

**PARTIAL TRANSMISSION SETTLEMENT AGREEMENT
Bonneville Power Administration 2012 Rate Case**

The undersigned signatories to this Partial Settlement Agreement hereby agree to the following:

1. In the Bonneville Power Administration (BPA) 2012 rate case, BPA will submit a proposal (Settlement Proposal) to establish rates for transmission services for fiscal years 2012-2013 (Rate Period) (including alternatives for the Montana Intertie rate depending on whether BPA terminates the exchange in the Montana Intertie agreement) as shown in Attachment 1. The Settlement Proposal will also include the following changes to existing rate schedules, all shown on Attachment 2, and no other changes:

- a. A change in the rate for the Failure to Comply Penalty Charge from 1000 mills per kilowatthour to the greater of 500 mills per kilowatthour or 150% of an hourly energy index.
- b. Deletion of Customer-Served Load provisions from the Network Integration rate schedule and addition of a short-distance discount to such rate schedule.
- c. Modification of section E of the Integration of Resources rate schedule, Ratchet Demand Relief, to provide that Ratchet Demand relief is not available in the month in which the Ratchet Demand was established and that for such month the customer will be assessed charges based upon its highest hourly Scheduled Demand for the month.
- d. Modification of the definitions of Dynamic Schedule and Dynamic Transfer to be identical to the definitions that are adopted in the Dynamic Transfer Operating and Scheduling Business Practice.
- e. Removal of the words “Short-Term Firm and Non-Firm PTP Transmission” from the definitions of Daily Service and Weekly Service; and replacement of the definitions for Monthly Firm Service and Monthly Non-Firm Service with a definition of Monthly Service that reads as follows: “*Monthly Service* is service that starts at 00:00 of any date and stops at 00:00 at least 28 days later, but less than or equal to 364 days later.”

2. BPA recognizes that a number of parties advocate that BPA change the existing rate treatment of the costs of BPA’s share of Montana Intertie transmission capacity and the costs of the Eastern Intertie (such as by rolling into the Network some or all of these costs), and that those parties were planning on litigating this issue in the 2012 rate case. This settlement includes extension of the existing rate treatment of the Montana Intertie and Eastern Intertie (although it includes rate level alternatives for the Montana Intertie depending on whether the Montana exchange is terminated). However, BPA remains

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committed to giving parties a forum for making the case that BPA should adopt a different rate treatment for the Montana Intertie or the Eastern Intertie. Therefore, during the Rate Period BPA will hold public workshops to discuss the existing rate treatment and potential alternative rate treatments of the costs of BPA's share of Montana Intertie transmission capacity and the costs of the Eastern Intertie. BPA will include in its initial proposal in the 2014 rate case a proposal for the rate treatment of these costs, which may include the existing rate treatment for some or all of these costs or one or more alternatives.

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3. The ancillary services Regulation and Frequency Response Service, Energy Imbalance Service, Operating Reserve – Spinning Reserve Service, Operating Reserve – Supplemental Reserve Service, and Generation Imbalance Service, and all control area services, are not included in this settlement. All rates issues concerning these services will be litigated in the 2012 rate case. BPA reserves the right to propose changes to the rates, rate schedules, and associated general rate schedule provisions for these services, and the signatories to this settlement preserve the right to litigate all issues concerning these services.

4. The signatories acknowledge that BPA expects the costs of transmission service to increase in future rate periods because of, among other things, additional cyber and physical security requirements, repairs to aging equipment, and construction of new lines. The signatories do not waive the right to challenge proposed rate increases in future rate cases, and agree to collaborate with BPA in exploring ways to reduce rate pressures in future rate periods.

5. a) The Transmission Risk Analysis Model will not be part of the record in the rate case and will not be subject to discovery. Currently BPA has determined that if more than \$250 million of reserves attributed to Transmission Services (Transmission Reserves) were set aside for other purposes during the Rate Period, transmission rates would fail to meet BPA's treasury payment probability standard of 95 percent.

b) In its initial proposal, Power Services plans to rely on \$150 million in Transmission Reserves to mitigate risk. The signatories may present evidence and argument in the 2012 rate case that Power Services should rely on a different amount of Transmission Reserves to mitigate risk, from a minimum of zero to a maximum of \$250 million.

c) In establishing final rates for the Rate Period, the Administrator has the right to determine that the amount of Transmission Reserves that can be set aside for other purposes during the Rate Period, and still allow Transmission Services to meet BPA's treasury payment probability standard, is less than \$250 million (but not less than \$125 million). If the Administrator does so, the signatories may not argue to FERC or in any judicial forum that an amount of Transmission Reserves greater than the amount so determined by the Administrator could be set aside for other purposes during the Rate Period.

