

**Testimony of Ed Hansen,
General Manager, Snohomish Public Utility District
on Behalf of
the Large Public Power Council
before the
Subcommittee on Energy and Air Quality
House Energy and Commerce Committee**

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My name is Ed Hansen and I am the General Manager of Snohomish Public Utility District, located in Everett, Washington, located 25 miles north of Seattle. I am testifying today on behalf of the Large Public Power Council (LPPC), an association of 24 of the largest public power systems in the United States. LPPC members directly or indirectly provide reliable, affordably priced electricity to almost 22 million homes and businesses. Our members own almost 33,000 miles of transmission and control over 61,500 MW of generation. LPPC members are located in states and territories representing every region of the country, including several states represented by members of this Subcommittee – such as Georgia, Florida, Texas, California, New York, and Arizona.

LPPC has testified before the Subcommittee on energy policy and we have worked closely with members of the Subcommittee and full Committee and their staff members. We appreciate the opportunity to continue our substantive involvement. Thank you for this opportunity to express the views of LPPC.

Public Power is Unique

Public power systems are owned by the communities we serve, not by investors. We are not-for-profit entities, which makes us different. Public power systems have been a part of the nation's electric system since the late 1800s. Most LPPC members own and operate generation, transmission and distribution facilities, and several members purchase energy from TVA or BPA. LPPC members provide highly reliable, low cost electric service to their citizen-customers, who also often elect the public power boards.

Electricity is a vital component of our lives and, as vividly illustrated in the State of Washington, a cornerstone of the economy. There are dire consequences if electricity is not reliable and affordable. As the electric supply of the country has been "deregulated," many providers of electricity have sold off their generation or transmission assets or have severed their direct relationship with electric customers. But public power systems still have an obligation to serve the customers for which the systems are built. This service obligation is generally imposed by state law or local ordinance, sometimes by the statute creating the public entity. As a result, all available resources go first to serving customers. Power is sold only if it is surplus to our customer's needs.

Our rates do not include profits; and include only the costs of producing or purchasing and delivering power to our customers and, in some cases, payments to our governing boards or municipal entities as a component of the local budget. Since public

power systems are locally controlled, decisions about policies such as rates are made by people who are in touch with local concerns. Elected councils and boards set policies for many LPPC members. Local control ensures that we respond to community needs. In addition, since public power systems are community based, our revenues stay close to home. This helps keep the local economy strong.

The Need for Market Reforms

The House Energy & Commerce Committee and this Subcommittee have held over 30 hearings in the last seven years on the issues of energy policy and electric restructuring. LPPC has testified before this Subcommittee and the full Committee on numerous occasions. LPPC was the first organization to provide a public letter of support for H.R. 6 to then-Subcommittee Chairman Joe Barton and then-Committee Chairman Billy Tauzin.

This Subcommittee has undertaken tremendous efforts to become well educated about the electricity industry. However, this industry has undergone fundamental changes since the early consideration of H.R. 6. The California meltdown, the evidence of Enron's manipulation and proposed one-size fits all regulatory policies have contributed to dramatic instability in the industry for all participants and for consumers. The capital market for utility infrastructure has been shaky, constraining investment in infrastructure. Many LPPC members and our customers have serious concerns about legislating major changes to electric power markets at this time, concerns which are

shared by our city and state governments. Any legislative action must be cautious and carefully considered especially in light of recent events.

Expansion of FERC Jurisdiction (Open Access)

One issue of primary concern for LPPC, one that affects our ability to continue to support legislative action is the issue of expanded FERC jurisdiction. LPPC member companies provide open access transmission service. In 1999, LPPC worked with Congressman Joe Barton, then chairman of this Subcommittee, to guarantee open access transmission service by non-jurisdictional entities. Public power agreed that extremely limited FERC jurisdiction could be extended to public power systems and cooperatives in order to ensure that open access transmission service would be provided to all market participants.

LPPC looks forward to working with the Subcommittee to refine the language so that it will preserve the original intent and respect the compromise that was made five years ago. We hope that the provision can clearly indicate to all that public power, cooperatives, TVA and the PMAs are to provide open access transmission services – that is, service to others that is comparable to the service they provide themselves. This is in keeping with FERC’s current policy and the requirements of Order 888.

