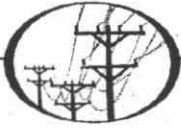


CON-061



IDAHO CONSUMER-OWNED UTILITIES ASSOCIATION

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February 20, 2008

*response
drafted*

RECEIVED BY BPA ADMINISTRATOR'S OFC-LOG #: 08-0019
RECEIPT DATE: 2-20-08
DUE DATE: 3-05-08

Mr. Steve Wright
Administrator
Bonneville Power Administration
P.O. Box 3621
Portland OR 97208-3621

ASSIGN: Joe Rogers-PSS-6
cc: FO3, DKN/Wash, PS-6, SWilson-PS-6,
GThompson-PSE/Spokane, LKing-PSE/Burley

Mr. Paul Norman
Senior Vice President
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

Subject: Transfer Service in Idaho

Dear Steve and Paul:

At a recent transfer service meeting in Portland on February 5th, attended by BPA representatives and various Idaho Consumer-Owned Utility Association (ICUA) members, there appeared to be significant misunderstandings or disagreements involving a number of transfer service issues. These issues again centered on the concept of "equity" for BPA customers who are transmission dependent utilities served by third party transmission providers.


Attached is a list of the transfer service problems identified, as well as the solutions. We are confident that BPA recognizes the obligation for providing comparable transmission service throughout its service area. With this in mind, the members of ICUA expect a clear and concise written commitment that BPA will provide equitable and equivalent transmission service and access. This service must facilitate delivery to all customers requirements load.

Steve Wright
Paul Norman
February 20, 2008
Page 2 of 4

Thank you in advance for your commitment to fulfill these obligations.

Sincerely,

Ronald L. Williams



ICUA Executive Director

Everett "Ed" Gossett



ICUA President

cc: ICUA Board
Mark Gendron
Scott Wilson
Joe Rogers
Garry Thompson
Larry King

A. PROPOSED CAPS OR LIMITS ON TRANSFERS OF NON-FEDERAL POWER HAS NO ECONOMIC OR OPERATIONAL SUPPORT.

- Third party transfer customers must have transfer parity with customers on the main grid. There are no caps on the amount of non-federal resource a customer on the main grid may bring to load, and there should similarly not be any such caps placed on third party transmission service.
- BPA's proposed cap allocation does not take FBS shrinkage into consideration. Under the proposed Regional Dialogue contract provisions there is the possibility that the FBS could shrink (e.g., loss of CGS or court-mandated fish operations further limiting the FCRPS). Under this scenario, the customer is responsible for serving more than just load growth above the Tier 1 rate resource.
- There is no economic reason to cap transfer of non-federal power. Transfer costs are limited by above requirements load and FERC jurisdictional transmission rates. There is no way for the transfer customer to "game" these costs. The only economic result of a cap on transfer service would be for a transfer customer to take Tier 2 service instead of non-federal service because of the more advantageous treatment of transfer costs.

B. BPA'S PROPOSAL FOR "SEPARATE AGREEMENTS" FOR NON-FEDERAL POWER TRANSFERS TO BE SEPARATELY NEGOTIATED IS NOT A VIABLE PROPOSAL.

- Bonneville proposes that it will "... offer a separate agreement for specific terms and conditions under which BPA will obtain the Transfer Service on a 3rd Party Transmission Provider's system for delivery of the resource to customer's system." In other words, BPA will look at providing for delivery of non-federal resources on a case-by-case basis.
- A promise to "negotiate" is not a commitment. Either a contract template needs to be included in the proposed PSA with an Exhibit that provides guidelines binding on Bonneville as to how such deliveries of the non-federal resource are to occur (such as location, delivery quantities, etc); or the PSA needs to actually contain firm commitment language. The latter option is the better of the two.

C. SOUTH IDAHO EXCHANGE (SIE) CUSTOMERS SHOULD HAVE TRANSMISSION SERVICE FOR NON-FEDERAL POWER EQUAL TO THAT PROVIDED UNDER THE ARTS CONTRACT COMMITMENT.

- The SIE customers (Fall River, Lost River, Salmon River, Lower Valley Energy, Idaho Falls Power, City of Soda Springs) continue to ask BPA for a written commitment to deliver both federal and non-federal power sourced in or delivered to the BPA Balancing Authority or the FCRTS to the SIE customers' respective loads through whatever means necessary and at a cost no different than a customer connected directly to the BPA transmission network.

D. Customers Should Not Be Disadvantaged When Federal Resources Do Not Perform As Expected And Non-Federal Generation Must Be Sourced To Serve Requirements Load.

- Giving customers the ability to help BPA cover load with non-federal resources in times of high regional demand or periods when federal resources are underperforming should be viewed as a benefit to the entire FCRPS. Customer's non-federal resources could play a major role in meeting the region's power needs instead of having BPA shoulder the total risk for future power supply.
- Bonneville proposed that "BPA will provide some level of financial assistance to transfer service customers who acquire power from non-Federal resources to meet requirement loads above their Rate Period HWM." There is no similar restriction placed on customers connected to the main grid wishing to transfer non-federal power "above their Rate Period HWM." BPA should provide the same financial assistance to transfer service customers who acquire power from non-federal resources to meet requirement loads above available Tier 1 resource commitments of Bonneville.
- BPA's proposal to provide financial assistance for non-federal transfer service to main grid connected customers but not transfer service customers is arbitrary, discriminatory and inappropriate.
- BPA should also work with transfer customers who plan to bring "unspecified resources" to serve net requirements load to ensure that these resources can be delivered to transfer loads. This may include use of secondary network transmission on a third party transmission system.

