



## Department of Energy

Bonneville Power Administration  
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EXECUTIVE OFFICE

February 8, 2008

In reply refer to: DK-7

To Parties Interested in the Residential Exchange Program:

Today, the Bonneville Power Administration (BPA) formally begins two processes of considerable importance to Northwest utilities and their consumers. We are launching a rate case to revise power rates and are proposing a new Average System Cost (ASC) methodology to re-establish the Residential Exchange Program in response to recent decisions by the U.S. Court of Appeals for the Ninth Circuit. Our proposals are based on the requirements of the Northwest Power Act and reflect comments we received during numerous meetings with regional parties.

The Court of Appeals found BPA's fiscal year (FY) 2002-2011 Residential Exchange settlements unlawful and that BPA unlawfully allocated the settlement costs to its preference customers through its FY 2002-2006 rates. These costs also are in our FY 2007-2009 power rates to preference customers. In response, BPA looked back and established the amount it overpaid the investor-owned utilities (IOUs) in FY 2002-2008 compared to what they would have received absent the settlement agreements. As a result, we propose to:

- Disburse to Northwest utilities \$504 million BPA is collecting in rates for Residential Exchange benefits but has not been distributing since the May 2007 court decisions. Of this, publicly owned utilities would receive \$315 million in cash; IOUs would receive \$189 million in Residential Exchange Program benefits. These payments will be made either in 2008 through interim agreements and associated true-up to the rate case results or through FY 2009 cash payments to publicly owned utilities and in higher Residential Exchange benefits to IOUs in FY 2010 and beyond.
- Provide \$620 million in future rate relief to publicly owned utilities to repay them for overpayments they made from FY 2002-2007. This is achieved through reduced Residential Exchange Program payments to IOUs in FY 2009-2028.
- Reduce wholesale power rates to preference customers 4 percent on average in FY 2009, from \$27.3 per megawatt-hour to \$26.2 per MWh. This reflects a reduction in Residential Exchange benefits from \$336 million that would have occurred under the settlement agreements. Updated costs and other financial information for FY 2009 are also included in this rate reduction.
- Re-establish the legally prescribed Residential Exchange Program payments for residential and small-farm consumers served by IOUs at \$250 million for FY 2009.

In 2009, \$40 million of this \$250 million will be applied against past overpayments, leaving \$210 million available for IOU residential and small farm consumers.

Our proposals would re-establish the Residential Exchange Program with the help of two revised methodologies: (1) a new ASC methodology to calculate each participant's average system cost, and (2) a corresponding methodology to help interpret and implement Section 7(b)(2) of the Northwest Power Act.

The proposed ASC and 7(b)(2) methodologies reflect months of workshops and discussions with stakeholders. The resulting proposals should simplify Residential Exchange Program administration and make it more transparent for all customers. The proposed ASC methodology relies in large part on data all IOUs file annually with the Federal Energy Regulatory Commission. This will provide a consistent basis for ASC calculations without the administrative burden of the ASC review process as historically implemented. (BPA once had 50 staff devoted to administering the Residential Exchange Program.) Preference customers who wish to participate in the Residential Exchange Program will file similar information.

The final rate determination, Residential Exchange Program benefits, the amount of past overpayments and their recovery for FY 2009 will depend on the information brought forward and decisions made in the formal public processes. Ultimately, the final rate proposal will also include updates to BPA's financial performance for FY 2008 and any new information about BPA's future costs.

Our stakeholders and BPA staff have surmounted an immense workload to get to this point. I appreciate the intense effort that our stakeholders and BPA staff will need to contribute in the coming months to complete these and other processes. In the end, I firmly believe that the region's commitment to this work will construct key elements of the framework for establishing preference customer rates and Residential Exchange Program benefits for years to come.

I want to thank the many members of the regional community who have worked long, hard, and thoughtfully on these issues in recognition of the common interest they have in a legally sustainable and mutually acceptable solution. While we believe this is a sound proposal, it does not fully mirror the recommendations we received from utilities on the level of future Residential Exchange benefits and distribution among utilities. We wish to hear from all interested parties, and we encourage parties to the rate case to join together in proposals that will make ours even better.

The rate case will begin with a prehearing conference on February 19 at BPA headquarters in Portland. Details on both public processes are in the enclosed letter from our Rates and Residential Exchange Program staff. I look forward to your participation and to the successful conclusion of the rate case in August.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen J. Wright". The signature is written in a cursive, flowing style with some loops and flourishes.

Stephen J. Wright  
Administrator and Chief Executive Officer

Enclosure: Rate Case and Average System Cost Methodology process letter