

Bonneville Power Administration Regional Dialogue Principals Management Group

October 20, 2005

**BPA Rates Hearing Room, Portland, Oregon
9 a.m. to 4 p.m.
Approximate Attendance: 60**

Opening Remarks

Mark Gendron (BPA) welcomed participants and asked for introductions. He noted that a Regional Dialogue technical group has been meeting regularly and that the principals meeting is basically “a progress report” from the technical group. There were no comments on the agenda.

List of Interests

Paul Norman (BPA) recounted the purpose of the Regional Dialogue, saying the goal is to get to 20-year contracts. This is “a huge undertaking,” and we hope to make the policy decision by next spring, he said. The first step for this phase of the Regional Dialogue was to release our concept paper, Norman said. We hope to follow-up with a policy proposal in January 2006 that we want to represent as much consensus as possible, he said. We hope by December, this group can get to alignment on the policy questions, Norman stated. I am optimistic that the policy proposal will come together easily because it will represent regional consensus, he said.

The technical group has been meeting a lot, and I hear pretty positive reports about its progress, Norman continued. They have been closing the gaps on issues, and I have seen “a sharpening up” of the issues and what the choices are, he stated.

While the technical group is working hard, I don’t expect the members will be able to come to agreement on their own, Norman acknowledged. There will be a list – and I hope it is short – of issues that the technical group cannot resolve, and this principals group will be tasked with closing the gap on those issues, he explained. We are not to that point yet, but in December, we very well may be, Norman said. He asked for comments on whether that role is one the principals expect to handle.

A participant asked who brought forward the “proposed resolutions” in the meeting handout. Norman said they came from the technical group.

Norman went on to a proposed list of interests BPA put together for this phase of the Regional Dialogue. I want “to test them” with you and see if they are right, he explained.

Environmental quality should be on the list, a participant suggested. Conservation, contract enforcement, and dispute resolution are important interests to my utility, and I don't find them on the list, another participant stated. I see enforcement as part of contract durability, another participant commented.

Do we know what is salable in Washington, D.C.? Is there a benchmark for that? a participant asked of interest #6. We took the concept paper as a place to start, and it could change, the participant continued. The paper is not a constraint on discussions, right? he asked. That's correct, Norman replied. We tested our concept paper in Washington, D.C. before it was released, and we discussed the fact that it could change with the Administration, he said.

I would encourage us not to expand the list of interests a lot, a participant suggested. If it gets too large, it is not as useful, he said.

To my mind, interest #7, certainty of obligations, drives everything else, another participant commented. The net requirements discussion during our first meeting got my attention, particularly in the context of a 20-year commitment, a participant said. Predictability is important, and it is important not to have a moving number, he added.

Norman recapped the comments as follows: add "enforceability" to #2, which would read, Durability/Stability/Enforceability; add "all parties" to #7, which would read, Certainty of Obligations for All Parties; and add a tenth interest, which would read, Consistent with BPA Stewardship Obligations. Anyone unable to live with this list? he asked. We may need to revisit it, but for now we'll go with this list, Norman wrapped up.

Proposed Resolutions & Outstanding Issues

Gendron said there had been good attendance and a positive feeling at the eight technical group meetings held so far. I feel we've made progress, he said. Our objective is to come as close to alignment as possible on the issues, Gendron said. BPA's concept paper has been a good place to start the discussion, and people have approached the issues in a spirit of collaboration, he reported.

The technical group has documented its work in terms of proposed resolutions and outstanding issues, Gendron continued. We have designated specific people to lead today's discussion on each issue, but everyone is encouraged to weigh in, he said. The resolutions are not necessarily agreements, and even though we have come up with a resolution on an issue, it does not mean we are done with it, Gendron said. This is "an iterative process," and the issues are related and intertwined, he said. Final agreement on an issue may depend on how a related issue is resolved, Gendron indicated.

As we work through the technical issues, we might find that a solution is acceptable, but until all of the issues are resolved, we can't be sure we won't want to revisit things, a participant agreed. There may be something else to consider later in the process, he said.

Given the history we all have with these issues, it would have been easy for us to show up, put our standard response on the table, “and resort to our bunkers,” another participant stated. That hasn’t happened, and it’s why we have these resolutions, he said.

Proposed Resolution #1

Gendron read the first resolution on allocation methodology. He said the first topic in the technical group was whether a customer’s right to power from the Federal Base System (FBS) should be stated in terms of megawatts (MWs) or a percentage. The concept paper addressed making a change in the customer’s right to power if the FBS decreases, he said. This resolution responds to a question about whether BPA would also speak to the possibility of an increase in the FBS, Gendron explained. Such an increase could be related to something like an efficiency improvement; it does not refer to augmentation, he clarified. Technical group participants also asked about allowing for a change in the High Water Mark (HWM) if there is a change to the FBS, Gendron said.

We reached the conclusion that it is probably okay to allow for a mechanism under which the HWM would be able to change, he said. The two changes spelled out in this resolution improve the alignment between the concept paper and the PPC allocation proposal, Gendron said. Some participants still like a percent of the Federal Base system versus MWs, he acknowledged.

While this addresses some aspects of BPA’s future role, there are issues yet to be resolved, including the distribution of secondary energy benefits and the allocation of costs, a participant pointed out.

Is the conclusion stated in terms of MWs rather than a percent? another participant asked. Yes, it is in MWs, Gendron answered.

