

May 10, 2011

Mark Gendron, Vice President Requirements Marketing
Bonneville Power Administration
PO Box 3621
Portland, Or 97208

Sent via email:mogendron@bpa.gov

Dear Mark,

In recent weeks, we have had discussions with you and members of your staff regarding the September 2011 notification deadline to BPA as to how utilities intend to serve their above HWM loads for the FY 2015 – FY 2019 period.

The NRU staff has asserted that a one year delay in notification process for those utilities that need additional time to make this decision would be beneficial, and would cause no harm to other parties. Given current economic conditions and related power supply needs of the region, allowing utilities until September 2012 to provide BPA such notification gives us a better opportunity to address a number of important topics related to power supply and transmission. Also, utilities that want to make their decisions and notification to BPA by September of 2011 should not be precluded from doing so because of this extension request.

Attached is a two page overview as to how a one year delay in the notification deadline could work for BPA and customers. We have discussed this approach with the NRU Board and have their support for advancing it to BPA. We also believe that other utilities or customer groups will be supportive of this proposal, or at least neutral, but perhaps have not had a chance to review this matter with their governing body (if needed). As noted in the attached, we do not think a change is necessary to the TRM (or the contracts) to provide a delay in the deadline.

We intend to circulate the attached overview to other trade associations and groups within the public power community. Our hope is that others will quickly endorse both the concept and the suggested approach described in the paper. However, if they have any proposed revisions to the approach, they are encouraged to forward them to you.

Because time is passing quickly, we decided to get this to you ASAP, rather than waiting for the formal review process that other entities may need to follow before taking a position. I am sure others from public power may have suggestions that would improve the attached draft, and we look forward to BPA's comments.

We would request that interested parties send their comments to you within the next few weeks. In the interim, we are anxious to meet with you and your staff, as well as representatives of Transmission Services, to both answer any questions and discuss approaches. What is most

important is that we work together with the remaining time available. In this way parties can forego making resource decisions that are premature and not based on the best information.

Thanks for your consideration of this matter.

Best Regards,

A handwritten signature in black ink that reads "John D. Saven". The signature is written in a cursive style with a large, sweeping initial "J".

John D. Saven
Chief Executive Officer

CC: NRU Members
Scott Corwin, Public Power Council
John Prescott, PNGC Power
Bill Drummond, Western Montana G&T
Terry Mundorf, WPAG
Scott Brattebo, PGP

Attachment

SEPTEMBER 30, 2011 NOTIFICATION DEADLINE PROPOSAL

Background and Issues. Since the Regional Dialogue contracts were signed in late 2008, customers have worked diligently to abide by their terms and conditions. Over the course of the last three years, customers have discovered a number of instances where amendments to the contracts would greatly increase the viability of using non-federal resources to serve load. Additionally, access to transmission needs tremendous work on developing and implementing processes and procedures that would provide customers with some certainty that (a) their requests will be considered in a prompt manner, and (b) there is a reasonable opportunity (and a developed process) to acquire firm transmission. Importantly, BPA Transmission Services is responsible for providing firm transmission to serve NT customers' load growth. BPA-T has yet to implement a process to meet this obligation for new non-federal resources.

Substantially Reduced Forecast Above RHWM Loads. During the development of the Regional Dialogue construct, above RHWM loads were forecast to be hundreds of megawatts higher than today's forecasts. For example, the Tiered Rate Methodology (TRM) provides for up to 300 aMW of augmentation when contract high water marks (CHWM) are established. In reality, due to a substantial decrease in loads (and an unforeseen *increase* in the Tier 1 system), customers actually now have *headroom* in their CHWM. Forecast loads, the other side of the A-RHWM equation, have fallen dramatically due to the economic recession.

Consequently, the amount of resources that would need to be acquired are substantially lower than what was expected when the region developed the notice deadlines and purchase periods. The perceived need for three year notices for five year purchase periods was to assign responsibility for acquiring large amounts of resources to serve loads, potentially hundred of megawatts. Today, load following customers' need may be in the 50 aMW range.

More Time Is Needed. The region needs more time to work through the fundamental issues facing the region before requiring customers to obligate themselves to a particular type of load service through FY 2019. This, in addition to the fact that loads are expected to be substantially lower, has led us to the conclusion that customers need the option to delay their 2011 notification to BPA by one year.

Delaying the Notification By One Year. We would like to avoid any necessary change to the TRM or the Regional Dialogue contracts. Therefore, we propose that instead of formally changing the notice deadline, BPA simply allow customers to notify BPA in September 2011 that they will notify BPA in September 2012. BPA could issue a letter to its customers providing them with this option.

This means that customers that *are* prepared to notify BPA how they will serve their A-RHWM load in September of this year they can do so. We suspect that a number of customers have already decided how they will serve their load – either all non-federal or all BPA Tier 2 (e.g., the load growth rate). This results in a relatively small number of customers (and amount of load) that would delay notifying BPA as to how they will serve their load.

Impact to the Possible Vintage Tier 2 Rate Offering. We do not think delaying the notice deadline by one year needs to impact the possible Vintage Tier 2 rate offering. BPA can continue their efforts to offer a Vintage Tier 2 rate to customers. Customers can sign the Statement of Intent *and* (separately) elect to delay the 2011 notice deadline by one year. It is perfectly reasonable for a customer to acquire a resource to serve some portion of their load, while also wanting to wait to declare how it will serve the rest of its load. This is very typical in resource planning efforts.

Year Delay Will Provide Time to Revise Contracts and Policies. The year delay will provide much needed time for BPA Power and Transmission and interested customers to discuss shortcomings of the contracts and processes and make appropriate modifications in order to reflect (a) the realities of non-federal resource development; and (b) the realities of today's world where A-RHWM loads are substantially lower than was expected when the TRM and contracts were developed.

Customers Need to Know Sooner Rather Than Later That BPA Will Delay the Deadline. Customers will begin discussing how they will notify BPA in September 2011 starting with their June Boards meetings, if they haven't already. Therefore, it is vital that BPA quickly deliberate on this proposal to allow interested customers to effectively delay the 2011 deadline by one year to 2012, and notify the region of its decision. We see little, if any, risk to delay the deadline. It seems highly unlikely that BPA would be in the position to secure resources to serve Tier 2 rates for FY 2014-2015 since actual A-RWM loads will not be known until approximately September 2012. The benefits, however, are tremendous because it would provide the region with time to address the issues that have arisen over the last couple of years and importantly help make non-federal resource development a viable option, a key goal of Regional Dialogue.

We look forward to working with BPA to make Regional Dialogue a success. We would like to set up a meeting to further discuss this proposal with you in the next week.