Presidents Speech Delivered at the 74th Annual Meeting of the Benton Rural Electric Association

I hope that you have enjoyed the entertainment and activities that have been available so far in our program.

Our world is changing – the electrical industry is changing. These changes affect our Cooperative. This morning in the Tri-City Herald there was a story on the installation of more wind farms. We are hearing more about solar generation, and generation of electricity from biogas.

We have become heavily reliant upon information and technology. We have transitioned from an economy based on manufacturing to one which provides information and technology. That's why we think this year's Annual Meeting Theme of "I Want to Know" is particularly fitting. Knowledge is power, and knowledge is vitally important today in order for each of us to understand issues, to evaluate options, and to make informed decisions.
Never before have there been so many changes in such a short period of time. As an example, it wasn't that long ago residents were retiring their own generating plants to rely on convenient, reliable central station electrical service from their local utility like Benton REA.
Today, we are experiencing the installation of small solar and, in some cases, mini-wind generation on resident's property to supplement their energy purchases from their local utility.

Like you, "**I Want to Know**" what has changed to encourage the movement back to the days of privately owned distributed generation.
Certainly advances in technology are making distributed and renewable generation, such as wind and solar generation, more trouble free. However, the real catalysts in the last few years driving this renewed interest in distributed and renewable generation are state and federal mandates, tax subsidies and tax credits.

Like you, "**I Want to Know**" about recent state and federal laws that have promoted the installation of renewable distributed generation and how much it will cost me as a taxpayer. The Washington State Legislature has been quite active in passing legislation that provides significant tax credits and subsidies to those who install distributed and renewable generation. These state subsidies can exceed six (6) cents per kilowatt-hour, which is about what you are currently paying for electricity at your home. Add the federal subsidies that are in place and the total subsidy for renewable distributed generation can reach nearly seven (7) cents per kilowatt-hour. Today Benton REA pays about three point six (3.6) cents per kilowatt hour for electricity from BPA. This is roughly half the cost of energy produced by renewable distributed generation.

In addition, Initiative I-937 passed by Washington State voters now requires some utilities to purchase a certain percentage of their energy needs from qualifying renewable resources. Without a doubt these renewable resources are more costly. In fact, they are often several times more expensive than energy produced by conventional generating sources such as hydro-electric. To further exacerbate the problem some utilities are now required to purchase higher cost renewable energy in place of lower cost energy that is available from other sources such as Bonneville Power just to meet their threshold of renewable resource participation required under the law.

Like you, "**I Want to Know**" how the intermittent generation output of these renewable resources can be used effectively, and what are the impacts of integrating the intermittent output into the power system. The best performance of any wind farm in the northwest appears to be about 28%. This means that the wind generation produces only 28% of its installed capability.

Unfortunately, in addition to the relatively low availability of the wind resource, actual output from the northwest wind projects shows that wind generation is not typically available during the coldest or hottest days of the year, when energy demand is the highest and brownouts are most likely to occur. Recent operation of Northwest wind projects has revealed serious problems associated with shaping the intermittent output from wind farms to make the output a usable energy source available around the clock. In fact, the Bonneville Power Administration has indicated that the operating flexibility of the Columbia River Hydro-electric system has been exhausted in trying to integrate wind output to the northwest transmission grid. In other words the flexibility of storing water behind the federal dams when the wind blows to be release later when consumers need the energy is gone. In addition, it is projected that considerable natural gas generation will need to be installed in the northwest to accommodate the integration of more renewable generation such as wind to meet state and federal mandates.

The development and installation of renewable distributed generation, and the focus on grid connected renewable generation will ultimately increase the cost we pay for electricity. For example, let's take a closer look at wind power. Each wind tower costs approximately $2-3 million dollars. The actual non-subsidized cost of wind power generation is more than 10 cents a kilowatt hour or about 3 to 4 times the cost of power from other conventional sources. In fact, that is more than three times higher than the rate Benton REA pays the Bonneville Power Administration for wholesale power. Due to the political pressure and mandates to invest in renewable resources such as wind power, the Bonneville Power Administration has incorporated over 2,000 megawatts of wind power into its system. The current capacity of the BPA hydro system is about 7,000 MW. Unfortunately, as I mentioned earlier, the wind is very unpredictable and isn't always available, particularly during the coldest or hottest times of the year when electricity demand is at its highest. As a result, the Bonneville Power Administration acknowledges the capacity value of wind power is zero, meaning we can't rely on any of the wind power to meet peak demand. Yet, due to political pressure and renewable energy mandates, the Bonneville Power Administration will attempt to integrate another 3,000 megawatts of wind power in the future. The end result is higher electricity costs and a more unstable electricity system.

Like you, "**I want to know**" how the use of renewable resources will ultimately affect my cost of power in the future?
All of the decisions regarding wholesale power supply will ultimately impact the rates we pay for electricity. We are working hard to maintain stable retail electric rates during these times of transition. The last Benton REA retail rate change was a five percent reduction to residential rates implemented in January of 2007. While BPA will be raising wholesale rates in October of this year, Benton REA is not planning any retail rate increases until the spring of 2012. In part, because of recent litigation wherein the Bonneville Power Administration was required to pay back charges it had illegally collected from Benton REA and other utilities in the northwest, we are able to delay a retail rate increase until the spring of 2012.
However, the ongoing discussions at the state and federal level regarding legislation addressing green house gas reduction, renewable resource mandates, and carbon output reduction will all create considerable upward pressure on retail electric rates. While the Board of Benton REA is committed to maintain stable rates, it is clear that retail rate increases are on the horizon.

Like you, "**I Want to Know**" how much Benton REA retail electricity rates are going to go up in the next few years. Well here is the answer: We are hopeful that the Benton REA rate increase anticipated in 2012 can be a single digit increase. Your electric cooperative is doing everything it can to continue to operate efficiently and frugally. However the cost associated with the subsidies for renewable generation, the cost of legislation addressing; renewable resource

mandates, green house gases, and programs to reduce carbon emissions could be huge. All of this suggests that the retail electric ratepayer should prepare for rate increases in the near future.

Like you, "**I Want to Know**" what we can do? Here is the answer: Everyone needs to engage in these debates. Many of these decisions will have a financial impact associated with them and will ultimately cost the ratepayer more money. Therefore each of us has a vested interest. After all it is our money. This is where you come in. It is time that you sign up for the "I Want to Know" program. Through the "I Want to Know" program you will receive ongoing information on issues and matters that will affect electric power costs in the future. This information will allow you to discuss these issues with the policy makers and decision makers who are in charge. If you haven't already, please take time to sign up for the "I Want to Know" campaign at the booth at the back of the room. There will be a Benton REA employee at the booth to assist you as you sign up for the program before you leave the meeting today. Please make sure you sign up for the "I Want to Know" program. If we can help in any way call us. Our General Manager will also be addressing these and other issues in upcoming Ruralite articles.

Just like you, "I **Want to Know**." After all "That is the Cooperative Way."
Thank you