



EMERALD PEOPLE'S UTILITY DISTRICT

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October 31, 2006

Steve Wright, Administrator A-7  
Bonneville power Administration  
PO Box 3621  
Portland, OR 97208-3621

Dear Steve:

In Governor Kulongoski's recent letter to you on Residential Exchange benefits, dated October 16, 2006, he talks about "sharing equally" the benefits of the Columbia River Hydro System, and the potential rate impacts on IOU customers. As you know the Residential Exchange was established by section 5(c) of the Power Act, and was structured to pay IOUs the difference between their average system cost (ASC) and BPA's Priority Firm (PF) exchange rate, multiplied by the utilities' eligible residential and small farm load. The Power Act does not talk about an equitable sharing of the benefits of the hydro system.

The current IOU exchange benefits in excess of \$300 million are artificially high, are largely a remnant of the California Energy Crisis, and are the result of a settlement that may indeed be unlawful. These benefits are paid by public power customers, like Emerald PUD's. A majority of Emerald's residential customers currently have higher rates than our neighboring IOU. In part, these customers are paying higher rates because we send money to BPA to give to the IOUs so that their customers can enjoy lower rates than our customers – where is the equity in that? As we move forward with these negotiations with the IOUs it is important to keep in mind that we perceive the residential exchange as exacerbating this existing inequity, and believe that this inequity must be corrected. Adoption of BPA's proposed ratio methodology, and appropriate treatment of the IOU "deemer" accounts, is a good place to start.

So, while we think that BPA's proposal of \$250 million of residential exchange benefits to the IOUs in 2012 is probably too high, we continue to be supportive of the negotiations, and are hopeful that we can reach an agreement.

Sincerely,

  
Frank Lambe  
General Manager

cc Governor Ted Kulongoski



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