February 22, 2006
Press Release | Contact: Kristie Greco (202) 225-6416

WASHINGTON, DC—U.S. Rep. Peter DeFazio (D-Springfield), Co-Chair of the Northwest Energy Caucus in the House of Representatives, coordinated a letter from the bipartisan Caucus that was sent today to the Department of Energy and the Office of Management and Budget to protest recent proposals in the President's Fiscal Year 2007 Budget that would lead to rate increases for Northwest consumers. The letter was signed by 15 members from the Northwest, both Republicans and Democrats, including Caucus Co-Chairs Rep. Greg Walden (R-OR) and Rep. Doc Hastings (R-WA). The text of the letter follows:

Congress of the United States
House of Representatives

The Honorable Samuel W. Bodman
U.S. Department of Energy
1000 Independence Ave., SW
Washington, DC 20585

Mr. Joshua B. Bolten
Director
Office of Management and Budget
725 17th Street NW
Washington, DC 20503

Dear Secretary Bodman and Director Bolten:

We are writing to express the strong and unified opposition of the Northwest congressional delegation to the Fiscal Year 2007 budget proposal to increase electric rates in our region by nearly $1 billion. We also continue to be opposed to the third party financing debt reclassification that was repeated from last year's budget and sent to Congress in legislative form in June of last year. And, more generally, we want to express our extreme displeasure that the Office of Management and Budget (OMB) once again inserted provisions into the budget of the Bonneville Power Administration that are harmful to our region without so much as a single word of consultation or discussion with the Members of Congress who represent the impacted areas.

Regarding OMB's proposal to apply a portion of Bonneville's secondary sales revenue towards accelerated federal debt repayment, this proposal represents the worst of all worlds: it guarantees a rate increase, but, contrary to the stated rationale by OMB, the infrastructure investment benefits are purely speculative and not likely to materialize.

As we understand the OMB proposal, Bonneville would be prohibited from assuming any surplus sales revenue beyond $500 million a year when the Agency analyzes the probability of making its annual Treasury payment on time and in full (as the Agency has done for more than 20 years running) and sets its rates accordingly. What this means is that Bonneville will be forced to raise its baseline rates in order to meet its Treasury Payment Probability goal. This rate increase will be required regardless of whether there are any secondary sales revenues over $500 million.

Further, there is reason to believe that OMB vastly over-estimates the level of secondary sales revenue that would be available to repay debt and to provide resources for infrastructure investment. This, again, raises the question of whether OMB is imposing a guaranteed rate increase while manipulating the secondary sales revenues to make the resulting infrastructure investments appear more likely to occur than they actually are. OMB assumes secondary sales revenue of $668 million in FY2007, $588 million in FY2008, $583 million in FY2009, and $580 million in FY2010 and FY2011. By contrast, in its FY2007-2009 rate case, Bonneville assumes secondary sales revenues of $530 million in FY2007, $410 million in FY2008, and $390 million in FY2009. In other words, under Bonneville's assumptions, the OMB-imposed rate increase would yield only $30 million in accelerated debt repayment and possible additional infrastructure investment resources through FY2009.

According to a February 8, 2006, analysis by the Northwest Power and Conservation Council, the OMB proposal will result in a retail rate increase of at least 6.6 percent, raising power rates by $145 million a year, costing retail consumers an additional $26.13 a year (energy intensive industries will suffer even more), decreasing personal income in the Northwest by $109 million, and resulting in the loss of 1,120 jobs. Other analysts project a wholesale rate increase of ten percent or more. This economic blow to our region would be totally unwarranted.

The reality is that Bonneville and the region's ratepayers have made Treasury payments on time and in full for more than 20 years. In addition, Bonneville has voluntarily made more than $1.46 billion in early payments on its federal debt over the last couple of years. Contrary to OMB's current proposal, this was done without raising rates.

Although the FY2007 budget does not explicitly raise the issue of Northwest ratepayers supposedly being "subsidized" by federal taxpayers, earlier Bush administration budgets have raised the issue, and we understand OMB is making this argument in private discussions as a justification for the rate increase it is trying to impose. The subsidy argument is flat out wrong, and we would urge you to stop making it.

