

**Bonneville Power Administration
Long-Term Regional Dialogue Final Policy**

July 2007



LONG-TERM REGIONAL DIALOGUE POLICY
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I. INTRODUCTION

A. BACKGROUND

Over the past 10 years, the Bonneville Power Administration (BPA) has engaged the region in discussions known most recently as the “Regional Dialogue.” The intent of the Regional Dialogue has been to define BPA’s power supply and marketing role for the long term and to do so in a way that meets key regional and national energy goals. The timing is critical because current power sales contracts expire in Fiscal Year (FY) 2011. Utilities need to determine now what power they will purchase from BPA at its lowest cost-based rates. More importantly, they need sufficient lead time to make choices about whether to develop or otherwise secure additional resources needed for FY 2012 and beyond.

This Long-Term Regional Dialogue Policy (Policy) benefited from regional stakeholders’ input. It represents intense collaboration, negotiations, and, ultimately, compromise. The Public Power Council (PPC), which represents most of BPA’s public customers, put forth a power allocation proposal, and the Northwest Power and Conservation Council (Council) included a chapter on the “Future Role of BPA in Power Supply” in its Fifth Power Plan. Other parties submitted proposals on a variety of issues.

The cornerstone of this Regional Dialogue Policy was set in BPA’s February 2005 Policy for Power Supply Role for FY 2007-2011 where BPA decided to limit its sales of firm power at the lowest cost-based rate to public power preference customers to meet their regional firm requirements loads to approximately the firm capability of the existing Federal system. In September 2005, BPA released a Concept Paper as a springboard for collaborative discussions among BPA and its customers and other regional stakeholders. The Concept Paper focused on the policy issues that must be resolved before new contracts and rates can be put in place. The Long-Term Regional Dialogue Policy Proposal (Policy Proposal), released in July 2006, incorporated comment from the public workshops held on the Concept Paper. Following release of the Policy Proposal, BPA held extensive regional meetings and took public comment. These comments and other sources of information were considered in making this Policy.

While this Policy sets the parameters for moving forward into the next phase of the Regional Dialogue process, there are significant steps that must still be taken for BPA’s decision making process to be concluded. For example, new contracts and products must be negotiated and drafted, released for public comment, and ultimately executed. BPA will conduct a net requirements load determination process and will review and reconsider certain identified aspects of its Section 5(b)9(c) Policy. A Section 7(i) rate process must be conducted to establish the long-term Tiered Rate Methodology (TRM), followed by a separate 7(i) process to set the rates that will be effective for the commencement of power sales under the Regional Dialogue contracts in FY 2012. These decision-making processes will culminate in the offering of new contracts and the establishment of new rates. While this Policy informs contract negotiations, it is not a contract and does not create contractual rights or obligations.

Consequently, the majority of decisions described in the Policy and Record of Decision (ROD) pertaining to these subjects are not final actions for purposes of legal challenge under Section 9 of the Northwest Power Act, 16 U.S.C §839f(e)(5). The U.S. Court of Appeals for the Ninth Circuit has explained that, “the fact that a statement may be definitive on some issue is insufficient to create a final action subject to judicial review.” Industrial Customers of Northwest Utilities v. Bonneville Power Administration, 408 f.3d 638, 646 (9th cir. 2005). These decisions, while perhaps definitive on some issues, form important milestones in an on-going decision-making process and provide the basis for future discussions and negotiations among BPA, its customers and interested stakeholder that will lead to final contracts, products, and rates consistent with this Regional Dialogue Policy. But given that the decision-making processes have not concluded with the issuance of this Policy and ROD, the majority of these decisions are not final actions. Indeed, decisions on any ratemaking issue must be made in a Section 7(i) process. To the extent BPA believes that any decisions in this Policy *are* final actions for purposes of judicial review, BPA will expressly say so in the appropriate section of the Policy or ROD. These limited final decisions either constrain, affirm, or clarify existing policy or practices.

B. SET OF INTERESTS FOR POLICY DEVELOPMENT

BPA and the other participants in the Regional Dialogue agreed on a set of interests to guide the dialogue. BPA used these interests consistently as it developed this Policy. The interests are listed below:

- Lowest Tier 1 Costs and Tier 1 Rates
- Durability/Stability/Contract Enforceability
- Customer/Regional Support and Equity
- Certainty of Obligations for All Parties
- Promote Infrastructure Development Consistent with the Northwest Power Act
- Consistency with BPA Stewardship Obligations
- Legality
- Simplicity
- Advancement of National Objectives

C. SUMMARY OF THE POLICY

Following is a brief summary of the Regional Dialogue Policy. Where there are any differences between these summary statements and the detailed Policy language, the detailed Policy language represents the actual Policy.

The Policy decisions on service to public utilities are an interdependent package. If a major piece of the package cannot be implemented, modification of decisions and adjustments to other aspects of the Policy could become necessary.

New 20-Year Contracts and Tiered Rates: BPA will offer contracts to all its customers; public utilities, investor-owned utilities, and DSIs; at the same time. For public utilities, BPA will develop new 20-year contracts accompanied by a long-term Tiered Rate Methodology

(TRM). Through the contracts and rate methodology, each public utility will get a High Water Mark (HWM) that defines its right to buy an amount of power at BPA's lowest cost-based Tier 1 rate. Power above the HWM must be purchased from either non-Federal resources or from BPA at rates reflecting BPA's marginal cost of acquiring the additional power, or through a mix of BPA Tier 2 priced power and non-Federal resources. BPA will not use its existing system to subsidize its Tier 2 power rate but intends to offer a number of alternative Tier 2 rate options for customers who choose not to develop their own resources for load beyond their HWM.

Key changes from the Policy Proposal are an adjustment to the HWM calculation to account for changes in consumer-owned generation amounts beyond 2012 and a conditional HWM adjustment to account for the four public utilities that sold their shares of the Centralia coal plant in 1999. The Policy also provides a greater HWM increment for conservation achieved through BPA programs.

New Publics and New Tribal Utilities: BPA will make augmentation purchases, if necessary, to supply up to 250 average megawatts (aMW) at the Tier 1 rate to new public utilities (including new and existing public body tribal utilities), although the maximum 250 aMW could not be reached for several rate periods. This will cover the reasonably foreseeable need to serve new public utilities without reducing the availability of power at the Tier 1 rate to existing public utilities. Special provisions are made in the Policy to address the unique challenges of new and existing tribal utilities.

Augmentation: BPA will purchase power to augment the existing system by the lesser of 300 aMW or the amount needed to meet utilities' High Water Marks based on their FY 2010 loads. At the 300 aMW cap, this would be roughly a 4 percent increment to the existing system and is in addition to any augmentation for new public utilities.

Product Choices: BPA will offer customers three product choices: Load-Following, Block and Slice. The Load-Following product will include services to follow the actual loads a customer experiences. The Slice and Block products do not include load-following service.

Slice: The Policy provides for an increase in the amount of power sold under the Slice product from the current 22.6 percent to as much as 25 percent of the power available from the Federal Base System (FBS) resources. In addition, aspects of the Slice product will be refined to address issues raised through review of the current product. The refinements will place all Federal power customers on a more comparable basis with regard to within-hour flexibility rights and will more accurately and fairly share operational flexibility and limitations.

Direct Service Industry (DSI) Service: BPA has not yet finalized its decision on providing service to the DSIs. Therefore, the DSI section of this document has been omitted. BPA is continuing to work to develop a framework for post-2011 power or financial benefits for DSI customers and hopes to complete that work in the near future.

Investor-Owned Utility (IOU) Residential Exchange: Providing benefits to the residential and small farm consumers of the investor-owned utilities (IOUs) and public agencies has long been the subject of ongoing discussions and negotiations. In light of recent decisions by the

U. S. Court of Appeals for the Ninth Circuit, this section of this document has been omitted. Nonetheless, BPA's goal is to assure the residential and small-farm customers of IOUs receive a fair and reasonably stable share of the benefits from the Federal system over the long term, consistent with law, that will parallel the certainty obtained by public utilities. IOUs will be offered new contracts at the same time as other customers.

Cost Control: To give customers and other stakeholders robust opportunities to provide comment to BPA on its costs, BPA will institute the regional cost review, generally as described in the Policy Proposal, with some enhancements suggested during the public comment period.

Dispute Resolution: The Policy responds to customer requests for robust dispute resolution mechanisms, and lays out guidelines for dispute resolution, while stressing that final determination of the appropriate mechanism must in many instances be done in conjunction with development of the TRM and power sales contracts.

Conservation and Renewable Resources: The Policy commits that to meet its load obligations BPA will pursue the development of all cost-effective conservation in the service territories of public utilities served by BPA and of renewable resources based on its share of regional load growth. BPA expects these goals to be met to a significant extent through programs initiated and funded by its public utility customers. BPA will supplement and facilitate utility initiatives. The Policy describes the actions BPA will take to accomplish this goal and includes enhancements subsequent to the July Proposal to ensure the goal is met. These include a commitment to provide the necessary integration services to customers who wish to acquire non-Federal renewable resources to meet their load growth and enhanced incentives for conservation development.

Resource Adequacy: The Policy stipulates that BPA customers will be required to provide their load and resource data and resource development plans necessary to track regional implementation of the voluntary resource adequacy standards adopted by the Northwest Power and Conservation Council, but does not make compliance with the standards themselves a contractual requirement.

Low Density Discount (LDD) and Irrigation Rate Mitigation (IRM): The Policy commits BPA to propose stable and predictable LDD and IRM programs in future rate proceedings and to propose an LDD approach that avoids biasing customers' choices between using power at a Tier 2 rate from BPA or power from non-Federal resources.

D. GOALS ACHIEVED BY THE POLICY

When implemented through new 20-year contracts and rates, the Policy will achieve some very significant goals:

Promotion of Regional Electric Infrastructure: Adequate infrastructure development is essential to ensuring a reliable future power supply and to avoiding excessive market price volatility such as occurred during the West Coast energy crisis of 2000-2001. Although the region is not currently short of generation resources, new resource development requires long

lead times. While public utilities and resource developers are motivated and able to develop new power resources, they need certainty about how much low-cost power each utility can purchase from BPA in the long term and how BPA will price its power. Defining the amount of power each customer is eligible to purchase from BPA at the lowest-cost Tier 1 rate (the HWM) will allow utilities to move forward with plans to meet their additional or new load by developing their own resources or purchasing additional power from BPA at a potentially higher Tier 2 rate. Twenty-year contracts will help provide the long-term certainty needed to back up financial commitments to new customer resources that have lengthy capital recovery periods. Resource adequacy standards will provide clarity about how much resource development is “enough.” Having willing utilities responsible for resource acquisition decisions also enhances competition in the marketplace and spreads risk.

Low and Stable BPA Tier 1 Power Rates: Low power rates are one of BPA’s most important contributions to the regional economy. The Policy will help to keep BPA’s Tier 1 rate low and stable by greatly reducing the amount of augmentation cost included as part of a Tier 1 rate. Historically, these augmentation costs have been one of the largest drivers of BPA rate increases.

Regional Access to Federal Power at Cost, with a Firm Commitment to Pay: The new 20-year contracts will create long-term certainty for customers about their access to power from BPA at cost, with a reciprocal take-or-pay commitment from customers for the Federal power purchased that covers BPA’s costs over the term of the contract.

Enhanced BPA Financial Stability and Assurance of Treasury Payments: A low and stable Tier 1 rate created by a major reduction in BPA’s past practice of acquiring new power and melding its costs with those of the existing system will greatly reduce the financial uncertainty that occurred when BPA rates rose above wholesale market prices. This rate stability should significantly reduce future risks to BPA’s ability to make its Treasury payments. Long-term take-or-pay commitments from customers will add further assurance that BPA will make those payments in full and on time, as will largely relieving BPA of the obligation to acquire power to replace reductions in existing system output at melded rates.

Accomplishment of Conservation and Renewable Resources: The Policy includes initiatives to advance achievement of conservation and renewable resources. To meet its load obligations, BPA commits to pursue development of all cost-effective conservation in the service territories of public utilities it serves and renewable resources based on its share of regional load growth, consistent with the Council’s Fifth Power Plan. Tiered rates and HWMs create powerful economic incentives for customers to develop these resources. BPA expects utility initiatives in response to these incentives to be a very significant source of conservation savings toward this goal. BPA will focus on facilitating and supplementing utility initiatives. BPA’s conservation and renewables facilitation costs will be recovered in the Tier 1 rate, thus sheltering these costs from the financial pressures that historically put them on a funding roller coaster. The Policy includes commitments to provide customers with integration services for their intermittent renewable resources, such as wind used to serve their retail loads, and to develop a renewables-based Tier 2 rate service option. Under the new Regional Dialogue contract, customers will be asked to provide a resource plan to BPA that includes a description of the plan’s consistency with the Council’s Power Plan.

More Secure Fish and Wildlife Funding: BPA's fish and wildlife program funding is not in the scope of the Policy. However, implementation of the Policy will enhance BPA's ability to meet its fish and wildlife goals in several ways. First, the Tier 1 rate, which covers the costs of BPA's fish and wildlife programs, will be lower, more stable and less vulnerable to the pressures that have in the past caused budget pressures on all of BPA's programs. Second, Tier 2 rate alternatives relieve BPA of most of its current obligation to buy power to make up for hydro system output reductions to help fish and to meld those purchase costs into its rates. Third, the Policy helps to ensure adequate electric infrastructure which will reduce the likelihood of another power crisis and the pressures on BPA's fiscal and operational decisions that have come with such crises.

Transmission Considerations: In their comments, customers expressed concerns about access to BPA transmission services for their long-term Regional Dialogue power purchases and for non-Federal resources to serve their loads above the level served at a Tier 1 rate. As described in the Record of Decision (ROD), BPA Transmission Services has begun a public process to address these concerns with customers.

RELATIONSHIP TO THE PRESIDENT'S BUDGET PROPOSAL

As part of the Regional Dialogue Policy Proposal, BPA sought and received numerous comments on the President's FY 2007 Budget which proposes to use any surplus power sales (net secondary) revenues BPA earns in any given year above its historic high level of \$500 million to make early payments on its Federal bond debt to the U.S. Treasury in order to provide BPA with needed financial flexibility to invest back into energy infrastructure, conservation, and fish and wildlife protection programs. In the Policy Proposal, BPA stated that long-term power and transmission customers would benefit from this action through lower long-term power rates than would otherwise be the case, and through improved and upgraded capital facilities.

Concerns expressed by the Pacific Northwest Congressional Delegation and BPA's customers were reflected in the President's Budget for Fiscal Year 2008. While the 2008 budget proposal continued to seek means to extend BPA's limited access to capital for infrastructure investment, the budget explicitly encouraged a dialogue in the Pacific Northwest to address how the proposal will improve BPA's ability to meet its long-term capital investment needs with minimal rate impact.

BPA has been planning to complete an update to its long-term financial plan in FY 2008. BPA concludes that rather than engage in a decision process focused narrowly on the budget proposal, it would be preferable to look broadly at long-term financial policy issues in its financial plan update, including the need for and sources of capital, BPA's overall debt structure, the appropriate Treasury Payment Probability standard for rate-setting, and the best uses of high net secondary revenues when they occur. BPA intends to complete this financial plan update before the end of FY 2008, and will provide for public involvement in it consistent with the approach detailed in the long-term cost control section of the Policy. This timing will allow the policy to be updated before the deadline for signing new long-term contracts.

