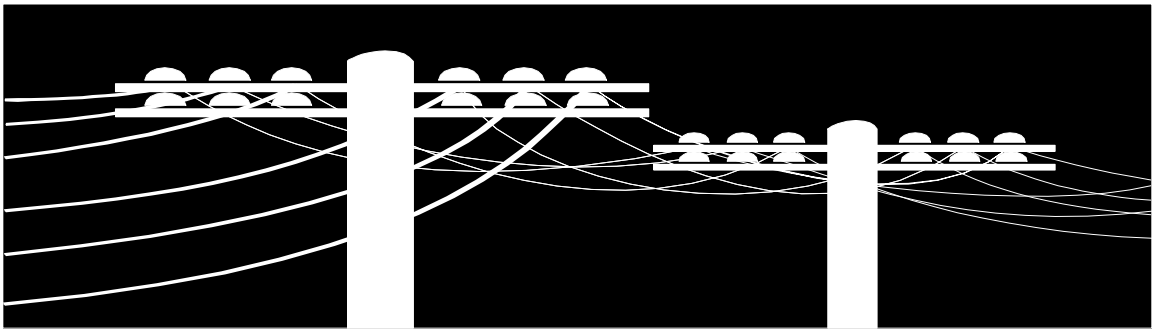
HYDROPOWER TO THE PEOPLE



Keep Hydro Customers Whole

Making Storage Reallocations Fair

Corps of Engineers multipurpose water resource projects are authorized by Congress to serve certain purposes — such as flood control, hydropower production, water supply, navigation, recreation and fish and wildlife conservation. The costs of building the entire project, as well as subsequent operation and maintenance costs, are assigned, or allocated, to the purposes for which the project was authorized. Statutes designate what percentage of the allocated cost a particular purpose has to repay to the U.S. Treasury. Hydropower, for example, is required to repay 100 percent of the costs allocated to the power purpose, plus interest on capital investment. The costs allocated to the power purpose are recovered to the Treasury through the rates Southwestern Power Administration charges for the hydroelectric energy and capacity it sells to rural electric cooperatives and municipally owned electric utilities.

However, sometimes over the years needs change. A project that was authorized to provide flood control and hydropower in 1950, for example, today might also be needed to store municipal and industrial water supply — drinking water for people.

The Corps has a process for meeting these new needs. It is called reallocation of existing reservoir storage. A portion of storage that is currently dedicated for flood control in the flood pool of the project or for hydropower generation in the conservation pool is redesignated — reallocated — to meet the new water supply needs.

The Corps' hydropower customers have never insisted on priority over domestic water supply needs. Our position always has been that if there is a demonstrated need for the water supply storage, and if reallocation of storage in existing reservoirs is the cheapest alternative for providing the needed drinking water, it should be done. However, in the reallocation process, hydropower and existing water supply storage customers should be held harmless, or kept whole.

Unfortunately, while the reallocation process works to protect existing water supply storage customers, it does not offer the same protection to hydropower customers. Instead, the Corps offers only ***partial*** compensation to hydropower customers. The Corps computes the amount of hydropower energy and/or capacity lost due to the reallocation. Then the Corps multiplies these figures by the rate that Southwestern Power Administration charges for energy and capacity it sells to federal power customers. The repayment obligation of the federal power customers is then reduced by this amount.

This compensation formula ignores the fact that the cost of replacing the lost energy and capacity is several times the compensation provided by the Corps. Because the federal power customers are all consumer-owned, not-for-profit electric utilities, they have no choice but to pass along this increased cost to their retail customers — your constituents. The hydropower benefits the project was originally designed to produce — one of the factors used in determining the costs assigned to hydropower — have been reduced. But hydropower customers' repayment obligation to the Treasury has not been reduced by an equal amount.

(over)

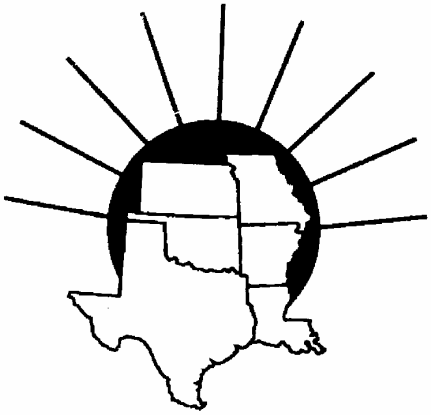
The Solution

The Senate Environment and Public Works Committee and the House Transportation and Infrastructure Committee are expected to begin work on a new Water Resources Development Act (WRDA) bill this year. This bill authorizes new Corps projects, changes existing authorizations for projects, and establishes or changes the nation's water resource policies. The Senate version of the 2007 WRDA bill included a provision to reduce the cost of reallocating storage to water supply at existing Corps reservoirs. As written, it would have compounded the problem by encouraging more reallocation without providing fair compensation to hydropower customers. SPRA members worked with Senate staff to address this problem, but time ran out before language acceptable to all sides could be negotiated, and the provision was dropped from the conference report.

What We Want You to Do

Please contact your colleagues on the Senate Environment and Public Works Committee and the House Transportation Committee. Ask that proper compensation be provided to the hydropower purpose if any legislation is considered to alter storage reallocation procedures. Such legislation should:

- Limit reallocations to the flood pool at projects where federal hydropower is generated, and adjust power pools to maintain the same dependable yield as before the reallocation. When storage is reallocated from the flood pool and the yield of the conservation pool is maintained, hydropower losses are limited to non-peaking energy.
- Allow the Administrators of the federal Power Marketing Administrations to determine the replacement cost of hydropower energy that is lost due to storage reallocations in Corps projects.
- Direct that the repayment obligation assigned to hydropower production be reduced by an amount equal to the replacement costs determined by the PMA Administrators.



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