



Department of Energy

Bonneville Power Administration
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POWER SERVICES

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In reply refer to: P-6

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Gentlemen:

Let us start by thanking you both for your organizations' work with us to explore power service alternatives under the Regional Dialogue power sale contracts available for your members. Your diligence in these matters has helped us to work through a number of the challenges associated with making sure that our customers truly have credible alternatives to serve their loads beyond what will be provided at BPA Tier 1 Rates. It is our understanding that one of the alternatives you are exploring for at least FY 2012-2013 is to meet these power needs with non-Federal power purchased from the market. We also understand that you continue to explore generation development or acquisition alternatives. This letter will address both approaches.

As you know from conversations among our staffs, the standard commodity-type electric power purchases from unknown sources do not provide the certainty BPA needs to be able to make delivery arrangements for the power. The ultimate goal is to ensure that load is serviced over firm Network Integration Transmission Service, but there will probably be some circumstances under which firm transmission is not immediately available for certain resources. This letter provides clarity on a structure for delivery of market purchases under Network Transmission Service Agreements that will work well with the Transmission Scheduling Service (TSS) and associated Transmission Curtailment Management Service (TCMS). BPA will agree to certain changes that will apply to market purchases made by Load Following customers during either of the first two years of service under the Regional Dialogue contract, and will continue over the remaining years of any such market purchases, up to a total duration of five years.

Market Purchase Structure

Following is a brief description of an acceptable market purchase structure:

1. The customer purchases the non-Federal power as a firm flat annual block of at least one year's duration beginning FY 2012 or FY 2013, for a period of up to five years;
2. The customer requests the inclusion of the new Network Resource in its BPA Network Integration Transmission Service Agreement as a designated Network Resource at least

one year prior to the date of commencement of service and actively pursues firm Network Integration Transmission Service until granted; and

3. In order to obtain firm transmission the designated Network Resource must be requested:
 - a) at a specific generating resource, or
 - b) as a WSPP Schedule C contract delivered at the point of interchange between the BPA Balancing Authority Area (BAA) and an adjacent BAA for which BAA of origin is identified in the WSPP Schedule C contract, or
 - c) at the Northwest Market Hub if the power has been delivered to that point on firm transmission and the customer takes title to power at that point, or
 - d) at the point of interchange with an adjacent BAA where a sleeve has been arranged through a Mid-C Public Utility District. In this instance a “sleeve” is a delivery arrangement where a supplier with a BAA connected to the BPA BAA agrees to take in power from a source and make power available from its system in an equal amount and provides a new schedule from its system to the sink. The power source delivered to the Sleeving BAA is a sale consistent with the terms of a WSPP Schedule C contract.

Transfer Service Accommodations

If your members follow this approach, Power Services will seek designation of the customer’s market purchase as a Network Resource under its Network Transmission Service Agreement with other (non-BPA) transmission providers if the customer is served by BPA via transfer service. BPA also agrees that it will waive the requirement in Section 3.5 of Exhibit G “Principles of Non-Federal Transfer Service” of the Load Following Regional Dialogue contract which section provides that BPA will obtain and pay for transfer service only for Designated Network Resources that have been granted firm transmission service. Given the uncertainty over the period of time it may take Transmission Services or another transmission provider to grant firm transmission, BPA will agree to modify the proposed draft provisions for providing TCMS service only for these types of non-Federal purchases, so as to provide TCMS service for such purchases without the risk of BPA implementing the 168 hour and 10 event limitations. Other customers should face no cost exposure from this decision as TCMS is intended to be provided at the cost of the service. BPA further commits to provide the power amount to the customer regardless of whether the customer is served by transfer. This waiver shall be effective for purchases made during the initial two years of service as will the proposed modification of requirements for TCMS.

TCMS Availability

An additional clarification pertaining to TSS and TCMS is warranted. TCMS will not provide curtailment management service for curtailments exercised under BPA’s Dispatcher Standing Order (DSO) 216 or any curtailments of schedules by a BAA due to resource underperformance compared to its transmission schedule. BPA will take this fact into consideration when making its market purchases for service at Tier 2 rates.