II. SERVICE TO PUBLIC UTILITIES

A. THE GOAL

This section of the Policy describes how service will be provided to public utility customers under Regional Dialogue contracts. The goal is to provide service to public utilities based on a different business relationship than exists today between BPA and its public customers. This new approach reflects broad agreement among BPA, its customers, and other regional and national stakeholders that limiting BPA's open-ended obligation accomplishes shared goals, including promotion of regional infrastructure development.

The cornerstone of the Regional Dialogue Policy is to limit BPA's sales of firm power at the lowest cost-based rates to approximately the firm capability of the existing Federal system. Customers may purchase additional Federal power, but it will be priced at a Tier 2 rate based on the marginal cost of serving the additional load. The costs of power acquired to serve load subject to a Tier 2 rate will be kept as low as possible; however, BPA will not subsidize Tier 2 rates to create a financial advantage over a non-Federal resource.

The strategy and decisions laid out in this section of the Regional Dialogue Policy define the outcomes BPA will seek in the Tiered Rates Methodology (TRM), development of new power sales contracts, and changes in the Section 5(b)9(c) Policy. BPA is describing these decisions now because they reflect the direction BPA will go to advance the implementation of this Policy. BPA will not deviate from the provisions of this Policy in what it proposes in these subsequent processes. However, BPA cannot pre-decide the outcome of its rates process, nor can it dictate the terms of settlements that require the agreement of other parties. Consequently, these decisions will not have final effect until the TRM, new power sales contracts, and review of the Section 5(b)9(c) Policy are complete. Similarly, these policy decisions are an interdependent package, and failure to achieve one major component through the rate and contract processes may of necessity affect the action BPA ultimately takes on other components.

B. ACCESS TO POWER AT LOWEST COST-BASED RATES

1. Future Access to Lowest Cost-Based Rates

BPA has decided to pursue a rate construct that limits the amount of power available at its lowest cost-based Priority Firm (PF) rates. BPA will accomplish this by setting a HWM for each utility that defines and limits the amount of power available to it at the lowest-cost Tier 1 rate. Amounts of power a utility chooses to buy from BPA for its load beyond its HWM will be priced at a Tier 2 rate designed to recover the marginal cost of serving the additional load. The details of this rate approach are discussed later in this Policy. Tiered rates implement the regional interest of limiting the dilution of the value of the Federal Base System (FBS) and remove a financial disincentive for BPA customers to develop regional infrastructure.

2. Mechanics of High Water Marks

BPA will base the total HWM amount on the planned firm power output of the existing Federal system, using critical water to calculate the firm power, as it has traditionally been defined for regional planning purposes, plus a limited amount of augmentation. The following six steps will

be used to establish the individual customer HWM amount, which will be included in each customer's contract (Contract HWM).

Step 1 – Clarify Details of HWM Calculation. Though this Policy establishes the basic parameters for HWM calculation, some details will need to be worked out before the customer-specific calculations are completed. This will be done as a part of the TRM before Regional Dialogue contracts are signed. This process will establish the methodology for calculating each customer's HWM.

Step 2 – Forecast Individual Contract HWMs. BPA will forecast Contract HWMs for each public utility before Regional Dialogue contracts are signed. This calculation will use a forecast of FY 2010 retail loads because actual FY 2010 retail loads will not yet be available. The firm non-Federal resource amounts will be known since BPA will use the non-Federal resource amounts already established for FY 2010 in the customers' Subscription contracts. Specific adjustments to customers' FY 2010 resources for HWM purposes are discussed later in this Policy. To increase the transparency of its decisions, BPA intends for all individual HWM amounts to be publicly available.

Step 3 – Calculating Individual HWMs with Measured FY 2010 Loads. The forecast retail loads from Step 2 will be replaced in FY 2011 with amounts based on the actual retail loads experienced and measured in FY 2010. Actual FY 2010 retail loads will be normalized for weather and other anomalies such as force majeure events. The HWM approach of Step 1 will establish the specific methodology to be used for these adjustments.

Step 4 – Determine Total FBS Available for HWMs. BPA will base the Contract HWM amounts on the size of the FBS forecast for FY 2012 in FY 2011 (using critical 1937 hydro conditions) plus up to 300 aMW of augmentation. Energy from BPA's long-term resource acquisitions after FY 2006, which has its costs included in the Tier 1 rate, will be considered augmentation. Total BPA supply used in this step to determine HWMs will be equal to the total of the amounts calculated in Step 3 except for three conditions: (1) total HWMs will not be augmented above a total of 7,400 aMW; (2) no more than 300 aMW of augmentation will be added for this purpose; and (3) HWMs will be based on the available BPA supply with no augmentation if the existing FBS, without augmentation, equals or exceeds the amount calculated in Step 3. These steps will permanently cap the amount of augmentation at the lesser of 300 aMW and the amount needed to meet HWMs from Step 3 which are based on 2010 loads (not counting later-described potential augmentation for new publics and DOE Richland loads.) Further details on FBS size determination will be established in the TRM.

Step 5 – Resize Individual HWMs. The HWM numbers for each utility calculated in Step 3 will be adjusted proportionally up or down so that the total for all then-current public customers equals the amount available for HWMs established in Step 4.

Step 6 – Adjust HWM Amounts to Account for Conservation Achieved. HWM amounts will be adjusted to account for the conservation each utility achieves from FY 2007

through FY 2010. Such conservation must be cost effective and must be verified. BPA intends to establish details of this verification step as a part of Step 1 above. For calculation purposes, each utility's HWM amount from Step 5 will be increased by the conservation amounts it self funded and 75 percent of the amounts BPA funded (i.e., through the conservation rate credit and bilateral contracts). Then all of these conservation-enhanced utility HWMs will be reduced on a pro rata basis so that they again total the HWM amount determined in Step 5.

Other HWM Considerations

- Augmentation Amounts for Publics and Federal Agencies. The actual augmentation amount calculated in Step 4 (0 to 300 aMW) will set a limit for augmentation that can be included as part of the Tier 1 rate during the contract, except for the augmentation amounts for new publics and U.S. Department of Energy (DOE) Richland loads discussed later. Actual augmentation amounts for each rate period will generally be lower than this limit because the Rate Period HWMs set a cap on Tier 1 rate power available for each utility's power purchase from BPA in that rate period. A utility that loses load will not be able to purchase its full Rate Period HWM amount. Augmentation amounts will be determined in each rate case when BPA forecasts the size of the existing FBS system and the amount of load to be served at Tier 1 rates. The costs of augmentation will be added to and recovered in the Tier 1 rates. Calculation of the amount of the augmentation and how such costs will be determined will be addressed in BPA's TRM 7(i) process and the Regional Dialogue contracts.
- Timing for HWMs. Although preliminary estimates of Contract HWMs will be completed before utilities sign their contracts, utilities will not know their exact Contract HWM until a few months before the contracts begin in FY 2012. Final data on FY 2010 loads, adjustments to loads, and conservation achievements will not be known until sometime in FY 2011. BPA will address this uncertainty in the Section 7(i) rate case for the development of the TRM. BPA and utilities will need to make flexible resource plans to accommodate this timing. In addition, implementation discussions after the publication of this Policy and ROD could result in another treatment for the rate periods in early years of the contract to deal with this transition to the HWM construct.

3. Changes to High Water Marks

Changing the Contract HWM. Once the Contract HWM is established it generally will not change, except for the reasons listed below.

- Annexation of Service Territory from Other Public Utilities. Amounts of load that are annexed by one public utility customer from another public utility customer will receive part of the annexed public's HWM that is proportional to the percentage of the customer's load that was annexed.
- Tribal Utilities. Contract HWMs initially established for new tribal utilities (defined as those commencing service from BPA after FY 2000) can be increased for expansion of service territory by up to an aggregate total of 40 aMW. Any such amounts will be added

to the 50 aMW rate period limits and count towards the overall 250 aMW contract-term limit established for new public load described later in this Policy. This exception will expire at the earlier of (1) the end of FY 2021 or (2) when the overall 250 aMW HWM limit for all new publics is reached. This exception recognizes that tribal utilities face unique challenges due to sovereign, legal and jurisdictional circumstances, as well as the checkerboard of land ownership between tribal and non-tribal persons. These unique challenges may result in a need for additional time to establish service territory compared to other new utilities.

- *Service to DOE Richland.* BPA provides power at PF to support the ongoing high priority defense materials production and waste processing/disposal activities at the U.S. Department of Energy Hanford, Washington, site. DOE Richland will have the right to increase its initial Contract HWM by up to 70 aMW in order to serve new on-site defense materials production and waste processing/disposal loads, if such loads occur. If such loads are added, BPA will augment Tier 1 resources as necessary to avoid reducing the Contract HWMs of other customers and will include the costs in Tier 1 rates.

Rate Period HWMs. The Contract HWM will be included in each public utility's power sales contract. A Rate Period HWM will be calculated in each power rate case that adjusts the Contract HWM amount based on the changes in projected amounts of firm power from the FBS (such as reductions due to fish recovery requirements and increases due to investments in system improvements) and augmentation amounts established for service under Tier 1 rates in the TRM. The Rate Period HWM determines the maximum amount of Tier 1-priced power that will be available to the utility during that rate period.

4. High Water Marks and Pooling

BPA will not allow customers to pool HWMs for the reasons articulated in the ROD. BPA's assessment is that pooling of HWMs is not critical to customers' ability to jointly develop new non-Federal resources. HWM pooling would also cause a need for greater amounts of augmentation, within the 300 aMW cap, than would otherwise be required, thereby increasing Tier 1 rates to all customers. It would also add significant complexity. HWMs will be set on an individual customer basis to provide each customer certainty regarding the amount of Federal power it can purchase at the Tier 1 rate. BPA believes that limiting the HWMs to individual customers is the most equitable approach, because the value of unused HWM amounts will be shared broadly with all customers regardless of the product they purchase.

5. Net Requirement Calculations

The amount of Federal power a public utility customer is actually eligible to purchase in any particular year is determined by its net firm power load requirement. Under Section 5(b)(1) of the Northwest Power Act, the amount of power a customer can buy is equal to its regional retail consumer load that is not being served by the customer's non-Federal resources. Consistent with BPA's historical utility practice and its obligations under the Northwest Power Act, BPA will calculate each customer's net requirement load annually to determine the amount of power it is eligible to purchase from BPA that year. For transparency, BPA will also make future net requirement amounts and calculations publicly available. To provide BPA and its public utility customers with resource and rate planning certainty, BPA intends to provide a short-term

mechanism for load loss within the rate period that will maintain both BPA's and the customer's risks and benefits in that rate period. BPA intends to propose certain specific changes to the 5(b)9(c) Policy, as described later in the Policy, to accomplish this.

6. Relationship between HWM and Tiered Rates

The rates that the customer pays will depend on the relationship between the customer's individual net requirement load placed on BPA and its applicable Rate Period HWM. A Tier 1 rate will apply for deliveries of Federal power to meet a customer's net requirement load below its Rate Period HWM amount, reflecting the cost of the existing FBS and the limited augmentation amounts for Tier 1 discussed in this Policy. A Tier 2 rate will apply to Federal power service to meet a customer's net requirement load above its Rate Period HWM amount, reflecting the marginal cost of that service.

7. Customer Rights to Add and Remove New Non-Federal Resources

During the term of the Regional Dialogue contract, customers will have specific rights to add non-Federal resources upon a specified notice to BPA, to serve their net requirements load in excess of their HWM. The terms for customer rights to add and remove new non-Federal resources will be developed in the contract and product development process. These terms will include discussion of the resource shape and impacts on any obligations the customer has made to purchase BPA power at a Tier 2 rate.

8. Changes to BPA's 5(b)9(c) Policy

The existing 5(b)9(c) Policy generally will continue to be applied under the HWM construct. However, in order to implement this Regional Dialogue Policy, BPA will propose two changes to the existing 5(b)9(c) Policy. These changes will be proposed and discussed in a public process during the implementation discussions that follow this ROD. That discussion will focus on issues discussed below.

- Limiting Resource Removal. BPA's current policy and contracts allow a customer to remove resources on an annual basis to maintain the net requirement that is established in its contract. BPA will modify resource removal rights for Regional Dialogue contracts:

1. Allow Customers to Remove Resources Built to Serve Load Above HWM.

Regional Dialogue contracts will provide an annual right for a customer to remove all or a portion of new resources (new customer resource amounts used after the Subscription contract) applied to serve the load beyond its HWM. This removal right will be limited to the amount of load beyond its HWM that the customer forecasted to serve with the new resource and which did not materialize. Without this right, a customer that develops resources to meet its load beyond its HWM would be at risk of losing access to BPA's lowest-cost PF power if the load growth did not materialize, thus creating a disincentive for infrastructure development. This right applies to Slice, Block and Load-Following products.

2. Within Rate Period Removal for Existing Resources. In each rate case BPA will establish a customer's purchase rights for that entire rate period based on then-current forecasts of its net requirement. BPA will only allow a customer to remove existing

resources (customer resource amounts applied under the Subscription contract) for purposes of calculating a customer's net requirement within a rate period in order to maintain the purchase amounts established for that rate period. This right applies only to Block and Slice customers. This removal right will only occur when the net requirement load is below the customer's HWM. Load-following customers will not have this right because their purchases automatically adjust to changes in their load.

- Eliminating Renewables Exception. BPA will eliminate the 200 MW exception (in aggregate) of renewable resource additions established under the Subscription contracts and BPA's 5(b)9(c) Policy. This exception was included as an incentive to develop and dedicate renewable resources. With current state legislative changes on renewable resources, and with establishment of tiered rates by BPA, customers will have the incentive to develop resources including renewables.
- Clarifying 9(c). In addition to the two proposed changes above, BPA understands that some customers are concerned that the existing policy for implementing Section 9(c) could be a disincentive to resource development. Section 9(c) deals with consequences of a customer's sale of power outside the region from its own resources. BPA included clarifications to its 5(b)9(c) Policy in 2003 to address such disincentives and intends to review its modifications to the 5(b)9(c) Policy to the extent necessary and consider changes consistent with law.

9. 2010 Customer Resource Amounts.

To calculate customer HWM amounts, BPA will use the FY 2010 resource amounts as of September 30, 2006, identified in the customer's Subscription contracts but with specific adjustments that BPA believes are responsive to customer comments on this issue. FY 2010 resource amounts will be used because they are known and certain, which provides stability and predictability for the HWM calculation. The exceptions to the use of these amounts are listed below.

Treatment of Centralia. The Administrator has decided to exercise his discretion to allow the removal of the Centralia Coal Plant under Section 5(b) of the Northwest Power Act starting in FY 2012 and for the purpose of calculating Contract HWMs for Seattle, Tacoma, Snohomish PUD, and Grays Harbor PUD, and will make a Section 9(c) determination that decrement to their net requirements is not required, contingent upon further review of the facts and successful implementation of this Policy for service to publics. Discretion to remove Centralia would not be exercised outside of the context of implementation of this Policy, because the public policy benefits that justify the decision would not be achieved.

