



**Department of Energy**  
Bonneville Power Administration  
P.O. Box 3621  
Portland, Oregon 97208-3621

POWER BUSINESS LINE

June 6, 2001

**AUTHENTICATED**

In reply refer to: PT-5

Amendment No. 1  
Contract No. 00PB-12160  
SETTLEMENT AGREEMENT

Mr. John D. Haffey  
Executive Vice President and  
Chief Operating Officer  
Montana Power Company  
40 East Broadway Street  
Missoula, MT 59701-9394

Dear Mr. Haffey:

As a result of recent discussions between representatives of Bonneville Power Administration (BPA) and Montana Power Company (MPC), the Parties have agreed to amend this Agreement in order to reduce the amount of Firm Power to be provided by BPA and for BPA to make cash payments to MPC for such reduction.

Accordingly, BPA proposes the following:

**1. EFFECTIVE DATE.** This letter agreement (Amendment No. 1) shall become effective on the date of execution.

**2. AMENDMENT OF THE AGREEMENT.**

(a) Section 4(a) is deleted and replaced by the following:

“(a) **Total Benefits**

BPA shall provide to MPC a total benefit comprised of Firm Power and Monetary Benefit, both of which are expressed in annual average megawatts (aMW). This total benefit is as follows:

<u>Period of Time</u>	Total of Firm Power and Monetary Benefit for MPC ( <u>annual aMW</u> )
10/1/01 through 9/30/02	23.0
10/1/02 through 9/30/06	24.0
10/1/06 through 9/30/11	28.0

The allocation and disposition of this total benefit between Firm Power and Monetary Benefit is described in sections 4(b) and 4(c) below.”

(b) Section 4(b)(1)(A) is deleted and replaced by the following:

“(A) Subject to the terms of this Agreement, BPA shall make available and sell, and MPC shall purchase, Firm Power at a “flat” rate of delivery (100 percent annual load factor) during every hour under the RL Rate. The terms and conditions for this sale shall be as provided for in the Firm Power Block Power Sales Agreement, attached hereto as Exhibit A. The annual amounts of Firm Power are as follows:

<u>Period of Time</u>	Firm Power ( <u>annual aMW</u> )
10/1/01 through 9/30/02	12.0*
10/1/02 through 9/30/06	13.0

\*This amount reflects a reduction of 1 aMW (Reduction Amount). BPA shall pay MPC for such reduction pursuant to the formula contained in section 4(d) below.”

(c) Section 4(c)(3) is deleted in its entirety.

(d) A new section 4(d) is added as follows:

“(d) **Determination of Monthly Payment for Reduction Amount**

For the period that begins on October 1, 2001, and continues through September 30, 2002, the monthly payment for the Reduction Amount specified in section 4(b)(1)(A), as amended by this Amendment No. 1, shall be determined by the following formula:

$$MP = \frac{(\$20/MWh) \times 1 \text{ aMW (Reduction Amount)} \times 8,760 \text{ hours}}{12 \text{ months}}$$

(e) A new section 4(e) is added as follows:

“(e) **Payment Provisions**

BPA shall pay MPC the monthly Monetary Benefit as determined in section 4(c) and the Reduction Amount payment as determined in section 4(d). The sum of the monthly Monetary Benefit and the Reduction Amount payment shall be netted against the monthly payment amounts MPC owes BPA for Firm Power purchased in accordance with section 4(b). If such monthly sum exceeds the monthly amount MPC owes BPA, then BPA shall pay MPC either: (A) on the due date of the bill issued under Exhibit A; or (B) if MPC is not purchasing power under the Firm Power Block Power Sales Agreement within 30 days of the end of the calendar month for which Monetary Benefits are paid (Due Date). After the Due Date, a late payment charge is calculated at a daily, simple interest rate determined by dividing the Prime Rate for Large Banks, as reported in the Wall Street Journal, plus 4 percent, by 365. The applicable Prime Rate for Large Banks shall be the rate reported on the first day of the month in which payment was received. BPA shall pay by electronic funds transfer using MPC’s established procedures.”