When will we hear about the discussion of using HWMs? Was there a discussion about the HWM approach? a participant asked. One participant said he thought the HWMs were accepted as a starting point and there was no explicit discussion of whether that was the best approach. Another participant disagreed. We did have a discussion about using the HWM versus a percentage of the FBS, and the HWMs were not accepted at the outset, he said. BPA’s principal “selling point” for the HWMs is simplicity, but as we try to align the BPA concept paper with the PPC allocation proposal, that may not turn out to be the case, he said.

Another issue here is the net requirement and the potential for change in the delivery amount – that has an impact on planning certainty and decisions about making investments, another participant pointed out. How will the MWs be handled with the Slice product? a participant asked. The average MW (aMW) will be converted to a percent, Gendron responded.

Proposed Resolutions #2 and #5

Geoff Carr (NRU) said resolution #2 helps to square the concept paper with the PPC allocation proposal. PPC worked on its allocation proposal for over a year, and the members unanimously approved it, he said. The PPC allocations are based on the 2002 load forecast (as adjusted) for full requirements and partial service loads, and 2002 contract amounts (as adjusted) for the Block, Slice Block, and Slice loads. Carr explained that the HWM mechanism in the BPA concept paper would leave some customers long and others short of what they need.

In resolution #2, we have set up a mechanism that would later on allocate within the PPC percentages to establish a customer's HWM, he said. This suballocation for full requirements and partial service loads would be based on each customer's net requirements, with an exception available for a partial service load, Carr explained.

Proposed resolution #5 deals with the event there are FBS resources left over after the allocation, he went on. While there is excess power (headroom) available, load-following customers would not face a Tier 2 rate; when the headroom is used up, the customers would revert to their individual HWMs and face Tier 2 for any purchases above that amount, Carr said. The headroom is projected to last about two years, he said.

A participant pointed out that there would be an incentive to forecast high and avoid conservation in order to get a higher HWM. BPA will be involved in the net requirements and HWM calculations, and we assume BPA will do a fair job, another participant responded. Most utilities will be without resources, so they will have an immediate incentive to conserve and protect their Tier 1, he said.

Does BPA double-check the forecasts? a participant asked. Yes, and BPA does the forecast for a number of utilities, others responded. At the end of the day, the forecast is subject to agreement by both parties, a participant explained. In the current contract, if there is disagreement, there is a dispute resolution process, he said.

This could have an effect on the value of the residential exchange, particularly in the way the revenues are credited, a participant commented. How big is the MW number you are talking about for headroom? he asked. I've heard you say that it is very small, but we may have to look at this in the context of "the whole package," he continued. I will keep watching this as we go forward – we need a better sense of the magnitude of this issue, he added.

Is it correct to assume that this is "a one-time deal"? a participant asked. Once the group goes beyond the total headroom, that's it? she asked. Yes, that is our intent, Carr responded. Once the class goes above the headroom, each utility has to plan for the entire amount that it is beyond its HWM, another participant clarified.

I expect customers would still have the ability to change products, a participant commented. I'd endorse this idea, he stated. The changes being proposed will be most

abrupt for the full-service customers, and this helps with that transition, he said. It's a good helping tool for those could use it most, he added.

Carr reiterated his explanation of resolution #2, stating that under the PPC allocation proposal, 31.9 percent of the FBS is allocated to full requirements and 15.3 percent to partial loads. The HWM for these customers would be determined by a net requirements calculation over the next five years, based on forecasted loads, he said.

It would be better if the net requirement reflected conservation savings and delivery, a participant suggested. Could BPA adjust its utility forecasts and allow for conservation? That would give a higher HWM to utilities that continue to do conservation, he stated.

So this is just a way of determining the shares within the customer group, a participant clarified. Yes, and #5 allows load-following utilities to have access to Tier 1 until there is no more Tier 1, Carr responded. You can consider that #2 "corrects" BPA's concept paper to reflect the PPC allocation proposal, and #5 is a transition mechanism, he elaborated.

Proposed Resolution #3

Gendron explained resolution #3, the FBS capability to be used in determining the size of a customer's allocation. The technical group wanted to address the possibility that BPA would make "arbitrary changes" to the FBS resources, Gendron said. We believe resolution #3 is a positive step toward defining the FBS in the contract, he said.

Proposed Resolution #4

This resolution addresses removal of non-federal resources from serving a customer's load, Terry Mundorf (WPAG) said. The current contract allows removal of a resource for retail load loss, he said. It's a tool for levelizing purchases from BPA, Mundorf explained. PPC proposed continuing that right with no cap, he said, explaining the reasoning behind the PPC position. A customer could buy its full Tier 1 allocation regardless of fluctuation in load, and it would also address "an uneven" net requirements determination, Mundorf said.

The BPA concept paper discontinues the right to remove non-federal resources and allows it only for resources that serve Tier 2 load, he explained. BPA feels that allowing removal of non-federal resources would threaten the durability of the agreement, Mundorf said. There was a lot of discussion about this topic, he added.

After comparing interests, the customers proposed limiting resource removal to 15 percent of load, Mundorf stated. BPA agreed to a limit of 5 percent, he said. The latest notion, reflected in the resolution, is to continue the resource removal right, but to the extent utilities are sitting on a surplus allocation going into the contract, it would reduce that right to zero, Mundorf explained. He pointed out that in the current contract, a non-federal resource is removed for one year at a time, but that can go on for multiple years.

