

RESIDENTIAL EXCHANGE PROGRAM

Public Meeting

August 1, 2007

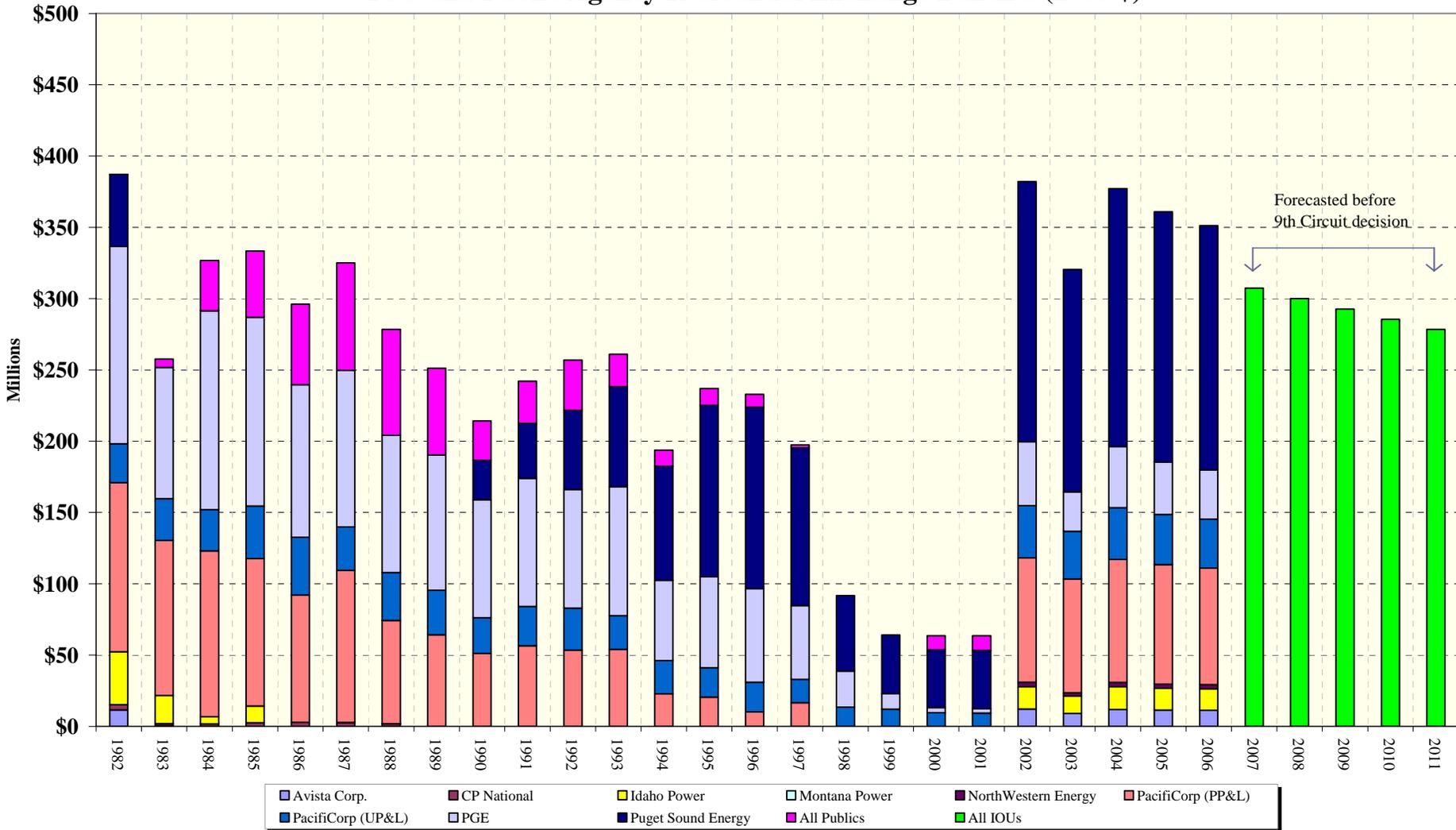
Portland Sheraton at the Airport

Meeting Purpose

- What is the Residential Exchange Program?
- What are the impacts to the Residential Exchange Program given the recent rulings by the 9th Circuit Court of Appeals?
- What decisions need to be made to resolve the issues?
- Why is regional agreement and timely resolution so important?
- What are the appropriate next steps?

