



TCMS-001

August 24, 2009

Mark Gendron, VP of Requirements Marketing
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208

Re: Regional Dialogue Issues

Dear Mark:

We are asking BPA to make the playing field more level during the first Purchase Period. The lack of firm transmission on BPA's transmission presents unique challenges to customers trying to bring non-federal resources to load, especially purchased power resources, during this first time period. We hope that an agency-wide approach to this problem can result in success for both BPA and customers during this first period.

One primary goal of the Regional Dialogue has been to encourage customers to develop regional generating infrastructure on a level playing field with BPA. To this end, PNGC's Board of Directors has devoted significant resources to establish the capability to develop non-federal resources. Purchased power resources will always make up a portion of that non-federal resource as a way to both diversify our resource portfolio and take care of odd lots of power needs. Due to the economic recession, PNGC's Transition Period AHWM Loads are significantly lower than originally expected. This unexpected reduction of AHWM Load obligation has both positive and negative impacts. The small AHWM amounts will allow PNGC more time to develop resources. PNGC Power's Board has directed staff to use both a resource, the Coffin Butte 2 plant, and purchased power to meet its load obligations in the first Purchase Period.

Crucial to the success of the Regional Dialogue is access to firm transmission in order to bring resources to load. The reduction in AHWM Load obligation will provide relief to pressure on the constrained federal transmission system. BPA has made significant strides in improving the transmission system through its Network Open Season (NOS) process. As a result, BPA is now undertaking a serious build-out of the transmission system averaging around \$585 million per year for the next 5 years on major expansions and improvements. This construction will go a long way in relieving the very constrained transmission system and allow BPA to positively answer requests for long-term firm transmission in the future.

The lack of long-term firm transmission available now for customers to bring even limited amounts of power to serve AHWM load presents significant challenges to the level playing field concept during the first Purchase Period. Because of the size and flexibility of BPA's power

system, BPA can acquire purchased power resources using non-firm transmission and deliver them to customers as power sold under the Tier 2 rate without any risk of interruption or Unauthorized Increase Charges (UAI). Lack of firm transmission coupled with restrictive provisions in the Transmission Scheduling Service (TSS) and Transmission Curtailment Management Service (TCMS) place customers at considerably more risk when they purchase power resources similar to those BPA might purchase. Below are some solutions to address the real world problems we have discovered as we attempt to work within the Regional Dialogue contract framework.

Even with the reduced AHWM Load amounts, we are on a very tight timeline to comply with the Regional Dialogue contract requirements for dedicating resources. Our Board will have to approve any purchased power arrangements at our October Board meeting or at a special Board meeting in October in order to make the November 1, 2009 deadline for Dedicating Resources for the first Purchase Period contained in the Regional Dialogue power contracts (RD contracts).

The Specifics

For this first Purchase Period, the lack of firm transmission makes this truly a transition period. If a customer cannot obtain Network Resource designation for a resource or purchase (i.e. obtain long-term firm transmission under an NT contract), there are several restrictions in the RD contracts that pose risks that cannot be mitigated and are not faced by those purchasing Tier 2.

I. Restrictions that occur if Network Resource designation (i.e. firm transmission) is not obtained.

- a. Lack of certainty that BPA will offer of TCMS, Ex. F, Section 4.3.4.1.
- b. Lack of certainty that BPA will continue to offer service through the first Purchase Period.
 - i. BPA can rescind at its discretion (section 4.3.4.1.)
 - ii. BPA can rescind for too many curtailments (section 4.3.6.1.)
 - iii. BPA can rescind if a transmission service request is withdrawn, declined, or invalidated
 1. Ex. F, Section 4.3.4.2., Option 2
 2. Ex. F, Section 4.3.4.3., Option 1
 3. Ex. F, Section 4.3.4.4., Option 3
- c. If BPA terminates TCMS at its option, the customer has 10 days to replace this service.

If firm transmission is not available on the BPA transmission system, these restrictions impose enough uncertainty and risk that our Board and our lenders are unwilling to commit to even the simplest purchased power arrangement: a firm, flat block of power.

Solution:

BPA should commit to offer and provide TCMS for the First Purchase Period to Load Following customers (including transfer customers) who buy flat blocks of purchased power and are in the

process of designating the resource or purchase as a Network Resource. Customers genuinely want to secure firm transmission for their non-federal purchases. For NT customers there is no additional cost to obtaining this service since the billing determinants for NT are Total Retail Load (TRL) based, as opposed to resource-based billing determinants. However, BPA needs to recognize that the path to a Designated Network Resource may include having requests invalidated, having to withdraw and resubmit requests, and even being declined and having to reapply.