Hydro Recalled by Grant PUD. Grant PUD notified BPA in its comment that it will be recalling power from the Priest Rapids and Wanapum dams to serve its own loads in FY 2012. This results in a reduction of resources for several other publics. To calculate the Contract HWM, BPA will adjust the FY 2010 non-Federal resources of Grant and the affected public utilities as proposed by Grant PUD. In addition to what amounts to a redistribution of resources among the affected publics, there are additional amounts of Federal power freed up by Grant taking almost

all load off of BPA. This increases the total Contract HWM amount for all other public utilities and helps to enable the earlier-described Contract HWM exception for tribal utilities.

Raft River Annexation Adjustment. In calculating Raft River's Contract HWM, BPA will not count the unspecified resource amounts now included in Raft River's FY 2010 resources due to a service territory annexation during the Subscription contract. This resource amount was included in Raft River's Subscription contract based on specific circumstances under its annexation.

Public Utility Regulatory Policies Act (PURPA) Resources. BPA will reduce the FY 2010 resource amounts used to calculate a public utility customer's Contract HWM by the smaller of the amount of PURPA resources currently established for FY 2010 under its Subscription contract or the actual amount produced by these resource in FY 2010. While few utilities have PURPA resources, BPA recognizes that those that do have no choice in whether the resource is applied in the future. In addition, this HWM exception will apply to a similar circumstance with Glacier Electric where a power contract for about 3 aMW from the Western Area Power Administration for the Blackfoot Tribe in Glacier Electric's service territory may be reduced or terminated.

New Renewables. Subscription contracts have allowed customers to add new renewable resources to serve their loads. For the purpose of calculating Contract HWMs BPA will not include the output amount of such new renewable resources as part of FY 2010 resources. This takes away a potential disincentive under the Regional Dialogue Policy for customers that chose to use power from renewable resources to serve their load under Subscription, because the right to add renewable resources was intended as an incentive for using renewable resources.

10. Consumer-Owned Resources

At the time Regional Dialogue contracts are signed, a utility customer that serves consumers that own and operate generation resources (i.e., cogeneration) will have a one-time right to establish how existing consumer-owned resources in its service territory will be used during the term of the contract. For HWM purposes, rather than using metered generation amounts, BPA will count the FY 2010 consumer-owned generation amounts serving load as equal to the amount of consumer-owned generation the utility obligates itself to apply to load in FY 2012 at the time it signs the Regional Dialogue contract. This will provide clarity on load service obligations during the contract period and will tend to prevent potential disputes for all affected parties. BPA expects the total Contract HWM impact of this to be less than 50 aMW and will revisit this issue if impacts turn out to be significantly different. For purposes of service to load above a customer's HWM, a customer is not precluded from purchasing consumer-owned generation to serve such load subject to the same conditions as other declared customer resources used to serve load beyond HWMs.

11. Take-or-Pay Requirements for Regional Dialogue Purchases

Power purchases under Regional Dialogue contracts will be take-or-pay for the amount of Federal power that the customer is obligated to purchase from BPA whether the power is purchased at Tier 1 or Tier 2 rates. Implementation details will continue to be refined and will account for the different business relationship inherent in load-following contracts (in which a

customer commits to buy all of its power from BPA beyond specified resource amounts) and non-load-following contracts (in which a customer buys specific amounts of power). Take-or-pay is a cornerstone of this Policy because it provides assurance to the U.S. Treasury that BPA will be able to meet its repayment obligation.

12. Customer Rights to Billing Credits

Through billing credits a customer could request payments for certain conservation or resource acquisition activities that reduce BPA's load obligation. It would be extremely difficult to make billing credits compatible with tiered rates without frustrating the broadly accepted goal of avoiding driving up the Tier 1 rate with the cost of new resources. Accordingly, BPA intends to seek a settlement of these rights with customers for inclusion in the Regional Dialogue contracts whereby customers agree not to request billing credits for the resources they develop to meet their loads above their HWMs. Achieving these settlements is crucially important to the overall success of the Regional Dialogue construct, and many BPA customers have indicated they agree and are willing to negotiate such settlements.

13. Access to the Public Exchange

An overarching reason for the Regional Dialogue proposal is to reduce the dilution of the low-cost Federal system with new acquisitions. This goal would be thwarted if customers' higher-cost new acquisitions were to flow back to the Tier 1 rate through the Residential Exchange Program (REP). BPA will seek agreement with customers that will ensure the costs of their new resources do not flow back into the Tier 1 rates. REP benefits for current customer resources may require a different treatment and could cause the customer to qualify for REP benefits during the period of the new contracts. This treatment is also crucially important to the overall success of the Regional Dialogue construct.

14. New Public Utility Customers

BPA will provide power for new public utilities that meet BPA's standards for service and request service under Section 5(b) of the Northwest Power Act. An important element of the HWM construct is ensuring that it fairly accommodates the needs of publics that will form in the future. Publics that form, meet BPA's standards for service, and sign a Regional Dialogue contract by the contract signing deadline will be treated the same as other then-existing utilities and provided a Contract HWM through the six steps described earlier. For new tribal public utilities, "new" includes those tribal utilities that formed and began their power service with BPA after FY 2000.

Overall Limit on HWM Expansion for New Publics. BPA has decided to earmark the potential for up to 250 aMW of Contract HWMs for new public customers formed during the term of the Regional Dialogue Contracts. This amount was chosen because it is approximately equal to the new public load formed in the previous 20 years.

Rate Case Limit on HWM Expansion for New Publics. BPA has decided to limit Contract HWM additions for new publics each rate period to 50 aMW. If requests exceed the limit, individual Contract HWM amounts of new publics will be prorated down to meet the 50 aMW limit. Amounts not provided to any new public due to the 50 aMW limit will be added to eligible amounts requested in the next rate period. To the extent that requests for service to new public

customer loads exceed the 250 aMW Contract HWM limit established for new publics over the course of the Regional Dialogue contracts, new public customers would only be able to purchase power at Tier 2 rates for their net requirement loads until the next general contract period. This limit strikes a balance between providing new publics significant access to lowest-cost BPA power and setting a limit on the costs that would dilute benefits to existing purchasers at Tier 1 rates.

- Exception to Rate Case Limit for Small Utilities. If requests exceed the 50 aMW rate period limit, BPA will not prorate down the Contract HWM additions for new publics with a net requirement load of 10 aMW or less. This will be limited to the first five such utilities that would have otherwise seen a Contract HWM reduction and will count toward the 250 aMW overall limit for new publics. Any additional amounts provided to these utilities will add to the 50 aMW limit for that rate period. This limited accommodation for small publics meets the region’s interests in limiting dilution of the FBS while taking care of the special needs of these small customers

Setting the Contract HWM Amount. Once qualified for service, a new public must provide a 3-year binding notice in advance of the time it will be eligible to purchase power with a HWM. During the interim period, if necessary to supply load, the utility may purchase power from BPA at rates that are established for that purpose. These rates will be similar to the targeted adjustment charge (TAC) that BPA has made available during the Subscription contracts. Details for this approach will be worked out in the applicable rate cases.

The Contract HWM for a new public will be its forecast net requirement the year deliveries begin, limited by the percentage derived by dividing the existing Contract HWMs by the forecast total net requirements of existing publics that year. This ensures that new utilities do not receive greater access to lowest-cost PF than existing customers.

Phasing In HWM Amounts. When there are competing requests that exceed the 50 aMW cap, utilities larger than 10 aMW will have the amount of their HWM requests over 10 aMW phased in over subsequent rate periods. This is to ensure that access to the 250 aMW is spread broadly and not used solely by one large new public utility. The phasing would be 33.3 percent for the next 24 aMW and 20 percent for any remaining amounts. This is illustrated below for a new 64 aMW utility.

	<u>1st Period</u>	<u>2nd Period</u>	<u>3rd Period</u>	<u>4th Period</u>	<u>5th Period</u>
Initial Amount	10 aMW				
33.3% for next 24	8 aMW	8 aMW	8 aMW		
20% for all else	6 aMW	6 aMW	6 aMW	6 aMW	6 aMW
Annual HWM Addition	24 aMW	14 aMW	14 aMW	6 aMW	6 aMW
Cumulative HWM	24 aMW	38 aMW	52 aMW	58 aMW	64 aMW

Limited Augmentation to Meet HWMs of New Publics. BPA will provide service for the load below HWMs of new publics first with amounts of low-cost FBS power not being purchased by other public utilities. If additional amounts are needed, BPA will augment the FBS up to 250 aMWs as described above. The cost of that augmentation will be recovered through the Tier 1 rates. Meeting the loads of new publics through augmentation strikes a balance between

not diluting the FBS value and not reducing the amount of Tier 1 power available to existing publics.

15. Additional Considerations for New Publics

Other considerations for new publics include the following:

- HWM if a New Public is Formed from an Existing Public. A new public customer that forms out of an existing public will receive a share of the existing public's Contract HWM equal to its proportion of the existing utility's total retail load. Any additional Contract HWM amounts the customer is eligible for as a new public will be provided through the treatment discussed above. However, the Contract HWM amounts provided from the existing public utility will not count toward the aggregate or rate period limits.
- HWM if Formed from an IOU. New public customer amounts that form from an existing IOU will be eligible only for HWMs through the standard approach discussed above.
- Residential Exchange Benefits. A new public customer will be eligible for REP benefits; however, BPA expects that it will choose to settle its rights to REP benefits. Any REP settlement with the new public utility will take into account its expected ASC and any HWM it would receive as a new public. If the Contract HWM covers most of its load, as with other publics, the settlement is expected to be for a nominal amount.

16. Effects of Changes to FBS System Capability on HWMs

BPA will not augment the firm power capability of the existing FBS for service under Regional Dialogue contracts except: (1) for the potential addition of up to 300 aMW, when necessary, for the Contract HWMs of existing publics; (2) up to an additional 250 aMW when needed to serve the limited HWM amounts of new publics, and (3) the amount needed to serve the DOE Richland load for nuclear waste cleanup. The existing FBS and the necessary augmentation amounts discussed above will establish the amount of power available at BPA's Tier 1 rate(s). BPA will calculate this annual firm amount as a part of each rate case. The factor calculated by dividing the available amount of power by the total of the Contract HWMs is then multiplied by each customer's Contract HWM to establish the Rate Period HWM for each customer.

The customer's Rate Period HWM establishes the amount power at the Tier 1 rate available to it during the rate period. The practical result is that increases in the FBS will result in more power available at Tier 1 rates, and decreases will reduce the amount of power available at Tier 1. Changes to the FBS that occur during the rate period will be absorbed by BPA through changes to balancing purchases and secondary sales to meet the committed Tier 1 rate eligible loads of all customers except Slice. Customers buying Slice will absorb any changes in the FBS in the power deliveries under the Slice product, and their costs under the Slice product would likewise not include the cost of the balancing purchases.

17. Federal Income Tax-Exemption on Columbia Generation Station Bonds

BPA meets the debt service costs of about \$6 billion in tax-exempt bonds for the Energy Northwest's Project 1, Project 3 and Columbia Generating Station (CGS). The tax exemption is predicated on a tax law analysis that is in part based on existing agreements and arrangements relating to the use of the output of CGS and the payment of the costs of CGS. Notwithstanding

anything else in this Policy, BPA will structure Regional Dialogue agreements so that the tax exempt status of these bonds is preserved.

C. PRODUCTS AVAILABLE TO REQUIREMENTS CUSTOMERS

1. Introduction

A customer's product choice can be viewed as a decision on the additional services the customer wants BPA to provide to take the FBS shape and convert it into energy deliveries that meet the customer's net requirements. BPA will continue to make an array of products available that meet its customers' diverse needs. Products offered will be comparable to what are currently available. At a minimum, BPA will offer the following product types: Load-Following, Block and Slice. Details related to the design of these products, related products and tiering will be refined through the contract and product development process and TRM process.

2. Load-Following Products

BPA will continue to offer products that follow a customer's loads, such as the current Full and Partial Service load-following products. Customers that choose a load-following service will continue to rely on BPA to meet their entire load less any declared and defined non-Federal resource amounts applied to load. BPA intends to offer a single load-following product with rules and possible additional required services specified for customers' non-Federal resources to ensure the operation or addition of those resources does not create costs that must be borne by other BPA customers. In addition to reshaping the critical firm power from the FBS to projected net requirement loads across months and hours, load-following service products also include the cost of deploying system flexibility and balancing purchases/sales to meet the hour-to-hour swings in customer loads. The proposed rate treatment for this service is discussed in the pricing section of this Policy.

3. Non-Load-Following Products

BPA will continue to offer both Block and Slice products which allow customers to supply their own load-following service:

- Block. Block will provide predefined amounts of power to meet a customer's forecast net requirement load, often in a constant shape in all hours of the year. Other predefined shapes may be possible, subject to product rules that will be worked out in the contract and product development. A customer may choose to purchase only the Block product or pair it with a Slice product. The Block product reshapes the critical FBS into the fixed shape of the customer's monthly purchases. The amount of shaping required would usually be less than for a load-following customer. If BPA offers a shaped Block product in addition to a flat Block, BPA's intention is to propose that the additional shaping costs associated with the shaped Blocks be recovered through a proposed shaping charge that segregates costs into a separate cost pool compared to the costs associated with shaping the FBS to meet the flat Block obligations.
- Slice. Slice will provide firm power for a customer's net requirements load and an advanced sale of surplus energy based on the generation shape of the Federal system during an operating year. The Slice product is only available to serve a customer's load below its Rate Period HWM at Tier 1 rates because it ties directly to the amount of

generation from FBS resources. To the extent the customer chooses to purchase Federal power for net requirements load beyond the Slice available to it, that power will only be provided in the form of a Block product.

4. Serving Load beyond the HWM

The customer's annual net requirement calculation will determine how much Federal power the customer may buy for its net requirement load. When a net requirement load is below the Rate Period HWM, all power will be priced at the Tier 1 rate(s). If the net requirement load exceeds the Rate Period HWM, amounts above the Rate Period HWM will be priced at a Tier 2 rate. When Tier 2 rates apply, the amount of power billed at that rate will be at a benchmark shape, currently intended to be a flat annual block. In addition, customers will have the ability to meet firm consumer load above their Rate Period HWM with their own power from non-Federal resources, or with a predefined mix of BPA power at a Tier 2 rate and power from non-Federal resources. Rules guiding how to implement this responsibility for serving load will also be worked out in the contract and product development and the TRM process.

- *Commitments under the Load-Following Product.* If a Load-Following customer is only taking Power at a Tier 2 rate from BPA or only serving its load above its Rate Period HWM with non-Federal resources, then in general that customer does not need to commit to a megawatt amount at the time it makes its future service provider commitment. Customers that choose a mix of power at a Tier 2 rate and non federal supply will have to clearly delineate one option for a fixed amount and the other to adjust if Rate Period HWMs change. The amount of load above its Rate Period HWM will be calculated prior to each rate period.
- *Commitments under Non-Load-Following Products.* All power purchased at a Tier 2 rate will be in block amounts. It is expected that the customer will commit a number of years in advance to the amounts of power or resources it will use to serve load above its Rate Period HWM. Commitments will need to allow BPA lead time to meet resource adequacy guidelines and efficiently acquire cost-effective resources.
- *Creditworthiness for Tier 2 Rate Power.* Power service at either Tier 1 or 2 rates will be sold on a take-or-pay basis. A customer's failure to pay for its power will put its rights to purchase Federal power at risk since all requirements power purchases will be a part of the same contract and business relationship. In addition, BPA intends to assess the credit status of all of customers that make purchases at Tier 2 rates and will explore additional creditworthiness requirements during the contract, product development and TRM processes.
- *Load-Following Load Growth Considerations.* If a customer's consumer loads grow more in high-cost peak periods than in lower-cost off-peak periods, BPA costs to shape deliveries to serve these loads would increase, including potentially the cost to acquire peaking resources to meet these consumer loads. The additional shaping costs would only be partially covered in the Tier 2 rate since it is based on a lower-cost flat load shape. The remaining shaping costs will be recovered from load-following charges customers pay in their Tier 1 rates. Depending on the Tier 1 rate design determined in

the TRM and subsequent rate cases, these additional shaping costs may be recovered only from the customers with "peaky" load growth, or spread more broadly in the Tier 1 rate.

