



Oregon

Theodore R. Kulongoski, Governor

Public Utility Commission

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May 31, 2007

Sent via email

Dear Senator/Representative,

On Wednesday, we approved requests by Portland General Electric (PGE), PacifiCorp, and Idaho Power Company to zero out residential exchange benefits for the more than 1.2 million Oregon households and small farm customers that they serve. Electricity rates for residential customers will go up by about 14 percent starting in June. Rates for some irrigators in the Klamath Basin will increase by more than 90 percent. Not only are benefits eliminated going forward, but customers also face the prospect of having to refund benefits received since October 2001. The refund obligation for Oregon customers could total more than \$800 million, or about \$700 per customer.

These rate increases are a direct result of the Bonneville Power Administration (BPA) suspending payments to investor-owned utility (IOU) customers following the recent U.S. 9th Circuit Court of Appeals decision declaring the 2002-2006 residential exchange settlement illegal. We are challenging that decision and will seek a stay of the Court's remand. However, we hold little hope that the Court will agree to reconsider its decision. Even if it does, the process could take years.

We believe that restoring the benefits to IOU residential and small farm customers in full and maintaining that level of benefits indefinitely is a fair and legally defensible solution. It would be fair because it would spread the benefits of a regional resource broadly across the region. Almost all the utilities in the region - consumer-owned as well as investor-owned - viewed the settlements overturned by the 9th Circuit as reasonable. We note though, that even at the current level of \$325 million a year, IOU customers, who represent 60 percent of customers in the region, get only 15 percent of the benefits of the federal power system. Restoring the current level of exchange benefits would also be legally defensible because under a wide range of reasonable assumptions the regional exchange payment formulas set forth in the Northwest Power Act would yield annual payments to residential and small farm customers equal to or greater than \$325 million.

We urge you to take three actions. One, restore the \$325 million in residential exchange benefits through a legislative rider for FY 2008, and preserve and protect the \$2 billion in benefits received since 2001 by declaring those benefits lawful and not subject to refund. This would be a temporary fix until regional parties have the opportunity to resolve the issue for the long term.

For more OPUC information, see the agency's Internet web page – www.puc.state.or.us/

Developing a regional solution will take time, and every day that passes without relief costs IOU customers almost \$1 million. Congress has previously taken action to ensure that federal system benefits are not interrupted. In 1995, Congress enacted a rider to maintain residential exchange benefits when BPA's business plan was to eliminate them.

Two, call on the U.S. Department of Energy and BPA to halt action on the "Regional Dialogue" until the IOU customer benefit issue is resolved. The Regional Dialogue process is determining how BPA's customers will have access to the benefits of the federal system. We do not believe that process can go forward without resolving how IOU customers will share in those benefits.

Three, call on BPA Administrator Steve Wright to conduct a fair, open, and objective review of the average system cost formula and the 7b2 rate test and their underlying assumptions and modify them as needed to achieve a fair allocation of regional benefits. We believe that reasonable application of these mechanisms will yield results that support the current level of benefits for IOU customers. Without revised residential exchange program formulas, there will be no fair "regional solution" for IOU households and small farms.

Oregon has a great financial stake in the distribution of benefits from our regional power system. Three out of four households in Oregon are served by investor-owned utilities. They deserve no less than full and fair access to low-cost federal power.



Lee Beyer
Chairman
Commissioner



John Savage
Commissioner



Ray Baum