

Trump sale of Northwest grid a big loser, experts say

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In this 2010 file photo, power lines from Bonneville Dam head in all directions in North Bonneville, Wash. ((AP Photo/Don Ryan))

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President Donald Trump's proposal to sell most of the Northwest's electrical grid would be a sweetheart deal for a private buyer, financially destabilizing for the Bonneville Power Administration, and an expensive outcome for ratepayers throughout the region, according to outside experts.

The Bonneville Power Administration markets power from 31 federally owned hydroelectric dams in the Columbia River basin, and operates three-quarters of the region's high-voltage transmission system. It sells those services at cost, which is one reason electricity bills are typically lower in the Northwest than other parts of the country.

The White House's 2018 budget proposal contemplates selling Bonneville's transmission assets to a private company and realizing some \$4.9 billion on the sale.

It also calls for selling the transmission assets of two other federal power marketing agencies, the Southwest Power Administration and Western Area Power Administration. But those would be much smaller deals.

"Ownership of transmission assets is best carried out by the private sector where there are appropriate market and regulatory incentives," according to the narrative explaining the move. Eliminating Bonneville's role in transmission and increasing the private sector's, it said, "would encourage a more efficient allocation of economic resources and mitigate risk to taxpayers."

Presumably, the risk to taxpayers would be reduced by paying off some of BPA's federal debt with the proceeds. But it's not clear where the \$4.9 billion valuation in the budget proposal came from, who put it there, or why the proceeds from the sale were laid out so specifically: \$1.8 billion in 2019 and the balance in equal installments over the next eight years.

Bonneville representatives declined to comment, referring questions to their parent agency; the U.S. Department of Energy did not respond to request for comment.

The figure is considerably less than the cost of the assets -- \$9.1 billion – as well as their \$6.1 billion depreciated value on Bonneville's balance sheet.

"I don't know where they came up with these numbers," said Clifford Kim, a senior analyst with Moody's Investors Service who concluded that the sale would be negative for BPA's credit profile. "Transmission assets are low-risk assets that are generally valued very highly."

Robert McCullough, an energy economist in Portland, called the figure "an unheard of low price" that any company with the resources would snap up immediately. He said they would make a particularly attractive acquisition for Warren Buffet, whose Berkshire Hathaway Energy owns PacifiCorp and NV Energy in Nevada. PacifiCorp, like Bonneville, is a big player in the western transmission market.

"Why would they discount it below minimum market price out of the chute?" he asked. "Has the negotiation already happened?"

"If it was any other president I wouldn't fall into this conspiracy," he added. "But given what we've seen in the first 100 days, I'm far less trusting in common sense than I was when I started."

McCullough issued a research note this week suggesting that a \$4.9 billion sale price would raise transmission rates by 26 to 44 percent, depending on whether regulators lowered the regulatory value of the assets to the suggested purchase price. Bonneville sells the transmission services at cost, but a private entity would build a regulated profit margin into rates, plus income taxes that Bonneville doesn't pay, McCullough said. That cost would be passed directly to residential and industrial customers.

Kim, the Moody's analyst, said a transmission sale would negatively impact Bonneville's credit rating by shrinking its most stable, low-risk revenue source. Transmission services contribute more than a quarter of the agency's revenues and three-quarters of its financial reserves, he said in a research note.

The transaction would also negatively impact the credit outlook for BPA's big transmission customers, Kim said. That includes such public and private utilities as Puget

Sound Energy, PacifiCorp, Portland General Electric and Clark County Public Utility District, which would pay more to send power around the region.

This is not the first attempt to privatize parts of the federal hydroelectric and transmission system. Similar moves were contemplated during the Reagan and Clinton administrations, but were ultimately rebuffed by regional opposition.

A bipartisan group of 21 U.S. senators sent a letter to Energy Secretary Rick Perry last week opposing the transmission sales, including the assets owned by the Southwestern Power Administration and the Western Area Power Administration.

Sen. Ron Wyden, D-Oregon, has made the sale an issue in the confirmation process for Trump appointees. He voted against the nominee for deputy energy secretary, Dan Brouillete, because he wouldn't commit to keeping Bonneville in public ownership.

"I cannot support a nominee who won't even say whether he opposes a proposal that would hike energy prices for Northwest customers who have invested in a system that runs successfully on its own," Wyden said in a news release.

Eric Chistensen, a Seattle energy lawyer, said such a sale would probably require an act of Congress. The system is governed by the Federal Columbia River Transmission Act,

which gives responsibility for the operation, maintenance and improvement of the system to Bonneville's administrator, currently Elliot Mainzer.

"Hard to see how the transmission system could be sold without changing that statute," Christensen said.

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