



B R I E F L Y

Since 1980, when Congress passed the Northwest Power Act, residential customers of public and private utilities alike have paid less for electricity because of federal subsidies. These subsidies have taken the form of preferential access to cheap federal hydropower marketed by the Bonneville Power Administration or of cash payments from BPA in lieu of power. Bonneville now plans to slash subsidies to residential customers of private, investor-owned utilities. Fairness aside, this change could spur attempts to convert private utilities into public utilities.

BPA Policy Encourages Utility Takeover Efforts

For the past twenty years, all Northwest residents have had access to the benefits of the low-cost electricity generated by Columbia River federal dams and marketed by the Bonneville Power Administration (BPA). Now, BPA wants to change that.

If BPA has its way, residential customers of investor-owned utilities (IOUs) will see their benefits slashed, while the benefits reserved for customers of government- and cooperatively-owned utilities will remain the same.

Some say, no problem. If IOU customers want the benefits, let a government utility take over the service. That way they can retain preferential access to the electricity marketed by the BPA.

Already an environmental group says Portland should form a municipal utility out of plant and equipment owned by two IOUs - Portland General Electric and Pacific Power. One reason for the proposal: continued access to cheaper power from BPA.

The public policy implications should frighten any supporter of free-market competition. The energy market is skewed by policies favoring government-owned utilities, which can offer electricity at lower prices because of three substantial subsidies: an exemption from federal income taxes, the ability to issue tax exempt securities and, most important, preferential access to BPA-marketed power. (For further discussion, the Research Council report *Taxing Power: Electric Utility Taxes in a Competitive Environment*, February 11, 1997.)

Since 1980, IOU residential customers have also benefited from low-cost BPA power as a matter of fairness. The Northwest Power Act created a mechanism called "the residential exchange" to ensure that all Northwest residents could share equally in BPA benefits, regardless of who provided them with electricity.

The program allows residential and small-farm customers of IOUs to pay the same low prices BPA charges so-called "preference" customers, i.e., municipal utilities, public utility districts (PUDs) and electric cooperatives. The IOUs have received a cash payment roughly equal to the difference between their cost for electricity and the price of BPA power. The value, then, has varied depending on the IOU's cost, and not every IOU in the Northwest has participated. The utilities cannot profit from the program. All of the benefits are directed to their residential customers.

BPA intends to replace that program with a "Subscription Plan" for allocating power from the federal dams. Under the new plan, IOUs will be limited to a mix of power and benefits worth much less to their customers than what they are currently receiving.

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For the five-year period beginning October 2001, Bonneville plans to allocate most of its 6,300 megawatts of federal power to the region's 130 public utilities, which by law have priority over other buyers. The Northwest's private utilities will be restricted to 1,800 megawatts, less than half what they say they need to provide the benefit to all residential customers.

By capping the benefit, BPA sharply limits the amount of low-cost power available to IOU residential customers. Some will face sharply higher prices. And the pressure for government takeover will mount.

The shift in BPA policy further tilts the existing competitive imbalance between IOUs and government-owned utilities.

In a May 26 opinion piece in the *Seattle Post-Intelligencer*, the head of the association of public utility districts offers his plan to assure all Washington residents access to low cost federal power. He encourages cities to form their own government-owned utilities, a practice known as "municipalization."

Municipalization advocates tout their low prices, citing their nonprofit status and efficiency when attacking IOUs. But they remain silent on the real source of the price differential – the massive taxpayer subsidies they receive.

A study by the Washington Institute Foundation (WIF) confirms the rate discrepancy – a nearly 48 percent difference between private and government utilities – and finds that nearly 80% of the difference can be explained by federal, state and local policies favoring the government-owned utilities. The most significant benefit is preferential access to low-cost BPA power. That advantage alone, according to WIF, provides a rate advantage to municipal utilities and PUDs of about 16.4%, or \$324.46 per customer.

Four points should be remembered in considering municipalization and the residential exchange:

— It's subsidy, not efficiency, that allows government-owned utilities to sell power more cheaply than the IOUs. BPA-marketed power is subsidized by taxpayers nationally, including customers of Northwest IOUs. The Northwest Power Act makes it clear that the benefits of this subsidized power are to be shared by all residential customers in the region.

— Beyond the issue of apportioning federal-power benefits, it's also clear that government provision of electricity is not essential. It may no longer even be appropriate. And certainly it should not be encouraged by subsidies to government utilities.

— Not long ago, politicians touted the benefits of a government-run health care system. Municipalization represents a similar threat to consumer choice, technological innovation, and market accountability.

— By funding fully the residential exchange program, BPA can preserve the regional benefit of low-cost hydroelectric power for all Northwest residents without encouraging the perilous practice of government takeover of private enterprise.