly 70 percent of BPA's current operating expenditures – an astounding amount of money to hold in reserve from ratepayers. For perspective, consider that taxpayers who enacted Initiative 601 limited the state government to a 5% reserve, saying that is enough. Here, BPA is, in essence, imposing a major price increase on a selective set of customers in order to pay costs that it may never incur.

Let's be clear: a government agency (BPA) that can't get direct approval from Congress to remove dams on the Snake River for salmon restoration, wants to squirrel away money at the expense of one set of customers. Later, it can discover "excess reserves," allowing it to dismantle the dams, "at no cost to the taxpayer." It's just one more government-sponsored shell game.

The head of Washington's PUD association has come to BPA's defense, suggesting that customers harmed by BPA's proposal – that is, his competitor's customers – should simply form a PUD or have their city get into the electricity business. Then these people, too, could have access to low-cost power, he says. This shortsighted and self-serving suggestion encourages government involvement in activities where more government is obviously not necessary.

As noted in our earlier study, 75% of the nation's power is produced and delivered by private power companies. In addition, with the 1992 Energy Policy Act Congress intended to promote competition, consumer choice, and low market pricing of power – goals that will be hard, if not impossible to achieve through government agencies.

Creating Choice and Lower Cost for Consumers

The nation has been making progress toward achieving these goals. But until new competitive systems are in place and subsidies are evenly reduced or eliminated, our federal hydropower resources here in the Northwest should continue to benefit everyone fairly. Eventually, market forces will drive down prices and determine the most efficient power providers. Electricity consumers – like long-distance telephone customers – will then be free to take their business to whomever they choose. In the meantime, federal government agencies, like BPA, should not be allowed to confound these free market decisions by backdoor rate increases.

Elaine R. Davis is Managing Partner of The Simeon Partnership and a Senior Research Fellow with the Washington Institute Foundation, a 501(c)(3) non-profit research and educational organization.

[1] Emphasis added. BPA has lowered its reserve request since this letter was written in July, 1999.