The Sleeve

BPA Power Services also commits to facilitate a Mid-C purchase sleeve by developing the contractual arrangement for such service. We will inform you of the sleeve terms and costs that have been negotiated by the end of calendar year 2009, if not sooner. Additionally, BPA will include in the sleeved arrangement any long-term market purchases for one year or longer that BPA makes for its Tier 2 service obligations. Power Services commits to add such purchases to the NT MOA it executes with BPA Transmission Services so it can pursue firm transmission for such purchases.

Transmission Services

To facilitate the above-mentioned power arrangement, Transmission Services commits to the following:

- a) To pursue greater flexibility with regard to the number of TSRs permitted under the BPA Reservation Agent agreement.
- b) To clarify the Requesting Network Service Business Practice to allow for simultaneous applications for firm service across multiple BAAs.

The Backstops

Section 10.1 of the Tiered Rate Methodology (“TRM”) recognizes circumstances under which BPA may experience “unanticipated load” service requests in the event a customer’s new non-Federal resource is delayed. BPA believes that the TAC Charge described in section 10.1 may be used as a necessary backstop in a few situations, if firm transmission is delayed for a significant time period or if the sleeve mentioned above is not executable and the combination of the waiver of the Section 3.5 requirement in Exhibit G and modified TCMS is not a viable solution. BPA will develop and propose terms and conditions for inclusion of the TRM 10.1 TAC Charge in BPA’s general rate schedule provisions (GRSPs) in the first section 7(i) proceeding to implement the TRM. While BPA cannot commit to the specifics of such terms and conditions, such rate is intended to reflect the costs associated with power and services needed to serve such loads, similar to BPA’s current “Targeted Adjustment Charge”.

BPA also commits to provide an exchange as an additional necessary backstop if the circumstances warrant it. Through an exchange BPA would take your resource amounts into our system and provide equal amount of power to your load. BPA proposes to assess in collaboration with customers, no later than 90 days prior to the fiscal year when deliveries for a resource are set to begin, whether the TAC approach described above or an exchange is warranted.

TCMS Pricing

Finally, in the Regional Dialogue Final Policy on page 21, BPA stated a pricing principle that bears reiteration and additional clarification here:

To avoid biasing customers’ choices, BPA’s charges for non-transmission integration services for non-Federal resources will be the same as those included in Tier 2 rates based on similar resources.

The types of “non-transmission integrations services” BPA intended to imply by this statement were the package of resource support services we noted in the TRM: Diurnal Flattening Service, Forced Outage Reserve Service, and Transmission Curtailment Management Service.

Generating Resources

This letter largely focuses on various modifications to pre-existing policies and draft contract language that BPA is willing to modify for market purchases in the near-term. You have also expressed continued interest in developing or acquiring output from generating resources, both in the near and long term. We have previously addressed a specific request from NRU by letter dated April 13, 2009, where we committed to pursue an exchange for that specific resource, and also indicated that the exchange approach would likely apply to other similar resources. We appreciate that you are very committed to the development of resources in the region in the future, consistent with one of the key Regional Dialogue objectives. We will work collaboratively with you, and other customers, as you explore resource alternatives. BPA commits to work with you to develop the best plan of service for resources you are considering. When considering this plan of service, BPA will look at whether or not the proposed resource is one BPA would have pursued for its load service obligations. When developing this plan of service we will endeavor to follow the processes established in the existing contract language and pursue firm transmission service to deliver the resource to load, but will also leave open the possibility of the TRM Section 10.1 “TAC” approach or an exchange if the circumstances warrant it. We are also open to exploring structural changes, on a case-by-case basis, to the processes set forth in the power sales contract if circumstances warrant them.

We look forward to continuing discussions on how best to deliver the promise of customer choice and regional infrastructure development. Feel free to contact me to answer any questions you may have on this approach.

Sincerely,

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