

“BPA should not reduce Residential Exchange Program benefits below current levels for the region's residential and small farm consumers served by investor-owned utilities.”

**Statement of Pacific Northwest Investor-Owned Utilities' Perspective on Bonneville Power Administration's Regional Dialogue Proposal
For Post-2011 Investor-Owned Utility Residential Exchange Program**

**Presented at the United States Department of Energy Regional Dialogue Public Meeting
December 6, 2006**

Panelists:

**Jim Lobdell, Portland General Electric
Vice President - Power Operations and Resource Strategy**

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Senior Vice President, Regulatory Policy and Energy Efficiency**

**Kelly Norwood, Avista
Vice President - State & Federal Regulation**

**Pacific Northwest Investor-Owned Utilities' Perspective on Bonneville Power
Administration's Regional Dialogue Proposal
For Post-2011 Investor-Owned Utility Residential Exchange Program
December 6, 2006**

Good afternoon, Mr. Sell, Mr. Hill and Mr. Kolevar. Thank you for coming here today to address a matter of vital importance to the Bonneville Power Administration and the region.

We are speaking on behalf of the 60 percent of the Northwest residential and small farm consumers who receive their electricity service from the region's investor-owned utilities (Avista Corp., Idaho Power Company, NorthWestern Energy, PacifiCorp, Portland General Electric Company and Puget Sound Energy, Inc.).

We commend BPA for its efforts to achieve a comprehensive settlement of BPA's long-term future role. Although there appears to be broad consensus on several elements, the Residential Exchange Program remains a key unresolved issue. Our message is simple: BPA should reconsider its proposed reduction of our customers' Residential Exchange Program benefits. We are not seeking an increase in the Residential Exchange Program benefits. We are simply asking that BPA maintain the current level of benefits for our customers.

Through the Regional Dialogue process, we are working to ensure that our customers receive a share of Residential Exchange Program benefits in the post-2011 period comparable to what they currently receive. Under the Northwest Power Act of 1980, our customers have a statutory right to share in the benefits of the Federal Columbia River Power System. BPA's public power utility customers have access to federal power at BPA's lowest cost rates. Customers of investor-owned utilities do not have access to this low-cost power; however, Congress intended that our residential and small farm customers receive the benefit of the federal power system through the Residential Exchange Program. The Residential Exchange Program does not benefit our shareholders, and the payments are passed through—dollar for dollar—to our customers as a credit on their electric bills.

Congress intended that the Residential Exchange Program provide wholesale rate parity: "One of the goals of the Act is to ensure that residential consumers served by Northwest IOU's have wholesale rate parity with residential consumers served by publicly owned utilities and public cooperatives, BPA's preference customers." *Pub. Util. Comm'r of Or. V. Bonneville Power Admin.*, 767 F.2d 622, 624 (9th Cir. 1985). The average cost for wholesale power and transmission to serve our residential customers for FY 2007-09 is \$49.84/MWh. The current level of benefits from the Residential Exchange Program reduces that average cost to \$43.33/MWh. In comparison, BPA provides wholesale power and transmission to its public power utility customers for the same time period at an average cost of only \$31.23/MWh. BPA's initial Regional Dialogue proposal (Initial Proposal) would further increase this wholesale rate disparity.

Moreover, BPA's Initial Proposal suggests a level of Residential Exchange Program benefits that is below historical and current levels. The *historical* average annual level of the Residential Exchange Program benefits, when adjusted for inflation and load growth to FY 2012, exceeds

\$390 million. Similarly, the *current* annual level of Residential Exchange Program benefits for our residential customers, when adjusted for inflation and load growth to FY 2012, is almost \$350 million. The current level of Residential Exchange Program benefits (approximately \$300 million) represents an allocation of approximately 17.9% of the benefits of the federal hydro system to the 60% of residential and small farm consumers in the Northwest served by investor-owned utilities. Under its Initial Proposal, BPA would reduce that annual amount to \$250 million beginning in FY 2012. In contrast, BPA's recent rate cuts have increased federal system benefits for BPA's public power utility customers.

Again, we emphasize that we are not seeking an increase in the Residential Exchange Program benefits. We are simply asking that BPA maintain the current level of benefits for our customers.

BPA's Initial Proposal expands public power benefits, while reducing our customers' Residential Exchange Program benefits. The combined impact of these proposals would further tilt the balance of regional benefits away from our customers—who already receive a disproportionately low share of benefits.

