

FY 1999 budget request

## Congress hears from Western

*Western is prepared to operate a reliable, high-quality, cost-effective, environmentally-sound power system that delivers competitive, efficient energy to our customers across the West.*

Acting Administrator **Mike Hacskaylo** testified before the House Appropriations Subcommittee on Energy and Water Development on March 19. These comments were extracted from his remarks to the members of the subcommittee.

"As the third largest seller of bulk electricity and the third largest transmission system in the Nation, Western has a considerable presence in the wholesale power market. With that presence comes a responsibility to provide leadership in shaping the competitive electric utility industry, primarily as an advocate for power system reliability.

"Currently, Western's major focus is to carry out our mission in a manner that will allow us to succeed in a more competitive, restructured electric utility industry. We are a significant participant in planning for the formation of four independent system operators. We operate a system to provide real-time transmission information which also allows and promotes wholesale competition through open access non-discriminatory transmission services by utilities, as mandated by the Federal Energy Regulatory Commission. These two new concepts promise to become industry standards and will govern how all electric utilities operate in the future.

"In FY 1997, Western developed and began operating one of four regional security coordination centers in the West in response to our commitment to be a leader in promoting power system reliability, consistent with DOE's emphasis on electric reliability. Because of concerns that deregulation and open access to the transmission system could potentially degrade reliable operation of the electric grid, the industry has responded

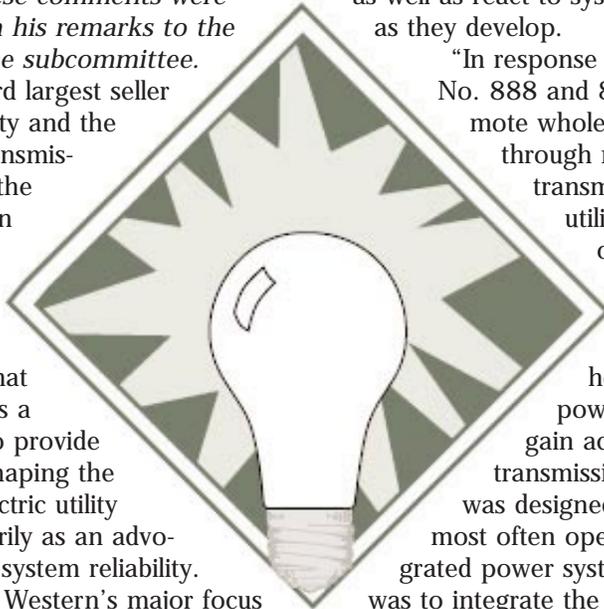
by establishing security coordination centers to actively monitor electric power system conditions on a real-time basis to observe and mitigate potential problems as well as react to system emergencies as they develop.

"In response to FERC Orders No. 888 and 889, which promote wholesale competition through non-discriminatory transmission service to utilities, Western developed an open access transmission service tariff that governs how utilities and power marketers will gain access to Western's transmission. FERC's outline was designed for utilities that most often operate a single integrated power system. Our challenge was to integrate the legal requirements of our 13 separate systems into one single tariff, while accommodating the diverse nature of the 15 projects from which we market power and/or transmission services.

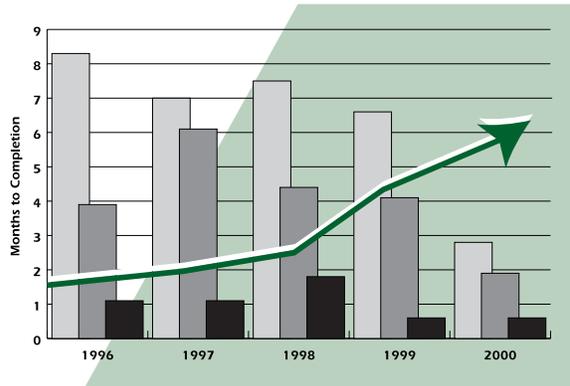
"Limiting increases in annual operating expenses to keep our rates and those of our customers competitive in the markets we serve is one of our primary goals and accomplishments. We continue to make significant progress on our internal restructuring efforts. This resulted in decreasing our budget by 13.1 percent, or \$48.7 million, over the past two years and decreasing our staff by 25 percent, or 339 Federal and contractor positions.

"We are meeting the challenges of budget reductions and maintaining power system reliability by exploring alternative funding mechanisms and by enhancing workforce productivity to improve service to our customers.

"We expect 1998 to bring further changes in the electric utility industry. We are prepared to meet them and continue to operate a reliable, high-quality, cost-effective, environmentally-sound



power system that delivers competitive, efficient energy to our customers across the West, thus helping ensure their continued competitiveness in this era of utility restructuring.



