

Committee on Natural Resources  
Subcommittee on Water, Power and Oceans  
John Fleming, Chairman  
Hearing Memorandum

March 20, 2015

**To:** Natural Resource Committee Members

**From:** Water and Power Subcommittee Republican Staff (x58331)

**Hearing:** *“Examining the Proposed Fiscal Year 2016 Spending, Priorities and the Missions of the Bureau of Reclamation, the Four Power Marketing Administrations and the U.S. Geological Survey’s Water Program”*

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**Hearing Overview**

The House Subcommittee on Water, Power and Oceans will hold a budget oversight hearing on the President’s Fiscal Year 2016 (FY16) budget requests and other spending as it relates to the Bureau of Reclamation, the four Power Marketing Administrations, and the U.S. Geological Survey’s Water program. The hearing will take place on **March 24, 2015 at 10:30 a.m. in 1334 Longworth**. This hearing will consist of one panel of federal agency officials.

**Policy Overview**

- Our nation’s multi-purpose water storage and conveyance projects have provided benefits to the American people for generations. Water deliveries and hydropower generation from these facilities are being curtailed due to drought, litigation, and federal regulation.
- Parts of the West are suffering from historic drought. Communities in some parts of California are facing zero water deliveries once again. There are a host of factors, including conservation, operating efficiencies and new storage that can help alleviate this situation.

**Witnesses**

*Mr. Estevan Lopez*, Commissioner, Bureau of Reclamation, Washington, DC;

*Mr. Mark Gabriel*, Administrator, Western Area Power Administration, Lakewood, Colorado;

*Mr. Elliot Mainzer*, Administrator, Bonneville Power Administration, Portland, Oregon;

*Mr. Christopher Turner*, Administrator, Southwestern Power Administration, Tulsa, Oklahoma;

*Mr. Kenneth Legg*, Administrator, Southeastern Power Administration, Elberton, Georgia; and

*Mr. William Werkheiser* Associate Director, Water, United States Geological Survey

**Background:**

***Bureau of Reclamation, Department of the Interior:***

FY15 Request	President's	\$1.11Billion
FY15 Enacted		\$1.07 Billion
<b>FY16 Request</b>	<b>President's</b>	<b>\$1.04 Billion</b>

Throughout much of the last century, the Bureau of Reclamation's (Reclamation) projects played a significant role in the settlement of the West by providing a reliable source of water and power for irrigated agriculture and rural and urban communities. Specifically, Reclamation projects have allowed for the storage capacity of over 245 million acre-feet of water to assist in flood control, agricultural irrigation, and municipal and industrial use for millions of Americans.<sup>1</sup> Reclamation's reservoirs and dams further generate enough emissions-free electricity to serve at least 3.5 million homes annually.<sup>2</sup> This is accomplished through the operation of 53 hydroelectric power plants that annually produced, on average, 40 billion kilowatt-hours for the last 10 years.<sup>3</sup> It would take approximately 23.5 million barrels of crude oil or 6.8 million tons of coal to produce an equal amount of electricity.<sup>4</sup>

**Map of Reclamation Regions**



*Source: U.S. Bureau of Reclamation*

Many of Reclamation's projects are multi-purpose in nature. Originally intended to supply water and power resources and serve as a mechanism of flood control, Reclamation also participates with federal, state, and local partners in the management of 289 recreation sites that

<sup>1</sup> <http://www.usbr.gov/main/about/fact.html>

<sup>2</sup> *supra*, note 1

<sup>3</sup> <http://www.usbr.gov/main/about/fact.html>

<sup>4</sup> *supra*, note 1

have 90 million visits annually.<sup>5</sup> The federal government provided the initial capital contribution to build the vast majority of these early projects, however, the water and power customers who benefitted from the facilities entered into long-term contracts with the federal government to repay their part of the initial taxpayer investment. Reclamation's overall proposed budget envisions an addition of 20 full time equivalents (FTEs).<sup>6</sup>

### *The Administration's Reclamation Budget Proposal*

Serving as Reclamation's principal operating account, the Water and Related Resources Account is proposed at \$805.2 million, a decrease from the FY15 enacted level of \$978.1 million (primarily due to cost shifting as detailed below).<sup>7</sup> Of this amount, the following sub-programs are proposed:

*WaterSMART Program* – As authorized under Secretarial Order 3297 in February 2010 and P.L. 111-11, this program includes grants designed to encourage water conservation.<sup>8</sup> The grants require local cost-sharing, however the grants do not require recipient repayment.<sup>9</sup> Reclamation proposes to fund WaterSMART at \$58.1 million. The FY16 budget requests Congress to raise the authorized spending level of WaterSMART from the current \$300 million to \$400 million.<sup>10</sup>

