



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

POWER BUSINESS LINE

July 2, 2002

In reply refer to: PS/6

Ron Johnson, Vice President
Portland General Electric Company
121 SW Salmon Street
Portland, OR 97204

Pat Reiten, CEO
Pacific Northwest Generating Cooperative
711 NE Halsey Street, Suite 200
Portland, OR 97232

Dear Messrs. Johnson and Reiten:

The Bonneville Power Administration (BPA) acknowledges the importance and effort that has gone into developing the utility customers' proposal on the sale of federal power, including sharing of related benefits and services by BPA for the period beyond 2006. We encouraged you last year to make this effort and your success in bridging gaps between public power and investor-owned utilities (IOU's) is impressive. The proposal does not address the question of post-2006 service to the direct service industries, but we understand that you are still working with those companies. We recognize that the groups supporting the utility customer proposal worked long and hard to reach mutual accommodation that could permit resolution of pending litigation and address post-2006 service. This type of collaboration and compromise will be essential to the region's ongoing efforts to preserve and enhance the value of the Federal Columbia River Power System (FCRPS) for the region in the years to come.

I understand that you are working actively to complete and refine some aspects of the proposal, as well as to even modify parts of it, but I want to give you some preliminary feedback now. BPA has spent time during the last two months reviewing this complex proposal. We appreciate how forthright you have been in answering our many questions. Some of our preliminary analysis is summarized in an attachment to this letter and we would be glad to provide more detailed feedback to you at your convenience.

First, though, I want to outline for you where we go from here. Because of the wide-ranging impact of any decision BPA makes on how to distribute the benefits of the FCRPS on a long-term basis it would be premature for us to either accept or reject the proposal at this time. The issues warrant a thorough public process to solicit input on all alternatives and the key policy matters addressed in your proposal. Accordingly, BPA and the Northwest Power Planning Council initiated a joint public process on June 19, to solicit regional input on BPA power sales in the post-2006 period. This public process starts with an open comment period during which

we are soliciting ideas from all regional interests. I hope that you will use this period to consider potential modifications to your proposal to address the comments we are providing here, and to complete the effort you have under way to address conservation and renewable resources and the direct service industries.

We will use the ideas and concepts produced in this joint public process to develop our proposal for consideration by the region during a subsequent, formal BPA public decision making process. The BPA proposal may also contain original ideas or concepts which the agency wishes the region to consider for the delivery of post-2006 power products and services. We anticipate that the joint Council/BPA process will conclude in mid-October and that BPA will initiate its decision process with the publication of a BPA proposal later this year. If the process moves smoothly, we could have a final record of decision by as early as April 2003.

As we move through this process, we intend to apply the same five principles that we shared with you as being essential to any proposal. These are: 1) preserve or enhance all the long-term and diverse public benefits (conservation, renewables development, fish and wildlife protection, etc.) of the FCRPS for the region, 2) policy outcomes must be enduring under a range of political and economic conditions, 3) there should be no additional risks for the U.S. taxpayers or Treasury, 4) approaches or policy options should not require legislative changes and should minimize legal risks, and 5) provide clarity regarding BPA load obligations post-2006. In addition, we believe it is appropriate to assess those aspects of the customer proposal dealing with changing the current Slice product in terms of the five principles used by BPA when we initially decided to offer the Slice product. These five principles are: 1) no risk or cost shifts to other customers, 2) no risk or cost shifts to taxpayers, 3) no avoidance of fish costs, 4) no interference with Federal system operations, and 5) no changes in law required.

You requested our preliminary feedback on 12 key features of your proposal. Our preliminary review and understanding of those key features leads us to conclude that there are aspects of the key features that appear to have significant appeal, as well as problems. Appealing features include the use of long-term contracts (as opposed to changes in law) to define power sales and other system benefits, increased clarity about a utility's responsibility and the associated cost treatment for serving existing loads and load growth, reducing certain BPA supply risks and costs by limiting BPA's need to acquire power or new resource acquisitions on behalf of those customers that desire BPA to do so, having customers be contractually responsible for a wide range of risks now assumed by BPA, and providing long-term benefits to residential and small farm consumers of IOU's. We have not provided additional information on these features, as we believe you understand them well.