## Performance Measures

“Western’s performance measures complement DOE’s Strategic Plan. Data for each measure are collected annually. These measures are aimed at achieving specific outcomes including establishment of rates sufficient to make full and timely repayment to the U.S. Treasury; maintenance of the health and safety of all employees; and development and achievement of the operation of a reliable, low-cost, environmentally-sound power system which facilitates competitive, efficient and reliable power deliveries. Specific measures for FY 1997 included:

- **Operating effectiveness:** Area Control Error compliance exceeded 95 percent, placing Western on the North American Electric Reliability Council’s performance honor roll. Western’s FY 1997 ACE percentage was 97.2 compared to the industry average of 92.0.
- **Safety:** Western’s lost workday frequency rate in calendar year 1997 was 0.5 cases per 200,000 hours worked, which is lower than the calendar year 1995 average for the electric utility industry of 1.3 cases as reported by the National Safety Council (the latest data available).
- **Cost growth:** The change in actual regular operation and maintenance obligations from one year to the next is no greater than the annual rate of

inflation for the same period. In FY 1997, regular O&M obligations were 2.7 percent greater than FY 1996 which was above our goal of 2.3 percent, the annual rate of inflation for that same period. This goal was exceeded due to a one-time, prior year accounting adjustment to our FY 1997 expenses. The adjustment was made to accurately reflect costs which were originally considered to be part of capitalized projects. Excluding this adjustment results in a 2.3 percent increase in FY 1997, which met our goal.

- **Principal payment:** Principal repayment in any given fiscal year is equal to, or greater than, the planned principal repayment. In FY 1997, our actual principal repayment was \$109 million and our planned repayment was \$45 million.



## Budget Highlights

“Western’s FY 1999 Construction, Rehabilitation, Operation and Maintenance program request is \$223.6 million; a decrease of \$12.1 million or 5.1 percent from the approved FY 1998 program. Of this amount, \$215.4 million is new budget authority and \$8.1 million is from planned use of prior year balances (including unused transfer authority of \$4.3 million to be derived from the Colorado River Dam Fund for operation and maintenance of the Boulder Canyon Project). Included for Western’s contribution to the Utah Reclamation Mitigation and Conservation Account is \$5 million.

“A total of \$1 million derived from revenues deposited to the Falcon and Amistad Dams Maintenance Fund is also requested in FY 1999 for the operation and maintenance of those hydroelectric facilities. This request is four percent

***As of  
January 31, 1998,  
reservoir storage  
for FY 1998  
is expected to  
be about 91  
percent of the  
FY 1997 level,  
an above-average  
water year.***

above the FY 1998 approved level primarily because of Federal salary increases. Still, we estimate returning \$2.4 million annually in revenues collected, in excess of the Falcon and Amistad Dams annual operation and maintenance needs, to the general fund of the Treasury.

“Operation of the Colorado River Basins Power Marketing program on a revolving fund basis continues at an estimated FY 1999 level of \$100.7 million in spending authority from offsetting collections. This is a decrease of \$24.1 million or 19.3 percent from the estimated FY 1998 program, primarily reflecting a decrease in this program’s purchase power need as a result of reductions in test flows associated with endangered fish research.

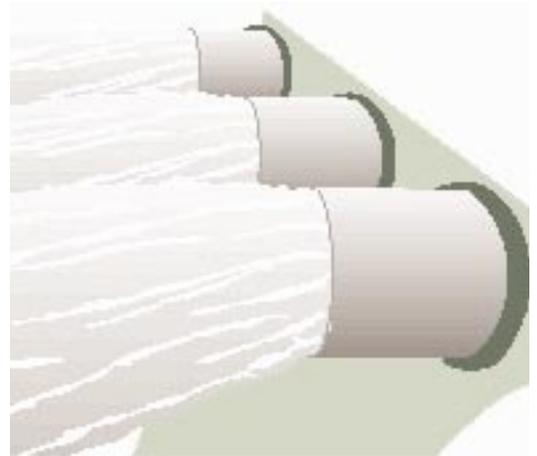
“Based on Administration policy, in FY 1999 Western will continue to set rates consistent with current law to recover the full costs of the Civil Service Retirement System and post-retirement health benefits for Federal power-related employees that had not been recovered prior to FY 1998. The estimated increase in receipts to the Treasury is \$8 million annually.

“In FY 1997, Western marketed 45.8 billion kWh of available energy to wholesale power customers and received gross operating revenues of \$881.6 million, both of which were above average due to an excellent water supply, which resulted in increased electric power generation. FY 1998 estimated energy sales and revenues are 37.8 billion kWh and \$783.2 million respectively. For FY 1999, Western estimates energy sales at 37.5 billion kWh and revenues at \$782.7 million.

“Reservoir storage levels in Western’s service area help determine the amount of power that can be generated at the 55 hydro powerplants from which Western markets power. If this hydropower generation is not adequate to meet Western’s contractual obligations, Western purchases power from other sources, which

results in increased costs to our customers.

“As of Jan. 31, 1998, reservoir storage for FY 1998 is expected to be about 91 percent of the FY 1997 level, an above-average water year. Systemwide hydro generation is projected to be 35.9 billion kilowatt hours in FY 1998 compared to 39.9 billion kWh in FY 1997, a 10-percent decrease.



## **Water Conditions**

“Water conditions vary by river basin in Western’s service area. The Missouri River Basin water supply is expected to be about 84 percent of the FY 1997 level and generation is expected to be 14.9 billion kWh, about 84 percent of FY 1997.

“The Sacramento Basin water supply outlook is forecast to be about 124 percent of the FY 1997 level with generation projected to be 6 billion kWh, about 98 percent of FY 1997.

“The Colorado Basin water supply is forecast to be 97 percent of the FY 1997 level with generation expected to be about 14.7 billion kWh, or 94 percent of FY 1997.

“Western looks forward to the challenges ahead and believes it’s positioned to meet them due in large part to the continued interest and support of appropriations from the House subcommittee.”