

**Statement of Patrick Ledger
Chief Executive Officer
Arizona Electric Power Cooperative
Before the House Natural Resources
Subcommittee on Water, Power, and Oceans**

April 20, 2016

Mr. Chairman and Mr. Ranking Member, on behalf of Arizona Electric Power Cooperative, I am appearing today to discuss H.R. 1869, the Environmental Compliance Cost Transparency Act of 2015. As the Chief Executive Officer of a customer of the Western Area Power Administration's ("Western") marketing area, I am supportive of the objectives of the legislation and encourage its passage.

Arizona Electric Power Cooperative ("AEPCO") is a not-for-profit wholesale power and transmission provider for six Class A cooperative members with service territories in Arizona, California, and New Mexico. Based in Benson, Arizona, we own and operate a 605 MW power plant and over 620 miles of transmission lines. We are also a power and transmission customer of Western.

Over the course of a year, we purchase about \$2.4 million in energy from Western that is generated at Bureau of Reclamation ("Bureau") projects. To serve our distribution members and wheel the power supplied by the Bureau projects, we also buy transmission service from Western. Over the course of a year, we pay Western about \$5.5 million for transmission services. They are a significant partner in our operations.

In recent years, AEPCO, like much of the electric utility industry, has faced serious challenges, particularly on the regulatory front, from ever widening compliance requirements, to increasingly strident environmental regulations. We face the difficult task of managing mounting cost impacts resulting from these challenges while continuing to ensure that our customers have a reliable and affordable electric power supply.

Unlike investor-owned utilities, every cost impact on rural cooperatives or public power utilities is passed-on directly to our customers—residents of rural areas who are already struggling. Our responsibility, therefore, is to do everything in our power to manage these risks and costs. When, several years ago, the railroads doubled our fuel transportation costs, we fought them at the Surface Transportation Board and won. When the EPA unexpectedly imposed a federal implementation plan on Regional Haze that would have forced us into bankruptcy, we developed an alternative that was \$180

M less costly and produced better results. And, when new compliance responsibilities required significant operational changes, rather than adding new full time employees, we shifted staff and found a way to make those changes cost neutral.

AEPCO has generally succeeded in managing these external threats and controlling costs, with one recent exception. We have had a relationship with one power and transmission supplier that goes back more than fifty years. More than just an important partner, this supplier is intertwined in our business model because historically we could rely on them, just as many other cooperatives and public power utilities do, to help us manage risk and keep costs down. Today, however, we can no longer rely on this supplier in the ways we once did, rather they have become one of our more significant risks. This power and transmission supplier is the Western Area Power Administration. In recent years, we have seen rates for power and transmission services charged by Western increase with little correlation to market fundamentals. Western is a one of its kind power supplier in the West. Its statutory mission is to market and deliver power to customers in Western's marketing area from a broad fleet of largely paid for hydropower projects.

Yet, today, Western customers, including AEPCO, face any number of challenges in addressing costs. Unlike a traditional power supply counterparty that relies on the same market fundamentals that we can observe, we do not have the insight into the fundamentals that underlie Western's operations. For example, we cannot adopt hedging or trading strategies to compensate for Western price increases. Our best option to address Western price increases is to anticipate when and how prices will increase and plan our internal strategies accordingly.

This approach, however, is limited by the information that Western provides in support of its rates. We do not have details on certain trends such as staffing increases at headquarters or adjustments in the use of budget authority. Moreover, we also do not have a sense of how operational changes with Western's sister generating agencies are affecting power supply and associated pricing. While many of the dedicated personnel at Western are willing to share anecdotal information on how environmental compliance affects hydropower generation, the precise cost break down is missing from the public domain.

H.R. 1869 would help address this informational gap by requiring the disclosure of compliance costs with Federal environmental laws impacting the conservation of fish and wildlife. In this context we believe it is important to gather and disclose both direct and indirect costs. Moreover, because the legislation would require a line item in each monthly billing, customers including AEPCO would have a better understanding of the true cost of the resource that they are buying.

My fundamental concern with Western in recent years has revolved around transparency and understanding the basis for rate increases that I must pass along to my members and eventually their customers. Western faces many of the same compliance costs that my organization has to shoulder but it is not always clear to me or other Western customers how those costs are calculated. A paragraph or two in a Federal Register notice does not always reveal the same impact that a line item in a bill will convey. Indeed, the proposed legislation would provide valuable insight into an important cost driver that has affected Western's power marketing in recent years.

Before concluding my testimony today, I should note that in the last few months Western's focus does appear to have shifted toward greater transparency. They have, for example, developed a page on their website called "The Source". While it is a work in progress, it may show promise in providing some of the information that we have long been requesting. Western has also indicated that they are assembling background cost information and some of the underlying data that have driven rate increases in recent years. These are positive developments that may help us understand some of the fundamentals driving the rate increases. The passage of H.R. 1869 would provide another important tool in helping us manage costs for our customers and we would encourage its passage.