The clarification sessions with BPA staff have improved our understanding of the key features of your proposal, including those related to changing key aspects of the current Slice product and offering more power under a Slice-like product. The clarification sessions helped us identify certain aspects of the proposal about which we have questions or concerns or which could benefit from further development or modification. In this regard, there are specific dimensions

of the proposal's key features that, as currently written, seem to fail to fully satisfy our stated principles. A number of these concerns are described in the attachment. Key among them are a concern that the proposed allocation technique may not be consistent with statutory requirements regarding the sale of firm federal power in that it could allow long-term sales of federal power in excess of a utility's actual power requirements and concerns about the legal sustainability of sales of Slice to IOU's and the level of financial benefit to the IOU's over the 20-year period. We also note initial concerns and the need for further work to assess the potential impact of the proposal on system reliability, transmission related operations, and system optimization and value, as well as on the level and shift of risk associated with certain aspects of the proposal. Further, we are concerned about uncertainty introduced by the slice minimum requirement in the process given that if 70% (5070 aMW) of the federal based system is not sold as slice, then the IOUs can elect not to implement the proposal despite all the time and effort expended. In the attachment we address our ability to enter into 20-year contracts for the sale of surplus firm power and statutory requirements under section 7(b)(2) of the Northwest Power Act. Cost separation and the amount of firm power set aside for new publics over the 20-year life of the contracts are also issues that would need further attention. Each of these items, are further described in the attachment to this letter.

While this is a long list of questions and concerns, we urge that you not let it deter you from your focus on these issues. We offer these attached comments as part of an effort to work with you and others to ensure that the benefits of the FCRPS are retained for the region.

Thank you very much for your effort and the time you committed to working with BPA staff to answer our clarifying questions. It is certainly noteworthy that you came together to develop a joint proposal whose goal is to retain the benefits of the FCRPS for the region for the next 20 years. As we move forward with the important public process, we look forward to the next iteration of your proposal and to working with you and others regarding post-2006 power service and benefits from BPA.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Norman", is written over a horizontal line. A vertical line is positioned to the right of the signature.

Paul Norman
Senior Vice President, Power Business Line

Attachment

cc:

Scott Brattebo - Pacific

Erick Johnson - PNGC

Jeff Schlect - Avista

Mike Morgan - PGE

Geoff Carr - Northwest Requirements Utilities

David Hoff - Puget

Terry Mundorf - WPAG)

John Saven - Northwest Requirements Utilities

Don Kari - Puget

Lyn Williams - PGE

Marcus Wood - Pacific

Loren Baker - PRM

Jim Litchfield - IOU Consultant

Rob Walton - PPC

Jerry Leone - PPC

Preliminary BPA Comments on 12 Key Elements of Customer Proposal

Customer Proposal

1. Allocation of the entire firm capability of the Federal Base System (FBS) to Slice and Requirements purchasers using FY 2002 net requirements as the allocator, even if the firm FBS capability in 2007 exceeds the sum of the Slice and Requirements net requirements.

8. Treating as surplus Slice available to the Slice purchaser for sale or other disposition power that becomes available due to retail load loss by the Slice purchaser.

BPA Comment

With passage of the Northwest Power Act in 1980 BPA was granted the authority to acquire resources if necessary to meet the load obligations placed on it by BPA's regional power customers. Section 5(b)(1) of the Act provides for the sales of power to meet the net firm requirements load of utility customers requesting power. If BPA customers were to agree among themselves to initially request in total an amount power not to exceed the existing level of the FBS, and BPA did not reasonably foresee additional requirements being placed on it in that initial period, then BPA could, in turn, offer contracts to sell them that amount of power. This would not be an allocation in the formal sense, but could serve as the initial basis for BPA service, including both requirements and surplus power. If the requests mirrored 2002 net requirements or the ratio of those requirements, the practical effect would be sales based on the proportional requests.

Other aspects of the above two elements, as currently drafted, regarding the manner by which federal power is to be sold appear inconsistent with BPA's governing statutes. In general, we are concerned about the current structure of the proposal regarding the amount of firm federal power a utility could end up purchasing for the term of the 20-year contract. Specifically, the proposed Slice product, unlike the current Slice product, could result in an allocation of a percentage of the FBS in excess of a Slice purchaser's net requirements and regardless of other net requirements placed on BPA. For example, the amount of firm power, based on the individual Slice purchaser's percentage, would not change irrespective of future changes in the individual Slice purchaser's load or the non-federal resources, if any, used to serve load. Given this feature there would be a conversion of firm power, *i.e.*, Excess Critical Slice, into surplus firm power. Not only is this different than today's Slice product, it is inconsistent with the net requirements provision of section 5(b)(1) of the Northwest Power Act and the application of section 5(f) of the Northwest Power Act and Public Law 88-552 in determining when surplus firm power is available.