5. Tier 2 Rate Alternatives

For customers that want to purchase Federal power from BPA at a Tier 2 rate, BPA intends to offer a number of resource-based Tier 2 rate alternatives. When new contracts are signed BPA, will require that customers commit to how their load will be served through at least FY 2016. Customers will be required in advance to commit to the available Tier 2 alternatives that they will buy for their load. BPA intends for the minimum commitment period and required notice period for switching to another Tier 2 rate or applying a non-Federal resource to be long enough to ensure that new resources can be acquired if necessary to comply with Regional Resource Adequacy Standards. Details of the Tier 2 rate alternatives will be developed in the TRM process. It is likely that fewer options will be available initially with the potential for additional resource-based Tier 2 rate alternatives evolving over time as loads grow and customer needs change. BPA intends to offer at least the following Tier 2 rate alternatives:

- *New Renewables Alternative.* Power priced at the cost of purchasing and integrating new renewable resources. BPA currently intends for the term of the purchase obligations to be at least 10 years. Additional detail about this rate alternative will be developed during the TRM process.
- *Default Alternative.* Contracts will be designed so that there is a default Tier 2 rate based on a portfolio cost for market purchases and possible BPA resource acquisitions made to serve load with this rate. Unless customers affirmatively choose a different Tier 2 rate alternative or commit non-Federal resources to serve load, the Default Alternative would apply. A public utility customer may seek service on shorter notice or for a shorter term than required for the default alternative. This could be provided as a shorter-term surplus power purchase from BPA than this default option, but it would be at a market-based FPS rate, not PF rates. When requested, BPA would endeavor to provide it, but the availability of such power is not guaranteed and the price would be based on then-current market prices. Alternatively, if BPA is able to acquire power on a short-term basis to serve the customer under the Tier 2 rate, it would do so, but pursuant to a targeted adjustment clause arrangement.
- *Vintaged Alternative.* For customers who commit to pay a Tier 2 rate equal to the costs of a specific resource or group of resources for a term sufficient to support the long-term acquisition of specific resources, BPA will explore the development of a "vintaged" Tier 2 alternative based on the costs of those specific resources. It currently appears that "vintaging" would most likely be used for a renewable-based Tier 2 alternative, but could also be used for other resource types. BPA will develop the details of this "vintaged" alternative in the TRM, but expects the term to be at least 10 years. The number of separate "vintages" would have to be limited, to keep administrative complexity manageable.

6. Changing Products

BPA will not include provisions in its contracts that provide an option to change products between Load Following, Block or Slice. However, the Load-Following product will include terms so a customer will be able to add non-Federal resources to its power supply portfolio over time, allowing it to transition from having BPA provide power for its entire regional firm consumer load to having that load served by both BPA and non-Federal resources. By doing this, BPA is effectively allowing a customer to change between what was traditionally considered a “full service” and “partial service” contract. Block and Slice customers have this same ability to buy non-Federal resources to change their portfolio to meet load beyond their BPA commitments.

7. Non-Federal Resources to Meet Load above Rate Period HWM: The Benchmark Shape

Instead of purchasing BPA Tier 2 rate service to meet firm consumer load above a customer’s Rate Period HWM, a customer may meet that load with its own non-Federal resources. If a customer applies non-Federal resources (on a planning basis) in the “benchmark” shape, likely a flat annual block, BPA will propose no additional resource shaping charges. Customers will have the option of choosing non-Federal resource shapes other than a flat block, but additional resource shaping charges or credits associated with doing so may apply to ensure that BPA’s other customers are held harmless from those resource decisions and to provide incentives for resource additions in the most beneficial shapes. BPA will develop further the methodology for calculating these credits and charges in conjunction with the contract, product development and TRM process.

8. Resource Integration Services

BPA will offer services necessary to integrate renewable resources to meet a customer’s regional firm consumer requirements load. The ongoing regional Wind Integration initiative, BPA’s contract and product development and the TRM process will work out the details of how to structure these services. Integration services for other types of resources will also be discussed in those forums. To avoid biasing customers’ choices, BPA’s charges for non-transmission integration services for non-Federal resources will be the same as those included in Tier 2 rates based on similar resources.

9. Bundled Product

BPA will explore in the Product Development Process the feasibility and desirability of a bundled power and transmission product.

D. PRICING AND RATES FOR PRIORITY FIRM SERVICE

1. Introduction

As a cornerstone of this proposal, and to give customers long-term predictability and certainty, BPA will establish a long-term Tiered Rates Methodology (TRM) to implement the HWM construct. This TRM will be developed in accordance with rate-setting provisions of Section 7(i) of the Northwest Power Act. Specific decisions on rate levels will be made in each rate case in a manner consistent with the TRM. This section describes the process and the key rate construct –

a tiered Priority Firm (PF) rate – that BPA will propose in the Section 7(i) TRM proceeding to meet the goal of minimizing the dilution of the low cost of the existing Federal.

2. Long-Term Rates Methodology

BPA recognizes that the rate construct advanced by this Policy needs to be transparent and meaningful to customers in order to provide the certainty that encourages resource development and minimizes the dilution of the existing Federal system. BPA will provide this assurance by conducting public workshops to develop a proposal for the TRM which will be followed by a formal 7(i) proceeding that will be completed prior to the signing deadline for the contracts. Through the combination of this TRM 7(i) proceeding and development of new contracts, BPA intends to establish a tiering approach for sales of Federal requirements power throughout the term of the Regional Dialogue contracts, consistent with the provisions of this Policy.

BPA will work collaboratively with customers and other interested parties to develop the TRM. BPA will not require a waiver by customers of their rights to legally challenge the TRM, but BPA will pursue a settlement of the TRM with customers in order to minimize the uncertainty, the duration of and the scope of the 7(i) proceeding. Such settlements typically include an agreement not to challenge the agreement reached in subsequent legal forums.

3. Establishing Rates for PF Requirements Power

BPA will propose a rate structure for PF requirements power that differentiates between the costs of service from the existing Federal system and the cost of power a customer is eligible to buy beyond that amount, mostly to meet load growth. How costs will be allocated will be specified in the TRM.

- PF Tier 1 Rate. The PF Tier 1 rate would include the costs that mostly parallel the costs in the current PF rate. The level of the PF Tier 1 rate will be recalculated every rate period based on the costs allocated to the Tier 1 rate. Although unlikely, it is possible that in some future rate periods the PF Tier 2 rate(s) may be below the PF Tier 1 rate.

When the new contracts start in FY 2012, customers may have net requirement loads below their HWMs, resulting in the available firm power output of the FBS exceeding sales under Tier 1 rates. The procedures for dealing with Federal loads and resources will first apply this amount of available FBS as a reduction in augmentation of the FBS. Should any further amount of available FBS still remain, BPA will develop procedures in the TRM through public workshops. The procedures will include the development of the methodology for valuing the temporarily available FBS used to serve net requirements loads above HWMs and the crediting of the associated revenues from these net requirements sales back to the PF Tier 1 rate. In order to preserve the value of the existing FBS to PF Tier 1 purchasers, BPA expects the value of the temporary amount of firm power to reflect its marginal value. BPA does not intend to use Tier 1 in a way that creates an advantage for the Tier 2 rates.

- PF Tier 2 Rates. PF Tier 2 rates will be applied to Federal power service to meet a customer's net firm power requirements loads above its HWM, consistent with the provisions of this Policy. BPA will set the PF Tier 2 rates to fully recover the costs of the

incremental power supply from those customers who request PF Tier 2 rate service. To help ensure the costs covered under the PF Tier 2 rate stay separate from those in the PF Tier 1 rate, Tier 2 rate price options will have take-or-pay provisions applicable to the purchase that ensure that expected BPA revenue covers the costs incurred by BPA. PF Tier 2 rate options will also provide the customer a credit for the value of Tier 2 power that they are not able to take and that BPA remarkets. While Tier 2 products and rates will be designed to assure full cost recovery to meet requirements of Section 7(a) and (g) of the Northwest Power Act, BPA must preserve the ability to reallocate costs to the PF Tier 1 rate in the unlikely event that Tier 2 costs cannot be recovered through the PF Tier 2 rate.

4. Rates for Reshaping the FBS for Customer Use

The HWM and tiered rate concepts set a limit on the amount of firm power that customers can purchase on an annual basis at BPA's lowest cost-based rates. The underlying load shape for the sale of requirements power at the Tier 1 rate is the forecast monthly shape of the FBS under critical water. The monthly shape of the FBS will not serve the customer's actual consumer load needs in all hours of a month. To provide power that meets the customer's load shape, power from the FBS must be rebalanced into a more useful shape. In the TRM process, BPA will propose to design the rates for these shaping services so that the projected reshaping costs are recovered from the customers that use the services. To do this, BPA would compare the costs of the shape of the FBS under critical water with the cost to provide the same amount of energy in the load shape required by the customers. Customers purchasing the Load-Following product with shaping services would be required to pay charges to reshape power from the FBS into the shape of their product. In addition, customers that purchase load-following products would pay for the costs and risks BPA faces for serving their actual loads compared to their forecast load. BPA has not yet decided whether to collect these shaping costs based on individual customer load shapes or based on customer groupings.

BPA believes it is important to collect shaping costs in this manner to (a) ensure that customers or classes of customers whose load and resource shapes cause BPA to incur shaping costs pay those costs; (b) help ensure that available capacity and flexibility of the Federal system is put to best use; and (c) help keep the total cost of Tier 1 service low by potentially reducing future supplemental purchases to increase system flexibility or capacity. BPA may need to make long-term acquisitions or purchases of resources to increase system flexibility or capacity used in providing shaping services for Tier 1. How the costs of such long-term purchases would be identified and recovered in rates will be addressed in the TRM. The separation of shaping costs in Tier 1 ratesetting will ensure that, in combination, BPA's Tier 1 rates to preference customers will be cost-based, that is, they will be established to recover BPA's Tier 1 rate revenue requirement consistent with the provisions of the BPA Debt Refinancing Act of 1996.

E. OTHER ISSUES

1. Low Density Discount

Section 7(d)(1) of the Northwest Power Act requires the Administrator to provide low density discounts (LDD) to the wholesale power rates of customers with low system densities "to the extent appropriate." The Administrator has discretion to establish the criteria under which the

LDD is offered and to determine whether it is appropriate to offer an LDD based on the criteria adopted.

In future rate proceedings, BPA will propose the establishment of long-term LDD stability over multiple rate periods (or the contract period) to the extent permitted by law. Also, in order to avoid biasing a customer's resource choices, BPA will advocate that the level of a customer's LDD benefits should not be affected by its choice between BPA's power sold at a PF Tier 2 rate and power from non-Federal resources.

BPA will use the Special Forum established in BPA's WP-07 rate proceeding (for reviewing the application of the LDD to Slice purchases) for a comprehensive review of all LDD issues, including whether or not the LDD will apply to power purchased at Tier 2 rates or power from non-Federal resources for load growth. In that forum, BPA will seek to establish consensus or extensive agreement regarding the myriad LDD issues and will include such consensus proposals in BPA's future wholesale power initial rate proposals.

2. Irrigation Rate Mitigation

Beginning with the FY 2012 rate period and continuing through the term of the Regional Dialogue contract, BPA will propose inclusion of Irrigation Rate Mitigation (IRM) in BPA's wholesale power initial rate proposals in the form of a fixed mills-per-kWh discount. The IRM would be seasonally available during May, June, July, August and September as a fixed mills-per-kWh discount. The IRM program will be adjusted to include September irrigation levels, spreading the May-through-August total energy over the May- through-September period. Irrigation load eligible for the proposed Irrigation Rate Mitigation will be based on qualifications that will be established in BPA's wholesale power General Rate Schedule Provisions (GRSP). Customers who are participating in BPA's Irrigation Rate Mitigation Product during FY 2007-2011 or participated in BPA's FY 1997-2001 Summer Seasonal Product will not be excluded.

A formulaic approach using the fixed percentage described below to determine the mills-per-kWh discount will be proposed in BPA's Section 7(i) proceeding on the TRM. Subsequent Section 7(i) rate proceedings will include this formulaic approach in their respective initial proposals. Such proceedings will also establish the amount of irrigation discount applied to qualifying irrigation loads. Regional Dialogue contracts will include a provision acknowledging the irrigation discount program as a rate adjustment, the terms of which will be determined in rate proceedings and subject to BPA's General Rate Schedule Provisions (GRSPs). Any discount, if adopted by the Administrator, will be included in BPA's GRSPs for BPA's FY 2012 Tier 1 power rates or successor rates.

BPA will propose to limit the overall program costs to a fixed percentage of the spring and summer rates, multiplied by a fixed amount of eligible energy. The fixed percentage will be proposed as the effective reduction in the melded, weighted average of the spring and summer rates caused by the irrigation rate mitigation product in the average FY 2007-2009 PF rates. BPA will propose that the eligible energy be based on May-through- August FY 2002-2004 3-year average energy amounts. In addition, the amount of mitigation for which the Block product is eligible will be proposed to be the lesser of the Block energy purchases for the May-September period or the FY 2002-2004 eligible irrigation energy. BPA will require participating

customers to implement cost-effective conservation measures on irrigation systems in their service territories. The conservation measures may be eligible for future BPA conservation programs, although the eligibility of particular measures and the amount of BPA support have not been determined.

3. New Large Single Loads

BPA published a new large single load (NLSL) policy in April 2001 and addressed NLSL issues in a 2002 ROD and in its February 2005 *Policy for Power Supply Role for Fiscal Years 2007-2011*. BPA is modifying the policy regarding service both in the FY 2007-2011 period and in the post-2011 contract period. This Policy regarding NLSLs is a final action.

- a. BPA has sunset its off-site renewable option effective December 31, 2006. Consumers and customers who had made all necessary arrangements for off-site renewables service to a NLSL and commenced service with the off-site renewable by December 31, 2006, will continue to receive the benefits of PF rate service consistent with the terms in their contracts and the terms established in the February 2005 policy. The respective consumer load at the facility that is placed on the utility for BPA service must be less than 10 aMW for all monthly heavy and light-load hours.
- b. BPA will retain the portion of the current NLSL policy that allows a consumer to apply an on-site renewable or on-site cogeneration to an NLSL as an option to reduce the facility's load to less than 10 aMW under the terms established in the February 2005 policy.
- c. For the post-2011 contract period, if the respective consumer load at a facility placed on its utility for BPA service (referred to in a. and b. above) stays below 10 aMW, BPA will allow inclusion of that remaining load in the calculation of the serving utility's HWM. If the load exceeds 10 aMW and would be billed at the NR rate, then the utility's HWM will be recalculated to exclude the entire NLSL load.