6. During the Rate Period, BPA will engage the signatories in discussions and will accept and respond to written comments regarding the following issues:

a. Commercial practices under which BPA allocates dynamic transfer capability (DTC), taking account the technical and operational requirements and DTC needed for self-supply and other regional initiatives;

b. Further development of methodologies to determine the availability of DTC;

c. Allocation of available DTC for the Rate Period (to be accomplished by April 15, 2011);

d. Ways to secure reliable and reasonable operational certainty for generators given the operational limits on the amount of DTC that BPA can make available;

e. Methodologies for determining the infrastructure requirements and cost allocations for increasing DTC;

f. The use and terms of dynamic transfer agreements to govern access to and use of DTC;

g. The appropriate use, if any, of the Northwest Power Pool Firm Contingent product code for wind; and

h. Ways that generators can operate to prevent or mitigate cumulative imbalances and patterns of under-delivery or over-use of energy. These discussions will not include discussions of the Persistent Deviation charge or the criteria for Persistent Deviation.

7. Before the start of the 2014 rate case, BPA will (a) work with interested transmission customers in an open and collaborative forum to define the parameters of a cost of service study that determines the costs of BPA's major transmission services, (b) complete an illustrative cost of service study using forecasted data from a recent fiscal year, and (c) share the cost of service model with customers to ensure clear and transparent cost of service determinations. BPA will use the methodology from the study in the initial proposal for the 2014 rate case to prepare rate designs and allocate costs among rate classes.

8. If BPA submits a rate proposal consistent with the terms of this Partial Settlement Agreement, the signatories agree not to contest in the 2012 rate case, or before FERC or in any judicial forum, any aspect of the Settlement Proposal or of BPA's rates or rate schedules, or any of the elements thereof or the methodologies and principles used to derive such rates. The signatories further agree to waive their rights to cross-examination and discovery with respect thereto, except in response to issues raised by any party in such proceeding that is not a signatory to this Partial Settlement Agreement. Execution of the Partial Settlement Agreement by any signatory does not constitute consent or agreement in any future rate proceeding to the transmission rates or rate schedule modifications included herein or to any underlying principle or methodology.

9. The signatories will move the Hearing Officer to specify a date, within a reasonable time of the prehearing conference in the rate case, by which any party to the rate case that has not executed this Partial Settlement Agreement must object to the settlement proposed in this Partial Settlement Agreement and identify each issue included in the Settlement Proposal that such rate case party chooses to preserve for hearing. If no rate

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case party objects to the Settlement Proposal and preserves issues for hearing, BPA shall propose to the Administrator that he adopt the Settlement Proposal in its entirety. If any rate case party does object to the Settlement Proposal, BPA may, but shall not be required to, revise the Settlement Proposal as it believes appropriate, either after such rate case party states its objection or after parties file their direct testimony. If BPA decides to revise the Settlement Proposal, the signatories, together with any other interested rate case parties, will meet promptly to discuss a new procedural schedule that they will propose to the Hearing Officer, allowing BPA a reasonable time in which to present a revised proposal and the parties a reasonable time to respond to such revised proposal. In that event, the signatories may contest any aspect of the revised proposal.

~~10.~~ If the Administrator establishes transmission rates in accordance with the Settlement Proposal and submits such rates to FERC for confirmation and approval under the applicable standards of the Northwest Power Act, the signatories will not challenge the confirmation and approval of the rates or any element thereof, including the methodologies and principles used to establish the rates, or support or join any such challenge, and will not challenge the rates or any element thereof, including the methodologies and principles used to establish the rates, in any judicial forum.

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~~11.~~ The signatories will not assert in any forum that anything in this Partial Settlement Agreement or any action with regard to this Partial Settlement Agreement taken or not taken by any signatory, the Hearing Officer, the Administrator, FERC, or a court, creates or implies any procedural or substantive precedent or creates or implies agreement to any underlying principle or methodology, or creates any precedent under any contract between BPA and any signatory.

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~~12.~~ By executing this Partial Settlement Agreement, no signatory waives any of its rights under the Federal Power Act or any right to pursue BPA tariff dispute resolution procedures consistent with BPA's tariff (including without limitation any complaint concerning implementation of BPA's tariff) or any claim that a particular charge, methodology, practice or rate schedule has been improperly applied.

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~~13.~~ Nothing in this Partial Settlement Agreement amends any contract or modifies rights or obligations or limits the remedies available thereunder.

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This Partial Settlement Agreement may be executed in counterparts.

_____ for

_____ Date _____

Party