

Department of Energy

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

POWER BUSINESS LINE

July 28, 2000

In reply refer to: PT

Dear Customers and Interested Parties:

The Residential Exchange Program was established in Section 5(c) of the Northwest Power Act in 1980. Under this program, utilities in the Pacific Northwest may offer to sell power to BPA at their average system cost (ASC). BPA purchases that power and in exchange, sells the same amount of power to the utility at BPA's Priority Firm (PF) Exchange Rate. The amount of power exchanged is equivalent to 100% of the utility's qualifying residential and small farm load. Historically the exchange has been strictly financial in nature, although there are conditions in which actual power sales can be made. Section 5(c)(5) of the Northwest Power Act provides that BPA may, in lieu of purchasing any amount of electric power offered by an exchanging utility at its ASC, acquire an equivalent amount of electric power from other sources to replace power sold by the utility as part of an exchange sale. BPA's cost of acquisition must be less than the cost of purchasing the electric power offered by the utility.

On May 5, 2000, BPA asked for public comment on BPA's proposed contracts for implementing the Residential Exchange Program. BPA also requested comments on a proposed agreement for settlement of the rights of regional investor-owned utilities under the Residential Exchange Program. The settlement agreement BPA offered for comment on May 5 contained benefits comprised of proposed power sales and monetary payments. The power sales proposed under the settlement agreement were sales under section 5(b) of the Northwest Power Act. However, BPA stated in its Power Subscription Strategy released on December 21, 1998, that power sales in its proposal for settling the Residential Exchange Program would be based either under section 5(b) or 5(c) of the Northwest Power Act. In the background document included with BPA's May 5 letter, BPA noted that it had not prepared a prototype Settlement Agreement based on a power sale under section 5(c) of the Northwest Power Act, but that it would consider such proposals if they were made.

In a letter dated July 27, 2000, the Montana Power Company (MPC) requested that BPA provide a settlement offer including firm power benefits under section 5(c) of the Northwest Power Act. The proposed settlement is very similar to the proposed agreement that BPA issued for public comment with the May 5, 2000, letter. Instead of providing for a Firm Power Block Sales Agreement for a specified amount of firm power under section 5(b) of the Northwest Power Act, this proposed section 5(c) prototype agreement provides a specified amount of firm power under a Negotiated In Lieu Agreement.

BPA is hereby asking for public comment on a prototype agreement to provide firm power under section 5(c) of the Northwest Power Act, in addition to monetary benefits, to settle the rights of MPC under the Residential Exchange Program. As noted above, the Northwest Power Act provides that BPA may, in lieu of purchasing any amount of electric power offered by an exchanging utility at its ASC, acquire an equivalent amount of electric power from other sources if BPA's cost of acquisition is less than the cost of purchasing the electric power offered by the utility. In its 2002 Wholesale Power Rate Adjustment Proceeding, BPA Docket No. WP-02, BPA noted the utilities that were expected to have an ASC that exceeded BPA's forecast of the cost of an in lieu resource. One of those utilities was MPC. BPA also forecasted the cost of purchasing from the wholesale power market in BPA's rate case and noted that it would be less than MPC's expected ASC. BPA's proposed settlement agreement with MPC under section 5(c) specifies an amount of in lieu power that BPA will purchase and provide at the PF Exchange Subscription rate in addition to an amount of monetary benefits in settlement of MPC's rights under the Residential Exchange Program.

The proposed 5(c) settlement agreement is based on the proposed settlement with power offered under section 5(b). The differences between the two settlement agreements are specifically marked in the proposed 5(c) settlement agreement. Changes in the section 5(b) settlement prototypes from the version of the proposed agreement issued for public comment on May 5 are current draft provisions made in response to public comment on that agreement. These changes to the 5(b) settlement agreement will be addressed in the Record of Decision issued with that agreement in early September. Because the attached 5(c) prototype settlement contract is nearly identical to the 5(b) prototype settlement contract that was made available for comment on May 5, parties need not repeat the comments that were made on any issues related to the earlier settlement prototype that also exist with the 5(c) prototype. Parties' previous comments on such issues will be reviewed in making a determination regarding the proposed MPC settlement agreement.

Comments on the proposed 5(c) settlement agreement will be accepted through the close of business on Friday, August 18, 2000. Written comments should be sent to:

Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

You can also send comments electronically to: comment@bpa.gov. Additional copies of these documents can be obtained by calling BPA's Public Information Office at 1-800-622-4520 or by accessing BPA's Subscription website: <http://www.bpa.gov/Power/subscription>

After reviewing comments on the proposed 5(c) settlement agreement, BPA will prepare a Record of Decision on offering a settlement of the Residential Exchange Program providing firm power to MPC under section 5(c) of the Northwest Power Act. BPA expects to make an offer under the proposed agreement around September 11, 2000. The Settlement offer will expire on September 29, 2000.

Your comments on this prototype are important in helping BPA accomplish the goal of spreading the benefits of the Federal Columbia River Power System as broadly as possible. If you need additional information, please contact the Project Manager, Larry Kitchen, at 503-230-5458 or contact your BPA Account Executive.

Sincerely,

s/Kimberly A. Leathley for
Stephen R. Oliver
Vice President, Bulk Marketing and
Transmission Service

Enclosure:
Draft 5(c) Settlement Agreement