This is not resolved, “but it is resolvable,” another participant commented. We’ve identified follow-up issues, and this proposed resolution should hold until we take up the other issues, he said. I did not perceive any divisions in public power over this issue, a second participant stated. The principle is to allow removing non-federal resources, and we view this as a fundamental element of the PPC package, he added.

Is there agreement about the 2002 load forecast or the 2012 net requirement determination? Norman asked. The publics have not moved off 2002, but we understand the BPA concern and will try to resolve it, Mundorf said.

This could look like “an opportunity to cash out the value of the FBS at a market rate,” a participant commented. I would embrace the idea if you could remove a non-federal resource due to conservation efforts, which would give a customer the ability to capture the market cost of lost load, he said. Why not limit the right to a loss you control as opposed to one you don’t, he suggested.

“It’s not a free ride if you undeclare resources,” a participant stated. The 5(b)9(c) rule would come to bear, he said. This will be a short-term issue since within a couple of years, utilities will be into Tier 2, another participant pointed out.

If you have utilities making “windfalls,” it could impair the durability of the contract, Norman said. As for the legality, if Tier 1 is based on a 10-year-old estimate of retail load, there could be a challenge to that, he added. And there is the issue of spreading the value back to all customers versus individual customers, Norman continued. With regard to resource planning certainty, we didn’t see much difference between the BPA and customer positions – either way, a utility has certainty about how much federal power it would get, he said. There is also a stewardship interest in considering where this power should go; should a new public get the power to meet load? It’s a philosophical consideration, Norman pointed out.

This is a difficult issue, but interest-based negotiation is evident here in the progress we’ve made, a participant commented.

The amount and duration are important considerations here – how big could the windfall be and will it be short term? a participant asked. Our “best guess” is that the amount is not very big and is of short duration, Norman responded. Our concern is whether that forecast is right – if its wrong, do we have a durable contract? he said.

If customers with generation resources can free-up federal power and if there is “big cash” involved, what are the rules of the road today? a participant asked. We should talk about that, he said. This is premised on BPA being priced under market, another participant said. If utilities “are dinged” for selling into a good market, shouldn’t it also work the other way? he asked.

A participant described the IOU interests in the issue in terms of the residential exchange benefit and the potential loss of service territory. A big surplus of power has ramifications for IOUs, he said. We don't like to see our service territory annexed or municipalized, he stated. IOU service territory has been under "major attack," with recent elections in which we could have lost some of the area we serve, he said. We support the publics in this, and we support tying up that energy, he added.

Another question is, if there is a surplus on the system, who do you wish to have market it? a participant asked. Do you want BPA coming into the market with "a big lump" of power, or do you want individual utilities selling? Which is the best way? he asked.

This is an important issue for us, a participant stated. It has ramifications for predictability, as well as for shifts in the market, he said.

Proposed Resolutions #6 and #7

Stephen Hall (PacifiCorp) explained resolutions relating to the timing of the Regional Dialogue contracts and the ending date. In its concept paper, BPA proposed the same signing and service date for all contracts, he said. The proposal is to offer the contracts in August 2007, with service to begin in 2011, Hall said. This aligns the time of signing, service, and termination for all customers, he said.

According to BPA, a 20-year contract means 20 years from the date of signing, so the contracts signed in 2007 would expire in 2026, Hall continued. We are discussing how to get a 20-year power-delivery period, he said. But if we wait until 2011 to execute the contracts, this process "could be unwound," Hall added. There are several reasons for going with 2007, he said: to lockdown the system, provide an opportunity for legal review, and establish certainty about BPA's service obligations.

Resolution #7 provides a contract ending date of September 30, 2026, Hall summed up.

A participant asked why customers couldn't sign a 20-year contract in advance and still have power deliveries extend for 20 years. And if that isn't possible, why don't deliveries start when the contract is signed in 2007? he asked. The legal counsel at BPA says 20 years is 20 years, Hall responded. A BPA attorney confirmed that this is based on a long-standing legal opinion. BPA has concerns about starting deliveries before 2011, Hall continued. They would have two sets of contracts and rates, and there would be risk in terms of collecting costs from the right customers and in terms of one group of customers feeling the other group has a better deal, he said.

Why sign the contracts so early? a participant asked. He suggested there could be an opportunity for individual customers "to chip away" at BPA over the four years and try to get a special deal. I believe we should all be offered the same contracts to sign, and we should all sign at that time, he said.

If BPA needs a date certain for declaring success, I'd suggest using a Record of Decision (ROD) to do that, a participant recommended. I am worried about utilities having enough information by 2007 to make a 20-year decision, he stated. There are so many things on the table for deliberation, he said, listing several: a rate case, river operations, Grid West and the Transmission Improvements Group (TIG), general transfer agreements, and developing resources. I haven't heard a compelling argument for signing in 2007, and I would push for a later date unless there is a substantive reason for August 2007, he stated.

Infrastructure development is key here, Norman responded. Until utilities have certainty about their federal power service, they won't develop resources, he said. And until contracts are signed, there isn't certainty, Norman stated. We thought people were in agreement on this, he added.