We understand that you are considering modifications to the proposal to address this concern, and we encourage that effort.

Customer Proposal

2. Payment of financial benefits to investor-owned utilities (IOU's) with an initial benefit amount of \$370 million (reduced by the 280 AMW Slice for seven years), and adjusted annually based on a comparison of the Slice rate, the value of secondary energy from the federal system, and the cost of power from a combined cycle combustion turbine.

BPA Response

It is our understanding that the \$370 million/year of benefits and the adjustment formula were the result of extensive negotiations and, to some extent, involve a judgment of equity among utilities. Before BPA could adopt a settlement based on the \$370 million/ year as adjusted by the formula, we would need further exploration of the proper basis in law for the payment of the \$370 million, as adjusted by formula, to settle the IOU's' rights under the Residential Exchange Program and their rights to request requirements service.

It is our view that the existing Subscription contracts with the IOU's for the FY2007-2011 period would allow us to fulfill our obligations for that period by providing the IOU's with a financial benefit equal to approximately \$220 million/year. This estimate of the cost of meeting our current contract obligations to the IOU's is based on a forecast of future wholesale market prices. We think the price forecast we used to determine this number is reasonably conservative (i.e., on the high side) because it is higher than both current market offers to sell firm power during the FY2007-2011 period and the current forecast of market prices during that period. We acknowledge, however, that there is a range of possible outcomes in the ultimate cost of meeting this obligation that would result in costs that are higher or lower than BPA's estimate of \$220 million/year, and that the customer proposal would define this obligation for a period well beyond the 2011 expiration of the existing contracts.

If, as currently seems likely, the customer proposal did create a significant increase in BPA payments to IOUs relative to current contracts, this would translate into a significant increase in BPA's post-2006 rates. BPA also recognizes, however, that successful implementation of a customer proposal could result in settlement of litigation over IOU Subscription contracts. A settlement would result in a reduction of \$200 million in BPA payments under load reduction contracts with certain IOU's during the remaining four years of the current rate period. BPA intends to further define our view of our obligations to the IOU's under existing Subscription contracts for the FY2007-2011 period during the upcoming regional process.

Customer Proposal

3. Selling at least 70% of the output of the federal system (firm, secondary, storage and pondage) to regional utilities under a Slice product.

BPA Response

System Reliability: BPA and other regional utilities work long and hard to "keep the lights on". This important public purpose must not in anyway be reduced or hampered through

implementation of the customer proposal. The federal power and transmission systems provide operating reserves and maintain system reliability for the entire Pacific Northwest, when required. Under some circumstances, such as during a cold snap, the recent low water year, and the energy crisis in the Pacific Northwest, BPA has been required to act unilaterally and often with very short notice to maintain system reliability. The proposal and subsequent clarifications, as written, appear to place certain conditions and potential limitations on the degree to which the entire FCRPS could be used to ensure power and transmission system reliability. However, in meetings, customer representatives have stated that the intent of the proposal is to permit BPA to take the same actions in the same manner as it currently does to maintain regional system reliability. BPA recognizes that unilateral actions to preserve regional reliability could have a more direct impact on Slice purchasers under the customer proposal. We are willing to have further conversations on this topic as you consider how to modify your proposal to ensure that neither regional nor BPA system reliability is compromised.

Transmission Related Operations : The proposed expansion of a Slice-like product raises transmission issues, such as whether there would be sufficient generation available to BPA's control area, so that it can provide the ancillary services that are required to be offered under the Transmission Business Line's (TBL) Open Access Transmission Tariff. To maintain system reliability, the TBL must maintain access to sufficient generation resources to meet its ancillary and control area services obligations. An expanded Slice-like product, or any other proposal, would need to ensure that adequate generation is available to fulfill BPA's control area needs.

TBL and all affected parties would need to evaluate the compatibility and feasibility of implementing the proposal with respect to existing and new transmission contracts. There would be issues to resolve, including transmission constraints, allocation of existing transmission rights, and queuing.

Also, implementation of an expanded Slice-like product in an RTO environment has a number of significant unanswered questions that would require research and resolution. For example, how would BPA deal with expanded Slice: 1) as a scheduling coordinator, 2) under the transmission model for ancillary services, 3) under the provision of imbalance energy, and 4) under the treatment of existing and new transmission contracts.

