



November 10, 2008

Steve Wright, Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

Re: Revised Resource Amounts for Pend Oreille (Submitted Via E-Mail)

Dear Mr. Wright,

At last week's Public Power Council meeting Pend Oreille presented a proposal to reduce its resource amount for its Box Canyon for purposes of calculating the High Water Mark. It was presented at that meeting that absent a change to Pend Oreille's resource amount, it would be exposed to ~30% Tier II power in 2012. Based on that presentation, the PPC approved the change. BPA requested that Pend Oreille receive comments from PPC, Slice customers, NRU, PNGC, and SUB. SUB's understanding is that it was singled out due to the comments SUB submitted on HWM resources in BPA's prior public process.

Background

The issue of resources under the new contracts has been a sensitive one and SUB has requested information on resources for a number of years. It is unfortunate that we are at this stage of the long-term contract process and resources are still unresolved. SUB signed its new long-term contract based on certain representations and it is understandably uncomfortable that the numbers keep shifting after the process has been completed. While SUB has contacted Pend Oreille representatives and BPA, the numbers remain unclear and SUB believes that BPA should provide a full accounting of the resources and loads of Pend Oreille. SUB has requested this for all customers in the past and is not intending to single out Pend Oreille in this discussion (and is only doing so because the focus at this time is on Pend Oreille).

Pend Oreille's Resource Mix

SUB is aware of two larger resources that Pend Oreille has – Box Canyon and a portion of the Boundary. Because the issue at hand is a broader one of equity, it is important to look at the treatment of Pend Oreille's resources as a whole.

Boundary, as SUB understands it, it owned by Seattle and Pend Oreille gets a portion of the boundary resources. The Boundary resource is a 5(b) resource for Seattle. However, Pend Oreille's portion is used to serve, at its election, to a New Large Single Load. During the process for determining resources for HWM calculation, SUB observed that while Pend Oreille's share of Boundary was not included as a resource, it was shown as a negative resource for Seattle.

Based on information provided by BPA (and without additional information), if one were to view Seattle and Pend Oreille as one utility, the 5(b) Boundary resource is being diverted to serve the NLSL and, in effect, the NLSL is being served by PF power. This would be identical to SUB having a negative resource which is used to serve a load which for which the load and the resource were not included in the HWM calculation, but the negative resource on one side of the balance sheet resulted in SUB getting a higher Contract High Water Mark.

During the process for determining resources for the contract high water mark, Seattle's Boundary resource was reduced by another 10 aMW (increasing Seattle's HWM). On Pend Oreille's side of the balance sheet it appeared the increase in the Boundary resource disappeared because it was used to serve a NLSL. Tracking the Pend Oreille/Seattle Boundary transaction, SUB's concern is that a 5(b) resource is being converted somehow to a 9(c) resource and lost in the calculations of CHWM – to the detriment of non-generating utilities.

SUB raised this issue during the resource close out summary and BPA's response was that "this issue is a 5(b)/9(c) issue that is addressed in the Tiered Rates Methodology or the Regional Dialogue contract process, and as such is out of the scope of this Close-Out Summary."

What Appears to Be Happening

After talking with Pend Oreille, what appears to be happening is that as Boundary resources to Pend Oreille go up, the amount of Box Canyon resource used to serve NLSL goes down and the amount of Box Canyon used to serve general service load goes up. This is not transparent in BPA's documentation, would have been very useful, and SUB would appreciate an expanded explanation in the future on this type of question.

The end result, SUB believes, is that as Seattle's Boundary resource goes down (increasing Seattle's HWM), and Pend Oreille's Box Canyon goes up to serve General Service load (reducing Pend Oreille's HWM).

If this is the case and if Pend Oreille would experience significant Tier II exposure due to the treatment of Box Canyon in its current contract, then SUB does not object to lowering total generating capability of the Box Canyon resource by 7.7aMW, provide however:

- 1) BPA show that historically as Seattle's negative resources associated with Boundary go down (increasingly negative) that Pend Orielle's resources to serve general service load (e.g Box Canyon) go up by the same amount, and
- 2) As part of (1), review that Seattle's Article 49 resource (-43.801aMW) and Seattle's Boundary Encroachment on Box (-7.870aMW), are both accounted for in the changes to Pend Oreille's resources to serve load over time, and:
- 3) BPA demonstrate that absent a change, Pend Oreille would experience significant Tier II exposure that is disproportionate compared to other utilities assuming that Pend Oreille were to have raised this specific Box Canyon resource issue in the resource close out process for Contract High Water Mark determinations.

A point of clarification: SUB is concerned that Seattle's boundary encroachment on Box Canyon is shown as -7.870 aMW but Pend Oreille's figure is backwater figure is 3.6aMW. If these numbers are related, why to they not match? Why isn't Pend Oreille's figure 7.870aMW?



SUB requests that BPA send the results of the above analysis to SUB and provide the analysis to other customers upon request.

If conditions 1, 2, and 3 are not satisfied, then SUB reserves the right to object to the treatment of the Box Canyon resource.

This resolution of the Box Canyon issue should not be used as a pretext for revisiting other non-federal resource determinations made by BPA during the Regional Dialogue process, nor as a precedent by which bilateral issues between BPA and a customer. This approach should be the exception and should not become the rule.

SUB does not recommend re-opening the broader issue of resources for contract high water marks due to this specific process.

Regards,

Jeff Nelson
Springfield Utility Board

cc: via e-mail Bob Linahan (SUB), Loren Baker (Pend Oreille), Tina Ko (BPA), Geoff Carr (NRU)