

Investor-Owned and Public Utilities



May 2011

How rates compare and why

The price a customer pays for energy depends on two factors – the cost of acquiring power and what it costs each utility to deliver that power to its customers.

Most publicly-owned utilities in the Pacific Northwest purchase low-cost electricity from the Bonneville Power Administration (BPA), a federal agency that sells wholesale power from federal hydroelectric and non-federal nuclear generation projects, all built decades ago. Since power costs are such a large part of a utility's rates, rates for public utilities are sometimes, but not always, lower than rates of investor-owned utilities (IOUs).



Avista's Kettle Falls Wood-Waste Generating Plant

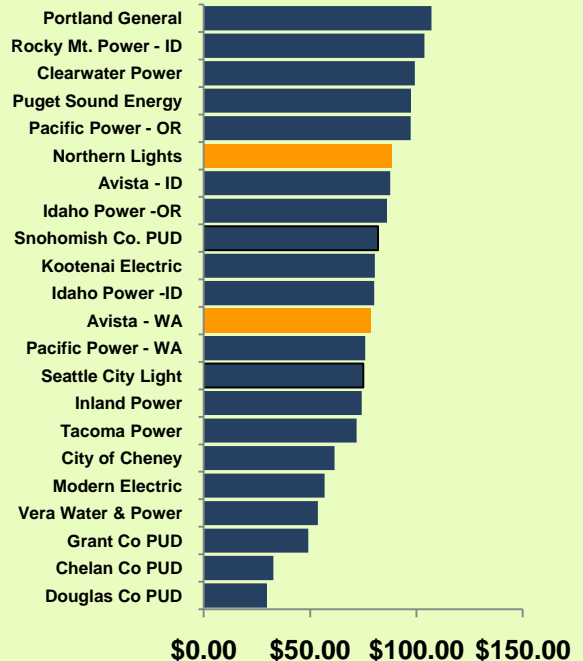
Avista generates approximately 85 percent of its own electricity using mostly hydro, plus other types of fuels from projects built as demand grew. Taken together, this fuel mix costs more than BPA power alone. However, using a diverse mix of generation provides a stable supply of energy.

Energy Costs are Rising

Regardless of whether a customer is served by an investor-owned utility or a public utility, **rates will continue to rise as new higher-cost resources are added to meet customer demand and renewable energy mandates, and to upgrade the energy delivery systems.**



Residential Rates for Electric Customers Washington, Idaho and Oregon (Based on 1,000 kWh/month)



Private enterprise

IOUs are part of the private enterprise system that drives our nation's economy. As such, they provide additional investment opportunities for individuals and for retirement plans for both government and private-sector employees through common stock, corporate bonds and other forms of financing.

Investor-owned utilities are also called private utilities or IOUs. Consumer-owned utilities can be public utility districts (PUDs) or Rural Electric Cooperatives (REAs or Co-ops) or municipalities.

IOUs like all private enterprise businesses, also pay a significant amount of federal and state income taxes, where applicable, to fund services for all citizens. Public utilities do not pay federal income taxes, and some, depending on the state, do not pay state income taxes. IOUs also pay property tax based on the value of company-owned property, while some consumer-owned utilities do not. **In total, Avista pays about \$100 million each year in taxes and is generally the largest property tax payer in all of the counties in which it has operations.**

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How we are different

Much of the ‘patchwork’ of services of investor-owned utilities like Avista and public, or consumer-owned, utilities came into existence up to 90 years ago when the nation was being electrified. While there are similarities between the two types of utilities, there are major differences.

Most utilities in the U.S., whether private or public, are a **monopoly**. It would be very expensive to duplicate facilities to serve a geographic area with more than one electric system.

Investor-Owned Utilities (like Avista)		Northwest Public Utilities
Shareholders , or investors, are owners of the company.	Ownership	A government body or customers/members of the utility are the owners.
Customer rates are set and regulated by state public utility commissions through a rigorous public process that includes customer participation.	Setting Rates	Customer rates are set by each utility’s governing body - board of commissioners or city council - that may include a member or public participation process.
Stockholders (investors), the sale of bonds and bank borrowing help finance the utility’s operations.	Financing	Public utilities have access to tax-free bonds, and co-ops have access to low-interest loans from the Rural Utilities Services (RUS) or National Rural Utilities Cooperative Finance Corporation.
Avista owns hydroelectric, biomass, coal and natural gas generation facilities and has contracts to purchase power, including wind power, from market suppliers. Purchased power meets about 15 percent of Avista’s customer needs.	Generation	Power is primarily purchased from the Bonneville Power Administration which markets power from federally-owned hydroelectric and non-federal nuclear generation projects. Some public utilities in the Northwest operate their own hydroelectric dams and other generation facilities.
Utility rates are set to recover costs and earn a reasonable return as profits for investors, in return for the risk they bear for investing in new facilities.	Profit/Net Revenue	Rates are set to recover costs and earn additional return to maintain bond ratings and invest in new facilities.



About 60 percent of the homes and businesses in the Northwest get their power from investor-owned utilities like Avista.

IOUs serve three-fourths of the nation’s electric consumers.

