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keeping CURRENT

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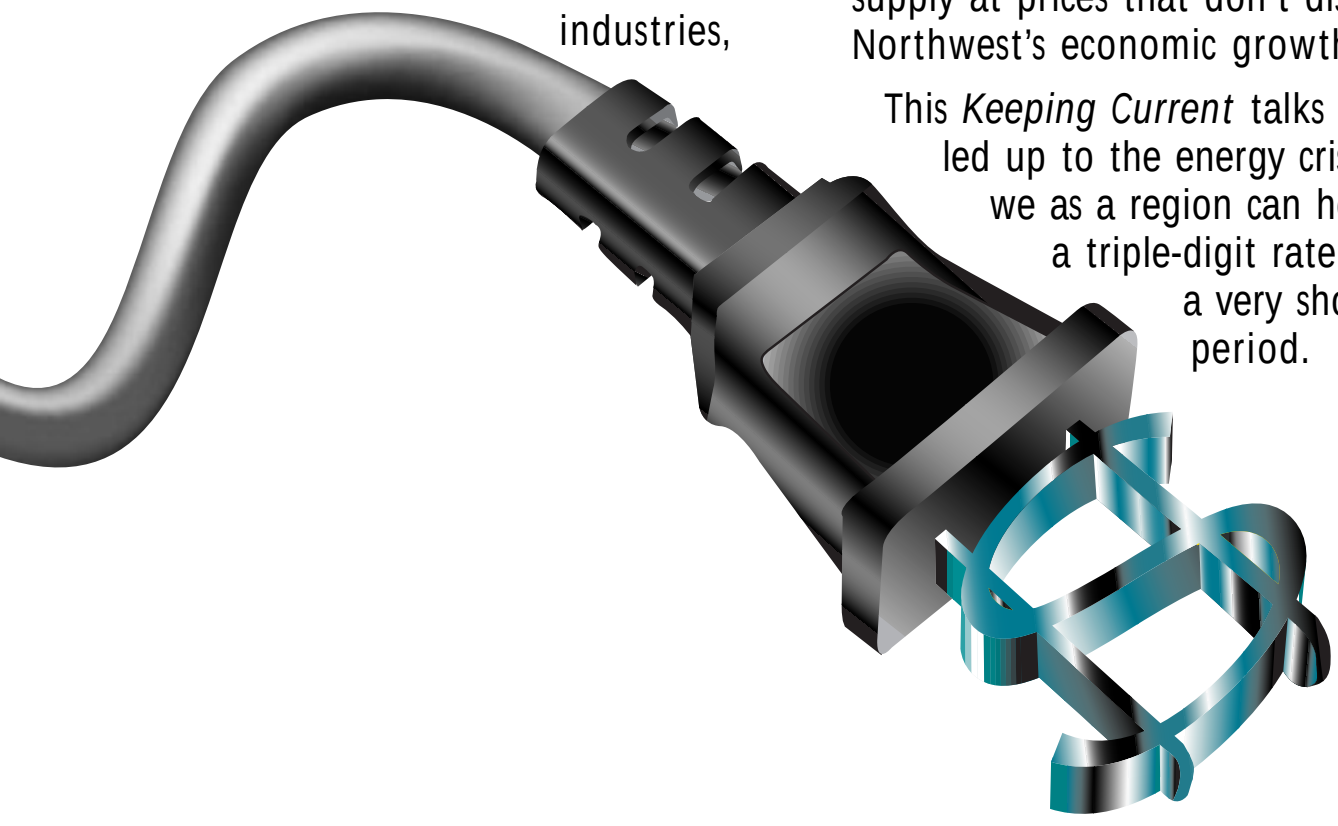
Working together to keep the lights on and costs down

The Northwest is in the midst of an energy crisis. Not only is electricity in short supply, but its prices have been soaring. Many retail utilities already have announced major rate increases, and the cost of wholesale electricity has hit all time highs. The Bonneville Power Administration, which provides wholesale power to Northwest utilities and large direct service industries, will put new power rates into effect this coming October.

Those rates could be very high – as much as 250 percent or more – or they could be significantly lower. The difference will depend on how willing Northwest parties are to work together and make the sacrifices that will help bring rates down. The payoff will be a reliable electricity supply at prices that don't discourage the Northwest's economic growth.

This *Keeping Current* talks about what led up to the energy crisis, and how we as a region can help prevent a triple-digit rate increase in a very short time period.