The people I represent are interested in maximizing the period of service, a participant stated. There are techniques for reconciling the early contract offer with optimizing the delivery period, he said. I have assumed that people won't sign a contract without a methodology for determining costs and rates, he indicated. These aspects of the transaction will result in the contract being executed closer to 2011 than 2007, he said.

Another reason for signing early is if there is an appeal, it would be complete before the contracts begin, a participant said. The IOUs still aren't certain about the exchange benefits in the current contract, and it is five years old, he said. Is it possible to draft the contract in such a way that it does not begin until all of the challenges are resolved? a participant asked.

The later we wait to sign contracts, the more likely we are to bump up against resource decisions, a participant said. The earlier goal makes sense and would allow utilities more time to make their resource decisions and plans, he said. You need to have a level of predictability, another participant agreed. There is something very attractive about a deadline, and bringing the parties together to achieve a deadline is useful, she said.

Why would anyone have to wait until a contract is signed to consider other resources? another participant asked. If you are planning on a resource within five years, you need to be looking at it now, he stated. Utilities are already spending money to have Tier 2 resources available, a participant agreed. Some folks are already moving on resources, he stated. Contracts are better, but a ROD is sufficient for some folks, and some folks have enough information to move on resources now, he added. I concur about a deadline, and I concur that finality in the form of a contract gives the most certainty; but a signed contract is not necessary for going forward on a resource decision, he stated.

While some systems can move ahead to develop resources, my members need certainty sooner, a participant said. That's consistent with what I've heard, another person agreed.

Many of us spent time on the Comprehensive Review in 1996, but then the market changed, and people operated differently as a result, a participant pointed out. It would be a good idea to get the certainty as a basis to go forward, she said. We'd like to have

the contracting certainty as soon as possible, another participant agreed. Conservation is a real concern for us, how it will be treated and how it will affect net requirements, he said. We'd like to see the contract as soon as the issues are resolved, and we'd like to see a full 20 years of service, he urged.

I'd support getting as much of the 20 years as possible, another participant stated. Would it be possible to have BPA offer the utilities contracts in order to tie down the numbers and give certainty? he asked. That way, utilities would know what they get ahead of developing a rate methodology, he said.

Public utility boards have to approve the contracts, another participant pointed out. They do not want to sign something until they have certainty about all of the details, she said. People don't want any uncertainty surrounding what they have to sign, she reiterated.

A participant pointed out that there is debate about what some provisions in the current contracts mean. Going forward, we need to have a single contract and to understand it well, he indicated. A ROD would tell us a lot about what BPA intends, and once a ROD is available, people would know a lot about where we are headed, he said. People will also need time to figure out which product to select, and there will be questions about the Tier 2 resources, he said. "Let's get it right the first time," he urged. "This is not a pitch to stall" things, but there is not a compelling reason to go with the August 2007 date to sign contracts, he stated.

We don't need to focus on August 2007, another participant agreed. As long as we are all aligned on the issues, there will be less likelihood of challenge, he said.

The "corrosive thing" about where we are now is that until customers know about their contract with certainty, not much will happen on infrastructure, a participant said. Without a hard deadline, you will not get this done, he stated.

My company needs time to get through any resulting litigation to be sure that what is in the contracts is certain to happen, a participant stated. So I would go with an earlier rather than a later signing date, he said.

"The date is not as important as the deal," another participant stated. It's important that the deal not change once it is offered, he added.

Is there a need to get something done before events with the Administration or Congress intervene? a participant asked. The federal government is running a huge deficit, and "it is looking for dollars everywhere," another participant pointed out.

It would be a big mistake to rush to signing contracts because of "a Washington, D.C. bogeyman," a participant responded. Without an assurance about cost, I'm not likely to sign up, he stated.

Proposed Resolution #8

Gendron explained that resolution #8 proposes to use the Subscription contracts as a starting point for developing new Regional Dialogue contracts. It seemed like we had solid agreement on this point, but there may be additional comments, he said. No comments were offered, and he moved on to wrap up the resolutions discussion.

The technical group did not feel it was prepared to address dispute resolution or cost control, Gendron said. We plan to present them at the next principals management meeting, he stated. The cost control and dispute resolution conversations have been productive and are ongoing, another participant commented.

What does cost control mean to people? Where are people going with this? a participant asked. We're trying to set up a cost-control process that works under a variety of scenarios, a technical group member responded. We're trying "to stack the deck" in favor of compromise, as opposed to people holding out, he said. We want an outcome in which people work together, he added.

I'd encourage you to keep us all around the same table and not carve out separate groups, the questioner responded.

Service to the DSIs

Mike Dotten (Alcoa) said the BPA concept paper proposes to offer the DSIs the same benefit they were given for 2007-2011. The benefit could be delivered in power or as a monetary benefit, he explained. Dotten went over the DSI provisions in the concept paper. Some customers supported the DSI proposal, some thought it was too great, and others opposed providing any benefit to the DSIs, he said. Some customers think BPA would discharge its obligation to the DSIs by offering to sell power to them at market rate, Dotten stated. There are also customers upset about the windfall reaped by some DSIs during the energy crisis, he acknowledged.

Alcoa is the only DSI that has been attending the Regional Dialogue technical meetings, "which speaks volumes," Dotten continued. The company has been a BPA customer since 1939, he said. BPA's approach in the concept paper puts the smelters in a position unlike any other entity – they are unable to get service from their local utility, Dotten contended. Alcoa would like to have service like that being offered to Port Townsend Paper, in which BPA proposes to sell the local utility 17 aMW to serve the company, he said. Dotten said Alcoa is unlikely to be able to operate at the power price that would result from the proposal in the BPA concept paper. "This is a fight for Alcoa's existence in the Northwest," he stated.