*Rural Water Projects* – The proposed budget includes \$36.5 million for rural water projects, \$18 million of which would be for operation and maintenance of completed tribal systems and the remaining \$18.5 million is for continued construction for authorized projects.<sup>11</sup> Reclamation's rural water supply program is currently operating under the authorities of P.L. 109-451, which essentially replaced ad hoc congressional rural water supply authorizations and established a program to assess potable water supply needs and to identify options to address those needs through appraisal investigations and feasibility studies.<sup>12</sup>

*Dam Safety Program* - A total of \$88.1 million is provided for Reclamation's Safety of Dams Program, which includes \$66.5 million to correct identified safety issues. The budget includes funding for current construction activities throughout the 17 Western states and identifies pre-construction activities at specific sites.<sup>13</sup>

*Ecosystem Restoration/Climate Adaptation/Endangered Species Activities* – The budget proposes \$24.4 million for Endangered Species Act Recovery Implementation programs, including \$17.5 million in the Great Plains Region to implement the Platte River Endangered Species Recovery Implementation program and \$11.9 million is for the Trinity River Restoration Program.

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<sup>5</sup> *supra*, note 1

<sup>6</sup> Department of the Interior FY16 Budget Justification at Appendix K

<sup>7</sup> Bureau of Reclamation FY16 Budget Justification at Water and Related Resources - 2

<sup>8</sup> Bureau of Reclamation FY16 Budget Justification at Bureauwides- 61

<sup>9</sup> <http://www.usbr.gov/WaterSMART/grants.html>

<sup>10</sup> Bureau of Reclamation FY16 Budget Justification at Bureauwides - 62

<sup>11</sup> Testimony of Bureau of Reclamation Commissioner Estevan Lopez, before the House Water, Power and Oceans Subcommittee, March 24, 2015, at 3

<sup>12</sup> <http://www.usbr.gov/ruralwater/>

<sup>13</sup> Bureau of Reclamation FY16 Budget Justification at Bureauwides- 8-15

According to Reclamation’s testimony at this hearing, the agency “is developing and implementing approaches to understand, and effectively adapt to, the risks and impacts of a changing environment on western water management” through Basin Study and Drought Response Programs and other programs.<sup>14</sup>

*Account Shifting:* The proposed budget shifts \$112.5 million from the Water and Related Resources account to establish a separate Indian Water Rights Settlement Account and \$35 million for a separate discretionary account within the San Joaquin River Restoration Fund.<sup>15</sup>

Accounts outside of the Water and Related Resources budget include:

*California Bay-Delta Restoration:* The 2016 budget provides \$37 million for California Bay-Delta Restoration. The account, according to Reclamation, focuses on the health of the Bay-Delta ecosystem and improving water management and supplies.<sup>16</sup> Much of California is currently experiencing its fourth year of drought. Reclamation has announced, for example, that some irrigation districts in the State’s San Joaquin Valley are currently slated to receive zero percent of their allocated water from the Central Valley Project.<sup>17</sup> Various Republican congressional legislative responses over the past two Congresses to this ongoing situation have focused on short term operational changes related to State and federal pumps and long-term resolutions such as more water storage.<sup>18</sup> Reclamation’s proposed budget includes \$200,000 to continue two storage feasibility studies (Los Vaqueros and Sites) in California.<sup>19</sup>

*Policy and Administration:* The account that finances Reclamation’s central and regional management functions is \$59.5 million, a \$1 million increase from the FY 15 enacted level.<sup>20</sup>

*Central Utah Project Completion Act (CUPCA):* The 2016 budget request is \$7.3 million. This account is managed by the Department of the Interior, not Reclamation.<sup>21</sup>

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<sup>14</sup> Testimony of Bureau of Reclamation Commissioner Estevan Lopez, before the House Water, Power and Oceans Subcommittee, March 24, 2015, at 4-5

<sup>15</sup> Testimony of Bureau of Reclamation Commissioner Estevan Lopez, before the House Water, Power and Oceans Subcommittee, March 24, 2015, at 5-6

<sup>16</sup> Testimony of Bureau of Reclamation Commissioner Estevan Lopez, before the House Water, Power and Oceans Subcommittee, March 24, 2015, at 6

<sup>17</sup> <http://www.latimes.com/local/la-me-la-water-allocation-20150228-story.html>