Native Load Service Obligation

The ability of public power systems to serve our local communities is an issue of paramount concern to LPPC member systems. Although we support open access transmission policies, we do not want to risk the reliable, reasonably-priced power that our customers expect and are entitled to receive. We want to thank the Committee, and Congressman Norwood, for addressing this issue in H.R. 6, because, for us, it is about protecting our customers. LPPC supports the continued inclusion of provisions on service obligation, such as those contained in Section 1236 of the H.R. 6 Conference Report.

Public power systems are established by state law and are obligated, generally by state law, to provide electric service to their customers. We need to maintain and preserve the ability to fulfill this obligation. Some LPPC member systems have built their transmission system specifically to serve their customer base. This transmission has been and is being paid for by our customers/owners. Our customers want to be assured that the transmission system which they paid for and which provides them their electric power at reasonable rates, will continue to be available to them first – with any excess to be made available to others who are not customers. The native load – service obligation provisions contained in the H.R. 6 Conference Report allows us to continue to fulfill our obligations to our customers.

LPPC members have also entered into long-term bilateral contracts in making our long-term generation and transmission decisions. These firm commitments allow for stable and secure electric rates and reliability. They provide for certainty in the market and allow the parties to make operational and investment decisions over the long-term, decisions that are necessary for the continued expansion of a functioning electric generation and transmission system. Without this kind of certainty as to the future, obtaining approval from public governing bodies for generation and transmission investments would be difficult, if not impossible.

In summary, the key point for us is that our customers should not have to pay twice for their transmission system – first to build it and then to use it when someone else outbids our customers. Our customers have paid for the critical transmission lines necessary to move power from our own or distant generation sources to meet our service obligation to our communities. If we are required to pay congestion charges whenever our use and the demands of others exceed the capacity of the line, our customers would, in effect, be “double billed” for the same transmission capacity. Therefore, the continued inclusion of these provisions is important to LPPC and we appreciate all of the efforts to address this issue.

Grid Security

Ensuring the security and reliability of the grid is a critical issue for LPPC, Congress, DOE and FERC. All responsible steps must be taken to protect the grid from physical disruption. LPPC has supported mandatory reliability standards prescribed and enforced by an Electric Reliability Organization (ERO) or by an interconnection-wide regional reliability authority, under FERC supervision (the “NERC compromise”). Until this new system is in place, LPPC members will continue to comply with current voluntary standards. FERC’s authority under the new system, once it is in place, should not provide a basis to micromanage utility operations or to expand FERC authority beyond what is necessary to ensure reliability.

More than regulatory enforcement of reliability standards is needed to ensure reliability and continuity of electric service. Assurance of reliability requires upgrading the grid and deploying new technology that permits the grid to be managed more effectively. LPPC members have been leaders in both of these areas. NYPA has been one of the first transmitting utilities to place the advanced FACTS (Flexible AC Transmission System) transmission technology in service and LCRA has undertaken major transmission expansion responsibilities throughout the state of Texas.

Finally, particular attention should be given to the question of whether centralized operation by an RTO of a region’s transmission grid may or impair grid security.

“Refund Authority”

LPPC opposes the continued inclusion of Section 1285 in energy legislation. During consideration of H.R. 6 by the House Energy Committee, there was debate over the manipulation of the western power markets. Allegations made against a few public power and cooperative entities resulted in the inclusion of a provision that expanded FERC jurisdiction over public power and cooperative utility “spot market” wholesale sales. The Senate energy bill did not include anything comparable. However, the H.R. 6 Conference Report did include a provision – one that gave FERC even broader authority to order refunds than was included in the House version of the bill. Unlike the earlier provision, Section 1285 (“Refund Authority”) would only subject the largest municipal and other public power entities to FERC refund authority and it would apply to “short term sales” – wholesale power sales in interstate commerce for 31 days or less – that occur in violation of commission rules in effect at the time of the sale.

All but the largest public power systems (those selling more than 8 million MWH a year) and all cooperative utilities are exempt. TVA, BPA and the PMAs are subject to a lesser degree of regulation. As a result, the major burden of the provision would fall on 19 public power systems in the continental U.S. None of those systems has been found to have manipulated the wholesale power markets.