III. SLICE PRODUCT

A. SLICE PRODUCT

BPA will develop and offer a Slice product that is similar to the original Slice product, but with a number of refinements. BPA believes the Slice product, if refined as proposed, will be highly valuable for customers and a valuable tool for meeting several of BPA's Regional Dialogue interests and goals.

B. SLICE PRODUCT PRINCIPLES

BPA is adopting 10 principles as the foundation for the Slice product. These 10 principles refine the original five principles and address issues from BPA's review of the current Slice product.

1. There are no unintended shifts of costs, risks or benefits among power products, and all power products bear a share of the costs and risks.
2. There is no risk or cost shift to Federal taxpayers.
3. Slice purchasers bear an allocation of FCRPS costs and risks and receive a commensurate amount of applicable FCRPS resource energy, hourly scheduling flexibility, and specific BPA power revenues.
4. To the maximum extent possible, the rate adjustment mechanisms for common cost components in the Slice and other PF power products are the same.
5. FCRPS operating decisions are solely Federal decisions, and there will be no interference in those decisions.
6. BPA estimates of applicable FCRPS resource capability, after reducing such capability for system obligations, determine Slice delivery limits for pre-schedule.
7. BPA will establish a forecast system operation that accommodates Slice and non-Slice customer pre-schedules.
8. Delivery limits established for real-time will reflect BPA's determination of the updated flexibility of the applicable FCRPS resources, as determined by FCRPS operating decisions establishing actual system configuration.
9. The Slice product will not include within-hour load-following, dynamic scheduling or ancillary services. Generating capacity and energy provided from the FCRPS to Transmission Services for Interconnected Operating Services will come "off the top," and revenues Power Services receives from Transmission Services for those generating inputs will be shared on a proportional basis.
10. The Slice product offering will require no changes in Federal law.

The new set of principles defines the product as a system sale of requirements power and surplus power indexed to the variable energy output of the applicable FCRPS resources. The principles clarify that Slice energy shall be made available for delivery within defined hourly scheduling limits indexed to the operating constraints of the applicable FCRPS resources. The principles also recognize the need to avoid unintended cost shifts to either Slice or non-Slice customers.

C. SLICE PRODUCT CONCEPTUAL DESIGN

BPA will develop the Slice product based on Alternative 2 concepts as described on pages 41 through 45 of the Regional Dialogue Policy Proposal. The major themes of Alternative 2 include clearly defining the product, simplifying the product, and developing a product that can be reasonably managed during its 20-year term. Although details of the final Slice product remain to be worked out, changes will include at least the following refinements.

1. Operational Aspects

BPA will make several refinements regarding operational aspects of the current Slice product while retaining the underlying concept of an allocation of system energy in the shape of system generation based on the customer net requirements load and after accounting for system obligations. The Slice product is a sale of Federal power that will not include within-hour load-following services or the right to use Federal resources to self-supply ancillary services. Slice will continue to be a product that can be used by customers to follow loads on an hour-to-hour basis through the use of inherent scheduling flexibility.

The amount of power available to a Slice purchaser will vary depending upon hydro conditions. Hourly scheduling flexibility will also vary, depending upon system configuration and operating constraints. These refinements will provide scheduling flexibility that is more in line with actual system operations. The product will continue to provide high value for integrating non-Federal resources, meeting a customer's regional consumer load, and optimizing wholesale market strategies.

2. Financial Aspects

As part of the TRM, BPA will explore alternatives for making rate adjustment mechanisms the same or very similar for common cost components in the Slice and other requirements products. The rate adjustment mechanism should be simple and easy to implement, and it should avoid audits and contentious dispute resolution processes. BPA has stated a preference for a true-up approach, but will consider other methods that are consistent with statutory and policy needs in the TRM and 2012 rate case.

3. Amount of Slice Offered

BPA will increase the current amount of Slice product it makes available to its requirements customers to 25 percent of the planned FBS firm resource for FY 2012. This potential 10 percent increase in the amount of Slice BPA will offer, allows modest expansion and balances it against significant non-Slice customer concerns.

IV. BENEFITS TO THE RESIDENTIAL AND SMALL-FARM CONSUMERS OF THE INVESTOR-OWNED UTILITIES AND PUBLIC AGENCIES

Providing benefits to the residential and small-farm consumers of the investor-owned utilities (IOUs) and public agencies has long been the subject of ongoing discussions and negotiations. In light of recent decisions by the U. S. Court of Appeals for the Ninth Circuit, this section of this document has been omitted. BPA will not offer Regional Dialogue contracts to public utility customers before it can also offer the IOUs contracts that reasonably resolve the issue of residential exchange benefits. This is a continuation of what was outlined in the Regional Dialogue Proposal, which also linked together the resolution of these issues.

V. SERVICE TO DIRECT-SERVICE INDUSTRIES

BPA has not yet finalized its decision on providing service to the DSIs. Therefore, the DSI section of this document has been omitted at this time. Discussions with the DSIs were delayed to provide the agency a better chance of understanding the implications of the Ninth Circuit Court ruling.

VI. CONSERVATION

A. INTRODUCTION

BPA's conservation program meets a fundamental purpose under the Northwest Power Act. BPA and its customers have made investments in conservation consistent with the Act and with power plans developed by the Northwest Power and Conservation Council. Because conservation has, in many cases, been the least-cost resource for the region, BPA, its customers, and the citizens of the Pacific Northwest have benefited greatly from this investment.

B. ACHIEVE CONSERVATION IN THE LOADS OF PUBLIC UTILITIES BPA SERVES

To meet its load obligations, BPA will pursue conservation equivalent to all cost-effective conservation in the service territories of those public utilities served by BPA and will accomplish this in partnership with public utilities at the lowest cost to BPA. BPA expects these goals to be met to a significant extent through programs initiated and funded by its public utility customers. BPA will supplement and facilitate utility initiatives. BPA expects to continue to use the Northwest Power and Conservation Council's power plans as the basis for its targets for cost-effective conservation. BPA will count all cost-effective conservation achieved as a result of BPA-funded and customer-funded efforts toward meeting this target.

Because BPA is not planning to serve IOU residential loads with firm requirements power, BPA will not include those loads in determining BPA's conservation target, nor will BPA provide separate funding for conservation for these loads.

BPA will recover the costs of achieving this conservation in Tier 1 rates.

C. ACTIONS TO MEET CONSERVATION GOAL

BPA will take two primary actions to meet its conservation goal. First, BPA will implement tiered rates, which should create an economic incentive for customers to pursue conservation. Conservation accomplished by public utility customers will count toward the cost-effective conservation goal. By establishing tiered rates, BPA expects customers to have a greater economic incentive to achieve conservation whenever they face Tier 2 rates. This incentive from tiered rates adds to the incentive created by state portfolio standards. Even if they initially face only Tier 1 rates, there is still a significant incentive to conserve since conservation achieved would serve to lengthen the time before a customer's net requirement load exceeds its HWM, which is when the customer would face marginal cost power prices.

Second, BPA will provide a set of conservation programs that build on those incentives to ensure that conservation targets are met at least cost. It is premature to determine the specific portfolio of programs that will meet BPA's MW goal at least cost. Closer to 2012, BPA will establish a portfolio approach similar to that developed by a collaborative workgroup in 2005. The portfolio approach can accomplish conservation at the least cost and with the bulk of conservation achieved at the local utility level. The portfolio approach has four components: (1) a rate credit

that provides steady funding for local programs that targets the conservation that is reasonably evenly distributed throughout the region; (2) bilateral contracts that provide the means to acquire additional cost-effective conservation where available in specific utility service territories (such contracts, when appropriately negotiated, may provide the lowest cost way to meet BPA's strategic objectives); (3) third-party contracts and market transformation activities that can be used in conjunction with local programs where a coordinated regional effort is needed either to reduce costs or to move market players that do not respond at a local level; and (4) regional infrastructure support by BPA. BPA expects to improve and fine tune these elements for the post-2011 period as a result of what the region learns between now and 2011.

To support our customers in achieving all cost-effective conservation and in meeting their responsibilities under state-level initiatives, such as portfolio standards, BPA will remove its prior stipulation that conservation a utility is required to acquire is ineligible for BPA's conservation rate credit program. BPA plans to structure its programs so that they complement such initiatives. BPA also expects that the incentive provided by these initiatives should allow BPA to meet its conservation goals with less total outlay and rate impact.

D. CONSERVATION USED TO SERVE LOAD ABOVE CUSTOMER HWMS

A utility with a Rate Period HWM below its firm net requirement load may request that BPA serve its load in excess of the Rate Period HWM at a Tier 2 rate. The opportunities to provide conservation to customers in lieu of more expensive incremental resource acquisitions may not always be feasible, but providing these opportunities is a legitimate response to customer needs. BPA could potentially help a utility develop conservation to offset its need to buy power in excess of its Rate Period HWM. Depending on the circumstances, BPA could develop financial incentives that encourage a utility to develop conservation in amounts that reduce some or all of the utility's load above its Rate Period HWM. BPA could fully recover the cost of such conservation from the customer through a bilateral arrangement

VII. RENEWABLE RESOURCES

A. GOAL AND APPROACH

The goal of BPA's support for renewable resources will be to ensure the development of its share of all cost-effective regional renewable resources. The Council's Fifth Power Plan foresees the development of up to an additional 5,000 MW of wind capacity in the Northwest during the next 20 years. To meet its load obligations, BPA will base the goal for its renewable resource program on a percentage of the regionally cost-effective renewable resources and expects to continue to use the Council's regional Power Plan as the basis for this target. BPA's share of the regionally cost-effective renewables will be based on public power customers' share of regional load growth, BPA currently estimates that load growth of public power will be about 40 percent of regional load growth. Based on the current Council Plan, this equates to a BPA target of about 100 MW a year. This percentage will be adjusted over time for actual load growth and reasonable changes in estimates of cost-effective renewable generation. To determine if BPA is meeting the target, BPA will count the amount of power that BPA and public power utility customers purchase from incremental renewable resources.

To hold costs as low as possible and keep rate impacts down, BPA intends to meet this goal primarily by facilitating the acquisition of power generated by renewable resources by its public utility customers, including through renewables-based power service at a Tier 2 rate from BPA. Facilitating the development and use of power generated by renewable resources enhances the likelihood that public power customers will assume responsibility for developing new cost-effective resources instead of leaving that responsibility with BPA. Similar to conservation, BPA plans to design its efforts to complement utility initiatives and state-level initiatives such as portfolio standards.

Based on experience, BPA currently expects to be able to meet its renewables target and spend no more than a net of \$21 million per year (plus annual escalation for the post-2012 timeframe) on a range of facilitation activities with its public power customers.

BPA will revisit the \$21 million level during each rate period to see if it needs to be reduced or increased to ensure that the target is met. BPA will not use any of the \$21 million to reduce its Tier 2 rates in a manner that creates a financial incentive over power from non-Federal resources. Any costs associated with these renewables facilitation activities will be recovered in Tier 1 rates.

B. LEAST-COST ACTIONS TO MEET GOAL

The least-cost path to achieving this goal is likely to be the marginal cost signal sent to customers by tiered rates, coupled with a strong emphasis on facilitating development of renewable resources by public power customers to meet load, and cost-effective renewable acquisitions by BPA to meet net requirements load served at Tier 1 or Tier 2.

A combination of market factors and policy initiatives will continue to drive increasing demand for power produced by renewable resources among BPA's public power customers. Several of

the proposed facilitation activities described below harness these trends and may not need significant financial outlay by BPA. BPA will use a least-cost approach in selecting support activities.

C. ACTIONS TO MEET THE RENEWABLES GOAL

BPA believes the following portfolio of facilitation activities with its public power customers has the best chance of meeting the renewables target at the least cost. BPA will revisit this portfolio periodically and make adjustments as needed.

1. Cost-Effective Renewable Resources Acquired to Meet FBS Augmentation

BPA will actively seek cost-effective renewable resources as part of the 300 aMW augmentation of the FBS if needed to meet customers' requirements loads up to their HWMs.

2. Cost-Effective Renewable Resource Acquisitions for Tier 2

A Tier 2 rate based on the cost of renewable resources will be designed by BPA and proposed in the TRM to enable customers to make power from renewable resources a substantial component of their resource portfolios, thus supporting achievement of the Council's targets and assisting customers to meet resource portfolio standards, if applicable to them.

BPA recognizes that acquiring resources in small increments, precisely matching customer load growth, may not be an economical or practical approach in all circumstances. Therefore, once it has established the TRM, BPA may acquire renewable resources based on forecast need in advance of contractual commitments for eventual power at a Tier 2 rate service. Any costs associated with these advance renewable purchases (both energy in excess of market prices and predevelopment costs) would count as Tier 1 rate renewable facilitation costs until such costs can be recovered in Tier 2 rates for repayment to the Tier 1 rate. Consequently, BPA will only make such acquisitions if it concludes that doing so is part of the least-cost approach to meeting its renewables goal.

Another option BPA will consider is to use resource contingency planning to mitigate risk and cost exposure. This approach, as highlighted in the Council's Fifth Power Plan, involves securing sites for renewables and completing preconstruction activities, but holding off on committing to an acquisition until the need to do so is clear.

3. Integration Services

Recent experience has shown that public power customers and others in the region need services to shape and integrate electricity generated from their renewable resources – which are often intermittent in nature – to serve their loads. BPA will use the flexibility of the Federal hydro system, and/or additional acquired resources as needed, to provide integration products for wind and other intermittent renewable projects that are being used to serve a public power customer's regional retail load. BPA will explore in the Wind Integration Initiative, contract development process, and TRM process the necessary commitment terms, notice provisions, and pricing methodology this type of resource support service will require. To avoid biasing customers' choices, BPA will propose charges for non-transmission integration services for non-Federal

resources used to serve public power regional requirements load that will be the same as those included in Tier 2 rates for similar resources.

4. Coordinated Planning

The development of renewable resources will require coordinated planning on the part of BPA, the region's utilities, and other resource developers to ensure a diversified portfolio of renewable resources consistent with the operational characteristics of the region's power and transmission systems. BPA will continue to work closely with the Council, utilities, developers and other regional organizations to promote long-term resource planning and to minimize the costs of integrating substantial amounts of wind energy into the regional grid.

5. Research, Development, and Demonstration

BPA intends to continue providing a limited amount of financial support for Research, Development and Demonstration (RD&D) focusing on those projects and technologies benefiting multiple regional needs or which are embarking on commercial demonstration. BPA plans to use Green Energy Premiums generated by Federal resources acquired as of April 1, 2007, to fund this activity.

6. Other Possible Facilitation Measures

Other facilitation measures that may be considered are programs that reduce development costs and commodity risks. BPA also may continue a rate credit program or other incentive program(s) that narrow the spread between the cost of renewable energy used to serve public power requirements load and the market.

D. GREEN ENERGY PREMIUMS

As noted earlier, BPA will continue its existing practice of reinvesting Green Energy Premiums from currently existing Federal renewable resources in renewable RD&D projects and education programs. BPA will revisit the efficacy of this spending prior to each rate period. Green Energy Premiums derived from the sale of attributes generated by renewable resources acquired after April 1, 2007, that are part of FBS augmentation will be used to offset the Tier 1 rate impacts of these purchases.

