



September 16, 2005

Stephen J. Wright
Administrator & CEO
Bonneville Power Administration, A-7
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Portland, Oregon 97208-3621

Allen Burns
Executive Vice President for
Industry Restructuring
Bonneville Power Administration, R-3
P.O. Box 3621
Portland, OR 97208-3621

Dear Mr. Wright and Mr. Burns:

Re: Proposed "Contract Lock" Agreements

Throughout all of BPA's attempts to create a Northwest RTO or regional grid entity, PPC has conditioned any potential support for those efforts on the protection of its members' existing transmission contract rights. PPC has repeatedly defined this protection as meaning that BPA would provide to its preference customers contractual assurance that current core contract rights, business practices, and rate treatments will remain unchanged and enforceable in the event that a regional entity commences operations.

BPA's public customers wanted to achieve a number of goals through contract lock:

- *Long-term preservation of customers' existing rights in a contract that could not be changed or vitiated by subsequent changes to BPA's or a new entity's tariffs.*
- *Assurance that BPA would and could fulfill those rights when it negotiated its new arrangements with a new entity.* Those arrangements would include both the Transmission Agreement between the new entity and BPA, and the new entity's tariff. It is thus essential that the contract lock be in effect before and during BPA's negotiations with the new entity.
- *Clear, practical, and effective mechanisms for the preference customers to enforce the contract lock during its entire term.*

PPC Letter re Contract Lock

Over the last nine months, representatives of PPC and BPA reached tentative agreement on the minimum, essential elements of Network and Point-to-Point transmission service that must be contractually assured in order to convince preference customers that Grid West will not jeopardize their ability to deliver federal power they purchase from BPA to their retail customers.

BPA, however, has put forward as its contract lock offer proposed agreements that do not provide its customers with the needed minimum assurances. BPA insists that it must be allowed to change its tariff in ways inconsistent with the contract terms during the period between execution of the contract and BPA's execution of a transmission agreement with Grid West. BPA also insists that the Administrator make the ultimate decision whether the contract terms are consistent with BPA's tariff and its agreement with Grid West.

In short, the proposed contracts do not contain clear, practical, and effective means for the customers to enforce them. Nor do the contracts provide customers with the assurances they sought regarding BPA's incentive to negotiate tenaciously with the new entity. The contract covenants are highly susceptible to interpretation and enforcement, without an effective dispute resolution. The contracts allow BPA to change its practices over the objections of its customers, and once contested practices are in place they will be very difficult to unwind, as BPA is likely to resist unwinding them.

Finally, the agreements would not "hold BPA's feet to the fire" in its negotiations of agreements and tariffs with Grid West. Overall, the proposed agreements do not provide BPA's preference customers with the needed assurance that their transmission needs will be met in the long term.

PPC appreciates the efforts of BPA staff who worked with public power on this project, and we regret that the result of the last several months of work does not meet the needs of PPC's members. PPC pledges to continue to work with BPA management to address the needs of its customers in a constructive and meaningful way going forward.

Sincerely,



Marilyn Showalter
Executive Director

cc: PPC Executive Committee