<sup>18</sup> <https://www.congress.gov/bill/113th-congress/house-bill/5781>

<sup>19</sup> Bureau of Reclamation FY16 Budget Justification at Bay-Delta 6-7

<sup>20</sup> Bureau of Reclamation FY16 Budget Justification at Policy and Administration - 3

<sup>21</sup> Testimony of Bureau of Reclamation Commissioner Estevan Lopez, before the House Water, Power and Oceans Subcommittee, March 24, 2015, at 7

## ***Power Marketing Administrations (PMAs), Department of Energy:***

### ***General Background***

Each PMA markets and delivers (via transmission lines) electricity generated at federal dams and reservoirs operated by Reclamation and the U.S. Army Corps of Engineers (Corps).<sup>22</sup> See map below for each PMA service territory. Hydropower generated at these facilities, particularly in the western United States, is first used to provide electricity to operate irrigation pumps.<sup>23</sup> Any excess power is then primarily sold by the PMAs to preference customers, which, by federal statute, are non-profit rural electric cooperatives, public utility districts, Indian tribes, municipalities, and some irrigation districts.<sup>24</sup>

Under numerous authorizing statutes, preference power is sold at cost-of-service based wholesale rates, which are designed to repay the federal capital investment (plus interest) in federal electricity generation and transmission facilities, annual operation and maintenance of such facilities and federal staffing.<sup>25</sup> The rate structures are followed pursuant to 20 to 50 year contracts the wholesale customers enter into with the federal government. Rates also include the costs of environmental mandates and replacement power services resulting from these mandates. The PMA budgets are designed to be financed 100% by ratepayers, as all initial appropriations are reimbursed.<sup>26</sup>



*Source: Department of Energy*

<sup>22</sup> Bracmort, Kelsi. “Hydropower: Federal and Nonfederal Investment.” 22 January 2013. R42579. Pg. 9

<sup>23</sup> *Id.* at 1

<sup>24</sup> Submitted Testimony of Mr. Victor S. Rezendes, Director, Energy, Resources, and Science Issues, Resources Community and Economic Development Division, U.S. General Accounting Office, before the House Subcommittee on Water and Power, note 5. Released June 24, 1999.

<sup>25</sup> Testimony of Mr. Mark Crisson, President & CEO, American Public Power Association “Increased Electricity Costs for American Families and Small Businesses: The Potential Impacts of the Chu Memorandum” before the House Natural Resources Committee, April 26, 2012 at 2.

<sup>26</sup> *Id.*

**Highlights of the Western Area Power Administration (Western) Budget Request (focused on net budget authority):**

FY15 President's Request	\$70.6 Million
FY15 Enacted	\$68.9 Million
<b>FY16 President's Request</b>	<b>\$70.6 Million</b>

Western, created in 1977, markets and delivers an average of 10,000 megawatts of hydro-electricity produced at Reclamation and Corps dams.<sup>27</sup> Western serves about 700 wholesale customers in Arizona, California, Colorado, Iowa, Kansas, Minnesota, Montana, Nebraska, Nevada, New Mexico, North Dakota, South Dakota, Texas, Utah and Wyoming through a 17,000-mile federal transmission system.<sup>28</sup> These wholesale customers, in turn, supply 50 million retail customers.<sup>29</sup> Western is financed by annual customer funding and advance payments and appropriations, which are then reimbursed, with interest, through customer contractual repayment obligations.

Western's base program is funded through three main appropriation accounts: the Construction, Rehabilitation, Operation and Maintenance Account (CROM), the Falcon and Amistad Operating and Maintenance Fund, and the Colorado River Basins Power Marketing Fund. Each is funded through a combination of advance customer funding, alternative financing and appropriations.<sup>30</sup> Within CROM, a "Program Direction" subaccount is geared towards staffing, financial systems and new security standards. The FY16 proposes an increase of \$4.6 million for these purposes, however no new FTEs are proposed.<sup>31</sup> When all of the above accounts are combined, Western is requesting \$70.6 million on new net spending, which will be reimbursed by its ratepayers.<sup>32</sup>

While Western's historic core mission has been to provide hydropower to its customers, the agency has ventured into new arenas. For example, Section 402 of the American Reinvestment and Recovery Act (P.L. 111-5) provided Western with up to \$3.25 billion in borrowing authority to integrate renewable power developed primarily by third parties.<sup>33</sup> The program's proponents maintain that the borrowing authority's loans to wind and solar providers will speed up renewable energy integration since more funding will be available.<sup>34</sup> However, the loan program has been plagued by controversy, beginning with a provision viewed as a potential taxpayer bailout if a project fails (emphasis added): "*If, at the end of the useful life of a project,*

