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Study shows 20% savings over PSE with public power utility

OLYMPIA – With access to low-cost power from the Bonneville Power Administration, a new electric-service public utility district would be able to charge rates up to 20 percent lower than rates projected for Puget Sound Energy, according to a study released today by the Washington Public Utility Districts Association.

The analysis by EES Consulting, a Kirkland-based management consulting firm specializing in the energy and other natural-resource-based industries, found that PSE rates have gone up sharply over the past several years – nearly 25 percent since 2002, or almost twice the national average.

PSE now has the highest rates of any electric utility in Washington, with the exception of a small utility serving the islands of San Juan County, and is asking the Utilities and Transportation Commission for permission to raise residential rates another 8.25 percent.

More critically, the study found that PSE faces significant added costs for power in the future, while also needing to invest more than \$5 billion in new infrastructure over the next five years. This at a time when the company has a poor credit rating (BBB- with Standard & Poor's), making it more difficult and costly to borrow money for needed improvements.

The study was released as voters in Jefferson and Skagit counties are considering whether to authorize their local water-service public utility districts to also provide electricity, and voters on Whidbey Island are considering whether to form a new PUD to provide electricity to the island.

Those areas are currently served by PSE, which has agreed to be acquired by a foreign-based consortium of investors led by Macquarie Bank of Australia. The UTC is expected to decide whether to approve the sale, as well as PSE's pending rate increase, later this year.

“This is a significant undertaking by these three communities and the voters deserve solid information,” said WPUDA Executive Director Steve Johnson. “This study sheds light on the savings they can expect in the future with their own nonprofit public power utility.

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“We’re very proud of the fact that public utility districts provide affordable, reliable electric service to almost a third of the state’s population – most of it from clean, renewable hydroelectric resources – and every one of them at rates lower than PSE,” Johnson added.

The EES Consulting report is based on public information regarding PSE’s costs and future capital plans, including the utility’s integrated resource plan and rate filings with the Utilities and Transportation Commission.

EES also found that PSE faces potentially significant added costs at its coal-fired Colstrip Power Project in Eastern Montana, the utility’s single largest generating resource, because of concerns over greenhouse gas emissions and new state and federal regulations.

In contrast, the report notes, the Bonneville Power Administration has set aside 200 megawatts of low-cost power from the federal Columbia River hydroelectric system for new public utilities – enough power to meet the needs of more than 250,000 residential customers.

With access to low-cost BPA power, EES concluded that “a new public utility would be able to charge rates up to 20 percent less than the rates projected for PSE.”

In addition, EES found that public power utilities have other advantages that will help keep rates lower, including lower costs for capital improvements because of their tax-exempt status. While PSE is paying an average of 10 to 11 percent on its current debt, EES found that public utilities are borrowing money today at rates between 4 and 5 percent – a significant difference that can translate into big savings for PUD ratepayers.

Lastly, as nonprofit entities, public power utilities provide electricity “at cost,” while investor-owned utilities like PSE must charge rates that provide for a profit – or return on equity – to their shareholders. PSE rates currently include a 10.4 percent rate of return for its shareholder and the utility is asking the UTC for permission to increase that to 10.8 percent.

“Hopefully, this study will shed some light on some of the significant differences between public power utilities and Puget Sound Energy,” Johnson said.

The Washington PUD Association represents 27 public utility districts and Energy Northwest, a coalition of public power utilities that operates the Columbia Generating Station, the state’s only nuclear power plant, as well as wind, solar, hydroelectric and biomass generating facilities. For a full copy of the PSE rate comparison study, call (360) 741-2676 or go to www.wpuda.org.