E. TRANSMISSION

This proposal does not address transmission products and services, including ancillary services, which are critical services needed for integrating renewable resources into the power system and delivering them to load. These services are available to all transmission users, including both public power utilities and investor-owned utilities.

VIII. TRANSFER SERVICE

The purpose of this Policy is to ensure that Federal power preference customers are subject to equivalent BPA transmission policies without regard to whether the customer is served via the contiguous FCRTS or through an intervening system. BPA's transmission policies evolve over time, and elements of this Policy statement may be modified as necessary to comport with changes to BPA transmission policies, as warranted.

A. DIRECT ASSIGNMENT

When new Transfer Service is required, Power Services, as acquirer of Transfer Service, as well as BPA Transmission Services, will work to the extent practical with both the customer and the transfer provider to discuss the best overall plan of service. BPA will use the guidelines below to assign costs to Transfer Service customers that are comparable to the costs they would incur if they were directly connected to the BPA transmission system. These guidelines are consistent with BPA's existing policy regarding new service requirements and upgrades.

This Policy will be effective upon adoption of this Policy by the Administrator. BPA intends to include these guidelines in the initial proposal of the 2010 power rate case in order to provide further clarification as to how the guidelines will be applied. Implementation of this Policy upon adoption by the Administrator will provide guidance to customers as to their expected cost responsibilities for facility upgrades and expansions. This Policy regarding direct assignment is a final action.

Final Supplemental Guidelines

Bonneville Power Administration Supplemental Guidelines for Direct Assignment of Facilities Costs Incurred Under Transfer Agreements

This set of Supplemental Guidelines augments the BPA Transmission Services (currently referred to as Transmission Business Line's ((TBL)) "Guidelines for Direct Assignment Facilities," as amended or superseded (Transmission Services Guidelines), currently posted at: http://www.transmission.bpa.gov/Business/Business_Practices/default.cfm

In determining whether to directly assign to Transfer Customers costs incurred by BPA in providing transfer service to the customer, BPA will apply the current Transmission Services Guidelines for Direct Assignment Facilities, and these Supplemental Guidelines. The Supplemental Guidelines apply only to transfer service acquired by BPA from third-party transmission providers for service to Preference Customers. The Supplemental Guidelines use some terms defined in the 20-year Agreement Regarding Transfer Service (ARTS). Also, Direct Assignment Facilities, as defined in most pro forma Open-Access Transmission Tariffs (OATT), are:

Facilities or portions of facilities that are constructed by the Transmission

Provider for the sole use/benefit of a particular Transmission Customer requesting service under the Tariff. Direct Assignment Facilities shall be specified in the Service Agreement that governs service to the Transmission Customer. . . .

These Supplemental Guidelines are designed to supplement, not replace, the Transmission Services Guidelines, and to assist in predicting how BPA, as the default transmission customer for transfer arrangements, will recover costs for Direct Assignment Facilities assessed by third-party transmission providers. Unless otherwise specifically excluded in the Transmission Services Guidelines or below, the cost of Direct Assignment Facilities will be passed through to the customer.

Supplemental Guideline Regarding Voltages below 34.5 kV

For new facilities or new service over existing third-party transmission provider facilities at voltages below 34.5 kV that meet the definition of Direct Assignment Facilities, metered quantities for customer deliveries will be adjusted for losses to the point where the voltage is at or above 34.5 kV, such that BPA is not responsible for losses across such facilities. Loss calculations should be similar whether the customer or the transmission provider owns the delivery facilities. **Note:** The cut-off voltage of 34.5 kV is used in the Transmission Services Guidelines. If this voltage level is changed in the Transmission Services Guidelines, these Supplemental Guidelines will be modified accordingly.

Supplemental Guidelines Regarding Replacement with Higher Capacity Facility or Addition of a Transformer in Parallel

Pursuant to the Transmission Services Guidelines, for a new transmission provider-owned facility that also adds capacity, the costs that exceed the cost of replacing the previous capacity may be directly assigned to the benefiting customer. Alternatively, BPA and the customer may agree to full direct assignment in lieu of payment of the GTA Delivery Charge. Similarly, when a parallel transformer is added, BPA and the customer may agree to a simplified direct assignment of all delivery costs in lieu of some combination of Delivery Charge and direct assignment.

Supplemental Guidelines Regarding Construction Options

The customer may work directly with the third-party transmission provider to develop and select among options regarding construction, cost sharing and ownership. BPA will work with the customer and the transmission provider to arrive at the best one-utility plan, workable cost-sharing options, equitable ownership and interconnection arrangements. Due to regulatory issues, it is Power Services' policy to not own facilities.

Additional Guidelines:

1. Rolled-in Rate Treatment by Transmission Provider

If a customer receives new Transfer Service over new or pre-existing facilities below 34.5 kV offered by the transfer provider under a rolled-in rate or revenue requirement, BPA reserves the right to assess the GTA Delivery Charge. BPA will not charge the GTA Delivery Charge for a new point of delivery (POD) if specific facilities' costs are not rolled in but are directly assigned to BPA and in turn passed through to the customer.

2. Wholesale Distribution Facilities Beyond the Step-Down Substation

On any new arrangement for delivery below 34.5 kV (new or pre-existing facilities), the incremental cost for use of any facilities (other than potential transformers or current transformers for revenue metering) beyond the fence of the corresponding step-down transformer substation (or beyond a 20-foot radius of the step-down, for pole-top substations) shall be passed through to the customer, whether such costs are directly assigned to BPA or are imposed pursuant to a discrete wholesale distribution rate or Load Ratio Share of a discrete wholesale distribution revenue requirement.

3. Customer Arrangements Directly with the Third-Party Transmission Provider

A customer may, in lieu of paying the GTA Delivery Charge, choose to contract directly with the third-party transmission provider for delivery below 34.5 kV for an existing POD, but must then do so for all similar PODs with that transmission provider, and must take delivery from BPA at or above 34.5 kV for these PODs such that the customer is responsible for costs of and losses through the delivery facilities. A customer contracting with the third party for a new POD does not create a requirement that the customer contract with the third party for its pre-existing low voltage PODs.

B. QUALITY OF SERVICE

BPA will continue to act on behalf of transfer customers to ensure that quality of service is provided by the third-party transmission providers, consistent with established contracts and tariffs. BPA will seek to include formalized communications standards in transfer agreements and will commit to take a more proactive role in working with third-party transmission providers during the process of planning local transmission facilities. BPA also commits to involve Transfer Service customers in these discussions. Better communication with transfer providers and the inclusion of the transfer customers, where possible, should improve the quality of service going forward.

In order to improve the quality of service, transfer customers are expected to cooperate with BPA in assessing actions that may be undertaken to minimize costs incurred by BPA. This will include providing timely planning information to BPA regarding the transfer customer's annual peak and energy load forecasts, system expansion and upgrade needs, and load loss or additions. Customer cooperation is essential for maintaining or improving the quality of service.

This Policy supplements those efforts already being conducted by BPA to work with transfer customers and third-party transmission providers to find acceptable resolutions to quality-of-service issues.

C. ADMINISTRATIVE ROLES AND RESPONSIBILITIES

Some transfer customers expressed interest in contracting directly with the third-party transmission providers for service to their transfer served loads. This issue will be dealt with in a separate forum that will commence within 6 months after the adoption of this Policy by the Administrator. In this separate process, the parties will need to consider several issues, such as

the benefits and drawbacks of allowing a customer to hold the transfer contract while BPA retains cost responsibility. There are several details that need to be worked out with customers prior to BPA making a decision to have the customer hold the transfer contract and BPA reimburse the customer for the cost.

In the interest of efficiency and cost saving, in those situations where it is feasible and economically viable, BPA will encourage customers to build facilities to directly connect to the BPA grid and thus avoid transfer service costs. In addition, except in extreme circumstances, BPA will avoid plans of service that move directly connected¹ loads over to transfer service. This Policy may only be applicable on a limited basis, but when these situations arise BPA will look to improve service quality and lower transfer service costs through direct connection.

D. ANCILLARY SERVICE COSTS

Transfer customers should pay for each Ancillary Service that directly connected customers are required to purchase from Transmission Services. To avoid exposure to pancaked Ancillary Services charges, BPA will pay the transfer provider for the required Ancillary Services that the transfer service customer is already purchasing from Transmission Services. If the requirements for Ancillary Services change, the transfer customer will be required to pay for the third-party transmission system Ancillary Services that are no longer purchased from Transmission Services. Except as explained below, BPA will continue to be responsible for the costs of Ancillary Services assessed by a transfer provider for delivering Federal power to transfer customers. Transfer customers would be required to reimburse BPA for the costs incurred to acquire Ancillary Services from the transfer provider for Ancillary Services that are not already provided under their BPA transmission contract. The FERC, NERC or WECC² requirements pertaining to Ancillary Services may change in the future. If this occurs and the transfer customer is no longer subject to certain Ancillary Service costs under its BPA transmission contract, BPA will pass through these Ancillary Service costs charged by the third-party transmission provider.

For Load Regulation and Frequency Response, BPA will apply the following principle: Transfer customers not in BPA's control area will pay Power Services the equivalent of Transmission Services Load Regulation and Frequency Response rate. Power Services will pay the third-party transmission providers Load Regulation and Frequency Response rate for transfer service. To be comparable to directly connected customers, transfer customers will pay the cost of Load Regulation and Frequency Response as if they were directly connected to the BPA transmission system.

E. PAYMENT FOR DELIVERY OF NON-FEDERAL POWER

1. Overview

BPA will provide some level of financial assistance to transfer service customers who acquire

¹ Note: In this section, the term "directly connected" means Federal power customers that are served from the contiguous portion of the FCRTS in Oregon, Washington, northern Idaho and western Montana.

² FERC is the Federal Energy Regulatory Commission; NERC is the North American Electric Reliability Council; and WECC is the Western Electricity Coordinating Council.

power from non-Federal resources to meet requirement loads above their Rate Period HWM. BPA has concluded that assistance is necessary for these customers to have real power supply choices to serve load growth, which is an important objective of this Policy. Absent some payment for transmission of non-Federal power, customers served by transfer will face strong economic incentives to purchase exclusively from BPA at Tier 2 rates. Specifically, BPA intends to pay for the network transmission portion associated with delivering non-Federal power in the Control Area³ in which the customer's load resides. Included along with the network transmission charges, BPA will also pay for the Ancillary Services of load regulation and reactive power. The cost of all other transmission services for non-Federal deliveries, such as energy imbalance, redispatch, spinning and supplemental reserves, scheduling and dispatch services, distribution and low-voltage charges and losses, will be the responsibility of the customer. BPA will begin paying for Transfer Service of non-Federal power when deliveries under the Regional Dialogue contracts and tiered rates are effective. The specific details of that service discussed in this section will be developed further in the contract development process and represent BPA's position regarding payment for non-Federal delivery.

2. Eligible Customers

To be eligible, a customer must meet the following criteria: (1) the customer must be served by Transfer Service; (2) the customer must use the non-Federal power for service to its requirements load located within the third-party transmission provider's system; and, (3) the third-party transmission service is over facilities equivalent in function and voltage level of the FCRTS Integrated Network Segment.

3. Limitations

BPA's intent to pay for the transmission of non-Federal power deliveries will be limited in four respects.

First, BPA will support transfer service for non-Federal power deliveries up to the amount BPA would have paid for delivery of Federal power at the Tier 2 rate. If the customer can procure the transmission for less than BPA's cost for delivering Federal power, BPA will pay the lesser amount. BPA intends to calculate its cost for delivering Federal power in each general rate case. A customer choosing a non-Federal resource will be responsible for all additional costs beyond the equivalent of BPA's cost for delivering Federal power. This limitation is necessary to ensure that a customer's decision to purchase power from a non-Federal resource does not increase BPA's total transfer costs beyond what BPA would have experienced had the customer purchased its power from BPA at Tier 2 rates.

Second, BPA's payment for non-Federal power deliveries will be subject to annual and overall caps. The annual cap is \$650,000 in FY 2012, or 41 MW, whichever occurs first. The monetary cap will increase annually by 3.0 percent. These caps are cumulative. In other words, this cap is

³ In referring to "control area," BPA means the last third-party transmission system that the non-Federal power must be transmitted over before reaching the customer's system. In most cases, this will be the control area of the third-party transmission provider in which the customer's load resides. However, BPA recognizes that there may be situations where the control area may not be the appropriate boundary. For example, some of BPA's customers are telemetered into BPA's control area. In these and other similar situations, BPA would view the last third-party transmission system that the non-Federal power must be delivered over before the transfer customers' system as the point at which BPA would begin to provide non-Federal transfer service.

reached when BPA spends more than \$650,000 the first year, or the dollar amount escalated by 3.0 percent annually in later years, on additional transmission charges, or acquires more than 41 MW of additional transmission service for non-Federal power deliveries in any given fiscal year. The overall cap is the lesser of \$17.7 million, which reflects the \$650,000 adjusted by 3.0 percent annually or 697 MW. The cap is reached when BPA's annual expenditure for transmission of non-Federal deliveries equals \$17.7 million in transmission charges or 697 MW of acquired transmission service, whichever is less. These caps will apply for the duration of the Regional Dialogue contracts. These caps were derived using an updated load and transfer service cost analysis for post 2011.

Third, customers will be responsible for obtaining and paying for all transmission services necessary to deliver the non-Federal resource to the control area in which the customer's transfer service load is located.

Fourth, and finally, the customer will be responsible for any costs of adding, expanding or upgrading a point of receipt on the third-party transmission system to accommodate the non-Federal power deliveries, including any directly assigned integrated network upgrades. All other facilities and distribution costs associated with non-Federal deliveries will be assigned to the customer in accordance with BPA's Supplemental Direct Assignment Guidelines.

4. Cost Recovery

BPA will propose to recover the cost of non-Federal Transfer Service in Tier 1 rates in the initial proposal of the TRM. BPA intends that the choice between Federal and non-Federal alternatives for service to loads above HWM not be affected by Transfer Service costs. Proposing to collect these costs in Tier 1 should assist BPA in meeting this objective.

5. Other Alternatives

BPA may, at its discretion, consider other alternatives for non-Federal power deliveries on a case-by-case basis.

F. TRANSFER SERVICE FOR NEW AND ANNEXED LOAD

1. Overview

For purposes of this portion of the Regional Dialogue Policy, BPA defines annexations as follows: "the acquisition of existing load, existing distribution, and service territory by means of annexation, merger, purchase, trade, or a judicial decision."

BPA intends to arrange and pay for the network component of Transfer Service for power deliveries to serve a new public customer load or a transfer customer's annexed load in the following situations: (1) if the annexation is not disputed and the utility losing load and service territory provides written consent to the annexation and transfers any rights and ownership interest in the distribution facilities and properties in the annexed territory; or (2) if the relinquishing utility is opposed to the annexation, once a state or court has made a final determination that the utility has the legal right to serve the annexed load. These provisions are necessary if BPA is to remain a neutral party in annexation disputes and not provide service until a clear decision has been made on which entity has the legal right to serve the load, and the

acquiring utility has obtained an ownership interest in the distribution facilities and properties in the territory sought to be annexed.

