

**Residential Exchange – Official Comments
Cowlitz County PUD
August 1, 2007**

Cowlitz PUD's Board of Commissioners has the following comments on the Residential Exchange Settlement Agreements:

- In the 1980 Northwest Power Act, Congress struck a careful balance of benefits of the Federal Columbia River Power System between public and private utilities, and reaffirmed public power utilities as BPA's preference and priority customers.
- Congress made it clear that the costs of the Residential Exchange Settlement Agreements can not result in rates for BPA's public power customers being greater than what would have occurred without the Act.
- This is a matter of significant importance to public power. Costs of the exchange have grown to over \$350 million annually, or approximately 13% percent of an average customer's bill in Cowlitz County. That's why we filed lawsuits in opposition to the Residential Exchange agreements that BPA entered into with the IOUs in 2000.
- The amounts paid over the past several years are well in excess of what was anticipated at the time these agreements were entered into.
- The Court's ruling in favor of public power in May was a clear affirmation of our position that the payments the IOUs have been receiving is not in accordance with the law.
- The IOUs cannot be allowed to lock-in for the long-term residential exchange benefits that turned out to be both an unanticipated windfall and, according to the Court's ruling, contrary to law.
- Even though public power has suffered significant rate increases associated with the illegal agreements for over the past five years, we feel it important to the region generally and Cowlitz PUD specifically to reach an agreement regarding the level of benefits of this program while honoring the Act's provisions and the need for rate relief to preference customers.
- The Court's decision must be fully honored. It should be recognized that the IOU utilities have been receiving more than they are legally entitled to at the expense of public power customers. Any decision addressing future payments must also address a mechanism that incorporates the reimbursement for illegal excessive payments made in years prior to the Court's ruling.
- In closing, I want to draw a comparison to how PUDs do business everyday:
The Washington State statute that governs PUDs requires the State Auditor to examine our operations. We also are required to employ internal auditors. They help us conduct our financial matters in compliance with the law and make certain our various transactions are fair to all parties. From time-to-time we find we have underpaid or overpaid a supplier or undercharged or overcharged a customer. It happens to all of us. But it is our moral responsibility to make that transaction

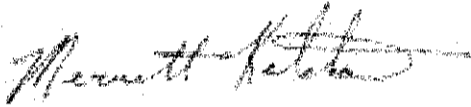
square to all parties by paying where we underpaid or recovering where we overpaid.

In the situation before us, the 9th Circuit, acting much like an auditor, determined the Publics overpaid BPA. ~~We don't believe BPA intended to break the law,~~ but the law was broken and that question has now been quieted. It is time to set things right. If my Utility overcharged a customer, we would be morally bound to set the matter right. We might have to take some time to set the account right but there is no doubt that each publicly chartered Utility here would make every effort to set the account square. How can there be any dispute that right is right regardless if we are an Investor Owned Utility or Public. Our auditors are telling elected Commissioners like me, that the 9th Circuit ruled we overpaid BPA for our energy. We are obligated under the law to recover that overpayment. If by error, BPA were overcharged by a vendor would you not seek to recover the unintended overcharge? All Utilities here today work account "True Ups" with BPA routinely. This should be no different.

- The Court did not definitively decide how much, if any, the IOUs should have received. However the Court provided clear direction on how BPA should determine the correct amount of IOU exchange payments — stating it must be done in accordance with the 7(i) procedures contained in the Act along with other formal processes to implement or properly amend existing or needed policies or methodologies. This includes providing public power the protections it is legally entitled to under section 7(b)2. Failure to decide the future course of action through these legally prescribed mechanisms creates an unacceptably high risk of ending up right back where we are now, with the Court telling BPA once again to go back and do it right.

Thank you for accepting our comments on the Residential Exchange Settlement Agreements. We look forward to working cooperatively with all parties in the region on this issue.


Sincerely,



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President



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Vice-President



Mark McCrady
Secretary



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