There are two "unhealthy" principles in the current proposal, Dotten continued. The first is that it would be legitimate to serve some customer needs by declining to serve other customers, and the second is that it is okay to serve some power at market rates, and that plays into the hands of those who would push for market rates, he said.

We have been unable to come to a consensus position, Dotten reported, adding that we've tried to adhere to the interest-based negotiations to reach one. We're trying to keep an industry alive that has been here since BPA was created, he stated.

Are you asking for a subsidy? a participant asked. Under the proposal, utilities would be given an allocation to serve their other industrial customers, an Alcoa representative responded. We were created as a direct service customer of BPA and have been served in that status historically, he indicated. It is not right to kick us off the system because of the way we were created, he stated.

This has been a complex and difficult issue for BPA, and BPA's response has been balanced and responsible, a participant stated. It may be balanced, but "the BPA position would put us out of business," an Alcoa representative responded.

Montana Public Power

Mike Kadas, mayor of Missoula and chair of Montana Public Power Inc. (MPPI), briefed the principals on efforts by five cities in Montana to buy the former Montana Power Company. Because MPPI is a private non-profit organization, it would not be eligible for preference power from BPA, he explained.

We are prepared to go to the legislature to try to get the legal framework in the state for public power, and we will strive for access to preference power from BPA, Kadas said. We understand that federal power is a limited resource, and the more customers there are to serve, the less power there will be for others, he stated. But we'd like to get to be "the next member of the club," Kadas said.

The service territory at issue in Montana takes in two-thirds of the population in the state, with a load of about 600 aMW, he continued. About 200 aMW of that load is west of the Continental Divide, Kadas said.

Will you bring resources to the deal? a participant asked. Unfortunately, Montana Power "dismembered itself," and all of the generating resources were sold off, Kadas responded. A participant pointed out that Northwestern Energy, the utility that currently serves the former Montana Power load, is developing a wind farm.

Kadas said MPPI is now without generating resources, but if it gains control of transmission and distribution facilities, it will be in a stronger position to negotiate for them.

A tribal representative said tribes are also working to form utilities, which could become new BPA preference customers.

Next Meeting: The principals scheduled their next meeting for Tuesday, November 29. The meeting ended at 2:30 p.m.

Title of document: **Interests Lists & Proposed Resolutions**

Author / Submitter (Organization): **Helen Goodwin (BPA)**

Date document created or revised: **October 19, 2005**

For meeting on (date): **October 20, 2005**

LIST OF INTERESTS

1. Complexity/Simplicity
2. Durability/Stability
3. Legality
4. Lowest Tier 1 Costs/Rates
5. Customer/Regional Support
6. Salability in D.C.
7. Certainty of Obligations
8. Promote infrastructure development consistent with the Act
9. The region sees decisions as equitable

PROPOSED RESOLUTIONS & OUTSTANDING ISSUES

SERVICE TO PUBLICS: PROPOSED RESOLUTIONS

Proposed Resolution #1 [Mark Gendron]

Issue 1: % or aMW: allocation methodology

BPA will provide a proportional increase in deliveries available with a High Water Mark if the FBS increases, comparably to how BPA has proposed to treat a decrease in FBS capability. Such increases will be provided proportionally based on each utility's High Water Mark.

Proposed Resolution #2 [Geoff Carr]

Issue 3: Determination of Individual HWMs for Load Following Customers

The total amount of power available for High Water Marks for current load following customers will be equal to the sum of the load following customers' forecast FY2002 net requirements determined in BPA's WP-02 Rate Case using BPA's Load Study 3 as further adjusted upwards by specific adjustments in the PPC proposal. BPA will redistribute this total amount of power among this same group of customers in proportion to each customer's net requirements calculation (done for, e.g. 2009 or 2010) performed at the time of contract offer. These redistributed amounts of power will be the HWM for each individual load following customer.

Exception: By providing notice to BPA prior to XX/XX/06 a partial service load following customer may opt out of being treated the same as the other load following customers and instead take a HWM based solely on a FY2002 net requirements calculation determined from BPA's WP-02 Rate Case using BPA Load Study 3, as further adjusted upwards by specific adjustments in the PPC proposal.

Each customer may use its High Water Mark to purchase its choice of the available products for their new Regional Dialogue Contract.

Proposed Resolution #3 [Mark Gendron]

Issue 3: Where is the FBS capability used to determine the size of customers' allocations determined?

(Rate or contract issue)

The Regional Dialogue contracts will set forth the FBS resources, and their firm capability, that will be used to establish the initial HWMs. The Regional Dialogue contracts will also set forth the source of information and the process that will be used to periodically adjust those resource capabilities.

Proposed Resolution #4 [Terry Mundorf]

Issue 4: Resource Removal Right

BPA agrees to provide a limited resource removal right allowing a customer to remove generating and contractual resources for a period of one year in response to retail load loss. The amount of resource removal is limited to the lesser of (5)(15)% of the customer's total retail load or the amount that the customer's forecasted total retail load for the next Contract Year is less than the forecasted total retail load used to establish the initial net requirement for FY 2012 (FY 2010) in the customer's regional dialogue power sales contract.

