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Protecting the Federal Power Program

Every few years, misguided proposals surface to reduce the federal budget deficit by altering the ownership, structure, or rates of the federal Power Marketing Administrations (PMAs), or seeking to use the PMAs to advance policy objectives unrelated to the PMAs' core mission. These short-sighted proposals disrupt long-term contracts for federal hydropower, raise consumer rates for electricity, and threaten a partnership that provides irrigation, flood control, navigation, water supply, hydropower, fish and wildlife, and recreation. It is important that Congress rejects such proposals in favor of protecting customers and customer-owned power.

Background

The Western Area Power Administration (WAPA) has long-term contracts through 2050 with 59 of the 61 Missouri River Energy Services (MRES) municipal electric community members. On average, low-cost federal hydropower provides over 40 percent of the power purchased and distributed by members of MRES. In turn, MRES members and WAPA's other customers pay rates that cover all the costs (including infrastructure upgrades) of the federal power system – with interest. Each year, WAPA returns excess funds to the Treasury after it pays all other costs. There is no taxpayer subsidy – everything is paid for by WAPA customers. This system of cost-based rates has been in place for more than 50 years under the Eastern Pick-Sloan enabling legislation and related agreements. In addition, to ensure system reliability and ease the pressures of appropriating dollars for needed repairs, replacements, and upgrades, MRES and other WAPA customers directly fund numerous investments by WAPA, the U.S. Bureau of Reclamation (USBR), and the U.S. Army Corps of Engineers (USACE). Through Western States Power Corporation (WSPC), WAPA customers in the Eastern Pick-Sloan region have advanced over \$793 million, with MRES advancing \$209 million of the total amount, between FY 2001 through FY 2023. Also, while WAPA receives federal appropriations for operations and maintenance, these costs are repaid by WAPA customers within the same year.

Impact of Privatization Proposal

Over the years, some have developed proposals to sell PMA assets to private investors. Any proposal to sell PMA assets would be detrimental for WAPA's Pick-Sloan power customers. Privatizing the PMAs would:

- **Raise costs.** Any purchaser of WAPA's assets will seek to maximize returns and a guaranteed profit – translating into higher rates to WAPA customers. Alternatively, WAPA customers – who have paid for these assets to be constructed and maintained – may be forced to find alternative power supply arrangements at higher costs.
- **Threaten historic relationships and equity.** WAPA's public power customers have paid for the construction and upkeep of the Pick-Sloan system. If sold to a private party, these payments – and the equity – would be lost.

Shift to Market-Based Rates will Harm Ratepayers and Taxpayers

By law, WAPA must set rates at the “lowest possible cost consistent with sound business principles.” Since the agency's inception, WAPA has used cost-based rates to recover the government's investment and provide the region with reliable, renewable electricity. In turn, taxpayers have received annual payments from WAPA that fully recover the investment in federal hydropower, with interest – as well as underwriting part of the federal investment in these multipurpose dams. Responding to past proposals, Congress barred the government from spending funds to study the idea. Any change in the rate-setting standard for WAPA would require changes in law.

At the time of construction, federal power in the Upper Plains States was more expensive than alternatives, but WAPA's public power customers entered into a partnership – and today that partnership has paid off. WAPA power helps keep rates in rural areas affordable and helps our communities attract and retain business. Abruptly changing

the pricing structure – like your banker suddenly and unilaterally deciding to switch you from a fixed-rate to adjustable mortgage – will force dramatic rate increases across the region.

It isn't just ratepayers that will lose under this proposal: Current rates provide a predictable stream of revenue and ensure that the entire taxpayer investment will be repaid – with interest. Switching to market-based rates puts this at risk. If WAPA power holds no economic benefit compared to other sources, federal power customers will secure alternative power supplies with reliable providers. Without long-term power sales, WAPA would likely be forced to sell power into short-term markets – which typically produce even less revenue. Taxpayers would be left holding the bag for unpaid bills and expensive refurbishments of these multipurpose projects.

Expanding the Mission of the PMAs to Advance Unrelated Goals

In the past, some have proposed expanding the role of WAPA and the other PMAs to meet policy objectives outside the statutory mission of these agencies – such as acquiring non-federal renewable resources or building transmission to deliver non-federal power to non-PMA customers. While these policy goals may be laudable, expanding the scope of the PMAs mission poses significant and unwarranted costs and risks on PMA customers:

- WAPA customers could bear the costs and risks of unneeded and uneconomic power;
- Limited capital could be diverted to unrelated projects; and
- WAPA resources, funded by its customers, may not be focused on the agency's core mission.

Given that WAPA customers repay all agency costs, including the cost of producing and delivering federal power, it is critical that WAPA remain focused on its important, but limited, mission of delivering federal hydropower to WAPA's consumer-owned utility customers.

Third Party Financing of Capital Projects

Consumer-owned utility customers of the Pick-Sloan Missouri Basin Program, through their membership in WSPC, provide WAPA, USACE, and USBR with significant funds to support operations and maintenance capital projects necessary to keep the dams and transmission system operating reliably. These customer-advanced funds are in addition to funding supplied through federal appropriations and are necessary because appropriations are insufficient to reliably maintain the power and transmission systems.

Third-party private funding is a solution in search of a problem. The current public-partnership system serves the region well. The WSPC requires WAPA, USACE, and USBR to develop business cases before approving any customer-advanced funding. Third-party private financing would cut out the customers who have paid (and continue to pay) for the federal hydropower system. Customer funding is focused on maintaining the long-term investment in the federal hydro program, as well as keeping rates low and power reliable. Private financing is focused only on payback to investors. The current customer-advanced funding works for WAPA, USACE, USBR and the consumer-owned utilities through the Upper Great Plains.

MRES is appreciative that these measures have not gained traction in the current budget process. MRES urges the delegation to continue to protect the value of WAPA by rejecting proposals to privatize WAPA federal hydropower assets, switch power sales to market-based rates, expand the mission of WAPA, or to allow third party private financing of projects.