(f) A new sentence is added to section 10 as follows:

“Reduction Amounts shall be treated in the same manner as Firm Power for purposes for the Conservation and Renewable Discount program and shall be eligible for such program under the same terms and conditions.”

(g) Section 4(a) of Exhibit A (Firm Power Block Power Sales Agreement) is deleted and replaced by the following:

“(a) **RL Product for Contract Years 2002 Through 2006**

PBL shall sell and make available and MPC shall purchase under the applicable RL rate: (A) 12 megawatts (MW) each hour of Contract Year 2002; and (B) 13 MW each hour for Contract Years 2003 through 2006.”

### **3. LOAD REDUCTION CONTINGENCY.**

(a) As of the execution date of this Amendment No. 1, the BPA Administrator has not issued any final rate decisions in Docket No. WP-02. In the event that the Load-Based Cost Recovery Adjustment Clause (LB CRAC), materially consistent with the Joint Customer Group and BPA staff proposal, is not adopted in the

Administrator's final Supplemental Record of Decision, section 2 of this Amendment No. 1 shall terminate effective October 1, 2001, and the provisions of section 4 of this Agreement, unmodified by this Amendment No. 1, shall remain in effect.

- (b) If, in calculating the LB CRAC (excluding true-ups) applicable for the period October 1, 2001 through March 31, 2002, pursuant to section F(1) of the General Rate Schedule Provisions (GRSPs), BPA is able to meet either criterion (1) below (through contracts executed no later than 7 calendar days prior to the final workshop explaining the calculation of the LB CRAC for the period from October 1, 2001, through March 31, 2002), or criterion (2) below, then this Agreement shall remain in effect. If BPA fails to meet both criterion (1) and criterion (2) below, then section 2 of this Amendment No. 1 shall terminate effective October 1, 2001, and the provisions of section 4 of this Agreement, unmodified by this Amendment No. 1, shall remain in effect.
- (1) BPA includes in the calculation of the LB CRAC (excluding true-ups) no more than 2,200 aMWs (including all purchases made by BPA prior to April 10, 2001) per month of market power purchases for meeting LB CRAC augmentation on average for the period October 1, 2001, to March 31, 2002, where market power purchases for purposes of calculating the application of this contingency clause do not include: (A) power buy-backs of public agency and cooperative customers, investor-owned utilities, or direct service industrial customers; or (B) power purchases from public agency and cooperative customers, investor-owned utilities, or direct service industrial customers to the extent such buy-backs and purchases were executed between April 10, 2001, and the final date for execution of contracts used in the calculation of the LB CRAC for the period from October 1, 2001, through March 31, 2002.
- (2) The rate after application of the LB CRAC (excluding all true-ups) is no more than 1.87 times the Priority Firm (PF), Residential Load (RL), and Industrial Firm Power Targeted Adjustment Charge (IPTAC) rates.

In the event that contracts executed between April 10, 2001, and the final date for execution of contracts used in the calculation of the LB CRAC (excluding true-ups) for the period from October 1, 2001, through March 31, 2002, exceed the amount necessary to reduce market power purchases below 2,200 aMW per month in criterion 1, such additional load reductions shall be used to reduce the level of the LB CRAC.

