



Department of Energy

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

POWER BUSINESS LINE

December 19, 2005

In reply refer to: PSW-6

To Our Customers, Constituents, Tribes, and Other Regional Stakeholders:

We are seeking your comments regarding a proposal by BPA to modify its business relationship with Clark Public Utilities (Clark). The proposal includes (1) a settlement of Clark's participation in the Residential Exchange Program through September 30, 2011, (2) Clark's return to the BPA Control Area, and (3) the replacement of Clark's current PF Firm Block Power Sales Agreement (Block Agreement) with an Actual Partial Service Power Sales Agreement (Actual Partial Agreement). BPA will accept comments through January 16, 2006. A proposed Residential Exchange Program settlement agreement (Settlement Agreement) between BPA and Clark is enclosed and may also be viewed on BPA's Subscription Web site at www.bpa.gov/power/subscription. Descriptions of Block service and Actual Partial service are available in the BPA Power Products Catalog, available at <http://www.bpa.gov/Power/PSP/products/catalog.shtml>.

Background

On August 29, 2005, BPA and Clark executed a Residential Purchase and Sale Agreement (RPSA). The RPSA implements the Residential Exchange Program (REP) as set forth in section 5(c) of Public Law 96-501 (Northwest Power Act). Under the REP, during periods when Clark's Average System Cost (ASC) of resources is higher than BPA's PF Exchange rate, Clark receives monetary payments from BPA for the benefit of its qualified residential and small farm consumers.

Subsequent to signing the RPSA, Clark submitted a preliminary Appendix 1 filing. An Appendix 1 filing identifies the costs that establish a utility's ASC. Such costs must be approved for inclusion in current rates by an investor-owned utility's regulatory commission or, for preference utilities such as Clark, by its governing board. Clark's preliminary Appendix 1 reflected Clark's intent to implement a rate increase effective October 1, 2005. Clark later filed a revised Appendix 1 on October 7, 2005, to reflect a five percent rate increase approved by Clark's board effective October 1, 2005. Clark's as-filed ASC is \$59 per MWh. Although the next step under BPA's ASC Methodology would be for BPA to conduct a 210-day public review of the filed ASC, Clark and BPA agreed to suspend such review while negotiating a settlement of Clark's participation in the REP.

During the negotiations, BPA and Clark shared the following goals:

- To secure a settlement to Clark's participation in the REP;
- To minimize cash outlays by BPA in FY 2006; and
- To minimize any rate impacts on other BPA customers.

The proposed Settlement Agreement would terminate Clark's RPSA and replace the RPSA with the payment of specified lump sum amounts by BPA. As discussed in greater detail below, BPA is also proposing to terminate Clark's current Block Agreement and replace it with an Actual Partial Agreement that would become effective on the date that Clark returns to the BPA Control Area.

Summary of the Settlement Agreement

The Settlement Agreement proposes to settle the parties' rights and obligations under the REP through September 30, 2011. The provisions of the Settlement Agreement are summarized as follows:

- The RPSA would be terminated when the Settlement Agreement is executed.
- In full and complete satisfaction of all of its REP obligations under section 5(c) of the Northwest Power Act for the period through September 30, 2011, BPA would pay Clark monetary benefits of \$15,000,000 in lump sum payments as specified below:

<u>Payment Date</u>	<u>Payment Amount (\$)</u>
On or before January 11, 2006	2,716,962
On or before October 2, 2006	2,283,038
On or before October 1, 2007	5,000,000
On or before October 1, 2008	5,000,000

The payment for \$2,716,962 will be made by BPA under the RPSA prior to the date that the proposed Settlement Agreement would be executed.

- Amounts received by Clark under the Settlement Agreement must be passed through in full and in a timely manner to Clark's residential and small farm consumers. Such amounts must be identified on Clark's books of account. BPA retains the right to audit Clark at BPA's expense to determine whether the benefits paid to Clark under the Settlement Agreement were passed through to Clark's eligible residential and small farm customers as required by section 5(c)(3) of the Northwest Power Act. Clark is required to maintain records and documents needed for any audit by BPA.

Summary of the Actual Partial Agreement

As part of the change in BPA's business relationship with Clark and to accommodate the transition of Clark into BPA's control area, BPA offers Clark an Actual Partial Agreement that would become effective on the date Clark returns to the BPA Control Area. The Actual Partial product was developed during BPA's Subscription process. Other than Clark-specific information, the offered Actual Partial Agreement does not contain any changes to such Actual Partial product. The Actual Partial Agreement would provide benefits to both Clark and BPA and is a better fit for Clark's load service when it returns to BPA's control area.

Performance under the proposed Actual Partial Agreement would commence on December 13, 2007, unless Clark is able to leave the PacifiCorp control area at an earlier date. The new Actual Partial Agreement would replace Contract No. 01PB-12243, which would have continued through September 30, 2011, and would continue through September 30, 2011. Key provisions of the Actual Partial Agreement are as follows:

- Clark will operate its River Road combined cycle combustion turbine plant (River Road) to meet the same load obligation Clark currently has under the current Block Agreement. River Road dedicated generation will increase annually to meet Clark's load growth over the contract term. Some River Road generation capability will be in excess of Clark's load in the early years, affording Clark power marketing opportunities consistent with section 9(c) of the Northwest Power Act.
- BPA energy deliveries to Clark will not change on an annual basis, but some contract energy will be shaped out of the October through April period and into the May through September period. Thus, additional capacity and energy may be available to BPA's trading floor for surplus sales during the higher valued winter months.

How to Comment

BPA encourages your written comments regarding the Proposed Settlement Agreement. A copy of the proposed Actual Partial Agreement will be available for comment in the next two weeks and will be posted with the Subscription web site. Written comments may be submitted online at <http://www.bpa.gov/comment/> or e-mailed to comment@bpa.gov. Comments may also be submitted via U.S. mail to: Bonneville Power Administration DKP-7, P.O. Box 14428, Portland, OR 97293-4428, or sent via fax to (503) 230-3285.

For More Information

Please call us toll free at (800) 622-4519.

Sincerely,

/s/ Paul E. Norman

Paul E. Norman
Senior Vice President
Power Business Line

Enclosure:

[Proposed Settlement Agreement](#)