System Optimization and Value: Currently, BPA's planning of the operation of the hydro system in coordination with the Corps of Engineers and the Bureau of Reclamation and its buying and selling of power on the market are closely entwined. Staff assigned to these functions are in constant communication, and their work often reflects the need to buy and sell power to meet a variety of objectives that other utilities may not commonly need to meet. Planning the operation of the hydro system requires a complex balancing of multiple and sometime competing objectives (flood control, numerous fish and wildlife objectives, power generation, recreation, navigation, etc.) on a month-to-month, day-to-day, and hour-to-hour basis. BPA staff continuously look for the best and lowest-cost way of meeting the various non-power operational requirements of the system, and this requires a constant testing of operational

options against market conditions. This tight integration results in getting maximum value out of the system, for BPA, the customers, and for the region more broadly in terms of both public interest benefits and low-cost power. The proposal and subsequent clarifications, as written, suggest separating BPA's operational and market functions in the interest of not giving BPA a competitive market advantage over the Slice purchasers. This loss of coordination could very likely result in a loss of economic value to the region. Another option suggested at recent customer meetings is the simultaneous communication of operational information with the Slice purchasers and BPA's marketing staff. Although logistically difficult, BPA is willing to explore this option further with customer representatives.

We believe it is possible that many Slice purchasers taking a larger percentage of the system and having to respond to their own load, other resources, and market fluctuations, could lead to inefficient or de-optimized use of available water. We have not reached a firm conclusion that this would occur, but further evaluation would be needed. The source of the concern is as follows. In optimizing energy production on the FCRPS for the purpose of getting maximum value out of system, optimization occurs at the individual turbine-generator unit level, across the units at each hydroelectric facility, and across the system as a whole in terms of water management. Optimizing the operation of a system as complex as the FCRPS, under a single-owner-like paradigm, is an extremely complicated undertaking from a mathematical and software perspective. In fact, BPA is currently making significant investments in physical and software improvements to improve the optimization of power generation at individual federal hydroelectric facilities as well as for the FCRPS as a whole. It is possible that a significant portion of both the current optimization value, as well as the future enhanced value derived from improved optimization techniques, could be degraded in moving from a single-owner operation of the system to an aggregated multi-owner-like operation. Also, from a mathematical and/or software perspective, it may not be possible to broaden BPA's current single-owner-like application of state-of-the-art optimization techniques to a virtual multi-owner-like system. Again, it is too early to draw firm conclusions, but this is an important topic that needs more evaluation.

Power System Operations and Related Systems: It appears the proposal may require important changes to the existing Slice product as a component of the significant expansion of the power sales made under a Slice-like product. As you are aware, we have been selling the Slice product since the beginning of this fiscal year. This limited experience on both our part and the customers' part has proven valuable to us and has made us increasingly aware of potential changes needed in current Slice product design and implementation to more closely align the real-time operational benefits, risks and costs associated with Slice. Accordingly, BPA is willing to work with you to more fully understand all the specifics of the proposed Slice product changes with the goal of helping you define a Slice product that is consistent with the five general principles outlined in our cover letter and the five principles used to negotiate the current Slice product.

For instance, it appears appropriate for us to continue to work with you regarding requiring dynamic scheduling utilizing a Generation Management System (GMS). Moreover, for those customers who wish to be able to take advantage of all aspects of the resource-based Slice product (e.g., disposition of ancillary services), further work would be needed regarding how those customers would deal with the infrastructure and staffing necessary to become an inter-control area transaction coordinator, which may become a prerequisite for the full implementation of the expanded Slice-like product. These noted system operational matters are not all-inclusive and we do not expect that we would need to fully resolve them prior to a final determination regarding expansion of the Slice-like product. But, the cost and timing associated with developing operations systems clearly must be addressed in the near term.

Risk Associated with Possible Slice Expansion: We understand that the customers do not see any increased Treasury repayment risk because of the proposed expansion of a Slice-like product. Further, we recognize that customers under this proposal have committed to “step-up” for any and all defaults of individual Slice participants, although the specifics of this “step-up” remain to be worked out. You also have agreed to work out a suitable solution to issues surrounding the Slice True-Up. BPA’s fiduciary responsibilities require that it continue to examine and objectively analyze the risk dynamics, particularly as each feature of your proposal relates to the principle of Treasury payment certainty. Since both Slice and other features and aspects of your proposal may increase or decrease risks to BPA’s ability and level of resources to perform its public responsibilities, especially when considered against a “range of political and economic conditions”, we should be looking towards a broad analysis of the risk dynamics of your proposal.

