NRU

(503) 233-5823
Fax (503) 233-3076
jsaven@pacifier.com

Northwest Requirements Utilities

825 NE Multnomah, Suite 1135
Portland, Oregon 97232

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Mark E. Miller
Trading Floor Manager
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

Submitted via www.bpa.gov/comment

Re: **Northwest Requirements Utilities' Comments on Proposed Block Power Sales Agreement with Port Townsend Paper Company**

Dear Mr. Miller,

NRU has reviewed the proposed contract for Port Townsend dated October 8, 2009, along with BPA's accompanying economic analysis. This proposed contract for power sales covers the period November 2009 through January 2011. Through this proposed contract, BPA attempts to meet the objections expressed by the 9th Circuit in the PNGC 2 case. BPA has produced a contract that the agency believes shows that this arrangement is consistent with sound business principles. The accompanying economic analysis demonstrates that if BPA were to sell this power into a market with an average HLH/LLH price of 36 mills per kWh, it would make less money than if it were to sell this power to Port Townsend at the IP rate. For BPA this is a demonstration that the Port Townsend contract is "in the money."

Having reviewed the contract itself, we find little to argue with. This contract includes significant protections for BPA and its customer that were absent from other DSI contracts that NRU has reviewed and commented on. Included in this proposed contract are financial protections intended to protect BPA's revenues should Port Townsend not operate at pre-established levels and requirements that Port Townsend pay in advance for power. Also, there is a damages clause requiring Port Townsend to pay BPA money in the event of default. We also appreciate the straightforward way in which this contract is drafted. The attempt to demonstrate that there is economic value to the contract is also a clear improvement over other DSI contracts.

NRU's major issue with this contract is the economic analysis. NRU acknowledges that this contract has a much higher jobs-to-power-sales ratio than the Alcoa contract, and that the exposure of BPA's other customers to this transaction is much reduced when compared to the Alcoa contract. However, NRU questions the assumed precipitous drop in market prices that occurred from the time the final power rate case proposal was developed in July to October of this year when the contract was drafted. By our calculations, the average HLH/LLH risk adjusted market price rate case forecast for the period in question was 41 mills per kWh. Three months later the average forecast price used in the contract for November 2009 through January 2011 has dropped to 36 mills per kWh. Also, NRU's discussions with other market participants do not indicate such a reduction in the market price forecasts.

We therefore request that BPA staff meet with NRU and other public power representatives to provide the customers the opportunity to review the development of this market price forecast and discuss the answers to the questions raised by the Public Power Council in their comments. After this discussion we will get back to you with our thoughts about the relative value and cost of the contract.

Sincerely,

John D Saven

John Saven