

Electric City Power Financial Condition and Comparative Rates

Tuesday's Worksession presentation was constructed to answer three very specific questions. The questions were asked from the perspective of the "Financial Condition of the ECP Fund".

1. What is ECP paying to Southern Montana inclusive of energy supply, transmission, and G&A? –
Answer: \$22,862,864.74
2. What are customers paying to ECP inclusive of energy supply, transmission, and G&A? ---
Answer: \$20,421,595.01
3. What would ECP customers pay to NWE for energy supply and transmission expense? ----
Answer: \$22,596,581.76

The questions were brought before the City Commission and ECP Board by Ed McKnight and others. At the request of the City Commission I began compiling the information necessary to answer these specific questions.

In order to answer the questions, the presentation also provided background and technical information to assist in understanding the why's and how's of ECP's existence, as well as energy acquisition and sale processes. (E.G., The differences between "take or pay contracts" and tariffed rates). As anticipated, the presentation took approximately 1 hour, inclusive of questions and answers.

The main point taken away from the presentation by those in attendance centered on the Answers to Q1 and Q3 and the minimal variance in dollar amounts between the two. If the information is correct, then how can ECP and City representatives make the often repeated statement that ECP's customers are better served by ECP than by NWE?

\$2,174,987 Customer Benefit Savings Is Correct.

Payments to Southern include two components, the amounts directly attributable to ECP customers AND the amounts attributable to the energy supply purchased in anticipation of an expanding customer base. Due to Legislative and various other actions beyond the control of City and ECP representatives, the anticipated customer growth did not occur. As previously stated, ECP Customer payments to ECP, which are directly attributable to the energy the customer consumed, are significantly less than if they were customers of NWE. It should also be noted that ECP customer receipts exceed related Southern expenses. ECP customers are not receiving subsidized rates!

4. What **portion** of amount ECP paid to Southern Montana inclusive of energy supply, transmission, and G&A is **directly attributable to ECP customers**?-----
Answer: **\$19,932,398.75**
5. What are customers paying to ECP inclusive of energy supply, transmission, and G&A? ---
Answer: \$20,421,595.01
6. What would ECP customers pay to NWE for energy supply and transmission expense? ----
Answer: \$22,596,581.76

It is the amounts paid to Southern for energy supply in excess of customer needs that has placed ECP in its current financial condition. The customer base has now stabilized at an appropriate level that will assist in eliminating the deficit. A combination of customer rate increases and proposed supply rate reductions will have a positive impact on the bottom line. For instance, existing Customer contracts include annual rate increases. On the expense side, Southern's Board has approved a revised rate structure for ECP. The offer is conditioned upon meeting certain terms within a transitory period, and the approval of City representatives. The revised rate structure results in an immediate reduction in energy rates which would contribute towards removal of the deficit. There is no automatic recourse to the General Funds of the City as a means of removing the deficit. ECP customers are not only paying their direct expenses, their payments also contribute towards the reduction of the deficit which is not directly attributable to them.