Some of BPA’s current financial risk, for example, is due to the uncertain quantity and revenue potential of surplus power it will have each year, and BPA has the responsibility to manage that risk. Under your proposal, customers would bear direct responsibility to manage that risk, as they will have rights to the majority of the surplus energy available from the FCRPS. If a customer fails to properly manage that risk and finds itself in default or bankruptcy, BPA could be financially harmed, depending on the effectiveness of the “step-up” provisions that are in place or if multiple customers experience difficulty simultaneously. BPA would still be dependent on the suitable execution of risk management of surplus energy but would no longer have the ability to actually manage that risk directly. It is possible that credit rating agencies will consider BPA’s increased dependence on the risk management of a host of other parties to weaken BPA’s credit worthiness, which could increase BPA’s and its customers’ cost of capital.

5070 aMW Slice Minimum: The proposal includes a feature that permits the IOU’s to collectively elect not to implement the proposal after new contracts are negotiated and signed, if preference customers with less than 5070 aMW of Baseline Net Requirements fail to execute 20-year Slice contracts. This provision creates the prospect that the region could put a substantial effort into this over the next year, which the IOU’s could nullify unilaterally. It also puts pressure on the public utilities to make a product choice that may not meet their needs. While we believe we understand this aspect of your proposal, we are concerned about the amount of

uncertainty it introduces into the extensive effort that would be required to move forward with your proposal.

Customer Proposal

4. Providing to preference customers their power allocation and the IOU's their financial benefits under 20-year contracts.

BPA Response

Twenty-year sales contracts are permissible under section 5(a) of the Bonneville Project Act and consistent with BPA's principle to provide clarity regarding BPA load service obligations post-2006. The term of a power sale contract begins on the date of execution by the Administrator. If new contracts were signed in 2003, they could run to 2023, not 2027 as envisioned in the proposal. Issues relating to "power allocation" and "financial benefits" are dealt with elsewhere.

Customer Proposal

5. Selling to PGE (or other IOU's) a Slice Percentage equal to the 280 average MW net requirement under a Surplus Slice contract.

BPA Response

This, and the next two elements, present a number of troublesome policy and legal issues. BPA has previously concluded that it could not sell the current Slice product to non-preference customer utilities, since the terms of the product would have to be substantially changed to comport with the preference provisions of the law. For example, the designation, treatment and disposition of "surplus" federal power must be consistent with existing statutes. BPA determines the availability of surplus firm power under section 5(f) of the Northwest Power Act and Public Law 88-552, ensuring BPA meets its total system obligations. In addition, the current Slice product is sold to meet section 5(b)(1) regional net firm requirements load service. A sale of a Slice of the system to an IOU would need to comport with the statutory basis for the product and be consistent with applicable rate provisions under the Northwest Power Act. The proposal must also address recall restrictions and, upon termination of the PGE sale, the power must be used to meet then-existing and reasonably foreseeable net requirements.

The proposed 280 average MW sale of a Slice-like product to PGE also raises the questions regarding "private use" tax implications for the Energy Northwest debt. IOU's and certain others are considered "private" users under the Internal Revenue Code, and could not take greater than a 3% share of a Slice-like product. A private user such as PGE exceeding the 3% test would result in making taxable the tax-exempt bonds. You have acknowledged that such an outcome would have significant economic impact on the region, hence, this feature of the proposal would need to address and avoid such an outcome.

Customer Proposal

6. Permitting a preference Slice purchaser to reduce its Slice percentage, and thereby take a reduction to its BPA supply, in lieu of paying its share of the costs of the IOU or any DSI settlement, so long as doing so does not shift such costs to other customers.

BPA Response

Our understanding is this feature is dependent upon an IOU agreeing to purchase for 20 years the amount of Slice not taken by the preference Slice purchaser. As such, it raises the issue of resale of federal power offered for sale to a preference customer to serve its net requirements load as well as the issues expressed regarding the sale of a surplus Slice-like product to PGE, but over a 20-year period. The resale issue arises when a preference Slice purchaser reduces its Slice percentage for its load and simultaneously an IOU steps forward to purchase the same Slice percentage. Since BPA projects that it will have no surplus, this also raises preference and pricing issues that conflict with BPA principles 2 and 4.