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<sup>27</sup> <https://ww2.wapa.gov/sites/western/about/Pages/default.aspx>

<sup>28</sup> <http://ww2.wapa.gov/sites/western/newsroom/pubs/Documents/How%20Western%20Does%20Business.pdf>

<sup>29</sup> *Id.* at 1

<sup>30</sup> Department of Energy FY16 Congressional Budget Request -- Power Marketing Administrations. Western Area Power Administration at 65

<sup>31</sup> Department of Energy FY16 Congressional Budget Request -- Power Marketing Administrations. Western Area Power Administration at 87

<sup>32</sup> Department of Energy FY16 Congressional Budget Request -- Power Marketing Administrations. Western Area Power Administration at 65

<sup>33</sup> Pub. L. 111-5

<sup>34</sup> *supra*, note 29 at 11.

there is a remaining balance owed to the Treasury under this section, the balance shall be forgiven.”<sup>35</sup> The Department of Energy’s Inspector General issued a “Management Alert” on November 4, 2011 indicating that “Western had not implemented the necessary safeguards to ensure its commitment of funding was optimally protected” on its first project.<sup>36</sup> Western has since maintained that it has improved the program. The agency proposes to use \$1.05 billion of this borrowing authority in FY16 for up to four eligible projects.<sup>37</sup>

**Highlights of the Bonneville Power Administration (Bonneville) Budget Request:**

FY15 Request	President’s	\$4.31 Billion
FY15 Enacted		\$4.24 Billion
<b>FY16 Request</b>	<b>President’s</b>	<b>\$4.32 Billion</b>

Bonneville, created in 1937, markets and delivers 7,000 average megawatts of firm hydropower generated at 31 Reclamation and Corps facilities (known as the Federal Columbia River Power System or FCRPS) to wholesale customers in Oregon, Washington and parts of Idaho, Montana, Wyoming and Nevada.<sup>38</sup> Bonneville, which also receives and markets an average of 1,000 megawatts of nuclear energy, serves 142 municipal, rural electric, public utility districts, investor-owned utilities and some energy-intensive industries in a 300,000 square mile area in the Pacific Northwest.<sup>39</sup> Bonneville has a large impact on the region’s electricity market, constituting about a third of the region’s electricity sales and nearly 75% of its transmission capacity.<sup>40</sup> The agency also sells a significant amount of “surplus” energy to California utilities in some water years.

Bonneville does not rely on federal appropriations for budget authority since the agency has a self-financing revolving fund using ratepayer revenues.<sup>41</sup> Bonneville’s annual revenues vary, depending on hydrologic conditions, electricity prices, environmental regulations and other factors. Bonneville estimates that its overall FY16 budget obligations will be \$4.329 billion, all of which will be repaid by ratepayers.<sup>42</sup> The agency’s expenses include operational and capital costs including power purchases, staffing, infrastructure costs and environmental expenditures (ESA compliance, etc.) among other things. The agency has not proposed any additional FTEs<sup>43</sup>

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<sup>35</sup> P.L. 111-5, Section 402

<sup>36</sup> Management Alert, Western Area Power Administration's Control and Administration of American Recovery and Reinvestment Act Borrowing Authority at 3

<sup>37</sup> Western Area Power Administration FY 2016 Congressional Budget at 10

<sup>38</sup> <http://www.bpa.gov/news/pubs/FactSheets/fs-201010-BPAs%20wind%20power%20pilots%20launched%20working%20well.pdf>

<sup>39</sup> <http://www.bpa.gov/news/pubs/GeneralPublications/gi-BPA-Facts.pdf>

<sup>40</sup> Id.

<sup>41</sup> Department of the Energy FY16 Congressional Budget Request, Volume 6, Power Marketing Administrations. Pg. 124.

<sup>42</sup> Id.

<sup>43</sup> Id.

Many of Bonneville’s customers are concerned about the status of the Columbia River Treaty (CRT), which was signed by the U.S. and Canada in 1964. The CRT governs the development and operation of dams in the upper Columbia basin for power and flood control benefits in both countries. Each country can give the other a ten-year notice termination, beginning in 2014.<sup>44</sup> Various interests have different positions on the CRT. Bonneville’s Administrator will likely discuss the CRT at the hearing.

