

Settlement Backgrounder

Updated Nov. 5, 2003

What happened?

After months of negotiation, the Bonneville Power Administration and representatives of utility groups have signed a legal settlement that would eliminate the average annual 2.2 percent rate increase for FY 2004 that took effect on October 1, and lower BPA's wholesale rates an additional average 7.4 percent compared to average fiscal 2003 rates.

A combination of the forecasted annual average 2.2 percent increase and the estimated 7.4 percent decrease results in nearly a 10 percent net reduction in rates for the current fiscal year that started October 1. Because it would take four months for the settlement to go into effect, BPA will provide a rolling month-to-month rate refund starting in March to ensure customers get the full benefit of the rate reduction.

The settlement would substantially reduce rates for many public agency customers while clarifying and stabilizing benefits for small farm and residential customers of investor-owned utilities between now and 2011. Any retail rate adjustments would vary by utility.

What is the settlement about?

The lawsuits, filed earlier by more than 75 public agency utilities, DSIs, IOUs, state commissions, and utility associations, challenged contracts BPA entered in 2000 with investor-owned utilities (IOUs). Related suits by other utilities are also involved. Primary among the issues are the benefits BPA provides to the IOUs under the Northwest Power Act of 1980. The Act directs that these benefits go directly to small farm and residential customers of the IOUs in the form of rate relief.

Under the settlement, public agency and other parties will drop their lawsuits. In return, the IOUs will forgo or defer certain monetary benefits between 2004 and 2006. The value of those deferred benefits is \$44 million already deferred in 2003, plus \$75 million a year through fiscal 2006. So the total deferral is \$269 million. Another \$200 million in costs would be eliminated.

The IOUs will receive clarity and predictability about their benefits in 2007-2011. They will receive monetary benefits only in this period. The settlement includes a formula for determining the level of those benefits, based on 2,200 megawatts of power, that also includes caps and floors that bound the level of benefits.

In addition, BPA has committed to work with customers to pursue an additional \$100 million in cost reductions and revenue enhancements for FY 2004 and FY 2005, cumulatively.

What are the next steps?

All public utilities that are parties to the litigation must sign the settlement within 90 days (by January 21, 2004) for it to become final. If any public litigant fails to sign the appropriate settlement documents by the end of the 90-day period, the settlement fails. If all public litigants sign, then BPA, the IOUs, and the publics have 30 additional days to decide whether or not to withdraw should certain events of default occur. If after a total of 120 days all parties remain in agreement, it becomes final (expected in February 2004).

(NOTE: A comprehensive Q&A sheet is available on request for those who wish a detailed description of how BPA calculated the rate adjustments and other items pertaining to the settlement.)