AMERICAN PUBLIC POWER ASSOCIATION
Powering Strong Communities

ISSUE BRIEF June 2022

U.S. Federal Power Program

Summary

The federal Power Marketing Administrations (PMAs) provide millions of Americans served by not-for-profit public power utilities and rural electric cooperatives with cost-based hydroelectric power produced at federal dams operated by the U.S. Army Corps of Engineers (Corps) and Bureau of Reclamation. The PMAs market federally generated hydropower, with a statutory right of first refusal granted to not-for-profit entities, including public power utilities and rural electric cooperatives (called preference customers), at rates set to cover all the costs of generating and transmitting the electricity, as well as repayment, with interest, of the federal investment in these hydropower projects. Because the PMAs are part of the U.S. electricity market and are also federal entities, congressional and administrative action in the last 30 years has primarily addressed increased federal oversight of PMA facilities and potential ways in which the U.S. Treasury could receive additional funding from the PMAs and their customers. Both Democratic and Republican administrations have proposed selling the transmission assets of the PMAs and changing the rate structure from cost-based to market-based, which APPA strongly opposes. For the second time in a row, President Biden's fiscal year (FY) 2023 budget proposal did not include these misguided changes.

Another important aspect of the federal power program is the federally owned Tennessee Valley Authority (TVA). Congress established TVA in 1933 in the states of Tennessee, Alabama, North Carolina, Kentucky, Virginia, Mississippi, and Georgia. TVA's authorizing statutes cite rural electrification, flood control, and navigation along the Tennessee River as reasons for its creation. Today, TVA provides affordable electric power to public power utilities and rural electric cooperatives serving ten million people in an 80,000 square-mile territory. Similar to the PMAs, both Democratic and Republican administrations have proposed to sell TVA in some form or fashion, which APPA strongly opposes. Again, for the second time in a row, President Biden's FY 2023 budget proposal did not include this misguided idea.

Background

There are four PMAs—Bonneville Power Administration (BPA), Western Area Power Administration (WAPA), Southwestern Power Administration (SWPA), and Southeastern Power Administration (SEPA). These entities market wholesale electric power to approximately 1,200 public power utilities and rural electric cooperatives in 33 states.[1] They also sell power to other public agencies and federal installations, as well as to for-profit, investor-owned utilities in years with high water flows or in special circumstances.

In accordance with federal law, PMA rates are set at the levels needed to recover the costs of the initial federal investment (plus interest) in the hydropower and transmission facilities. The PMAs annually review their rates to ensure full cost recovery. None of the costs are borne by taxpayers. Power rates also help to cover the costs of other activities authorized by these multipurpose projects, such as navigation, flood control, water supply, environmental programs, and recreation. The annual appropriations process is also important to the PMAs. Although the customers pay all the PMA costs through their power rates, for WAPA, SEPA, and SWPA, those monies flow back to the U.S. Treasury and then must be appropriated by Congress. (BPA's governing statute, amended in the 1980s, allows for a revolving fund so ratepayer money goes directly to BPA rather than to the Treasury.) In addition, the PMAs must receive yearly funding levels from Congress for purchasing and wheeling (transmitting) power in a drought situation or when the water at the dams is used for purposes other than for electricity production (i.e., rec-

1 The following states receive a portion of their power from the PMAs. BPA: Washington, Oregon, Idaho, and Montana (part). WAPA: Arizona, California, Colorado, Iowa, Kansas (part), Minnesota, Montana (part), North Dakota, Nebraska, New Mexico, Nevada, South Dakota, Texas (part), Utah, and Wyoming. SWPA: Arkansas, Kansas (part), Louisiana, Missouri, Oklahoma, and Texas (part). SEPA: Alabama, Florida, Georgia, Illinois, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia.

reation and environmental mitigation). This money for purchase power and wheeling is then paid for by the PMA customers through their rates.

Administrative and Congressional Action

Both Democratic and Republican presidents have proposed selling the PMAs and TVA in whole or in part. Driving these misguided policy proposals has been the belief that doing so would save the federal government money or that the PMAs and TVA are no longer needed. In reality, PMA and TVA costs are paid for by customers and not the federal government; none of the costs are borne by taxpayers. The sale of these assets to private entities would likely result in attempts by the new owners to charge substantially increased transmission rates to customers for the same service they have historically received. Another reoccurring misguided proposal is to change the current cost-based rate structure for the PMAs to a market-based rate structure. Given that PMA customers already pay for all the costs associated with generating and transmitting power produced at federal dams, changing the rate structure from cost-based to market-based would position the federal government to profit off retail customers already covering all the costs for their power supplies. Such a move would undermine regional economic development and almost certainly invite legal challenges from wholesale customers holding long-term contracts with the PMAs.

Every proposal made over the years to sell the PMAs or TVA, or to move the PMAs from cost-based to market-based rates, has been met with resounding opposition in Congress. In his first two budget requests to Congress (FY 2022 and FY 2023), President Biden wisely did not include such proposals. APPA applauds his decision to forgo proposing these destructive and politically unpopular ideas.

APPA Position

APPA strongly opposes proposals to divest the transmission assets of BPA, SWPA, TVA, and WAPA and to change the PMAs' cost-based rate structure to a market-based rate structure. The association supports the continued existence and federal ownership of the PMAs and TVA and the sale of federally generated hydropower at cost-based rates. APPA urges Congress and the Administration to ensure that the "beneficiary pays" principle is respected so that federal hydropower customers are not saddled with extra costs from which they derive no benefit.

APPA Contact

Amy Thomas, Senior Government Relations Director,
202-467-2934 / athomas@publicpower.org