

# SENATE BILL REPORT

## SJM 8031

---

As Reported By Senate Committee On:  
Natural Resources, Energy & Water, January 30, 2004

**Brief Description:** Requesting rate roll-backs for Bonneville Power Administration.

**Sponsors:** Senators Morton, Poulsen, T. Sheldon, Honeyford, Hale, Doumit, Mulliken, Murray and Rasmussen.

**Brief History:**

**Committee Activity:** Natural Resources, Energy & Water: 1/30/04 [DP].

---

### SENATE COMMITTEE ON NATURAL RESOURCES, ENERGY & WATER

**Majority Report:** Do pass.

Signed by Senators Morton, Chair; Doumit, Fraser, Hargrove, Honeyford and Regala.

**Staff:** Andrea McNamara (786-7483)

**Background:** The setting of rates for power provided by the Bonneville Power Administration (BPA) is a complicated process governed by rules and procedures set out in federal law. Generally, BPA periodically holds public rate cases to evaluate the dozens of components that make up its electricity costs and to set its rates at a level sufficient to recover those costs. The current rate period covers October 2001 to October 2006, a period of time which has experienced many unexpected events and subjected many utilities, including BPA, to extreme price volatility. To address BPA's need for flexibility to recover its costs during this rate period, customer groups and BPA together designed a series of cost recovery adjustment mechanisms that can be triggered under certain circumstances.

Under the terms of the rate case and the cost recovery adjustment mechanisms, BPA can adjust its rates every six months based on actual conditions, with the primary goal of being able to repay on time and in-full the money borrowed from the federal Treasury to build the Federal Columbia River Power System.

One of the mechanisms, the Safety Net Cost Recovery Adjustment Clause (SN CRAC) enables BPA to change its wholesale power rates to achieve a high probability that the remainder of its Treasury payments during the rate period will be made on time and in full. The SN CRAC triggers if either of the following conditions exist: (1) BPA forecasts a 50 percent or greater probability that it will miss a payment to the U.S. Treasury or other creditor; or (2) BPA has missed a payment to the Treasury, or has satisfied its obligation to the Treasury but has missed a payment to any other creditor.

In February, 2003, when the Administrator of BPA determined that there was a greater than 50 percent probability of missing BPA's next payment to the Treasury or other creditor, BPA gave notice of its intent to trigger the SN CRAC for fiscal year 2004. Following the formal, expedited rate hearing process, BPA imposed a SN CRAC rate adjustment effective October

1, 2003, in the amount of 11.5 percent on its wholesale power rates. Retail rate impacts vary by utility.

**Summary of Bill:** The Legislature finds that the Bonneville Power Administration (BPA) projects a greater than 80 percent probability of making its federal Treasury payment in fiscal year 2004, and that BPA implemented its Safety Net Cost Recovery Adjustment Clause (SN CRAC) rate increase during an uncertain financial situation that has since improved considerably.

The Legislature requests that the Bonneville Power Administration roll back to zero the Safety Net Cost Recovery Adjustment Clause rate increase imposed for fiscal year 2004, so that business, industrial, small farm, and residential customers throughout the Pacific Northwest region may enjoy the economic benefits provided by electric rate relief.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Testimony For:** BPA's rates are significantly higher than they were just a few years ago, and this has erased the historic advantage the commodities industries in this region have enjoyed as a result of the traditionally low-cost electricity. Industries cannot pass on these higher costs to their customers, so they are being put at a competitive disadvantage. BPA's current reserves and revenue projections are considerably better now than when the SN CRAC was triggered, and rate relief is justified.

**Testimony Against:** None.

**Testified:** Kevin O'Meara, Puget Power Council (pro); Tim Boyd, Industrial Customers of NW Utilities (pro); Tom Yarborough, Weyerhaeuser (pro); Steven Skeels, Ponderay Newsprint Co. (pro); Patrick Quigg, Grays Harbor Paper (pro); Dave Warren, WA PUD Assn. (pro).

**Signed In/Did Not Testify:** Sandi Swarthout, Alcoa (pro); Dave Clinton, WRECA (pro); Al Aldreth, Snohomish PUD (pro).