The claims that Bonneville is subsidized rest on the difference between the average interest rate on Bonneville's appropriated Treasury debt and the long-term market interest rates that prevailed during the late 1980s and into the 1990s (According to GAO, in 1996 Bonneville's appropriated Treasury debt was being repaid at an average interest rate of 3.5%; prevailing

Treasury rates were around 9%).

The region disagreed that the difference in interest rates that prevailed at the time represented a subsidy. But in order to put the perennial subsidy argument to rest, the Northwest congressional delegation negotiated a refinancing arrangement for Bonneville's debt with OMB, Bonneville and the Treasury Department. That agreement was first introduced into Congress in 1994 by Senator Mark Hatfield and Representative Peter DeFazio and finally enacted into law in 1996.

What happened was that the net present value of the stream of payments that Bonneville owed was calculated at that time. The interest rate was arbitrarily increased to a market rate (about 7.1%, which means Northwest ratepayers are paying an above-market interest rate today). The principal amount at the end of 1996 was reduced from $6.7 billion to $4.1 billion, but the effect of increasing the interest rate and reducing the principal amount was that the net present value of the stream of payments the Treasury would receive remained exactly the same. In other words, the taxpayer was no better or worse off as a result of the transaction with one important exception: Bonneville (and the region's ratepayers) agreed to pay an additional $100 million early in the new repayment stream, thus leaving taxpayers $100 million better off than they were before the refinancing legislation was passed. The $100 million benefit was confirmed by OMB.

The federal government also confirmed that this refinancing resolved the issue of supposed BPA "subsidies." Energy Secretary Hazel O''Leary''s September 15, 1994 letter transmitting the BPA Appropriations Refinancing Act to Congress, said:

""Benefits to the Government of this legislation are that it provides a minimum $100 million increase in the present value of Bonneville''s debt service payments to the U.S. Treasury. This increase represents agreement between ratepayers and the Government to resolve subsidy criticisms for outstanding appropriation repayment obligations...... Bonneville''s customers recognize that recurring subsidy criticisms must be addressed once and for all because of the risk they pose to Bonneville''s financial stability and rate competitiveness. The legislation includes assurances to ratepayers that the Government will not increase the repayment obligations in the future.""

Finally, as we have mentioned in the past, we are strongly opposed to the OMB proposal to change the accounting treatment of third-party financing arrangements Bonneville has used to finance transmission infrastructure improvements in the Northwest. On page 94 of the FY2007 budget, the Administration praises the Shultz-Wautoma electric transmission line project, which was funded in a deal between Bonneville and third-party investors. Yet, the OMB proposal to count such third-party arrangements against Bonneville's borrowing authority would effectively end these types of financing arrangements. This would effectively bring regional transmission investment to a halt or force dramatic electric rate increases.

This proposal makes no sense because contrary to OMB assertions, these third-party financial transactions create no taxpayer liability. Non-federal bonds backed by Bonneville, such as those issued by third parties, are secured by the ratepayers of the Pacific Northwest, not the United

States Treasury. In fact, these bonds specifically state, "[these] obligations...are not general obligations of the United States of America and are not secured by the full faith and credit of the United States of America." The proposal is also inconsistent with previous directives from OMB to Bonneville to seek third-party financing. And, it would limit Bonneville's ability to make capital investments, threatening regional reliability. Ultimately, the proposal would lead to Bonneville using revenue financing - that is, using rate increases to pay up front for capital improvements - a method of financing not used by any utility, public or private.

We have been extremely disappointed with OMB repeatedly ignoring the substantive concerns raised by members of the Northwest congressional delegation about these Bonneville-related proposals. We urge you to withdraw the proposal to raise rates by directing a portion of Bonneville's secondary sales to the Treasury for accelerated debt repayment and to withdraw the proposed legislation to change the accounting treatment of third-party capital investments arranged by Bonneville.

Sincerely,

/s/

Peter DeFazio
Doc Hastings
Norm Dicks
Greg Walden
Jim McDermott
C.L. "Butch" Otter
Darlene Hooley
Mike Simpson
Jay Inslee
David Reichert
Earl Blumenauer
Brian Baird
Adam Smith
David Wu
Rick Larsen

Members of Congress