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My View: Trump plan to sell BPA lines misguided

Robert McCullough Thursday, June 22, 2017



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Privatizing the Pacific Northwest's largest transmission system, and selling it at a loss, would be detrimental to ratepayers across the region. Transmission rate increases of 26 percent to 44 percent would be passed directly to industrial and residential consumers.

On May 23, the White House fiscal 2018 budget included a cryptic entry for the sale of the Bonneville Power Administration's transmission assets. The proposed revenues from the sale are only 80 percent of the value of the assets being sold.

This raises the question of why these valuable assets should be sold at a discount — and who would get the benefit of the discounted price. If the sale goes through, it also will raise novel regulatory issues.

In the most likely scenario, the proposed sale could increase transmission rates by 44 percent. In a less likely scenario, the Federal Energy Regulatory Commission might be persuaded to reduce the assessed value of the transmission assets to the proposed sale price, since the Trump administration proposes to sell the transmission system at a loss. This would still result in a likely transmission rate increase of 26 percent, due to the higher rate of return demanded by a private owner. Cumulative rate impacts are likely to be \$475 million in 2019, increasing annually thereafter.

BPA provides power to the greater Pacific Northwest region, serving 300,000 square miles and over 13.5 million people. It is a self-funded organization operating roughly 75 percent of the region's transmission lines, delivering power at cost to the Northwest.



CONTRIBUTED PHOTO - Robert McCullough

The White House has proposed selling off BPA twice before, under presidents Reagan and Clinton. In the mid-1990s, the Republican-led House of Representatives proposed the same policy. Each attempt was unsuccessful, as BPA is popular across the political aisle in the area it serves.

Although the push to privatize BPA is not new, it has provoked swift condemnation from a number of organizations and politicians, including the Portland-based Public Power Council, the Seattle-based NW Energy Coalition, and Oregon Sen. Ron Wyden, D-Portland.

Privatization of BPA would increase costs for consumers. BPA currently sells and delivers its power at cost; under a private regime, an investor-owned utility would likely want a higher rate of return.

Consider the rates of return for BPA and another major Northwest transmission operator, PacifiCorp. Based on recent financial reports, BPA will have a rate of return of 3.03 percent in 2019. PacifiCorp currently enjoys a rate explicitly set at 7.53 percent. This is over twice the rate of return on transmission that BPA earns — even before considering income taxes, which government entities like BPA do not pay.

Even if rates were not expected to increase, the sale of BPA would constitute a wealth transfer from Northwest ratepayers to the U.S. Treasury. It is a self-funded department, taking no money from the federal government. Since the federal government has not paid for BPA's assets, selling them would come at the Northwest's expense.

Privatizing the Pacific Northwest's largest transmission system, and selling it at a loss, would be detrimental to ratepayers across the region. Transmission rate increases of 26 percent to 44 percent would be passed directly to industrial and residential consumers. Selling BPA's transmission assets also would create problems of market power, anti-competitive behavior, and poor service to rural locations. Politicians, industry groups, and ratepayers are correct to criticize this proposal.

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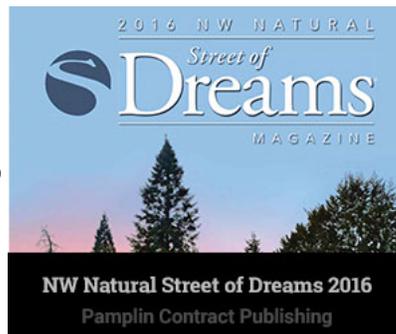
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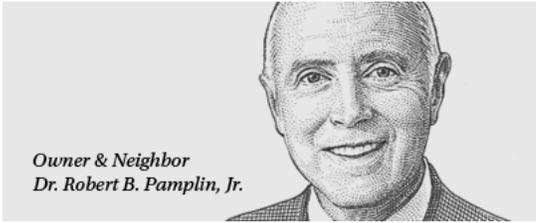
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