

Bonneville Power Administration

Testimony of Claudia Andrews, Chief Financial Officer
Senate Finance and Revenue Committee Hearing on SB 261
Feb. 20, 2013

Thank you Chair Burdick and members of the committee. For the record, my name is Claudia Andrews and I am the Chief Financial Officer for the Bonneville Power Administration.

I appreciate the opportunity to appear before the committee today to explain why BPA is using a lease purchase program to fund energy infrastructure investments.

For over 75 years, BPA has been the major developer of energy infrastructure in the Pacific Northwest. Electric utilities and electric power consumers in the Pacific Northwest depend on BPA to maintain reliable power and transmission service and to meet demands for electricity. Power generators and others rely on BPA to transmit the electricity across the BPA grid to local utilities where it is distributed to end use consumers. From 2009 through 2011, BPA spent over \$1 billion to reinforce and expand its high voltage transmission system. Much of that spending has been in Oregon. We don't expect the spending program to slow down anytime soon as renewals are needed to maintain existing service and new investments are needed for growing needs.

Although BPA is a part of the U.S. Department of Energy, we do not receive annual Federal appropriations. We are self-sustaining from revenues from power and transmission sales. We must recover our costs through the rates we set for our products and services. Because BPA is not for profit, all of BPA's costs are recovered from BPA's regional ratepayers. Since BPA is a federal entity, the transmission facilities that it owns outright are property of the United States and shielded under the U.S. Constitution from taxation by state and local governments.

Traditionally, BPA has relied on its ability to borrow from the U.S. Treasury to finance investments, including the energy transmission facilities that BPA owns outright. However, that ability is capped by Federal law and absent other actions the cap could soon be reached. As a means of making transmission infrastructure investments without using limited Treasury borrowing authority, BPA has turned to its authority to lease-purchase transmission facilities. We have established a third-party program to fund transmission infrastructure investments.

Under the lease-purchase program, a third party leases transmission facilities to BPA and commits BPA's lease payments to the payment of loans and bonds. The proceeds of the loans and bonds are used to fund construction of the facilities. BPA obtains all of the use and benefit of the facilities. It also pays all of the costs and absorbs all of the risk associated with the facilities. In all cases, the transmission facilities being acquired by BPA through the lease program are constructed on real property owned by BPA or to

which BPA holds an easement. At the end of the lease term, BPA has the right to purchase the transmission facilities for a small fee or it must dismantle the project.

Since 2007, BPA has been partnering with third parties under this program for certain transmission facilities located in Oregon. Oregon has declared that the transmission facilities under these lease-purchase agreements are subject to property tax because a private, for-profit company holds title to the facilities. Adding Oregon property tax liability to the cost of BPA's lease finance program increases the annual cost of the lease purchase program and would be borne entirely by BPA's regional ratepayers, including Oregon.

Senate Bill 261 would clarify that electric transmission facilities leased to the United States under a lease-purchase agreement will be treated as property of the United States.

BPA's low-cost, reliable power and transmission system has been an economic engine for the Pacific Northwest for over 75 years. This system continues to fuel the growth of Oregon's economy by attracting new industries to the state. As a public agency we are committed to serving the public interest by providing high electric system reliability at low rates. SB 261 would lower costs and enable BPA to continue to achieve this goal.

Thank you for the opportunity to meet with you today. I am happy to answer any questions.