Southern Wholesale Rates are Much Less Than NWE Rates

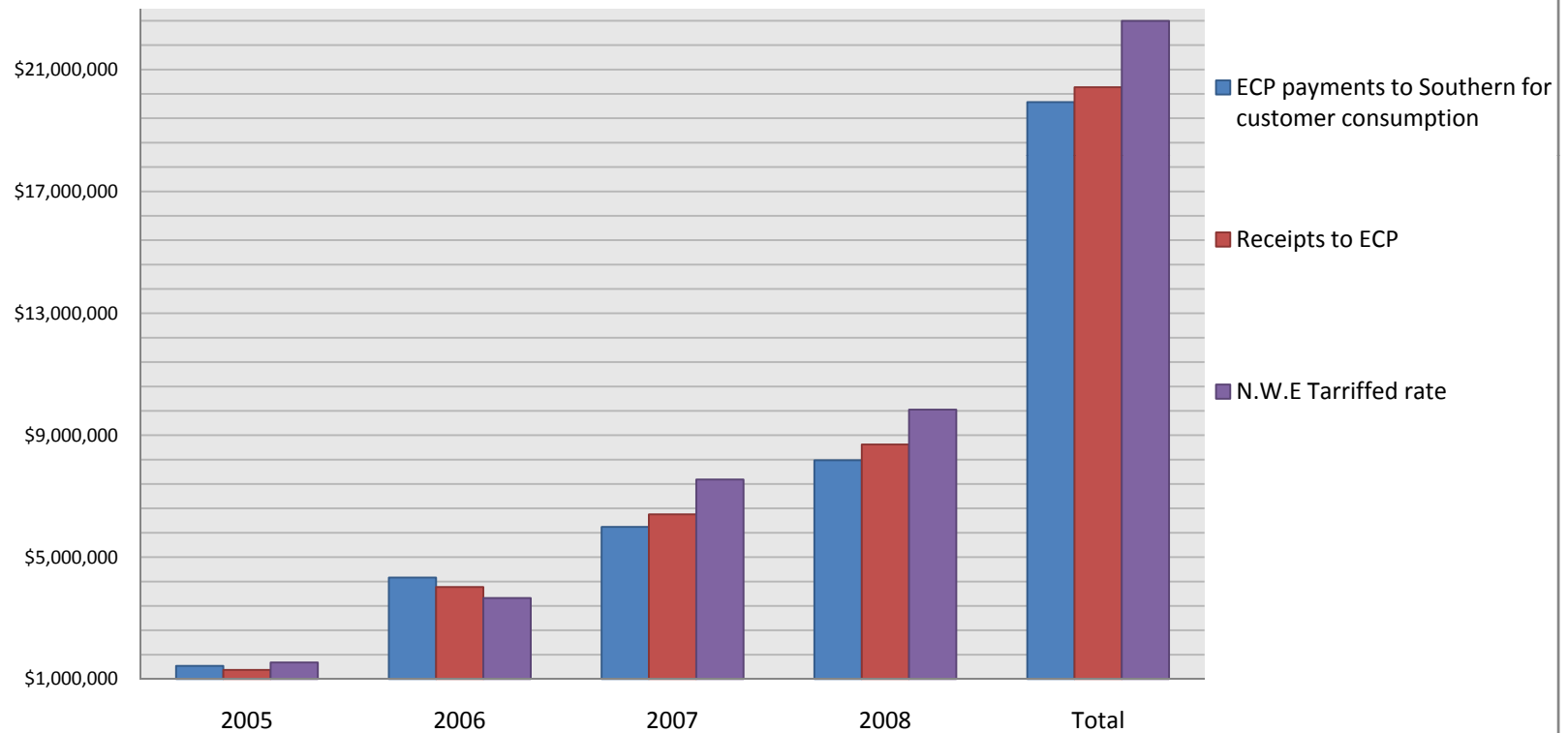
A cost comparison is very interesting at the wholesale level, when equal amounts of energy are purchased and charged at Southern's wholesale rate and NWE's tariffed rate. This paints a much different picture than the comparison requested and provided in answer to Q1 and Q2. It should be noted that NWE's tariffed rate most likely would not be the same rate that NWE would charge in the event NWE could enter into a wholesale transaction. It does however provide one possible outcome of a NWE purchase of the same amount of kwh's (457,089,000) as Southern has procured on behalf of ECP.

7. What is Southern's Wholesale Cost inclusive of energy supply, transmission, and G&A? –
Answer: \$22,862,864.74
8. What is NWE's tariffed cost for the same amount of kwh's inclusive of energy supply and transmission expense? -----Answer: \$28,566,289.46

Again, a NWE wholesale purchase cost is an unknown. Would a NWE purchase of 457,089,000 kwh's at a wholesale rate be great than Southern's wholesale purchase of the same amount of kwh's? Yes, this assumption can be supported in answers to Q4 and Q6. When comparing Southern to NWE in that situation, costs related to directly attributable kwh's, as supplied by Southern is 25% less than NWE's tariffed cost for the same quantity of kwh's.