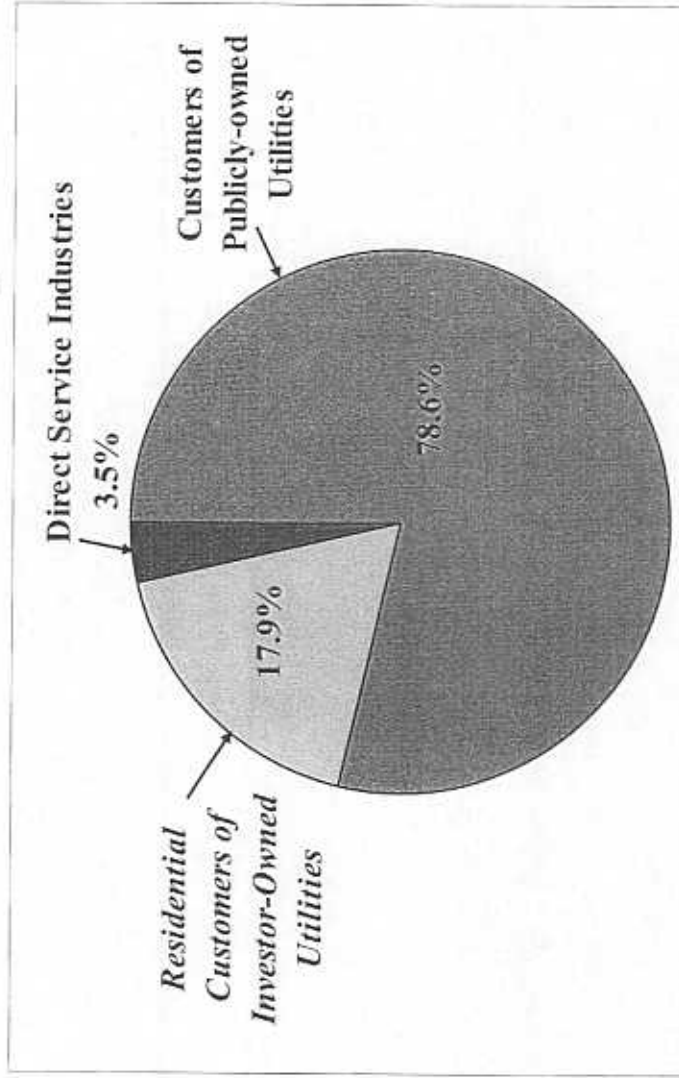
For example, BPA proposes to expand public power benefits by allocating 250 average megawatts of its lowest-priced BPA power to yet-to-be formed public power entities. BPA is also proposing to augment its system by 300 average megawatts to grant certain public power utilities greater rights to the lowest-priced federal power.

Any expansion of public power benefits should be adopted only in the context of an overall comprehensive settlement that addresses the Residential Exchange Program in a manner consistent with the law and that does not reduce our customers' Residential Exchange Program benefits from current levels.

We thank Mr. Sell, Mr. Hill, and Mr. Kolevar for your attention to these important issues and look forward to answering any questions you have.

Sharing the Benefits of the Federal Columbia River Power System (FCRPS)

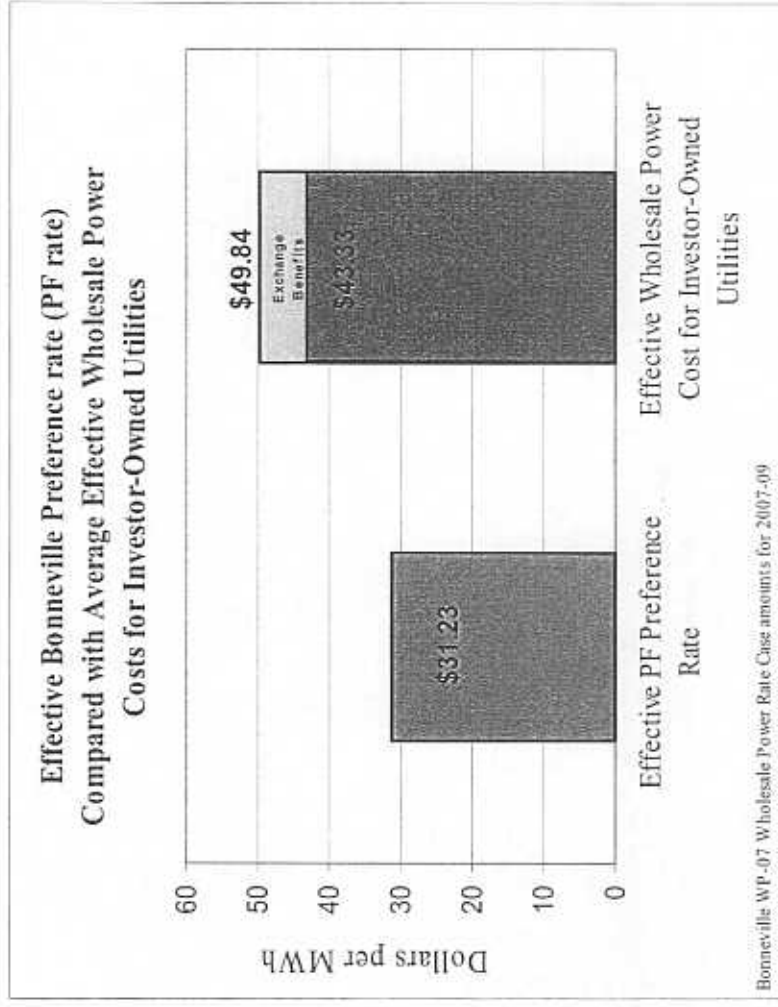
FY 2007 Allocation of the Federal Power System Benefits