What is the Residential Exchange?

IOU and Public Agency Residential Exchange Benefits (2005 \$)



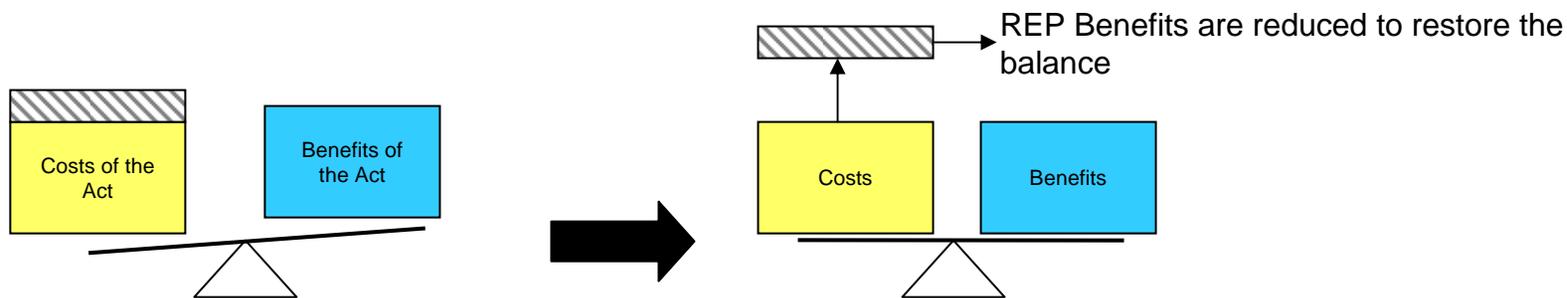
How Are Residential Exchange Benefits Calculated?

- Context for NW Power Act: Address disparity in rates between IOUs and Public Utilities
- Exchange Benefits:
 - = (IOU Average System Cost – BPA’s Rate to Public Utilities)
x IOU Exchange Load
- Compromise struck in the Act: Public Utilities’ exposure to higher costs limited by the Section 7(b)(2) rate test

7(b)(2) Rate Test

This rate test is designed to ensure that the cost of the Residential Exchange Program (REP) and other factors, when considered together, do not raise the rates of public utilities beyond what they would have been taking into account five factors listed in Section 7(b)(2)

- Step 1:** Calculate the PF rate (the Program Rate) that includes all of BPA's costs including a forecast of REP benefits
- Step 2:** Calculate the PF rate that accounts for the 5 factors specified in the NW Power Act (the 7(b)(2) rate)
- Step 3:** Compare the two rates
- If the Program rate is less than or equal to the 7(b)(2) rate, then no rate protection is due to the Public Utilities and the Program rate becomes the PF rate and is used to define REP benefits
 - If the Program rate is greater than the 7(b)(2) rate, then costs are removed from the Program rate until the two rates are the same—the removed costs are spread to all other rates including the PF Exchange rate, resulting in lower REP Benefits.



What Changed in 2000?

- In 2000, BPA & the region's IOUs settled Residential Exchange disputes for 2002-11 to provide long-term rate and benefit certainty for the region's utilities:
 - IOUs were to receive 1,000 aMW as power and 900 aMW as financial payments for FY 2002-06 and 2,200 aMW of benefits for FY 2007-11; BPA estimated benefits would be worth approximately \$140M per year for 2002-06

- In late 2000, the West Coast energy crisis occurred and substantially increased power costs:
 - BPA needed to purchase over 3,000 aMW to serve its contract obligations – including the 1,000 aMW of power to the IOUs
 - BPA and customers took actions to reduce BPA's contract obligations, including BPA buying back 680 aMW of power from PacifiCorp and Puget Sound Energy

What Changed in 2000? (continued)

- Given the energy crisis, the settlement and load buyback benefits to the IOUs, when added together, increased to over \$350M annually
- Public utilities sued, claiming the settlement agreements went beyond the intent of the Residential Exchange as established in the NW Power Act, resulting in their paying too much

What was the 9th Circuit Ruling?

