



**WESTERN MONTANA ELECTRIC
GENERATING & TRANSMISSION COOPERATIVE, INC.**

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July 19, 2007

**The Honorable Max Baucus
511 Hart Senate Office Building
Washington, DC 20510**

**The Honorable Jon Tester
204 Russell Senate Office Building
Washington, D.C. 20510-2604**

**The Honorable Denny Rehberg
516 Cannon House Office Building
Washington, D.C. 20510**

Dear Senator Baucus, Senator Tester, Representative Rehberg:

The members of Western Montana Electric Generating and Transmission Cooperative (WMTG&T) represent over 100,000 consumer/members in western Montana. All WMTG&T members get their power from the Bonneville Power Administration (Bonneville); hence they have a very strong interest in all Bonneville costs including those from the Residential Exchange Program (REP). The purpose of this letter is to explain our position on the REP in light of the recent U.S. Ninth Circuit Court of Appeals' decisions concerning that program.

The REP emanates from the Northwest Power Planning and Conservation Act of 1980 (the Power Act). The purpose of the REP is to provide rate relief to Northwest residential and small-farm customers served by high-cost investor-owned and publicly-owned utilities. Section 5(b) of the Power Act describes how the REP is to work. Congress also placed a limit on the amount of REP benefits paid by the preference customers of Bonneville. Section 7(b)(2) (the rate test) explains the process by which the rate limit on the financial exposure of publicly-owned utility customers of Bonneville is to function.

Section 5(b) explains how the costs of both the participating utilities and Bonneville, called average system costs (ASCs), are to be calculated. Bonneville established a methodology in 1981, subsequently revised in 1984, that details how those ASC calculations are to be made. Section 7(b)(2) explains the calculations that are necessary to determine the limitation on the amount of the benefits under the REP that is to be paid by Bonneville's preference customers. This rate test determination is a complicated but necessary part of the entire benefits calculation.

Since 1981, over \$5 billion has been paid by Bonneville's preference customers to lower the rates of residential and small farm customers, primarily those served by the region's investor-owned utilities (IOUs). In 2002, most Bonneville preference customers experienced a 43 percent rate increase, 60 percent of which was due to increased payments to the region's IOU residential and small farm customers.

Montana's share of these REP payments has been relatively small, since only the residential and small farm load essentially west of the continental divide is eligible for the program. Additionally, Bonneville stopped REP payments under the Power Act to Montana Power customers when the company began service to an industrial customer formerly served by Bonneville. Since 2001, payments to Northwestern Energy's eligible customers have been relatively small since they were based on rates in place during a rate freeze.

The REP program has been both controversial and the benefits paid volatile since its implementation in 1981. In an effort to reduce both the controversy and the volatility of the REP, Bonneville and the regional investor-owned utilities entered into settlement agreements in 2000 for the 2001-06 and 2007-11 periods. Some publicly-owned utilities appealed the settlements to the Ninth Circuit Court as being outside the scope of the Power Act. In early May, the Court found in favor of the plaintiffs, essentially deciding that the settlements had no basis in the Power Act. Bonneville subsequently suspended REP payments to the IOUs.

The outcry over the suspension of REP payments led some in the region to ask for Congressional intervention. We applaud the Montana Delegation's restraint in resisting these calls. We believe that this is a regional issue that can be resolved here in the region. WMG&T has been actively involved in negotiations to:

- Restore the REP payments to IOU customers at a legally-sustainable level;
- Immediately reduce Bonneville's rates to its publicly-owned utility customers because the current rates over-collect Bonneville's revenue requirement; and
- Recognize the overpayments made by publicly-owned utilities to Bonneville for the REP during 2001-2007.

The members of WMG&T are confident that a reasonable agreement on the REP benefit levels, including the rate test limitations, can be found. We are working hard toward that result.

We appreciate the Montana Delegation's desire to have the region decide this issue here, rather than have it come back to Congress for a solution. We believe that any solution to the REP issue must be supported by the Northwest Power Act, and thus legally defensible. We strongly urge you to resist any calls to reopen the Power Act or otherwise intervene in this regional issue.

Thank you for your work on our behalf. If you have any questions about this complicated issue, please feel free to contact me.

Sincerely,

**William K. Drummond
Manager**