- We, the Northwest Investor-Owned Utilities, serve approximately six out of every ten residents of the Pacific Northwest. Our residential customers currently receive 18% of the annual federal system benefit, or approximately \$300 million per year.
- Bonneville's proposal would represent an offer of about \$200 million in today's dollars – a one-third reduction in current benefits.
- The Bonneville proposal would inequitably decrease benefits to our residential customers even as the federal hydro system is increasing in value and providing greater benefits to consumers served by publicly-owned utilities.
- ❖ The 60% of residents of the Pacific Northwest served by the Northwest Investor-Owned Utilities have a statutory right to a share of the annual federal hydro system benefits, which are currently valued at approximately \$1.7 billion per year.

The Intent of the Residential Exchange Program

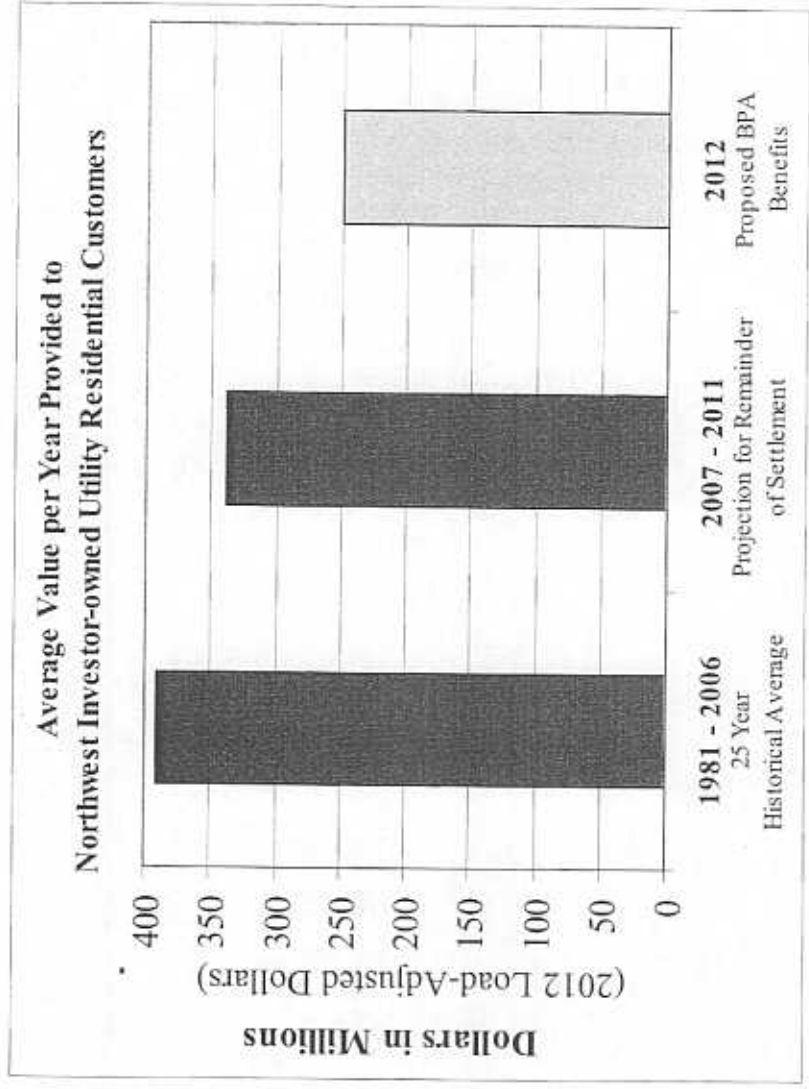
- Congress adopted the Residential Exchange Program in the Northwest Power Act to provide a share of the benefits of the federal hydro system to our residential (including small farm) customers.
- The Residential Exchange Program is intended to reduce the difference between the wholesale power costs of the Northwest Investor-Owned Utilities and publicly-owned utilities.
- The average cost for Bonneville power and transmission paid by publicly-owned utilities to serve their customers (the "Effective PF Preference Rate") for FY2007-09 is \$31.23/MWh.
- The average cost for wholesale power and transmission to serve our residential customers, reduced by Residential Exchange Program benefits, (the "Effective Wholesale Power Cost for Northwest Investor-Owned Utilities") for FY2007-09 is \$43.33/MWh.