By making the TCMS service more workable for the First Purchase Period, BPA recognizes that the transmission system is temporarily limited thus making many of its conditions on the power side unworkable. The ability to use secondary NT on BPA's system puts non-federal purchased power on a level playing field with BPA's market purchases that it will sell under the Tier 2 rate.

II. Restrictions associated with scheduling deadlines

TSS, Section 4.1.1. – BPA's deadline requiring all schedules to be submitted by 8 am creates an unlevel playing field and is unrealistic in today's market. Our counterparties indicated that this was a non-starter for them. BPA staff indicated that the 8 am deadline is the earliest time that one BA (Idaho Power) requires schedules to be submitted, and thus it became the standard for all customer schedules.

Solution:

Put in general language about complying with current scheduling timelines in the RD contract exhibit and then document the scheduling deadlines by BA in a separate, written guidelines document. This approach will allow customers and BPA to be on a level playing field with BPA PS. For example, If Idaho Power has an earlier scheduling deadline, then it is earlier for all parties using Idaho but not for every BA. Just as BPA doesn't turn in its schedules for other BAs at the earliest time, customers should not have all their schedules due at the earliest scheduling time. Also, a hard time deadline *in the contract* puts us in breach of contract for a late schedule. A separate guidelines document can be easily updated as BA's change their requirements. This is how we operate today under our contract with BPA.

TSS, Section 4.2 – BPA's TSS requirements require us to submit real-time schedule changes to BPA PS by 45 minutes prior to the hour of delivery. Reserve coverage does not start until 30 after the hour. If there is a transmission or generation outage that occurs between 15 after and 30 after the hour, we have no opportunity to submit a schedule to cover this outage.

Solution:

BPA PS charges the Load Shaping rate instead of charging the Unauthorized Increase Charge (UAI) for transmission or power curtailments that occur between 15 and 30 minutes after the hour.

These relatively simple changes will allow PNGC to bring non-federal purchased power to serve their AHWM load in the first Purchase Period.

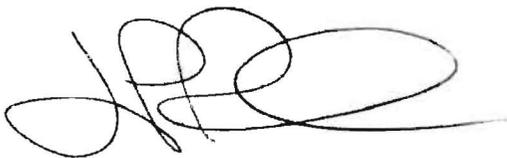
Other Issues that can be addressed after November, 2009

The realities of resource development are increasingly in conflict with the RD contract deadlines and requirements. We urge BPA to consider modification to the RD contracts that will make the development of non-federal resources workable. We want the Regional Dialogue to achieve the goal of allowing customers to develop new regional power infrastructure.

- 1) Timelines for resource dedication in the power contract are unrealistic and will have to be revisited. For example, declaring resources for the 2015-2019 period in 2011 is unworkable. If we miss the 2011 deadline for dedicating resources, the RD contract allows us to add dedicated resource mid-Purchase Period but only take RSS under the punitive condition listed below.
- 2) Punitive conditions for mid-purchase period of RSS are unnecessary and counterproductive to the goals of RD. If a customer adds a Specified Resource mid-Purchase Period, that customer is required to purchase RSS for the resource for the rest of the purchase period and the entire next purchase period. This could commit a customer to purchasing RSS for up to 8 years. As we gain more resources, we will be able to provide flattening services ourselves. The terms of RSS offer need to be revisited. Since RSS is only priced every two years, commitments for such long periods seem unnecessary and operate as market capture devices.

We appreciate BPA's willingness to work with us towards a diversified energy future. The region will be better off if more parties can develop generation infrastructure – one of the primary goals of the Regional Dialogue. PNGC's members have committed substantial resources to have the capability to develop and acquire resources. BPA is our key business partner and we must continue to work together towards an implementation that is successful for both BPA and its customers.

Sincerely,

A handwritten signature in black ink, appearing to be 'J. P. [unclear]', written in a cursive style.

Copy to:

Anita Decker - BPA
Claire Hobson - BPA
Brian Silverstein - BPA
Cathy Elhi - BPA
Brian Altman - BPA
John Saven – NRU
Scott Corwin – PPC