BONNEVILLE POWER ADMINISTRATION

There is a very real urgency. Although BPA's new rates won't go into effect until October, they must be determined in the next few weeks so they can be submitted to the Federal Energy Regulatory Commission this June. The region must act quickly to avoid the economic stress that would surely come on the heels of a wholesale rate increase that could be 250 percent or more. While the impact on retail rates won't be as high, there would still be impacts varying with each utility. Everyone would feel the economic pinch.

That's what would happen if the region chose to take no action. But there is another path. BPA is calling for specific actions and significant contributions from all of its customer groups to take steps that could dramatically reduce the size of the rate increase. BPA's customers include Northwest public and private utilities and some large electricity-intensive industries – primarily aluminum – that buy wholesale power from BPA and are known as direct service industries. The following information provides background on what is driving electric rates up and what the Northwest can do to hold the rate increases down.

Why are wholesale power rates going up?

Two factors are affecting electricity rates all over the West, including BPA's rates. First, the electricity supply in the West is very tight. Over the last 10 years, the population has grown, along with electricity-dependent technologies (such as computers), thus increasing electricity consumption. At the same time, there has been no significant growth in new energy supplies. The result is that demand for electricity is often greater than its supply.

Second, largely due to the short supply, wholesale electricity power market prices are at record highs. For example, historic wholesale electricity prices for this region have rarely been above $30 a megawatt-hour. But now prices are in the range of $200 to $300 a megawatt-hour. At one point last January, wholesale power prices climbed to more than $1,000 a megawatt-hour, and BPA spent $50 million on power purchases in just *four days* to keep Northwest lights on.

The Northwest's drought and California's failed attempt at deregulation also have contributed to high wholesale electricity prices, but the problem isn't just short term. Even if the drought goes away, energy prices will stay high until enough new power generation is brought on line to meet the demand for energy. BPA is working to bring on new energy resources, including renewable energy and conservation measures, as well as new transmission lines to ensure that electric power can be reliably delivered into the future. But that could take a couple of years.

Unfortunately, Northwest ratepayers can't wait two years to act. Beginning this October, BPA is obligated to provide about 11,000 average megawatts of electricity to its Northwest customers for a five-year period. The 11,000-average-megawatt obligation exceeds BPA's power resources by about 3,000 average megawatts. Unless there is a significant change in power demand, BPA will have to buy the additional power in the very high-priced wholesale market. This will drive everyone's rates up.

What can we do to avoid triple-digit increases?

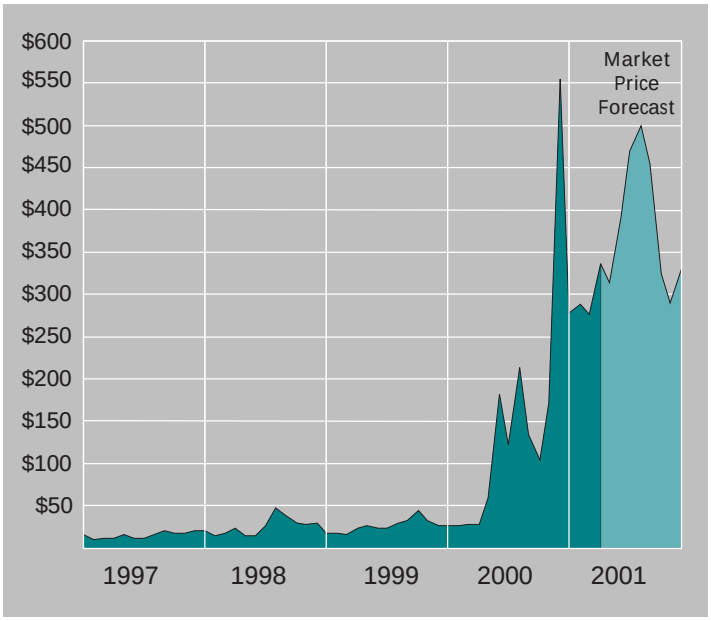
The Northwest must look at ways to reduce rates now instead of waiting for new generation to come on line. The best way to reduce rates immediately is to reduce the demand for power put on BPA. This, in turn will reduce BPA's need to buy power in the very expensive wholesale electricity market.

BPA has already taken a number of extraordinary steps to decrease the amount of power it must buy in the market. It has promoted conservation aggressively and sought voluntary curtailments of power use. It has begun to purchase power back from direct service industries, and from irrigators who are served by BPA's utility customers. Although this is expensive, it is still far less expensive than buying power in the current market. BPA also is offering innovative incentives to its utility customers to encourage them to develop con-

servation and renewable energy programs and to provide incentives to their consumers to conserve.