***Highlights of the Southwestern Power Administration (Southwestern) Budget Request:***

FY15 Request	President’s	\$11.4 Million
FY15 Enacted		\$11.4 Million
<b>FY16 Request</b>	<b>President’s</b>	<b>\$11.4 Million</b>

Southwestern, created in 1943 to market and deliver an average of 2,174 megawatts of peak electricity produced at 24 Corps dams, sells power to 103 customers in Arkansas, Kansas, Louisiana, Missouri, Oklahoma and Texas.<sup>45</sup> As of 2014, these wholesale customers, in turn, supplied nearly nine million retail customers.<sup>46</sup> Southwestern operates and maintains 1,380 miles of high-voltage transmission lines and primarily provides peaking power (power provided at peak times of the day) to its customers.<sup>47</sup> Southwestern’s FY16 budget request assumes \$11.4 million in appropriations authority generally for transmission construction.<sup>48</sup> This amount would be reimbursed by the agency’s power customers. No new FTEs are proposed in the budget request. Additionally, Southwestern’s FY16 budget request includes a proposal for the creation of a special receipt/disbursement account known as the Purchase Power Drought Fund.<sup>49</sup> This fund would allow Southwestern to pre-collect funds through power rates to offset rate spikes caused by droughts.<sup>50</sup> Southwestern’s customers have voiced support for this proposal.

***Highlights of the Southeastern Power Administration (Southeastern) Budget Request:***

Southeastern, created in 1950, delivers electricity produced at 22 Corps hydroelectric projects.<sup>51</sup> The agency sells wholesale peaking power to 293 public bodies, 199 rural electric cooperatives, and one investor-owned utility in Florida, Georgia, South Carolina, North Carolina,

<sup>44</sup> <http://www.crt2014-2024review.gov/Files/Columbia%20River%20Treaty%20Review%20-%20Purpose%20and%20Future%20Fact%20Sheet-FOR%20PRINT.PDF>

<sup>45</sup> <http://www.swpa.gov/>

<sup>46</sup> Department of the Energy Congressional Budget Request, Volume 6, Power Management Administrations. Pg. SWPA-3

<sup>47</sup> Department of the Energy Congressional Budget Request, Volume 6, Power Management Administrations. Pg. SWPA-at 29

<sup>48</sup> *Id.*

<sup>49</sup> Department of the Energy Congressional Budget Request, Volume 6, Power Management Administrations. Pg. SWPA-at 30

<sup>50</sup> *Id.*

<sup>51</sup> Department of the Energy Congressional Budget Request, Volume 6, Power Management Administrations. Pg. SWPA-at 7

Tennessee, Alabama, Mississippi, Virginia, West Virginia, Kentucky and Illinois.<sup>52</sup> These wholesale customers, in turn, supply thirteen million retail customers.<sup>53</sup> Southeastern does not own transmission lines and depends on arrangements with third parties to deliver federal electricity.<sup>54</sup> Southeastern's FY16 budget request does not request any federal appropriations, primarily because it does not own transmission. Southeastern has not proposed any additional FTEs.

***United States Geological Survey (USGS) Water Resources Program, Department of the Interior:***

FY15 President's Request	\$210.4 Million
FY15 Enacted	\$211.2 Million
<b>FY16 President's Request</b>	<b>\$222.8 Million</b>

Located in all 50 states, the USGS Water Resources program collects and analyzes data to evaluate the quantity, quality, and use of the Nation's water resources.<sup>55</sup> It also conducts water-resources appraisals, coordinates the activities of federal agencies in the acquisition of water resources data for streams, lakes, reservoirs, estuaries, and ground water and administers the State Water Resources Research Institutes Program and the National Water Resources Research Grants Program. Currently, the USGS operates over 7,000 stream gauges nationwide, providing daily stream flow records to the public, as well as to federal, state, and local agencies for planning and operating water resources projects and regulatory programs.<sup>56</sup> The USGS FY16 budget request proposes \$222.8 million for water resources work, \$11.6 million above the 2015 enacted level.<sup>57</sup> Some of this funding will be directed at studying the themes of climate variability and groundwater. Additional amounts comprising this year's increase include over \$15 million for WaterSMART programming.<sup>58</sup>

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<sup>52</sup> Id.

<sup>53</sup> Lane, Nic. "Power Marketing Administrations." January 2007. RS22564.

<sup>54</sup> Testimony of Mr. Kenneth Legg, Administrator, Southeastern Power Administration, before the House Subcommittee on Water and Power. 25 March 2014. Pg. 1

<sup>55</sup> [http://water.usgs.gov/about\\_WRD.html](http://water.usgs.gov/about_WRD.html)

<sup>56</sup> <http://water.usgs.gov/edu/measureflow.html>

<sup>57</sup> Department of the Interior Budget Justifications and Performance Information FY16, U.S. Geological Survey. Pg. J-1

<sup>58</sup> Id. at J-8