



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

POWER SERVICES

March 31, 2010

In reply refer to: PTL

To regional customers, stakeholders and other interested parties:

In a January 12 letter to the region, the Bonneville Power Administration announced it was considering amending its agreement with Iberdrola Renewables for purchase of the energy and attributes generated by the Stateline Wind Project in Umatilla, Ore. The amendment would modify responsibilities for wind balancing charges and generation imbalance costs and risks.

BPA sought comments on its proposed amendment through Jan. 25. A summary of comments received—from the Public Power Council (PPC) and Snohomish Public Utility District (Snohomish)—and an explanation of how BPA further modified the amended contract in response to the comments is provided below. BPA and Iberdrola signed the amended contract in late March. Amendments were effective March 31.

Capacity costs of wind integration

The PPC indicated it wanted to further discuss BPA's forecasts of balancing capacity prices used to evaluate the economic value of the proposed revisions. BPA is willing to discuss its assumptions on the future costs of balancing capacity in the region with the PPC. BPA's point of contact for such discussions is Deb Malin. Her contact information is provided at the end of this letter.

Seller's responsibility for costs to deliver the project's energy to the BPA Delivery Point (Section 4.3)

Both the PPC and Snohomish commented that the operation of section 4.3 of the amendment was too narrow in listing specific transmission rate provisions. They suggested that the obligation should be broadened to include all current and future costs of bringing the energy to the BPA Delivery Point. BPA and Iberdrola agreed that it was the parties' original intent to assign all costs associated with delivering the energy *to* the BPA Delivery Point, other than explicitly agreeing to cost sharing to the seller (Iberdrola). All costs associated with moving the energy *from* the BPA delivery point would be assigned to the purchaser (BPA). BPA agreed with the PPC's and Snohomish's suggested changes. BPA broadened the scope of section 4.3 to reflect the parties' original intent.

BPA incremental cost during negative price conditions.

The PPC commented that the amended contract's schedule to meter true-up provisions does not address negative market prices. While BPA agreed that the amended contract's zero-price-settlement carve-out for over-generation during spill conditions could lead to an inequitable

outcome during negative markets in the absence of spill conditions, BPA expects spill conditions to occur during almost all negative market price scenarios. BPA explored other options but those options created greater financial risks than the small potential risk of a negative market price when BPA was not spilling due to lack of markets. Consequently, BPA did not alter the proposed definition of “BPA Incremental Cost.” However, BPA recognizes unintended inequities may be created by future generation imbalance rate schedules. Therefore, BPA added a statement of intent to the schedule-to-meter true-up provisions (section 4.2) to clarify that it was the parties’ intent to create an equitable means to settle discrepancies between scheduled and metered energy while providing appropriate economic incentives for accurate scheduling.

Sharing wind integration expenses is not precedent setting.

Snohomish commented that BPA’s proposal to pay 50 percent of the wind balancing services levied by BPA Transmission Services against BPA’s share of Stateline should in no way set a precedent or challenge the validity or legality of BPA’s Wind Balancing Service charges. BPA agreed and noted that the agency agreed to cover 50 percent of the costs for the Stateline project in exchange for specific changes to the Stateline power purchase agreement. It does not affect the agency’s ability to apply wind balancing service charges to other wind plants in BPA’s balancing authority.

If you would like more information on the amended contract, please call Deb Malin at (503) 230-5701.

Sincerely,

/s/ Larry Kitchen

Larry Kitchen
Manager, Long-Term Sales and Purchases