Proposed Resolution #5 [Geoff Carr]

Proposed Resolution - Grouping for Load Following

There is currently an expectation that the class of net requirements for customers that choose load following products will be less than the total of their individual High Water Marks in 2012, providing an amount of unused headroom. Until the total of the net requirements for this group exceeds the total of their individual HWMs no load following customer will face a Tier 2 rate. In the year BPA projects that the groups total net requirement will exceed their total HWM amounts (calculation to be done in a rate case applying to that year), each customer will revert to their individual HWM and its associated rate consequences for the remainder of their contract.

NOTE: BPA's participation in this resolution is premised on this only applying to load following customers and having all of these customers considered a part of this group due to concerns about the complexity of having more than one group.

SERVICE TO THE PUBLICS: OUTSTANDING ISSUES

- ◆ Resource removal
- ◆ Resource Declaration
- ◆ Assignment of revenues from surplus sales
- ◆ Timing of net requirements determinations/timing of 9(c) determinations

CONTRACT ELEMENTS: PROPOSED RESOLUTIONS

Proposed Resolution #6 [Steve Hall]

Proposed Resolution: Timing of Regional Dialogue Contracts

BPA's proposal will be modified to have power service for all new contracts and supporting rates begin in October 2011. The target date for signing new contracts (effective date) will remain August 2007.

Proposed Resolution #7 [Steve Hall]

Proposed Resolution: Clarify Contracting End Date

BPA's proposed schedule will be clarified to include the ending date of 20-year contracts: September 2026, assuming contracts are executed in August 2007 and we are not able to find a way to maximize actual service to 20 years.

Proposed Resolution #8 [Mark Gendron]

Proposed Resolution: Starting Point for Standard Contracts

The provisions of the existing Subscription contracts will be used as the "starting point" for drafting standard Regional Dialogue contracts. That is, we will not draft Regional Dialogue contracts from "a blank sheet of paper." BPA will propose changes as needed to ensure the contracts reflect the Regional Dialogue Policy/ROD, changes in products, or improved business practices.

CONTRACT ELEMENTS: OUTSTANDING ISSUES

Outstanding Issue: Timing of Long-Term Rate Methodology [Mark Gendron]

BPA recognizes the customers' interest in knowing the future rate methodology prior to signing contracts. BPA will look for ways to accommodate this while maintaining the current contract signing schedule (August 2007).

SERVICE TO THE DSIs: PROPOSED RESOLUTIONS [Mike Dotten]

None to date

SERVICE TO THE DSIs: OUTSTANDING ISSUES [Mike Dotten]

Power deliveries vs. Monetary Benefit

COST CONTROLS: PROPOSED RESOLUTIONS [Mark Gendron]

None to date

COST CONTROLS: OUTSTANDING ISSUES [Mark Gendron]

Contract Off-Ramps

Non-Binding Arbitration

Mediation by the Northwest Delegation

DISPUTE RESOLUTION: PROPOSED RESOLUTIONS

To be added after 10/27 Technical Group Meeting

DISPUTE RESOLUTION: OUTSTANDING ISSUES

To be added after 10/27 Technical Group Meeting

Title of document: **Grouping Construct**

Author / Submitter (Organization): **Geoff Carr (NRU)**

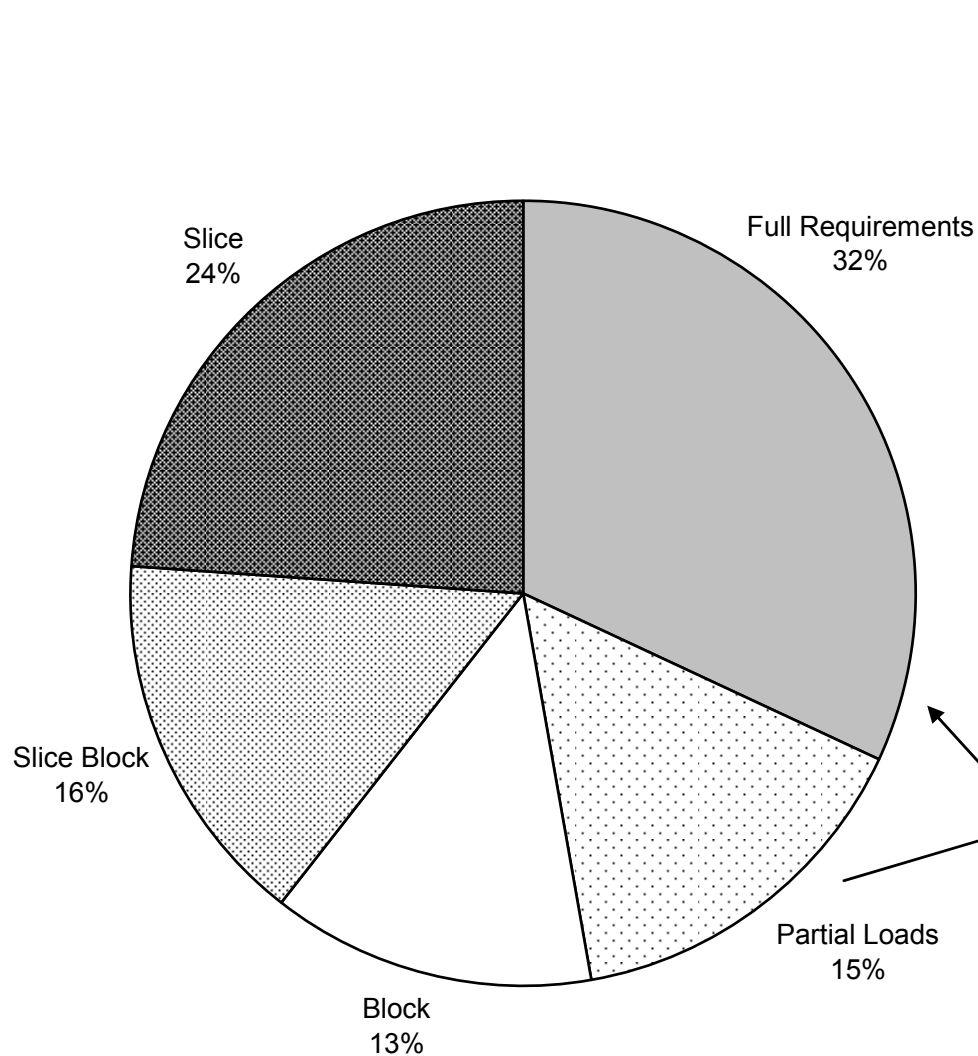
Date document created or revised: **October 17, 2005**