LPPC is opposed to the continued inclusion of this or any similar provision in energy legislation. The provision is unnecessary, unwarranted, and unfairly applied. FERC generally requires market participants to adhere to the rules of the wholesale

market when making sales into such market – and that can include a contractual requirement to provide refunds in appropriate cases. We would urge Congress to take a hard look at both the underlying policy need for such a provision and at how FERC is exercising its current refund authority prior to granting additional authority.

Standard Market Design

During the consideration of energy legislation in the last Congress, FERC was considering a significant rulemaking initiative denominated as “Standard Market Design”. The LPPC and many of its members filed comments on this proposal. Many of our members believe that SMD or similar concepts are unworkable, especially in the Western Interconnect and that such will merely impose significant new costs upon electric consumers without any corresponding benefit.

Transmission investment

Many LPPC members have built transmission systems to accommodate load growth. To the extent permissible under Federal tax laws (the “private use” rules), any excess is made available to the market. It is in our members’ best interest to both build for load growth and to make excess transmission capacity available to the market place. Load-serving entities and their customers who prudently built transmission to accommodate future load growth should not be deprived of the benefit of that investment by having their future right to use that transmission taken away.

This Subcommittee has expressed an interest in encouraging investment in transmission facilities. Public power is part of the solution. LPPC member systems, such as Sacramento Municipal District (SMUD), the Lower Colorado River Authority (LCRA), Long Island Power Authority (LIPA), JEA, and the Salt River Project (SRP), have continued to invest in transmission upgrades and expansions. In some cases, we are building transmission for others. We will be happy to work with the Subcommittee to help develop a mechanism that makes sense, allows for planning, and facilitates reliable expansion.

Energy Conservation

LPPC supports increased funding for energy efficiency and conservation programs. In addition, low-income families spend a significant portion of their income on energy costs. Snohomish PUD and the other LPPC members are committed to providing our eligible low-income customers with the assistance they need and continue to strive for rates as low as possible so that our customers can have an easier time paying their utility bills.

BPA Authority

Mr. Chairman, I'd now like to address one other section of H.R. 6, speaking only on behalf of Snohomish County PUD and not on behalf of the Large Public Power Council. The general subject is the current Congressional authority that has been given to the federal power marketing agencies to operate the electric transmission grids in their regions of the country. As you may know, in some parts of the country, these federal

power marketing agencies are the largest operator of electric transmission facilities in that region. That is certainly the case in the Pacific Northwest, where the Bonneville Power Administration owns and operates about 75 percent of the transmission facilities, or the grid as it is often called, in the entire region. My utility, Snohomish County PUD, is the largest purchaser of power from BPA and we are dependent on the BPA grid to get that power to our 300,000 homes and businesses we serve, including Boeing, Kimberly-Clark and Naval Station Everett, which is the homeport for the aircraft carrier Abraham Lincoln.

At the present time, the Bonneville Power Administration—and as far as I know, this applies to all the other power marketing agencies—has not been given Congressional authority to subdelegate its authority to run the grid to some other entity, and in particular to a Regional Transmission Organization.

Section 1234 of the H.R. 6 Conference Report, however, provides Congressional authorization for the Secretary of Energy or the heads of any of the federal power marketing agencies to subdelegate the existing authority of those power marketing administrations to operate the regional transmission grids as well as the control and use of all or part of its transmission system to Regional Transmission Organizations.

At least in the Pacific Northwest, this is very controversial and this subdelegation of authority to run the transmission grid is not supported by the large majority of BPA's customers. In fact, two weeks ago the regional trade association that represents the 115 publicly owned utilities that buy power and transmission services from BPA voted by a

strong majority to oppose section 1234 or any similar provision in subsequent federal legislation. In the Pacific Northwest, the publicly owned utilities that serve approximately half the population of the region, are not convinced that a Regional Transmission Organization is in the best interests of the citizens. They may reach that view at some time in the future, but it will not be soon. So if Congress at this time grants this subdelegation of authority to control use and operate the transmission grid, it will be doing so against the wishes of most people in the Pacific Northwest.

Conclusion

In conclusion, I want to thank you for this opportunity to participate in the ongoing discussion on energy policy. LPPC and Snohomish PUD will continue to work with this Subcommittee and its members on these issues and appreciate your continued efforts on our behalf.