



## **Purchase Power Drought Fund:**

### **Purchase Power Drought Fund Proposal**

The President's FY 2016 and FY 2017 Budget Requests support the proposal for a Southwestern Power Administration (SWPA) Purchase Power Drought Fund and Amendment 3135 to the Senate Energy Bill (S. 2012) would introduce the enabling language required for Congressional approval. Once approved, this fund will allow SWPA, through a Special Receipt/Disbursement Account with the U.S. Department of the Treasury (Treasury), to pre-collect funds through power rates for use in times of extreme drought conditions. The account will supplement SWPA's current authorities and will minimize the necessity to invoke the Continuing Fund for Purchase Power and Wheeling expenses and mitigate the rate volatility associated with such activation.

### **Background**

SWPA, as part of its repayment process has a rate in place to recover all federal hydropower expenses, including the average projected cost for the purchase of power and associated wheeling to satisfy its Federal contract obligation during extended periods of below average water conditions. The receipts are deposited into Treasury and unavailable after the end of each fiscal year to SWPA, even in an emergency drought situation. In such a situation, SWPA must utilize the Continuing Fund to pay for a portion of its power purchases. OMB gave administrative direction that beginning in 2009, SWPA would be required to repay funds accessed through the Continuing Fund within one year. This can cause severe rate spikes to SWPA's customers during the difficult economic realities associated with regional droughts. The pre-collection of funds over time associated with the proposal will help prevent volatile rate spikes stemming from activation of the Continuing Fund.

### **Proposal Details**

The Purchase Power Drought Fund will be pre-funded through a new rate component charged to SWPA's customers in advance of need. These advance payments will be set aside in the new account and be available to fund purchase power in future years of below average water conditions, thus leveling rates and minimizing volatility. Offsetting collections, alternative financing, and the Purchase Power Drought Fund will be used before SWPA requests activation of the Continuing Fund to purchase power. The Administrator will determine the amounts necessary and appropriate to be expended and such expenditures will be made through the Purchase Power Drought Fund.

The Purchase Power Drought Fund will only be accessible to fund SWPA's purchase power requirements during extended periods of below average water conditions, and will not be available to fund any other expenditures made by SWPA. The usage of this account will mitigate rate volatility by making the funds in the account available to finance purchase power costs during periods of below average water conditions. The account will not be interest bearing which is a benefit to Treasury.

## **Proposal Status**

The following necessary actions have taken place to coordinate and facilitate the funding of the Purchase Power Drought Fund.

### **Scoring/Pay-Go**

There has been no official score of the proposal, but CBO has indicated they feel the fund will score negatively. We do not believe the proposal will have a negative impact on the Federal deficit or require any new Federal spending. New revenue (not otherwise collected) will be generated and deposited into the Purchase Power Drought Fund and expenditures from the account could not exceed the amount accumulated. All Purchase Power and Wheeling receipts are classified as discretionary funds (P.L. 106-377).

### **Support**

SWPA, DOE, OMB and Preference Customers are in full support for the proposal.

### **Treasury Accounts**

OMB has established the mandatory "Purchase Power Drought Fund" account with Treasury. Once authorized, this account will be used to build the fund to \$40M through a newly established rate component added to customer's monthly invoices.

## **Next Steps**

While the President's Budget Requests proposed the Purchase Power Drought Fund, specific language required to enable the fund was not included as it is authorizing in nature.

Senate Amendment 3135 provides this necessary language. We are currently working with CBO to address their concerns and ensure the budget neutral nature of the proposal is understood.

Our request- please support the fund in both the President's Budget and Senate Amendment 3135.

*Please contact my office with any questions regarding federal hydropower:*

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