

**CUSTOMERS' RESPONSE TO
BPA'S PRINCIPLES OF NON-FEDERAL TRANSFER SERVICE
5 FEBRUARY 2008**

The provision of transfer service for non-federal resources is essential to the Regional Dialogue goal of encouraging customers to serve their load growth with non-federal resources. If BPA policy advantages the delivery of federal power over non-federal power, that goal will be materially hindered if not defeated. These customer responses to BPA's proposed Exhibit H and its policy are intended to eliminate any bias in favor of federal resources when transfer and South Idaho Exchange customers choose between federal and non-federal power supply alternatives.

Customer Principles

1. The transfer service provided to transfer and South Idaho Exchange customers should result in service that is comparable to what they would have received had they been directly connected to BPA's grid.
2. BPA policies should not advantage the purchase of federal power for service to requirements load over the purchase of non-federal power for the same purpose.
3. BPA policies should permit either BPA or the Customer to acquire transmission services to serve requirements load.

Caps on BPA's Service Obligation

Cost control is the purpose for BPA's proposal to cap its obligations to obtain and pay for transfer service for non-federal resources. The dollar, MW and "comparative" caps, however, are overlapping and the multiple expressions of what is essentially the same cap. These multiple caps will be complicated to administer and do not provide sufficient additional cost protection to warrant their use. Because they are overlapping, they are also confusing and likely to lead to future disputes.

The customers propose that BPA adopt and apply only the proposed annual and aggregate MW caps. Because most of the transfer contracts are, or soon will be, OATT contracts, the rates applied are FERC-approved rates and the costs of the service are known and unlikely to be the source of unexpected or inappropriate costs. The dollar cap is unnecessary because it attempts to control the same costs as the MW cap using a different metric. Additionally, it may shrink the absolute amount of transfer service available over time if transmission rates increase more rapidly than the escalation rate embedded

in the cost cap. The comparative cost cap is very likely to be an additional source of disputes.

We have included other restrictions on BPA's cost obligations. We agree that BPA is not responsible for payment of incremental rate, only for payment of the amount of the embedded rate. New and unanticipated control area and ancillary services remain the obligation of the Customer, as do the costs of interconnecting generation.

Responses to Exhibit H (16 Oct 2007 Draft)

Exhibit H
PRINCIPLES OF NON-FEDERAL TRANSFER SERVICE

- ~~1. BPA's cost responsibility for transfer services associated with non-federal electric energy purchases to all Customers requesting support pursuant to section X(f)(7) shall be limited to \$650,000/year. Such amounts shall be subject to a 3% escalation factor each year.~~

~~[FORMULA]~~

~~— BPA shall arrange and pay for transmission service capacity up to a maximum of 41 MW per year of transmission capacity, cumulative over the duration of the agreement. If Customer obtains such service by a contract between Customer and Transfer Service Provider, within the capacity limitations above Customer may seek reimbursement from BPA of the costs BPA would be responsible for under this Exhibit H. Actual Transmission capacity provided pursuant to the agreement shall be determined according to the following formula:~~

~~Annual Capacity Limit~~

~~[FORMULA]~~

~~[[[1. The customers have not closely reviewed or verified the proposed formula and do not comment on it at this time.~~

~~2. BPA's cost responsibility is to pay the cost of procuring up to the MW cap, subject to the following: If the new Point of Receipt for transmission service for non-federal resources can only be obtained at an incremental rate, then BPA's cost responsibility is capped at the embedded rate.~~

3. The annual and overall capacity limits need to include considerations for seasonal and monthly purchases.]]]

2. ~~BPA's cost responsibility for transfer service is limited to the lesser of the amount BPA would have paid for transmission of federal Tier 2 power or the customer's cost of transmission.~~

3. ~~Application of section X(7)(f) shall be on a first come, first served basis in each fiscal year subject to an allocation of capacity as set out in the customers' proposal of October 2007.~~

4. Except for the services of Load Regulation and Reactive Power Penalty (?), Customer shall be responsible for the costs of all Ancillary and Control Area Services necessary to deliver the non-federal resource to its load. Ancillary service costs, except for load regulation and reactive power, shall be apportioned between BPA and the Customer based on either: [[[Doesn't every transfer customer pay based on its whole load now? And they pay the lower of the BPA AS charge and the TP AS charge?]]]