E. BPA SHOULD DEVELOP AN EXCHANGE PRODUCT THAT COULD BE USED BY ALL TRANSFER CUSTOMERS.

- An exchange product useful to all transfer customers would allow a customer to acquire and have delivered a non-federal dedicated or unspecified resource to BPA within its Balancing Authority, and then permit BPA to serve the transfer load with a single federal schedule. This *exchange product* or service, similar to the old service and exchange contracts, would greatly simplify and resolve many transfer issues and would be a way to help South Idaho Exchange customers experience a level playing field for use of non-federal resources.



Department of Energy

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

POWER SERVICES

April 30, 2008

In reply refer to: PSS-6

Mr. Ron Williams, ICUA Executive Director
Mr. Everett Gossett, ICUA President
1015 West Hays Street
Boise, ID 83702

Gentlemen:

Paul Norman has asked that I reply to your February 20 letter expressing concerns about Bonneville Power Administration's (BPA) proposal regarding transfer service for non-Federal energy supplies to your members' utility systems. We at BPA understand the concerns you expressed and how important it is to your utility members for BPA to continue to support the delivery of power over non-Federal transmission systems. The use of third party transmission has been, and will continue to be at times, an efficient and cost-effective approach to serving our customers' needs. As we establish policy and develop long-term power sales contracts for both directly connected customers and customers served through transfer, it is very important that we address the concerns that you have raised.

The Regional Dialogue Policy and Record of Decision (ROD) issued last summer addressed many transfer service issues, including direct assignment, quality of service, administrative roles and responsibilities, ancillary service costs, transfer service to new and annexed loads, and payment for delivery of non-Federal power. The Policy and ROD is the product of significant discussion and collaboration with customers and other interested parties in the region. We hope you agree that many of the decisions in the Policy, combined with the commitments made previously in the Agreement for Regional Transfer Service (ARTS) agreement, will result in very significant service and cost certainty for public utility customers served through transfer.

Your comments, which are focused on one area, transfer service for delivery of non-Federal power, are addressed as follows:

- Proposed Caps: The Policy and ROD included both financial and megawatt caps for the delivery of non-Federal power. After serious consideration and weighing the risks and benefits of retaining financial caps for non-Federal resources, we have decided to include in the draft contract templates only the megawatt limit. It is our view that the financial limitation could work to inhibit resource development, rather than promote it, as the Regional Dialogue intends. The megawatt limit has been retained in the draft contract templates to insure that BPA's commitments are not open-ended. The 41 MW annual

cap is based on load growth forecast for all transfer service customers. If this cap is reached, those customers that exceed the cap will be the first to receive the incremental transfer service benefits in the next fiscal year.

- Separate Agreements: Following release of the Policy, we have proposed entering into separate contractual arrangements on a case-by-case basis to support non-Federal resource wheeling. Although you have expressed concern with this approach, we continue to believe this is a reasonable and manageable means for addressing the wide variety of resource options. These separate contracts would be consistent with the principles articulated in the exhibit to the draft contract templates. We would like to continue to work closely with you and other customers to develop the contractual framework that meets the Policy objectives and is consistent with the above-mentioned contract principles.
- Service to Southeast Idaho: Alternatives that provide support for non-Federal resource service to customers in southeast Idaho will continue to be evaluated. The South Idaho Exchange is a unique arrangement that does not fit well into the transfer rubric, and that has created a number of challenges in recent years. Your request to provide a firm commitment to deliver non-Federal power from the BPA balancing authority to Southeast Idaho customers is very difficult to accommodate; there is no available transmission path and no estimate of the associated costs. Any broad firm commitment would be financially unbounded. However, we have taken no options off the table regarding how to accommodate the requirements of this subset of customers and suggest that we continue to work collaboratively together on this challenging issue.
- FBS Performance: Your concern about the future performance of the Federal Base System (FBS) is legitimate. Should we be faced with a significant diminishment of the system capability in the future, we would have to address that fact with our customers. Doing so would undoubtedly require a fresh look at the megawatt cap for non-Federal energy mentioned above.

With respect to unspecified resources, BPA will require that non-Federal resources be specified for purposes related to transmission service acquisition and management; i.e., the non-Federal resource must be designated as a Network Resource. We will not support a circumstance where the only resource on record to serve a customer's load is the Federal resource when the customer's right to the Federal resource is limited by contract. This would lead to an unacceptable exposure to BPA in terms of cost, administrative burden, and the risk that BPA would fail to meet its contractual obligations under the Transmission Agreements with the transfer service providers.

I would also like to correct what I believe is a misunderstanding reflected in your letter regarding transfer service to main-grid connected customers. BPA is not proposing to provide financial assistance for non-Federal energy deliveries to customers that are

served directly. Any wheeling to a directly connected point of delivery will be entirely the customer's responsibility.

- Energy Exchanges: As mentioned above, BPA has not foreclosed any option to coordinate resource development with our customers. We are willing to discuss and consider alternatives, such as exchanges, on a case-by-case basis, that are beneficial to both BPA and our customers.

Draft contract templates are currently out for customer review, in an effort to get us to the offering of contracts by August 1, 2008. This is a very tight schedule and many decisions were made for the purpose of completing these drafts, including decisions addressed in this letter. Please take this opportunity to comment on these issues as proposed in contract provisions and language

Thank you for your comments and I would be pleased to talk to your about this specific issue of delivery of non-Federal power at you convenience.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark O. Gendron', with a long horizontal flourish extending to the right.

Mark O. Gendron, Vice President
NW Requirements Marketing