Customer Proposal

7. Providing the IOU's the option to purchase under a surplus Slice contract power made available by a preference Slice purchaser electing to reduce its Slice Percentage in lieu of paying its share of the IOU financial benefits

BPA Response

Again, BPA is concerned about permitting a preference Slice purchaser to reduce its take of federal power by a certain amount and in turn allowing an IOU (and only an IOU) to step in and purchase that same amount of power. For the reasons described above, this aspect of the proposal appears to be in conflict with the determination of available surplus firm power and raises the issues expressed regarding the sale of a surplus Slice-like product to PGE. Further, we are concerned about the potential to price preference customer power at incremental cost at the same time an IOU enjoys FBS power at embedded cost. Such an outcome raises both legal and policy issues.

Customer Proposal

9. Block Product offered by BPA is an additional service to Slice product resulting in an additional charge to customers electing to have BPA provide a flat block product.

BPA Response

During Subscription, BPA offered customers the option to purchase a block product in conjunction with Slice, or to purchase a stand-alone block product. As we currently understand the proposal, a preference utility customer must first go through the "Slice door" in order to have any portion of its load served via a block product. This aspect of your proposal appears to limit customer choice and may force certain customers to take the Slice product first in order to

convert to block even though the Slice product choice many not fully meet their needs. We need to further understand this aspect of the proposal.

Customer Proposal

10. Assurance that the 7(b)(2) rate test will not create a rate disparity between the Slice rate charged to preference customers and IOU's.

BPA Response

BPA must make all ratemaking decisions in a formal evidentiary proceeding based on the administrative record and cannot predecide any ratemaking issue including, for example, the section 7(b)(2) rate test.

Customer Proposal

11. A clear separation is created so that the costs of serving Requirements load and Slice loads are identified, and are allocated only to the customers served under the product for which the costs were incurred, except as otherwise specifically provided in the settlement.

BPA Response

BPA believes that making Slice the core product for BPA marketing may require a restructuring on how cost separation is accomplished under the Slice contract. Changing the relative magnitude of Slice and Requirements products magnifies the consequences of any cost shifts among customer classes.

As noted above, current operations under the Slice contract have raised concerns about cost separation, particularly in the area of within hour and near-term costs of operation. Based on the customer response to BPA's clarification questions, BPA believes the customer proposal is based on the view that BPA never purchases or sells energy for operations reasons. Proposed changes in the customer proposal on the treatment of existing obligations also raise questions on the treatment of displacement purchases.

Resolution of this issue may require clarification of changes in the operation of the Slice product. At this point, BPA believes that determining a cost identification mechanism for those costs solely related to Requirements service may be a more appropriate path than separating and categorizing the large number of costs that are related to providing both Slice and Requirements service.

Customer Proposal

12. Flexibility for Requirements customers to depend on BPA for load growth or develop their own non-federal resources.

BPA Response

The requirements product seems to have a number of positive attributes, but the partial requirements product is only described in general terms in the proposal. It is important that we understand your thinking on this important product, in part because the proposal does not seem to provide a broad range of product choices for customers, thus making the products identified quite important. The proposal provides a customer with the important opportunity to develop non-federal resources for use in serving load growth, but many specifics regarding the proposed partial product are not addressed, including how the needs of those public utilities with existing generating resources would be addressed under a partial requirements product.

We understand that some specifics of any partial requirements product will be developed through discussions with customers, but some greater detail regarding the principles and concepts you have in mind for this product would be most useful.

**Preliminary BPA Comments on
An Additional Aspect of the Customer Proposal**

New Public Utilities: We understand that the 75 aMW proposed to be set aside for new publics over a 20-year period would be available at a melded rate to new public utilities or load annexed by an existing preference utility. While the proposal does not limit the overall amount of load BPA could serve for new public utilities and it specifies that benefits to IOU residential customers would be retained by the new public utility, we believe the 75 aMW limit at a melded rate for a 20-year period is potentially too low. The 75 aMW amount was apparently based on BPA's Subscription Strategy decision to offer 75 aMW to new publics signing contingent power sales contracts at the established PF-02 firm power rate. BPA's Subscription approach for new utilities above a 75 aMW level did not cover a 20-year period, but rather a period no longer than 5 years.