2. Limitations

BPA's Transfer Service for new and annexed loads policy is subject to a megawatt cap and a cost cap. These caps are necessary to limit BPA's exposure to unrestrained Transfer Service cost increases associated with a customer's load acquisition decisions.

a. Megawatt Cap

The overall amount of additional Transfer Service provided for annexed loads and new publics will be capped at 50 aMW for each rate period, with a limit of 250 aMW during the term of the Regional Dialogue contracts. Small annexed load or new public additions of less than 1 aMW per instance, and annexations of loads that were previously served by BPA's power with Transfer Service, will not be counted against the megawatt cap, but these loads would be subject to the \$10/MWh cost cap described below. This megawatt cap is a separate cap for Transfer Service, which is different and will be tracked separately from the overall cap in this Policy on the HWM available for new public customers.

b. Cost Cap

BPA's decision to provide Transfer Service for new public and annexed loads is limited by a \$10/MWh cost cap. BPA will pay up to \$10/MWh for network transmission charges associated with annexed loads or newly formed public utility customers. In addition to network transmission costs that exceed the \$10/MWh cap, customers will be responsible for ancillary services and distribution charges. The \$10/MWh was determined by doubling the average current cost of transfer service and then adding another \$3 to account for inflation during the term of the contracts. The \$10/MWh cap will discourage annexations of high transmission cost service areas and will limit BPA's overall transfer service cost exposure.

3. Implementation and Timing of New and Annexed Load Policy

a. Annexations Prior to and After October 1, 2009

BPA currently intends to begin to pay for Transfer Service for annexations, consistent with the policy described above, beginning on October 1, 2011. For purposes of the megawatt cap, however, the following provisions apply: (a) annexations that have already occurred or will occur between the adoption of this Policy by the Administrator and October 1, 2009, will not be counted against the megawatt cap; and (b) annexations that occur *after* October 1, 2009, will be counted against the megawatt cap.

b. New Customers Formed Prior to October 1, 2009

Beginning on October 1, 2009, BPA currently intends to offer Transfer Service to Subscription customers that have had to previously secure and/or pay for Transfer Service on their own. In addition, BPA intends to provide Transfer Service to any new customers that: (a) have met BPA's Standards for Service; (b) request Transfer Service from BPA prior to the beginning of the 2010 Power rate proceeding; and (c) are taking or will be ready to take delivery of Federal power prior to October 1, 2009. Loads that are served by transfer in accordance with this section will not be counted toward the megawatt cap. BPA believes that it is equitable to allow

customers that have loads being served by third-party transmission providers an opportunity to be placed on the same footing as other BPA Transfer Service customers.

c. New Customers Formed After October 1, 2009

New public customers that form or begin to take Federal power deliveries after October 1, 2009, or that have not requested Transfer Service from BPA prior to the beginning of the 2010 Power Rate proceeding will not be eligible for Transfer Service until October 1, 2011. The loads of new publics that fall into this category will be counted against the megawatt cap.

G. TRANSFER SERVICE FOR BLOCK AND SLICE POWER SALES AGREEMENTS

Transfer services are load service arrangements for delivering Federal power to the load of customers not directly connected to the BPA transmission system. As such, BPA's current contractual arrangements do not require that accommodations be made for Transfer Service for surplus Federal power. The transfer services BPA acquires will not include deliveries that exceed a customer's total retail load on an hourly basis. If BPA were to make such an adjustment, Transfer Service customers would be afforded superior service when compared to what directly connected customers receive. Such a result would be contrary to BPA's objective of creating parity between directly connected customers and Transfer Service customers. BPA, therefore, will not expand Transfer Service to include surplus power deliveries associated with a public customer's Block or Slice Power Sales Agreements. This is decision is a final action.

IX. RESOURCE ADEQUACY

A. RELIANCE ON PACIFIC NORTHWEST (PNW) RESOURCE ADEQUACY FORUM TO ASSURE REGIONAL RESOURCE ADEQUACY

The Council recently adopted Energy Adequacy and Pilot Capacity Adequacy Standards and a voluntary implementation plan, which were developed and recommended by the PNW Resource Adequacy Forum (Forum). Assuming that the ongoing effort to finalize adequacy standards and put implementation mechanisms in place is successful, BPA will rely primarily on the Forum and Council processes to assure regional resource adequacy and will not require compliance with regional resource adequacy standards in the Regional Dialogue power sales contracts. Following are the remaining milestones that are critical to success of the Forum's mission:

- Adoption by the Council of a Final Capacity Standard, again developed and recommended by the Forum;
- Adoption of an Economic Adequacy Standard; and,
- Development of utility-specific translation of the regional standards, to allow utilities to see how their resource plans relate to the regional standard.

If the Forum is unsuccessful in completing the milestones described above, before BPA's new contracts are signed, BPA will consider including alternative contractual provisions in its contracts as necessary to assure regional resource adequacy.

B. CONTRACT TERMS AND CONDITIONS:

Under the assumption that the Forum and Council processes will be successful in assuring regional resource adequacy, BPA will include general provisions in the power sales contracts covering the following topics:

1. Data Provision

The Regional Dialogue contracts will require that customers provide forecast loads and resources data annually on a confidential basis to the Pacific Northwest Utilities Conference Committee, or its successor organization and the Council to facilitate the performance of regional resource adequacy assessments. Load-following customers who purchase all their power supply from BPA would be excluded from this requirement as BPA would provide data on their behalf.

2. Clear Responsibilities

As stated in Section II.C.4, the Regional Dialogue contracts will clearly delineate between the Federal power a customer commits to buy from BPA and non-Federal power the customer commits to supply for its load from other sources. Contracts will include terms on which party – BPA, the utility, or a combination – will have responsibility to serve load growth. Customers will acquire non-Federal power in amounts they agree to supply for their load service by specific commitments or dedication of non-Federal purchases or resources in their BPA power sales contracts.

3. Notice Provisions

The power service product at the default Tier 2 rate will include a minimum commitment period and required notice period long enough to ensure that Federal resources can be acquired if necessary to comply with regional resource adequacy provisions. These provisions mean that the customer must also secure an alternative power reserve such that BPA will not be the short-term supplier of last resort if a customer fails to secure sufficient resources to meet its load growth through non-Federal resources. In the event of such a shortfall, the customer will have to make reserve arrangements to serve its load. If BPA has surplus power, the customer would have a preference to available, unsold surplus power not otherwise committed, but the availability and cost of such surplus power would be uncertain.

X. LONG-TERM COST CONTROL

A. REGIONAL FCRPS STRATEGY AND COST REVIEW PROCESS

BPA will establish a regional FCRPS strategy and cost review public process that will include the following features:

- a. The regional cost review public process will address all agency capital and expense costs and will replace the Power Function Review (PFR) and Transmission's Programs in Review (PIR).
- b. The regional cost review process will examine all costs and major anticipated policy decisions that affect costs and explore potential alternatives.
- c. The cost review process will feature long and short-term aspects of cost management and control.
- d. The cost review process will be ongoing and include intense focus on rate period costs in advance of rate cases.
- e. When not reviewing costs, the cost review public process will focus on long-term cost trends and implications for both expense and capital programs. These review discussions could occur monthly or quarterly.
- f. BPA will, to the extent practicable, bring major issues that can affect short- and long-term costs to the cost review public process for input before a BPA decision.
- g. BPA will develop and provide detailed cost information to the cost review process (for example, multi-year cost forecasts of capital and expense), including analysis of impacts of alternative spending levels and policy decisions.
- h. The regional cost review process will be open to all interested parties and will be structured to facilitate both technical input and manager-level input.
- i. BPA and the Resource Agencies (Corps of Engineers, Bureau of Reclamation and Energy Northwest) consistent with past practices will supply information necessary for regional FCRPS strategy and cost review public process participants to render quality input, limited only by proprietary issues and the goal of not becoming overly administratively burdensome.
- j. BPA will actively coordinate and encourage the participation of Resource Agencies in the regional cost review process.
- k. The regional cost review will be structured to facilitate regional consensus-building around best choices.
- l. BPA and the Resource Agencies will retain final decision authority.
- m. In the event of significant disagreement with a proposed BPA decision, recourse will be provided in the form of informal debate before the Administrator. Any regional cost review process participant can propose specific issues for debate. BPA will endeavor to schedule time for debate of all suggested issues. In the event of time constraints, BPA will prioritize issues in consultation with participants, taking into account such factors as overall level of interest of participants and financial impact of issue involved.
- n. The regional cost review public process will permit stakeholders to appoint spokespersons who would be committed to participate in the process, including making recommendations to BPA.

- o. Mechanisms will be developed to allow discussion of emergent issues with the regional FCRPS strategy and cost review public process before BPA makes commitments, when practicable.

For administrative efficiency, BPA will try to concentrate the cost-related public discussion in the regional cost review forum, although BPA will also discuss cost management and financial performance with other interested groups. BPA is committed to ensuring regular access to clear and transparent financial information and frequent opportunities for meaningful input into BPA cost and program decisions.

B. PERIODIC REVIEW

BPA will periodically review the regional FCRPS strategy and cost review public process at least every 5 years to determine whether it is meeting the needs of BPA and stakeholders. If BPA deems it necessary, the regional cost review process may be modified to improve its performance.

XI. DISPUTE RESOLUTION

A. INTRODUCTION

It is BPA's goal to, where reasonably possible, provide customers with specific and known dispute resolution processes tailored to the particular disputes BPA and its customers may encounter during the 20-year course of the Regional Dialogue contracts and rates. Disputes will vary in nature ranging from debates over interpretation of facts to disputes of judgment or interpretation of intent, and may involve policy judgments, issues of law or factual or technical determinations. The scope can range from narrow and discrete issues affecting a small set of parties to very complex and judgmental issues affecting many parties. Some issues will create precedent, while others will not. Subjects will be as varied as the application of tiered rates and HWM methodologies, cost migration between the rate tiers, Federal resource size, matters of cost recovery, reliability, resource operation, environmental significance and more.

Because of this wide variety, a one-size-fits-all dispute resolution process would not be workable or likely legally enforceable. If it is to be effective and equitable, dispute resolution must be tailored to the type of dispute, the issues, and the parties involved. Consequently, it is neither possible nor advisable at this time for BPA to specify dispute resolution processes for many matters since many details of BPA's post-2011 contracts and rates will not be known until they are well developed or, in some cases, established. As to such matters, this Policy articulates the principles, criteria and factors that BPA will apply in its negotiations with customers regarding appropriate dispute resolution of those matters.

BPA's decisions are at an overall Policy level at this point, so the policy that it establishes here on dispute resolution speaks to major elements of BPA's Policy. Generally, BPA's contracts will empower the rate case hearing officer, in specified cases, to make a determination as to whether any BPA-proposed rate change is a contractually prohibited change. Such determination would be binding on the Administrator except in matters where the change is necessary because the Administrator could not otherwise reasonably recover BPA's costs or comply with a court order. For certain issues of a narrow and purely factual nature, BPA will engage in binding dispute resolution by a neutral third party. For other identified issues, BPA is proposing to continue the current practice of administrative determination by BPA, with the possible exception of identifying certain neutral sources of information that BPA must rely upon. Finally, as to issues arising outside a BPA rate case concerning whether the Administrator has properly interpreted or applied the tiered rates methodology, BPA will engage in non-binding dispute resolution.

B. CRITERIA FOR CONSIDERING ALTERNATIVE DISPUTE RESOLUTION

Issue-identification processes designed to collaboratively deal with issues and problems before they become formal disputes will be established. Efficient and effective processes for customer, constituent and stakeholder input into BPA decision making lessen the likelihood of unresolved disputes and the need for formal dispute resolution. Such issue-identification processes also serve to clarify the exact nature of the disputes that do remain. Issue-identification processes

will precede any formal dispute resolution. During the contract negotiation process, BPA will determine and establish what those issue-identification processes will entail.

Numerous considerations should be taken into account in determining how disputes should be resolved. No single type of process necessarily fits all disputes. Disputes should be identified for resolution in a particular process only when the implications and consequences of that approach are thoroughly thought out, both for issue areas individually and as part of the entire structure of issues that could be at play.

Based on Department of Justice guidelines and other literature, following are major, generic considerations that should be taken into account when determining the appropriate dispute resolution:

- a. Important policy judgments necessary to interpret and administer Federal statutes and regulations must be retained by the Administrator and not turned over to a third party for final resolution.
- b. Alternative dispute resolution (ADR) can be most useful in disputes that are highly fact specific and in which the decision is likely to be single issue and quantitative. Arbitration, mini-trials and determination by a hearing officer are examples of ADR.
- c. ADR may also be attractive when the dispute is highly factual or technical and the parties can pick a decision maker with mutually accepted expertise, thus obviating the need to educate the decision-maker to understand technical arguments.
- d. Arbitration is also useful when finality is a desired result, and there is little concern over the risks or costs of remedies impacting other parties (for example, resolving a small dollar figure dispute that has been ongoing for a long period).
- e. Use of ADR should be seriously questioned when:
 - a definitive or authoritative resolution of the matter is required for precedent setting value, and a binding third-party determination is not likely to be accepted by all interested parties generally as an authoritative precedent;
 - the matter involves or may bear upon significant questions of government policy that require additional procedures before a final resolution may be made, and a binding third-party determination would not likely serve to develop a recommended policy for the agency;
 - maintaining established policies is of special importance, so that variations among individual decisions are not increased, and a binding third-party determination would not likely reach consistent results among individual decisions;
 - the matter significantly affects persons or organizations who are not parties to the proceeding; or

- a full public record of the proceeding is important, and a binding arbitration proceeding cannot provide such a record.

In determining the specific dispute resolution process that will apply to particular disputes or types of disputes that BPA and its customers may encounter during the 20-year course of the Regional Dialogue contracts and rates, BPA will also factor in the following considerations:

First, BPA must ensure that it maintains the ability to, and does, fully recover its costs and repay Treasury. It must also retain the ability to demonstrate that over time its rates and cost allocations are consistent with statute.

Second, for issues of wide impact, all parties affected should have the opportunity to be heard and have their concerns fully considered. There will be many instances where a determination is common to all customers or affects all or many of them in some fashion. BPA's past practice of melding all costs had the effect of dampening the effects of many BPA actions. That may no longer be the case since Tier 1 will essentially be a zero sum game. For example, resource removal, net requirements determinations and FBS capability determinations are decisions that will potentially affect all customers but that have different impacts and consequences for each customer eligible to purchase at the Tier 1 rate.

Third, determinations regarding system and operational characteristics are highly technical, often changing and judgmental. These are not the kind of decisions that should be entrusted to an adversarial process.

Fourth, the process should not unduly delay efficient, economical and reliable operation of the system. Timely decision making needs to be preserved, particularly in the areas of emergencies, operating decisions, reliability, and cost recovery. Process paralysis must be avoided.

Fifth, BPA, its customers and constituents should not be forced to repeatedly expend significant resources in arbitrations and other proceedings; alternative dispute resolution should be cost-effective compared to the alternative. Conversely, for issues that are amenable to quick resolution, there should be the potential for accelerated dispute resolution.

Sixth, the consequences of a decision must be such that no inequitable shifting of costs to customers not party to the dispute resolution process results from the decision.

Seventh, BPA must ensure that its stewardship obligations (e.g., fish and wildlife, tribal trust, treaty) are not frustrated or compromised by processes for resolving disputes.

