

# U.S. Federal Power Program: The PMAs and TVA

- The American Public Power Association (APPA) strongly opposes proposals to divest the transmission assets of the Power Marketing Administrations (PMAs) and to change their cost-based rate structure to a market-based rate structure.
- APPA supports the continued existence and federal ownership of the PMAs and Tennessee Valley Authority (TVA) and the sale of federally generated hydropower at cost-based rates.
- APPA urges Congress and the Biden 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.

## Background

The federal 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 (Reclamation). TVA provides power to 153 public power utilities and rural electric cooperatives serving 10 million people in Tennessee and parts of six surrounding states. It was established by Congress in 1933 to provide rural electrification, economic development, flood control, and navigation along the Tennessee River, services that continue to this day. The PMAs and TVA are funded exclusively by ratepayers—no costs are borne by taxpayers. Though often overlooked, they are examples of successful, long-term partnerships between the federal government and local not-for-profit entities that provide valuable energy and infrastructure services to communities and the entire nation.

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 (sell) wholesale electric power to approximately 1,200 public power utilities and rural electric cooperatives (“preference customers”) in 33 states.<sup>1</sup> Each PMA and the customers they serve are unique in statute, but alike in mission. The concept of “preference”—giving not-for-profit utilities first dibs to buy power produced at federal dams—has been in law for over 80 years. The reasoning behind this concept is that rivers are public goods and as such, the power they generate should not be sold at a profit. Not-for-profit public power utilities and rural electric cooperatives buy the power generated at federal hydropower dams at a price that covers the entire cost of generating the power, plus investment costs, and operations and maintenance for both the PMAs and the Corps or Reclamation (rates are “cost-based”). 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 multi-purpose projects, such as navigation, flood control, water supply, environmental programs, and recreation.

<sup>1</sup> 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.

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., recreation 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 three budget requests to Congress, President Biden wisely did not include such proposals. APPA applauds his decision to forgo proposing these destructive and politically unpopular ideas.

Federal hydropower and the PMAs are critical, though often overlooked, elements of the nation's power supply. Each PMA is unique in its authorizing statutes and the challenges it faces.

**SWPA** – The current funding process for SWPA has increasingly failed to provide the financial certainty necessary to ensure steady power rates to customers during drought and other extreme weather events. To address this problem, Senators Jerry Moran (R-KS) and Roger Marshall (R-KS) introduced S. 1324, the Southwestern Power Administration Fund Establishment Act. This legislation would move SWPA to a “revolving fund” model where receipts from power sales would be deposited into a permanent mandatory Treasury revolving fund and retained across fiscal years to fund future expenses as necessary. Future annual discretionary appropriations would no longer be needed. This change will provide SWPA and its not-for-profit customers with funding certainty for purchase power and wheeling and other costs. This is a proven model of success for federal utility programs with business-like functions. APPA strongly supports S. 1324.

**WAPA** – WAPA's customers have long-term contracts for a fixed amount of power. Unfortunately, the protracted drought in the West has caused reservoir levels to drop precipitously, thereby reducing the production of hydropower at several Bureau of Reclamation projects that is marketed by WAPA. It is possible that reservoir levels may drop so far that hydropower production is no longer possible. To make up for this reduction or even loss of hydropower production, customers must buy replacement power on the wholesale energy market. This means that public power utilities and other WAPA customers are paying twice: once for the ongoing capital repayment and operation and maintenance of the Reclamation project that is unable to produce the contracted amount of hydropower and again for the cost of replacement power. As not-for-profit electric utilities, increased costs are shouldered directly by public power customers at a time when the country is already facing high inflation and energy prices.

Last Congress, Congressman Chris Stewart (R-UT) drafted legislation to help address the declining hydropower production in the Upper and Lower Colorado River Basins by providing a pro-rata credit to customers' monthly invoices for service shortfalls in hydropower delivered that are below the contracted amount. Senators Mark Kelly (D-AZ) and Kyrsten Sinema (I-AZ) introduced similar legislation. APPA urges the reintroduction and passage of this legislation.

**BPA** – The United States and Canada agreed to the Columbia River Treaty in 1964 for the mutual development of the Columbia River power and flood control systems. Under the Treaty, the U.S. provides payments to Canada, called the Canadian Entitlement (CE), in the form of returned power generation. The CE amount is calculated using a formula from 1961, which was based on the expected improvement to U.S. hydropower generation capability due to Canadian storage. Today, these calculations exceed the actual benefits of coordinated operations by an estimated 70-90 percent. An equitable rebalancing of this problem is worth more than a billion dollars to U.S. consumers at a time when many are already facing rising energy prices. APPA urges Congress to press the State Department and the entire negotiating team working under National Security Council officials to move faster on renegotiating the treaty with a particular emphasis on rebalancing the power provisions between the U.S. and Canada.

Making full use of the nation's hydropower resources is key to ensuring that the nation's—and the Pacific Northwest's—grid remains reliable and resilient, and that utilities can meet emission reduction goals. APPA strongly opposes the removal of the Lower Snake River Dams (LSRDs). Maintaining the LSRDs is critical as the region seeks to lower emissions while maintaining electric reliability and affordability over the long-term. Moreover, recent extreme weather events have demonstrated that the LSRDs are irreplaceable resources not just in the future but right now, both in terms of energy, capacity, and other grid services key to maintaining reliable electricity.

**SEPA** – Since the 1990s, hydropower customers in the Southeast have witnessed the tug of war between the states over the use of federal multi-purpose projects for water supply. The water wars involving the states of Alabama, Florida, and Georgia have engulfed Corps decision making on the execution of water storage contracts, which would supplement water supply at Corps projects. Inherent throughout the debate, the question has lingered whether the Corps has adequately priced storage to compensate for the benefits lost by the hydropower customers who have historically paid for the projects.

With the passage of the Infrastructure Investment and Jobs Act (P.L. 117-53) and the Disaster Supplemental Appropriations Act (P.L. 117-43), the Corps revealed that the Southeast could be asked to repay nearly \$500 million in stimulus funds through hydropower rates. These funds have been directed to support work at Corps multipurpose projects on a variety of non-hydropower related projects. Yet, the Corps cost accounting proposes to report to SEPA hundreds of millions in costs that should be borne by other project purposes. APPA supports efforts to improve the transparency in accounting for costs to ensure that hydropower customers are not asked to bear costs unrelated to hydropower production.

## APPA Contact

Amy Thomas, Vice President of Government Relations, 202-467-2934 / [athomas@publicpower.org](mailto:athomas@publicpower.org)

The American Public Power Association is the voice of not-for-profit, community-owned utilities that power 2,000 towns and cities nationwide. We represent public power before the federal government and protect the interests of the more than 49 million people that public power utilities serve and the 96,000 people they employ.