



## Department of Energy

Bonneville Power Administration  
Spokane Customer Service Center  
707 West Main, Suite 500  
Spokane, Washington 99201-0641

POWER SERVICES

November 24, 2008

In reply refer to: PSE/Spokane

Mr. Robert Geddes, General Manager  
Pend Oreille County Public Utility District  
P.O. Box 190  
Newport, WA 99156

Dear Bob:

Over the last few months Pend Oreille Public Utility District (Pend Oreille) has expressed concern about its potential inequitable exposure to Tier 2 under a Regional Dialogue (RD) contract. Bonneville Power Administration (BPA) has explored this issue with Pend Oreille and agrees there is a potential the Contract High Water Mark (CHWM) calculation in the Tiered Rate Methodology (TRM) could produce a result that would leave Pend Oreille with a significantly higher percentage of its net requirement at Tier 2 rates than other customers. To mitigate this potentially disproportionate outcome Pend Oreille has requested an adjustment to its Box Canyon resource amount listed in Attachment C of the TRM. After an analysis, BPA recognizes that Pend Oreille's Tier 2 exposure is directly related to both the Box Canyon resource amount and the FY 2010 actual measured Fiber Mill load designated as a Pend Oreille New Large Single Load (NLSL).

To avoid a potential for inequitable Tier 2 exposure and to better reflect the actual effect of the Fiber Mill load in FY 2010, BPA has agreed to propose a change to the TRM through the expedited process provided in Chapter 12 for changes made prior to February 1, 2009 that will address your concerns. BPA expects that the work Pend Oreille has already done to align public power around such a solution will prove useful in the formal change process which requires the agreement of representatives designated by the Public Power Council. If the concept is accepted through this process, BPA will introduce the change in a subsequent 7(i) process to modify the TRM.

Specifically BPA will propose an adjustment to the Box Canyon Dam resource amount listed in Attachment C of the TRM for Pend Oreille used to serve its general requirements load (loads that would otherwise be eligible to purchase at PF rates) from 32.203 aMW to 24.479 aMW. This represents a total Box Canyon output adjustment from 53.624 aMW to 45.9 aMW. BPA will also provide a footnote to the 24.479 aMW number that it will be further adjusted in the CHWM calculation to account for any change in the NLSL load from the 63.661 aMW amount assumed at the time the 24.479 aMW number was calculated. Then, to calculate Pend Oreille's CHWM, BPA will perform the following calculation –

- $\text{FY2010 Total Retail Load} - \text{FY2010 measured NLSL} = \text{CHWM load}$
- $\text{CHWM load} - \text{Box Canyon resource used for general service load} = \text{CHWM}$
- $\text{Where the Box Canyon resource amount used for general service load} = 24.479 \text{ aMW} + (63.661 \text{ aMW} - \text{FY 2010 measured NLSL})$

As further clarification, the amount of Box Canyon serving the NLSL will remain at 21.421 aMW and the amount serving the remainder of Pend Oreille's Total Retail Load in Attachment C will be reduced to 24.479 aMW. In FY 2011 the CHWM calculation will adjust the allocation of the Box Canyon resource amounts between NLSL and non-NLSL loads based on the measured FY 2010 load amounts of the NLSL and will result in the resource amount available to serve Pend Oreille's non-NLSL load being adjusted as well. If the measured NLSL is higher than 63.661 aMW (the forecast FY2010 NLSL) this will result in a reduction of the 24.479 aMW amount and a higher CHWM. If the measured NLSL load is lower than 63.661 aMW this will result an increase in the 24.479 aMW amount and a lower CHWM.

In regards to your request to change the Box Canyon resource amount used in the Slice Percentage Determination of Requirements Load (SPDRL) calculation, BPA does not intend to change the SPDRL in Pend Oreille's RD contract at this time. It is expected customers that sign RD Slice/Block contracts will meet on their own sometime after the first of the year to allocate any unsold Slice amount using the process defined in Exhibit Q of the Slice/Block contract. If at that time, all RD Slice customers agree to a change of Pend Oreille's SPDDRL to reflect the new Box Canyon amount, BPA will revise the SPDRL stated in Exhibit Q of Pend Oreille's Slice/Block contract. The revised SPDRL will be used in computing a revised Preliminary Slice Percentage for all RD Slice customers.

We consider this approach to adequately address Pend Oreille's equity concern and will be working with you after the first of the year through the necessary processes to officially reflect this agreement in the appropriate formal documents.

Sincerely,



Carol S. Hustad  
Account Executive

cc:

Ms. Sandy Hunt  
Mr. Loren Baker