BPA also has engaged in beneficial 2-for-1 power exchanges with California whenever possible. Under the exchanges, for each megawatt BPA ships to California, the state must send two megawatts back to the Northwest. This results in using less of the Northwest's water to generate electricity and saving more in reservoirs for future power generation and fish needs.

Power prices have skyrocketed



Average on-peak power prices since 1997, per megawatt-hour

It's important to note that BPA has sold no power to California that was needed in the Northwest. BPA's policy is to do nothing for California that will adversely affect the reliability of the Northwest's electrical system, the Northwest's environment or BPA's financial health.

Despite these extraordinary efforts to reduce the amount of electricity BPA must provide customers, it's still not enough. The ultimate solution rests with BPA's utility and industrial customers as well as every Northwest consumer. Since the consequences of a 250 percent or more rate increase would affect the entire Northwest economy, everyone has a stake in getting the increase down to a manageable level.

There isn't much time

The region must make the decisions needed to reduce its overall demand for power on BPA by the end of May. This is because BPA is due to submit a rate proposal to the Federal Energy Regulatory Commission in June for the rate period that begins October 1. The rate period covers five years, extending to 2006.

Since no one can control the market prices, the Northwest must focus on what it can control. It can control the amount of expensive power BPA is forced to buy in the market by reducing its demand for power. BPA is urging contributions from all Northwest customer groups.

First,

BPA is asking its public utility customers, such as municipally run utilities, to reduce their purchases from BPA by 5 to 10 percent. BPA is currently discussing ways to help achieve this goal.

Second,

BPA is asking investor-owned utilities (private power) to contribute back a portion of the power benefits they received from the federal system that is proportionate to the public power contribution.

Third,

and this is a significant request, BPA is asking its direct service customers, primarily the aluminum industry, to agree not to take power from the federal system for up to the first two years of the new rate period. BPA is negotiating with each industry to help provide worker compensation during that time, and is working with the companies to help them find a means to operate profitably in the long run without relying on BPA.

Fourth,

BPA is urging all citizens of the Northwest to heed the call of our governors to reduce electricity consumption by 10 percent through eliminating waste

and using electricity efficiently. Everyone in the region can play a part in keeping costs down until more power resources become available. This is one case where a little bit of savings can make a big difference if everyone contributes. For ideas, see the box below.

What's in it for the utilities, industries and consumers to cut back? Quite simply, the health of the region's economy is at stake. It will take contributions from all parties to avoid a large rate increase, but the payoff will be a brighter future for the entire Northwest.

For more information

The following resources are available and provide more in-depth information about the current energy crisis and related issues. To order, call BPA's Public Information Center in Portland, Ore., at (503) 230-7334 or outside Portland at 1-800-622-4520.

- BPA administrator's letter to BPA customers and citizens of the Pacific Northwest dated Jan. 25, 2001. This letter addresses the conditions driving BPA's power rates. 4 pgs.
- BPA administrator's letter to BPA customers and citizens of the Pacific Northwest dated March 29, 2001. This letter addresses the impacts of the Northwest drought and how the federal hydro system will be operated this coming summer to meet reliability needs. 4 pgs.
- April 9, 2001, speech by Stephen Wright, BPA acting administrator, titled "Reducing BPA's Wholesale Power Rate Increases: Managing through a short-term crisis to ensure long-term benefits." 6 pgs.
- *Keeping Current* outlining BPA's conservation and load reduction initiatives. Available in late April 2001. 4 pgs.
- Homeowners' energy saving tips brochure available in May.
- Energy saving tips currently available at *www.bpa.gov*

What can I do to help?

The region's governors have called for each citizen to reduce their energy use by 10 percent. The easiest way to do that is through eliminating waste and using energy efficiently. Here are some common sense measures we can all take to help keep rates down:

- Replace conventional light bulbs with compact fluorescents. They use 75 percent less energy, last 8 to 10 times as long and provide the same amount of light.
- Turn off lights in rooms that aren't occupied.
- Turn off computers, monitors and printers when they are not in use.
- Unplug household appliances when they are not in use.
- Set your water heater temperature to 115 degrees.
- When you go on vacation, turn the water heater off entirely.
- Use programmable thermostats and set them at 68 degrees during the day, lower at night.
- Close your chimney damper when not in use. (It's like leaving a 48-square-inch window open.)
- Check furnace ductwork for cracks or leaks, and fix them with duct tape with the UL (Underwriters Laboratories) logo.
- Weatherstrip or caulk around doors and windows.
- When investing in new appliances, look for the Energy Star® label.

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