For meeting on (date): **October 20, 2005**

Final PPC Allocation Percentages

Customer Group	Allocation Calculation Loads (aMW)	Annual Allocation % (of FBS)
Full Requirements	2,163	31.9%
Partial Loads	1,040	15.3%
Block	905	13.3%
Slice Block	1,064	15.7%
Slice	1,617	23.8%
total	6,789	100.0%

FBS HWM Allocation Percentages based on PPC Proposal



Block, Slice, Slice Block, Full and Partial Service classes received an FBS HWM allocation % based on 2002 net requirements.

Block, Slice block and Slice customers then got an individual HWM allocation.

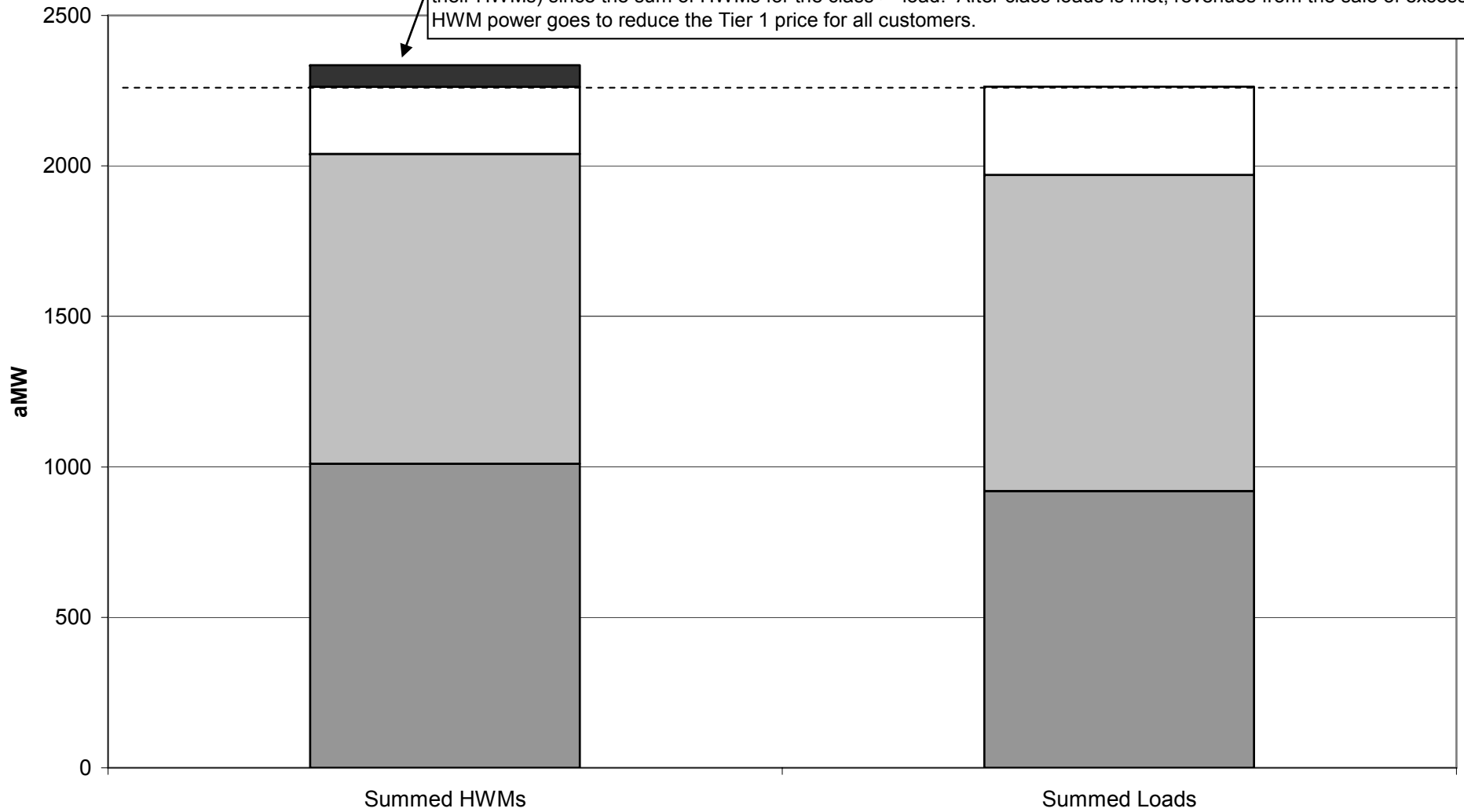
HWM allocation to Full Service Class is based on total class 2002 load (as adjusted).

