Updated Montana Intertie Roll-In Analysis Q&A

1. *Question:* Could you send us the actual spreadsheet used for the quantification of the scenarios? (Note – In a discussion with Geoff Carr, we decided that a rule-of-thumb rate impact would suffice.)

   Response: At this time, the rule of thumb is that for every $6 million additional annual network revenue requirement, the network rate impact is approximately 1%.

2. *Question:* Please provide a more detailed introductory description of each of the scenarios being tested against the status quo. Why are the MW thresholds set the way they are, how does this treatment differ from the status quo, what would have to happen to put this scenario into effect?

   Response: A more detailed introductory description of the scenarios follows:

   - Alternative #2 - This scenario identifies BPA's share of the total costs of the Eastern Intertie as the portion of the capacity sold, which is currently 16 MW. The assumption is that this 16 MW sale will continue and no additional sales are forecasted. Therefore, costs of $115 thousand associated with the 16 MW of capacity are rolled into the network.

   - Alternative #3 - This scenario assumes that, with roll-in, BPA's share of Eastern Intertie cost would be based on 200 MW of capacity, which is the amount of capacity not allocated to other parties of the Montana Intertie Agreement. BPA's cost of $1.3 million associated with the 200 MW would be rolled into the network. No additional sales (beyond the 16 MWs) are forecasted.

   - Alternative #4 - In this scenario, all of the costs of the Eastern Intertie except the portion allocated to NorthWestern Energy (NWE) would be rolled into the network. Thus, $9.9 million (associated with 1510 MW, which is 1930 MW minus NWE's 420 MW) are rolled into the network. All the Colstrip parties, except for NWE, have network contracts and it is assumed that the PORs in those network contracts are redirected to Townsend. It is assumed that NWE retains its rights under the Montana Intertie Agreement since the cost of network service is higher than what NWE pays for the service from Townsend to Garrison (TGT) under the Montana Intertie Agreement. Therefore, NWE's TGT payments remain the same. No additional sales are forecasted.

3. *Question:* Please describe the distinction made between the "Roll-in of sales" (alternative #2) and the "Roll in of capacity" (alternatives #3 and #4). Please describe how quantification of a "roll in of sales" compared to a "roll in of capacity" would be differentiated in the quantitative analysis you have provided.

Response: See explanation of alternatives in number 2, above. For Alternative #2, the cost associated with the 16 MW *sale* is rolled into the network. For Alternative #3, the cost associated with 200 MW of *capacity* is rolled into the network. Quantitatively, the change in share from alternative #2 to alternative #3 reduces the TGT rate and revenues, which increases the impact to the network rates.

4. *Question:* For alternative #2 and #3, does the rate impact calculation assume that amount of capacity being rolled in is fully subscribed, generating offsetting revenues? If not, can an additional sensitivity be run on alternatives #2 and #3 demonstrating the rate impacts to all rates/customers if the capacity being rolled in was fully subscribed and charged the appropriate rate given the respective scenario.

   Response: For alternative #2, the 16 MW rolled in is fully subscribed. For alternative #3, the 200 MW is only 16 MW subscribed and there is no assumption of additional sales on the remaining 184 MW. Any additional sales would likely require a build on the network, for which it is unknown what the rate impact would be since the costs of a build, and the corresponding increase in sales, are not quantified.

5. *Question:* Is it possible, legally/procedurally/administratively, to eliminate the IM rate for capacity (200 MW) that is subscribed, as it incrementally becomes subscribed?

   Response: We are not sure we understand the question. However, we think the question describes alternative 2. In Alternative 2, if additional sales are made above the 16 MW, they are made at the network rate, so this additional capacity is "rolled in".

6. *Question:* Since the exchange provision in the Montana Intertie agreement has been terminated, we assume that the analysis provided in this e-mail should be compared with the "without exchange" scenarios of August 18, 2010. Is this correct?

   Response: The August 2010 analysis, "without exchange", would be the same basic scenario. However, the August 2010 analysis only considered the impact of the lost revenue as a percent of the 2010 rate case revenue requirement for the network segment. The current December 2011 analysis actually runs the rate study model based on the COSA illustrative FY 12-13 rate case revenue requirement to calculate revised rates, and then considers the percent increase in the rates. See below.

7. *Question:* Finally, how do these scenarios compare to those presented in the August 18, 2010 workshop. For example, is alternative #4 from the December 2011 analysis trying to analyze the same scenario as alternative #3 from the August 2010

analysis? Which scenario from the August 18th scenario does alternative #3 for the December 2011 analysis compare to?

Response: All of the percentage increases shown in the August 2010 analysis are as compared to alternative #1 status quo with the exchange in place. The percentages in the December 2011 analysis are measured from the status quo with exchange now eliminated, so the percentages in the two analyses are not directly comparable. With that caveat:

- The August 2010 (without exchange) alternative #1 would correspond to the December 2011 alternative #1 status quo.

- The August 2010 (without exchange) alternative #2 (roll in BPA's costs of Montana Intertie) corresponds to the December 2011 alternative #2, with the loss of $115K in IM revenue. This is effectively a negligible impact which does not result in any change in the rates.

- The December 2011 alternative #3 (roll in BPA's costs assuming 200 MW) is a new analysis based on the request at the December 5, 2011 workshop to consider this alternative (raised by Don Kari).

- The August 2010 (without exchange) alternative #3 (roll full costs in) loosely corresponds to the December 2011 alternative #4. However in August 2010, we assumed the loss of all TGT sales, with no change in network sales. We realized this is unrealistic for NWE since NWE does not take network service at Garrison. Therefore, we revised the scenario to keep the NWE costs unchanged and only roll in the capacity not associated with NWE.