\$2,174,987 Customer Savings to Electric City Power Customers

Customer Kwh's in \$'s
(Delivered by Southern, Paid to ECP, Compared to NWE)



Electric City Power Customers

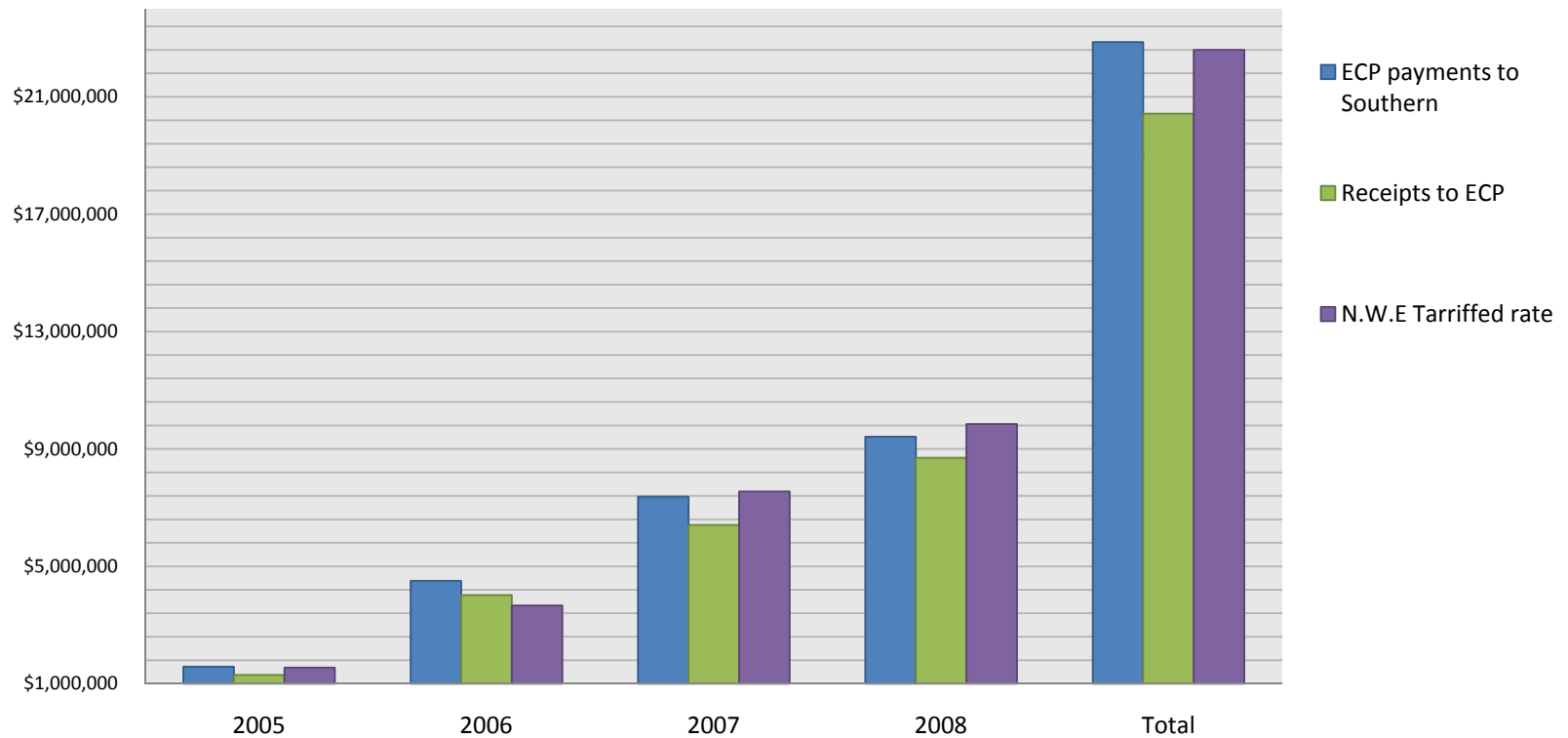
- Conclusion
 - Electric City Power customers have saved \$2,174,987
 - Total City savings - \$278,395
 - Total Public savings - \$695,160
 - Total Private savings - \$1,201,432
 - ECP customers have not been subsidized
 - Total ECP Charged Customers \$20,421,595
 - Total Paid by ECP to Southern \$19,932,398

Electric City Power

- Electric City Power purchased more power than customers bought
 - Legislative actions
 - Various other actions
- Resulted in \$266,284 difference between
 - Southern Wholesale purchase of 457,089,000 Kwh's; as compared to
 - N.W.E. retail purchase of 397,665,616 Kwh's

Electric City Power Financial Condition And Comparative Rates

ECP Kwh's in \$'s
(Delivered by Southern, Paid to ECP, Compared to NWE)



Southern Wholesale Rates Much Less Than NWE Tariffed Rates

Wholesale Kwh's in \$'s
(Delivered by Southern, Compared to NWE)

