

## Impact of Market Rates

Hydropower is one of the only authorized purposes of federal water resource projects that is required to repay 100 percent of the construction, operation and maintenance costs assigned to the purpose. In addition, electric consumers must pay to the Treasury interest on the federal funds advanced to construct the hydropower features of each multipurpose water resource project. As a result, electric consumers repay a major portion of the total costs associated with the entire project. For example, Southwestern Power Administration's (SWPA's) hydropower customers will repay more than 59 percent of the entire costs incurred in constructing five dams in the White River basin.

Now there is talk that hydropower customers should pay even more than the full costs associated with the powerplants at the dams. The Administration's FY 2006 budget request would require the federal power marketing administrations (PMAs) to charge market rates for this hydropower. This would allow the federal government to make a huge profit from selling a public resource to taxpayers who in essence own the property.

We urge you to vigorously oppose such efforts for these reasons:

***Market rates will have a major impact on electric consumers in your district and state.***

Electricity cannot be easily and efficiently stored, and supply must instantaneously match demand, or blackouts will occur. As a result, market prices for electricity are extremely volatile. Recent summers have seen market prices for the same quantity of on-peak energy vary by 724% from one day to the next and as much as 7,658% within a month. If SWPA were required to charge market rates, our lowest cost on-peak resource would become our highest cost resource. The difference will come from the pockets of your constituents.

***There will be more conflicts with other project purposes.*** The authorized purposes of any federal multipurpose project already compete for the use of the limited water resource. These "competing uses" would clash even more if federal hydropower were priced at market rates. Currently, there is some flexibility in hydropower operations to support recreation and downstream fish and wildlife habitat. But if hydropower can be sold at market rates of \$1,000 per megawatt-hour or more on hot summer days, the government will horde the water to be released to produce hydropower only during times of high peak prices. There no longer will be any flexibility to support recreation, fish and wildlife conservation, municipal and industrial water supply, flood control, irrigation and navigation.

***The government shouldn't profiteer from resources owned by the people.*** Beginning at the turn of the century, policymakers such as President Teddy Roosevelt and Sen. William Norris (R-NE) have held that the nation's water resources belong to the people. Thus, federal hydropower has always been sold at cost through consumer-owned, not-for-profit systems such as rural electric cooperatives and municipally owned electric utilities. Charging market rates for federal hydropower would be nothing less than imposing a tax on your constituents and profiteering from publicly owned resources.