- Metered/scheduled quantities of the non-federal resource dedicated to load expressed as a percentage of total load multiplied by the total costs assessed BPA by the Transfer Provider, or
- Actual charges assessed by the Transfer Provider;

Notwithstanding the foregoing, payment of the costs of Energy Imbalance for the delivery of the non-federal resource will be the responsibility of the party responsible for determination of the hourly {transmission} schedule to the load.

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a. The cost of interconnecting generation to a transmission system shall be the responsibility of the Customer.

b. All other costs, whether not identified in this Exhibit H herein or not, are the responsibility of the Customer, will be the Customer's responsibility if the rate for a comparable Tier 2 resource includes those charges.

5. ~~Customer and BPA agrees to work cooperatively to work with BPA in establishing necessary protocols, provisions, or other arrangements BPA deemsthat are reasonable and necessary to manage the particular nature of Customer's non-federal resource.~~

6. BPA shall be responsible for making arrangements for and payment of the costs associated with transmission service to the Customer over transmission facilities of the Transfer Provider that either interconnect directly to the Customer or interconnect to BPA transmission facilities. If the customer makes the arrangements for transmission service, then BPA shall reimburse the Customer. The Customer shall be responsible for making all arrangements and payment of all costs required for the delivery of power to an interconnection point with the Transfer Provider.
7. Unless otherwise agreed, Customer will be responsible for managing the non-federal resource and providing hourly generation schedules to BPA.
8. Customer shall provide BPA all the generator-specific information, if applicable and necessary, required to obtain transmission service from a Transfer Provider.
9. Subject to the other terms and conditions of Exhibit H, ~~Long-term, short-term and unspecified non-federal resources.~~
 - a. ~~For each of Customer's acquisitions of long-term non-federal resources that are used to serve such Customer's regional retail load under the resources Customer's Regional Dialogue contract by Customer, BPA intends will make all reasonable efforts to use its existing transmission service rights and, if insufficient existing rights are available or cannot be used, to obtain firm transmission rights from the Transfer Provider and/or request designation of the resources as a Network Resource (or its equivalent). However, BPA shall not be responsible to Customer in the event such firm transmission and/or designation cannot be acquired.~~
 - b. ~~Unspecified and short-term resources of the Customer are not eligible for inclusion in this agreement.~~

[[[NOTE re 10 in BPA's draft: we do not understand the purpose of this provision. If this is the Raft River annexed load situation, we should discuss that, but this looks like a requirement that the Customer reimburse BPA for all transfer service for non-federal resources.

Re 11 in BPA's draft: This is covered elsewhere in the Regional Dialogue contract in regard to RSS and is not a transmission or transfer service issue.

Re 12 in BPA's draft: this is now subsumed in the definition of BPA's obligations in no. 9.]]]

10. ~~The Customer shall pay BPA for transmission service of non-federal energy for all service hereunder either through separate transmission agreement with BPA or under provisions of this Agreement.~~
11. ~~Customer is responsible for the acquisition of firming and shaping services to support their intermittent resource, in accordance with the balancing authority requirements. BPA will not guarantee resource support services for intermittent resources.~~
12. ~~BPA will not accept liability in the event firm transmission cannot be acquired on the Transfer Provider system.~~
13. ~~Customer is responsible for transmission losses assessed by the Transfer Provider associated with the non-federal resource if the rate for a comparable Tier 2 resource would include transmission losses.~~
14. Customer is responsible for all metering requirements, which must comply with applicable BPA standards.
15. Customer will pay a scheduling charge for all non-federal resources BPA schedules to serve Customer's load if the rate for a comparable Tier 2 resource would include the costs of scheduling the Tier 2 resource.

[[[How would this charge be developed, in what forum etc.]]]