Full service customers FBS HWM % for each utility will be done in future (e.g. 2009) based on forecasted net requirements for each utility.

Note that a number of Partial customers will move from Partial to full service and bring their total HWM allocation %'s with them to the full service pool for future sub-allocation with full service.

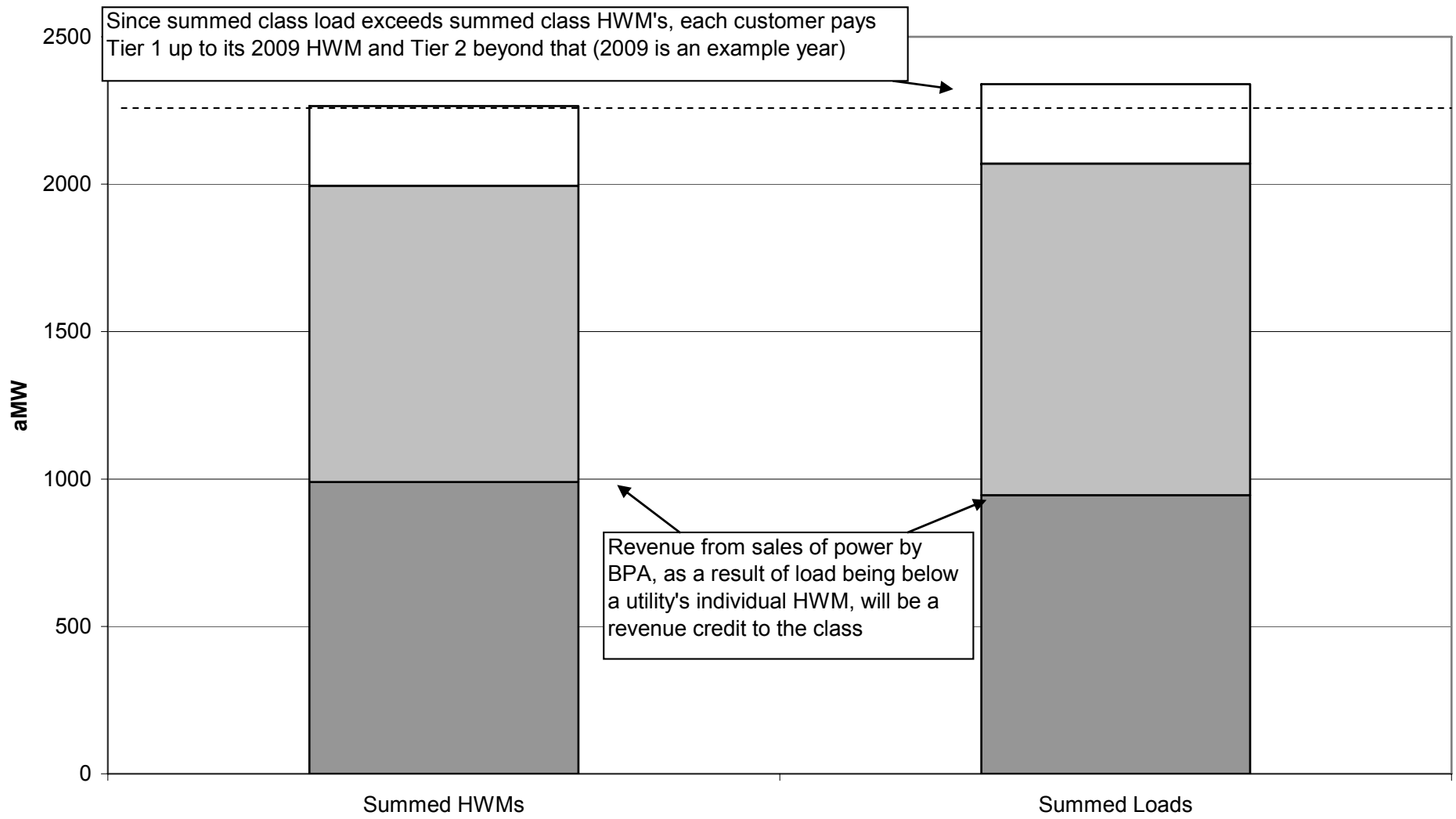
**Grouping, Load Following Class Summed HWM's exceeds Class Load
Three Customer Example Representing Entire Class Load**

Headroom is available to total class of load following customers at Tier 1 (whether or not they are individually above their HWMs) since the sum of HWMs for the class > load. After class loads is met, revenues from the sale of excess HWM power goes to reduce the Tier 1 price for all customers.



Year 1 Forecast Outcome

**Grouping, Load Following Class Summed Class Load exceeds Summed HWMs
Three Customer Example Representing Entire Class Load**



Y1 plus x years, triggering point is a BPA rate case