- ❖ Even after subtracting the current Residential Exchange Program benefit of \$300 million from our average cost for wholesale power and transmission, the resulting effective cost of power is \$43.33/MWh. This effective cost of power is still substantially greater than the average cost for Bonneville power and transmission paid by publicly-owned utilities to serve their customers of \$31.23/MWh.

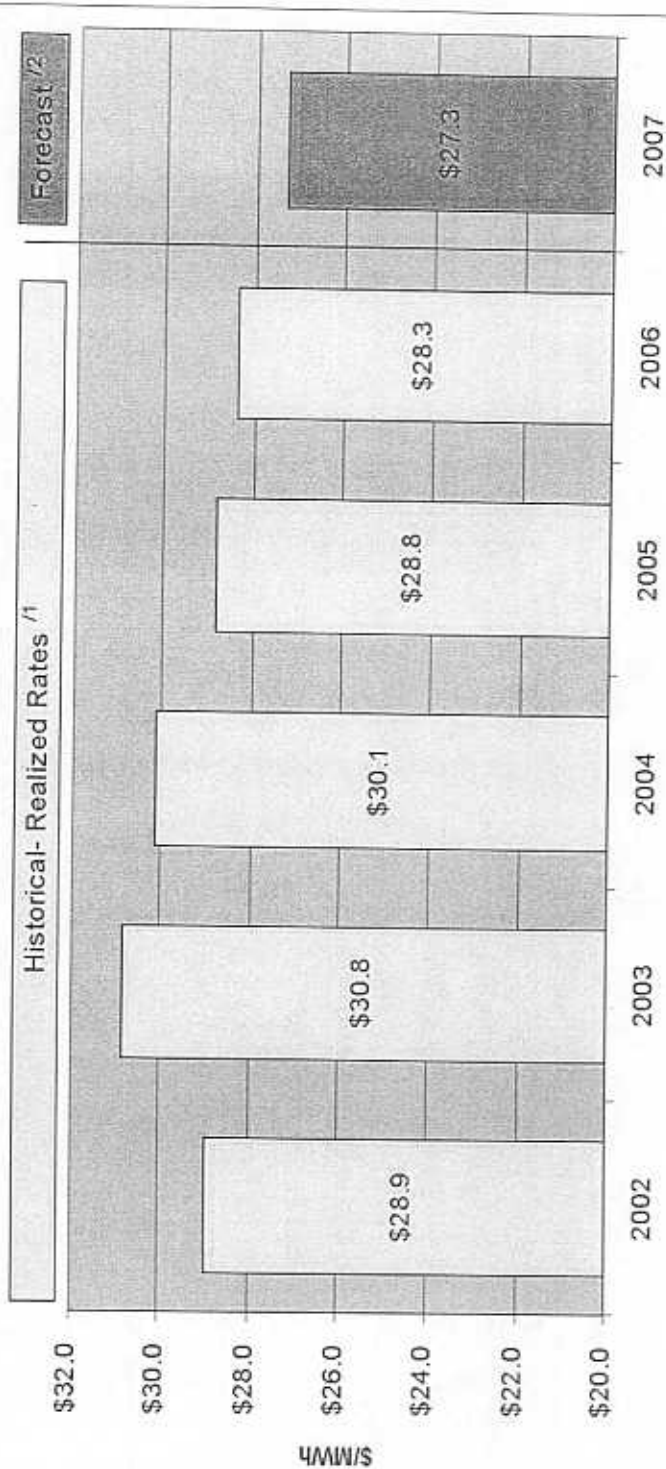
Residential Exchange Program Benefit Levels Past, Present and Future

- When adjusted for inflation and customer growth to FY 2012, the *historical* average annual level of Residential Exchange Program benefits for our residential customers exceeds **\$390 million**.
- Similarly, when adjusted for inflation and customer growth to FY 2012, the *current* (FY2007-11) annual level of Residential Exchange Program benefits for our residential customers is almost **\$350 million**.
- Bonneville has *proposed* Residential Exchange Program annual benefits for our residential customers for FY 2012 of **\$250 million**.



Rates Chart

Power Historical and Forecast
Priority Firm, Shaped Rates



/1 Total PF non-Slice revenues divided by loads
/2 Expected value non-Slice, Shaped PF Rates

This Financial Information has been made publicly available by BPA's Power Rates Group on September 11, 2006.
BPA, Power Business Line



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