- (c) If, in calculating the LB CRAC (excluding true-ups) applicable for the period April 1, 2002 through September 30, 2002, pursuant to section F(1) of the GRSPs, BPA is able to meet either criterion (1) below (through contracts executed no later than 7 calendar days prior to the final workshop explaining the calculation of the LB CRAC for the period from October 1, 2001, through March 31, 2002), or criterion (2) below, then this Agreement shall remain in effect. If BPA fails to meet both criterion (1) and criterion (2) below, then section 2 of this Amendment No. 1 shall terminate effective April 1, 2002, and the provisions of section 4 of this Agreement, unmodified by this Amendment No. 1, shall remain in effect as of April 1, 2002.
- (1) BPA includes in the calculation of the LB CRAC (excluding true-ups) no more than 2,200 aMWs (including all purchases made by BPA prior to April 10, 2001) per month of market power purchases for meeting LB CRAC augmentation on average for the period April 1, 2002, to September 30, 2002, where market power purchases for purposes of calculating the application of this contingency clause do not include: (A) power buy-backs of public agency and cooperative customers, investor-owned utilities, or direct service industrial customers; or (B) power purchases from public agency and cooperative customers, investor-owned utilities, or direct service industrial customers to the extent such buy-backs and purchases were executed between April 10, 2001, and the final date for execution of contracts used in the calculation of the LB CRAC for the period from October 1, 2001, through March 31, 2002, or are extensions of such buy-backs or purchases that were executed prior to April 10, 2001, and are extended prior to calculation of the LB CRAC for the period from April 1, 2002, through September 30, 2002.
- (2) The rate after application of the LB CRAC (excluding all true-ups) is no more than 1.87 times the PF, RL, and IPTAC rates.

In the event that contracts executed between April 10, 2001, and the final date for execution of contracts used in the calculation of the LB CRAC (excluding true-ups) for the period from October 1, 2001, through March 31, 2002, or extensions of buy-backs or purchases that were executed prior to April 10, 2001, and are extended prior to calculation of the LB CRAC for the period from April 1, 2002, through September 30, 2002, exceed the amount necessary to reduce market power purchases below 2,200 aMW per month in criterion (1), such

additional load reductions shall be used to reduce the level of the LB CRAC.

- (d) If, during the period October 1, 2001, through September 30, 2003, the amount of power forecast to be delivered by BPA to the direct service industrial customers in the calculation of the LB CRAC (excluding true-ups) exceeds 400 aMWs per month on average for any six-month period used in calculating the LB CRAC, then section 2 of this Amendment No. 1 shall terminate on the first day of such six-month period, and the provisions of section 4 of this Agreement, unmodified by this Amendment No. 1, shall be in effect as of the first day of such six-month period.
- (e) If the amount of power actually delivered to the direct service industrial customers exceeds 400 aMW per month on average for any six month period as determined by BPA through written notice to its customers or during the true-up of the LB CRAC, then section 2 of this Amendment No. 1 shall terminate effective on the first day of the month following such determination, and the provisions of section 4 of this Agreement shall be in effect as of the first day of the month following such determination.
- (f) BPA acknowledges that MPC may acquire the output of new generating resources or purchase firm power to meet the load reductions agreed to in this Amendment No. 1. If such new generating resources were energized or such purchases were made after April 10, 2001, BPA hereby determines that, through reasonable measures, the firm planning capability of such resources in the amount of the load reductions agreed to in Amendment No. 1 cannot be conserved or otherwise retained for use in the region for the period after the load reduction provided in this Amendment No. 1 expires or terminates through September 30, 2006. MPC shall identify their newly added post April 10, 2001, resources or purchases and their firm planning capability by written notice to BPA by September 30, 2001, or as otherwise mutually agreed. BPA further determines that the use of any such non-hydroelectric resource, that would otherwise be considered a market resource under BPA's policy implementing section 9(c) of the Northwest Power Act, to meet loads in the region resulting from load reductions in section 2(b) above shall not be considered a regional resource as a result of such use. This paragraph shall remain in effect subsequent to the expiration or termination of the load reductions in section 2(b) of this Amendment No. 1.

If the foregoing is acceptable, please arrange to have both originals signed and return one original to me by June 15, 2001. The remaining original is for your files.

Sincerely,

**/S/ LARRY KITCHEN**

Senior Account Executive

Name Larry Kitchen  
(Print/Type)

ACCEPTED:

MONTANA POWER COMPANY

By **/S/ JACK HAFHEY**

Name John D. Haffey  
(Print/Type)

Title Executive Vice President  
and Chief Operating Officer

Date **06-19-01**

(PBLLAN-PTS-5-W:\PSC\PM\CT\10% Amendment MPC.DOC) 06/06/01