

***Columbia-Snake River Irrigators Association  
Eastern Oregon Irrigators Association  
Information Memorandum***

FAX/E-Mail Distribution

DATE: April 25, 2003

TO: Chuck Dawsey, Benton REA, WA  
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Utility Organization Staff

FROM: Darryll Olsen, Ph.D., Regional Planner/Resource Economist  
CSRIA/EOIA Board Representative

SUBJECT: The Effects of Power Rate Increases on Irrigated Agriculture

Several utility managers and utility organization staff have inquired about the impact of the recent power rate increases on irrigated agriculture. The economic impacts and responses are summarized below:

- Many irrigation operations have already had to internalize 35-60% retail rate increases. As such, power costs, as a percentage of O&M costs, have moved from about 8-12% to 15-20% (total O&M costs). *Power costs have become the largest component of operation costs for many farm operations.*
- Profit margins (and return on investment rates) have been either significantly reduced or eliminated.
- Significant cost-cutting measures are being taken. Many farms are reducing permanent FTEs by as much as 20%. Expenditures to agricultural services and support industries are being curtailed.
- Capital improvement budgets are being ignored; re-capitalization will depend solely on future debt and borrowing, with ever-concerned lenders.
- Some farm lenders are asking additional questions about and reviewing profit-loss statements relative to further power rate increases.

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- To compensate for higher power costs, some farms have eliminated standard crop rotation practices or shifted more acreage into low input, low-value crops—using less power/water.
- Some ground is being removed from production.
- Some existing operators are actively attempting to get-out-of-business, seeking large financial institution sales or water marketing; others are re-evaluating strategies to move agricultural operations out of the Northwest.
- Some food processing industries are questioning the viability of long-term Northwest operations.
- Secondary and indirect economic activity supported by the irrigated agricultural industry is declining.

As utility managers are no doubt witnessing, total irrigation load is dropping in response to rate increases. Because the irrigated agriculture industry already maintains relatively high water and power use efficiency rates, load reduction is largely due to production shifts or curtailment, not conservation improvements. The ability to make internal adjustments to efficiency is very limited.

Commodity and agricultural product prices are almost totally flat, production efficiencies are largely fully exploited (production rates per acre); whereas production costs are increasing, with power costs now being the leading component of production costs.

There is no pragmatic ability to adjust to further power rate increases--none. Any additional power rate costs will drive some irrigated agricultural operations out-of-business, with a corresponding reduction to utility power loads.

Other industries and economic sectors dependent on primary agricultural production and food processing will be negatively affected, as well.

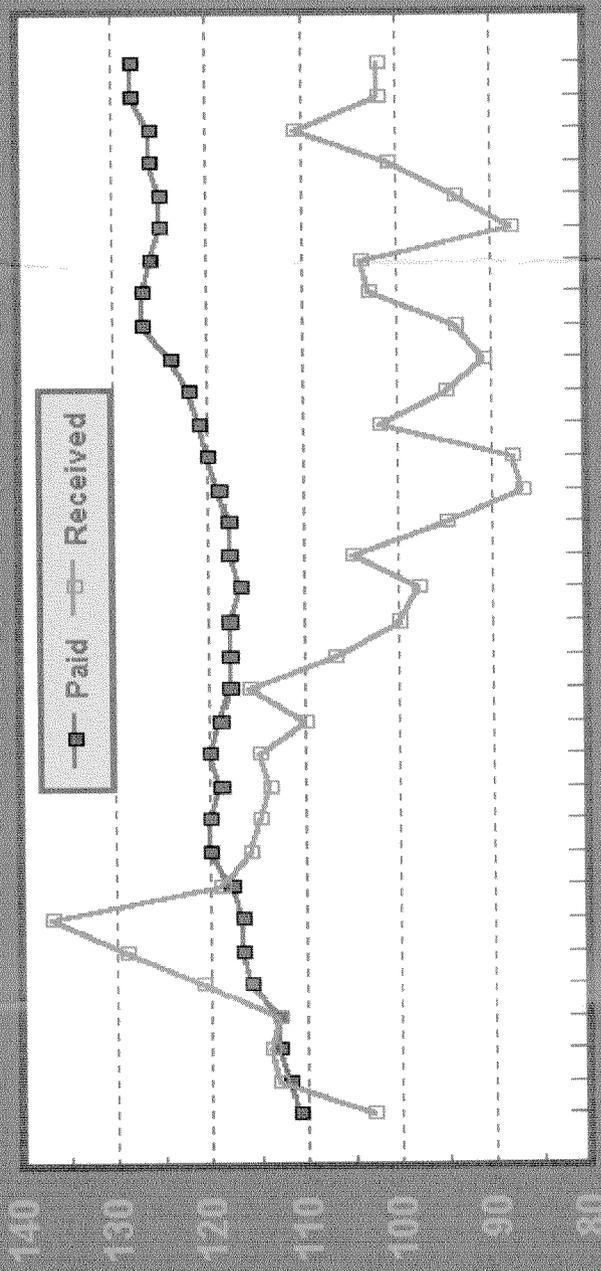
In Washington State, the irrigated agriculture industry (agricultural production, agricultural services, and food processing) contributes to about \$4-6 billion annually to state household income (direct and indirect effect).

cc: U.S. Sen. Patty Murray, WA  
 U.S. Sen. Maria Cantwell, WA  
 U.S. Rep. Doc Hastings, WA  
 U.S. Rep. George Nethercutt, WA  
 U.S. Rep. Jennifer Dunn, WA  
 U.S. Sen. Gordon Smith, OR  
 U.S. Sen Ron Wyden, OR  
 U.S. Rep. Greg Walden, OR

National Agricultural Statistics Service, USDA

# Crop Farm Index: Prices Received and Prices Paid All Items, U.S., By Quarter

Percent (1990-92=100)



1995 1996 1997 1998 1999 2000 2001 2002 2003  
USDA/NASS  
January 31, 2003

Review the data for this chart (ASCII).