- On May 3, 2007 the 9th Circuit Court ruled in favor of the public utilities in 2 cases:
 - *PGE* decision
 - *Golden Northwest* decision

- On July 18, 2007, the Oregon Public Utility Commission & the Washington Utilities & Transportation Commission; Puget Sound Energy, PacifiCorp & PGE; and Avista filed for rehearing with the 9th Circuit

- Four cases are still pending before the court regarding two separate actions:
 - Load buybacks
 - Settlement Agreement Amendments of 2004

What was the Effect of the May 3rd Rulings?

- BPA suspended payments to the IOUs in May because the Court's opinion created uncertainty over the legality of continuing the payments
- As a result, the IOUs eliminated the Residential Exchange credit to their residential and small farm consumers

What Decisions Does BPA Need to Make?

- What are the right level of benefits?
 - Past rate/benefit levels (FY 2002-2006)
 - Current rate/benefit levels (FY 2007-2008)
 - Future rate/benefit levels (FY 2009 & beyond)

- When and how will Residential Exchange benefits restart?

- What's the appropriate relief for NW public utilities? How and when would that relief start?

What Decisions Impact Benefits?

- For Past and Current Periods (FY 2002-2008):
 - How to determine the amount of benefits IOUs are entitled to looking back
 - What ASCs to use given the 1984 ASC Methodology
 - What PF Exchange rate to use
 - What Exchange loads to use
 - What to assume about BPA's right to substitute power for financial payments (In Lieu) under the Exchange Program
 - How to treat the Settlement Sale of power to IOUs
 - What additional changes are needed to “reconstruct” past rates



What Decisions Impact Benefits? (continued)

- For the future (FY 2009 and beyond):
 - ASC Methodology Decisions:
 - Alternatives to the current jurisdictional filings approach
 - Return on equity
 - State and Federal income taxes
 - Financial derivatives
 - Sales for resale
 - Regulatory assets
 - 7(b)(2) Rate Test Decisions:
 - Mid-Columbia resources
 - Conservation resources
 - Valuation of reserves benefits of surplus sales



What Principles Will BPA Use In Its Decisions?

- Must be legally sustainable
- Must be equitable
- Should not be dependent upon legislation to succeed
- Benefits are relatively predictable over time
- Process must be transparent so parties can see how benefits are determined
- Must be completed so that BPA offers simultaneous 20-year contracts to all customers by August 2008

Why Is Regional Agreement So Important?

- If there is regional agreement, then:
 - Benefits to the IOUs can start sooner
 - Financial relief for public utilities can start sooner
 - Greater certainty regarding future level of benefits for IOUs and rates for public utilities
- If there is NOT regional agreement, then:
 - Benefits may not start up again before October 2008
 - Financial relief for publics may not occur until October 2008
 - Long-term contract offers in August 2008 at significant risk
 - Near-term and long-term benefit levels probably much less stable and predictable

Next Steps

- Continue efforts to reach broad regional agreement
- BPA will hold several informal workshops during the late summer and fall
- The first workshop is scheduled for August 21; this workshop will cover the following:
 - The fundamentals of the Average System Cost Methodology and associated issues for future consideration
 - Fundamentals of the 7(b)(2) rate test and the associated issues for future consideration
 - The schedule for additional workshops



Next Steps (continued)

- BPA expects to publish an Initial Rate Proposal and a draft ASC Methodology in mid-December
- These processes must conclude by the end of July 2008 in order to offer all customers long-term contracts on August 1, 2008