Eighth, there will be a presumption in favor of third-party resolution of factual disputes, tempered however by considerations of significance (i.e., there should be a threshold),

speed, efficiency, cost, consistency of process, timely decision making, and the other factors identified above.

One-size dispute resolution does not fit all disputes. The criteria and considerations above will be flexibly applied so that the dispute resolution process fits the particular issue. As indicated, once the TRM and contracts are developed with greater certainty, BPA will negotiate contractual procedures that clearly specify when ADR is the process and when litigation is the process.

C. PROPOSED DISPUTE RESOLUTION FOR TIERED RATES CONSTRUCT

While the word “will” is in many cases used here in connection with rate matters, it bears repeating that any final decisions must and will be made through a section 7(i) rate-setting process.

1. The Overall Construct

To address the need for certainty and the concern that BPA statutorily can and, in certain situations, must change its rates, BPA will in the rate itself state that the overall construct of tiered rates will not be abandoned or changed for a period of 20 years, that each customer’s contract will include a guarantee against identified changes, and that the contract will provide for a binding process to ensure that the guarantee is enforceable. What constitutes the “construct” will be determined collaboratively with customers, with a view to ensuring that commercial certainty and predictability are maximized. The protection will be subject to very narrow qualifications that, notwithstanding the contractual guarantee, the identified changes could be made if and to the extent (a) BPA were effectively required by court order to make them, or (b) the Administrator determined he/she could not timely and reasonably recover BPA’s costs without the change. Criteria will be specified for actions that the Administrator should or must pursue before resorting to a change in the tiered rates construct, or an element of it, to ensure cost recovery. These criteria or disputes over them will not be allowed to frustrate the Administrator’s responsibility to recover costs and timely repay the U.S. Treasury. Thus, BPA will not warrant or represent that the contract is immune from costs imposed by court order or agency regulations of a general and public nature.

The contract will state that it is the parties’ intent to structure a durable commercial relationship based on existing statutory requirements and to provide customers as much protection against change in those requirements as possible. However, BPA will not warrant or represent that the contract is immune from subsequently enacted legislation.

Given the rates nature of the construct, any BPA proposed change to the construct will have to be done through a rate case. The hearing officer will be empowered to determine if a matter is a change or an interpretation. A “change” will be defined in a way not to include what a party believes is an erroneous or improper interpretation or determination, but instead to cover change to the actual language of what the parties have agreed is the construct. While interpretations will be subject to regular rate case procedures, the hearing officer will be empowered to make a determination as to whether any proposed change is a contractually prohibited change. The determination will be binding on the Administrator except where the Administrator has determined, after a mini-trial directly to the Administrator within the rate case, that the change is

necessary because BPA cannot reasonably recover costs or comply with a court decision without the change. BPA cannot and will not lock itself into any pricing scheme that precludes full and timely cost recovery. Many procedural details, such as timing, burden of proof, deference, presumptions, standards the hearing officer would use, and other procedural matters, need to be established by BPA, and BPA will collaboratively explore these in advance with customers and other rate case parties.

BPA will further agree not to make a defined “change” outside the rate case, and a neutral party may decide on a binding basis if BPA is making such a change. Filling in “gaps” is not a change, and is something the Administrator may do between rate cases if necessary, subject to the requirement that the “gap” be filled in during the next scheduled power rate case.

BPA will not empower the hearing officer to determine interpretative disputes in the rate case. The rate case affords parties to fully develop their case as to why the Administrator’s proposed interpretation is unreasonable.

BPA will work with customers to determine tiered rate methodology factors that will be determined outside the rate case and that will not be altered in the rate case. This will be done with a view to enabling the parties to contract that these values will be used in the rate case without change, subject to the two exceptions identified above.

Both here and in other areas, there is an issue of the process for considering when revisions are necessary due to changed circumstances or unintended consequences, and BPA will work with customers to determine that process.

Apart from the construct of tiered rates itself, there are a number of elements to the construct that, if changed, could cause the overall construct to fail and, with it, the predictability and certainty the region is seeking. These are identified below, with an indication of how greater certainty will be afforded.

2. Eligibility and Cost Allocation

BPA’s rate setting directives identify rate pools, generally specifying which customers may be allocated which costs. Section 7(e) of the Act affords the Administrator latitude in the rate designs employed to recover the costs from a class or one or more subclasses. Hence, under the current construct, Tier 1 rates will be available for customers with a Rate Period HWM and, within that, for part or all of their net requirements. Additional power at a Tier 2 rate will be available for any net requirements service in excess of a customer’s Rate Period HWM.

Determination of the first or initial Contract HWM will be done outside the rate case pursuant to the HWM methodology. BPA will in the rate case itself state what each customer’s initial Contract HWM is and that this contract HWM is or will be included in the customer’s contract and is not subject to change except pursuant to the HWM methodology. The rate methodology will also refer to net requirements as determined in a separate process since net requirement obligations are governed by section 5(b)(1) of the Northwest Power Act and are not a rate. These eligibility features and the design of the rate methodology around these features – Contract HWM, Rate Period HWM, and net requirements – will be subject to the qualifications and

process for determining whether BPA is changing them, as identified above with respect to the overall construct. Apart from these kinds of fundamental changes to the HWM construct and the initial net requirements determination, as eligibility and cost-allocation determinants, Rate Period HWM and net requirements are subject to many possible year-to-year variations. These are next discussed.

3. Subsequent Net Requirements Determinations

As indicated above, a customer's net requirement is determined annually and will be used as one of the inputs into the calculation of a customer's individual HWM. A customer's net requirement determines the amount of Federal power BPA is obligated to supply the customer under contract. The focus here is on BPA's determination of subsequent changes in a customer's net requirements. Customers have asked for an open and transparent process for determinations of net requirements, which define BPA's service obligation and are based on statutory requirements. BPA will develop a transparent process that lays out how net requirements will be determined, but will not make the net requirements determination a matter of contract since so many administrative determinations are involved. BPA will, however, commit in contract not to change its method for determining net requirements or elements of it, depending on what the method covers. The net requirements determinations will involve at least the following elements:

- a. A utility's current retail load and its forecast load.
- b. Non-Federal resource declarations. This includes the annual and monthly energy amounts and any changes to non-Federal resource amounts (plus or minus).
- c. Consumer-owned resources. This includes the listing of consumer-owned resources, their operating levels and use (e.g., serving load or sold to market), changes to such information, and consequences of the listing and changes.
- d. Decrements to net requirements under Section 9(c) of the Northwest Power Act or 3(d) of the Northwest Preference Act.
- e. Non-Federal resource changes under contract and any changes pursuant to Section 5(b)(1) of the Northwest Power Act (e.g., consent of Administrator, obsolescence, retirement, loss of resource or loss of contract rights).

Each of these areas involves substantial policy and factual determinations that warrant more discussion before any particular mode of dispute resolution should be specified. The contracts need to clearly identify the particular processes for resolving each and, where possible, the sources of data, such as the utility's financial forecasts. This should be done in a manner that ensures transparency and inclusion of all interested, affected customers.

While the process for determining individual utility load and resource changes will for the most part be an administrative determination by BPA, BPA is open to discussion of the issue and review of the whole area to determine factual determinations that might well be referred to a neutral third-party for resolution in an open and transparent setting. It is important that disputes

be resolved in a way that the same results or approach can then be applied to all customers. It would be unworkable and unacceptable for separate dispute resolution processes to result in varying ways to determine net requirements. BPA does agree for now that, when the parties agree that strictly issues of fact or application of clear and unambiguous policy to facts are involved, those matters may be determined through a binding neutral third-party decision, subject to a threshold level of significance that will be negotiated with customers. When issues of fact and application of policy with gaps or ambiguity are involved, BPA agrees that subject to a threshold level of significance that will be negotiated with customers, such matters may be referred to a neutral party, but with only the decision on facts binding. If the decision is accepted by BPA, it becomes BPA's decision and applicable to all customers, although appealable to the Ninth Circuit Court of Appeals.

4. Subsequent High Water Mark Changes

As indicated above, it is anticipated that the rate methodology will refer to each customer's contract for an initial value that establishes the Contract HWM. Also as indicated above, that Contract HWM and the HWM construct will be contractually locked in, and subject to change for two specified circumstances. In addition, the rate and the contract are likely to have the following provisions for changing the Rate Period HWM that may require a process to resolve disputes.

- a. Factual circumstances that permit the Rate Period HWM to either be increased or decreased (e.g., based on changes in the "size" of the FBS).
- b. Based on such factual circumstances, a method for calculating the amount of any increase or decrease for the Rate Period HWM.
- c. A simple and readily calculable method for determining when the Rate Period HWM has been exceeded.
- d. Changes in contract HWM due to annexation.

As with net requirements determinations, the contracts will clearly lay out the process for resolving each in a manner that ensures transparency and inclusion of all interested, affected customers. In the case of disputes of a mathematical or similar calculation nature, binding third-party resolution would be appropriate. For other matters, the criteria and considerations for dispute resolution alternatives need to be applied to determine how these matters should be resolved and by whom. FBS resource size is an important determinant of the total of Rate Period HWMs and is discussed separately below.

5. Cost Migration

BPA's construct depends on the allocation of identified costs to Tier 1 rates and other identified costs to Tier 2 rates. This is fundamental to tiering and to providing the certainty and predictability customers seek. The general identification of cost categories and their association with Tier 1 or Tier 2 are rate case matters. Notwithstanding that, the rate methodology should provide that the cost categories and their allocation will not change – i.e., there would be no allocation of Tier 2 costs to Tier 1 for recovery, or vice versa – except in the same circumstances

(court order or cost recovery) and subject to the same process as identified above for the overall construct. This will provide commercial certainty.

However, many issues may arise as to whether a cost fits within this or that category. Joint costs, such as overhead and labor, are a good example. Efforts to allocate these costs, such as through direction-of-effort studies or labor ratios or some other method, should be subject to ordinary rate case procedures and not special ADR processes.

Customers understand that the Administrator must recover costs. However, they have expressed concern that the Administrator might not take appropriate care to avoid creating situations where the consequence would be that BPA must allocate Tier 2 costs to Tier 1 in order to assure total cost recovery. A necessity test will be clearly articulated in the TRM and contracts as a condition to recovery of Tier 2 costs from Tier 1, or vice versa. The test will articulate a set of safeguards (hurdles) that must be met before costs can be reallocated between tiers. BPA will develop a set of safeguards in collaboration with its customers and constituents that (a) BPA will follow when entering identified transactions (e.g., service at a Tier 2 rate) and (b) once put in place, will be used by the Administrator to satisfy the necessity test. A neutral third-party, likely the rate case hearing officer, would determine whether the necessity test was satisfied. If not, the Administrator could proceed with the proposed action to reallocate costs if the Administrator determines after a mini-trial in the rate case that it is necessary to recover costs or to satisfy a court decision.

6. FBS Resource Size

Customers with contract HWMs will be eligible to purchase at the Tier 1 rate that portion of their net requirements load equal to or below their Rate Period HWM. The amount of power available at the Tier 1 rate and the customers' Rate Period HWM will be constrained to the output of the FBS resources, adjusted per the Policy to arrive at the "existing FBS system." The definition of the existing FBS system needs to be developed. This definition and construct will be afforded the same contractual lock and follow-on process as is identified above with regard to the overall construct. Beyond that, however, Federal resource determinations are subject to considerable year-to-year variations due to a number of factors, including water availability and fish and wildlife measures. Resource size determinations would likely include the following elements.

- a. Specific Resource Output/Capability – many sources of information, standards, and determinations would be involved.
- b. Adjustments to Resource Output/Capability – many sources of information, standards and determinations would be involved.
- c. Federal Operating Decisions – sources of information and process for establishing what constitutes a Federal operating decision, the impacts on the availability of FBS power, both prospective and during the year, need to be established.
- d. Resource Additions and Removals – sources of information and process for establishing circumstances when an FBS resource can be permanently removed and when a resource can be added for Tier 1 purposes and in what amounts need to be established.

- e. Issues concerning the integration or separation of FBS and other resources need to be identified.

BPA currently believes that these matters should continue to be determined administratively by BPA, but is open to further review of the matter. Each of these areas involves substantial policy and factual determinations that must be identified before agreement could be reached concerning the appropriate alternative dispute resolution process or processes. BPA will work with regional parties to determine if there is a source, such as the Pacific Northwest Coordination Agreement (PNCA) process or otherwise that could serve as a neutral, trustworthy source of information. To the degree that such materials are timely available through the PNCA process or some equivalent independent source, BPA will rely upon them.

7. Unanticipated Resource Costs

BPA currently, and under the construct being developed, establishes its power rates to recover costs for the services provided. The Bonneville Refinancing Act protection against provision of additional returns of or on old capital investments will be included in the contracts. This provides customers substantial protection against imposition of an unrelated “tax” that would deprive them of the economic certainty that BPA seeks to provide through the tiered rates construct.

8. Implementation of the Rate Methodology

For disputes over the Administrator’s interpretations of the TRM outside the rate case regarding what the rate methodology permits or requires, BPA will agree to nonbinding, neutral third-party determination of such disputes, subject to a pre-agreed upon threshold. A list of pre-approved individuals available to serve as neutrals would be maintained for this purpose. The process will be designed in a way so that, if reasonably possible, the process is appellate-like (no depositions, discovery, cross-examination) and reasonably quick, lasting a month or less if possible. All affected parties could participate and have the opportunity to file briefs and present oral argument. However, this design may be too limiting for issues that are complicated and complex. This needs to be discussed, as do issues such as timing, burden of proof, deference, presumptions, standards the neutral would use, and other procedural matters. At the conclusion, the neutral’s decision could be accepted or rejected by the Administrator, with the Administrator’s final decision appealable. The record of the proceeding would be included in BPA’s administrative record filed with the court. BPA will explore criteria with customers concerning whether the Administrator’s interpretations will be effective during the pendency of the process with the third-party neutral.

XII. NEW LONG-TERM CONTRACTS

A. TIMING OF REGIONAL DIALOGUE CONTRACTS

BPA intends to offer contracts to all customers at the same time. BPA intends to offer Regional Dialogue contracts to public utilities in August 2008, or as close as possible thereafter. Power service under these contracts is expected to begin in October 1, 2011, after existing Subscription contracts expire. Beginning service in FY 2011 will avoid the inconsistencies and costs associated with concurrent administration of Subscription contracts for some customers and Regional Dialogue contracts for others. Execution of the contracts nearly three years before service begins will also allow time for both BPA and customers to plan for their post-2011 power resource needs.

B. CONTRACT TERMS AND CONDITIONS

1. Duration of Contracts

BPA will offer 20-year Regional Dialogue power sales contracts. BPA will not offer an option of staggered contract durations (e.g., 10- and 20-year contracts). The certainty provided by 20-year contracts is needed to promote customers' electric infrastructure development. Contracts of a shorter duration, including staggered contracts, would decrease this certainty.

2. Duration of Power Service

The duration of power service under the Regional Dialogue contracts will be 17 years rather than the full 20-year duration of the contract. The starting date of the 20-year period is the date the contract is signed, and is not the date power service begins under the contract. Contracts will be binding for their term and will not include off ramps that allow for early terminations.

3. Standard Contracts

BPA will develop standardized Regional Dialogue power sales contracts with customers and provide a limited period for customer consideration of contract offers. Contract provisions will be identical for customers taking the same or similar services.

BPA will develop standard contracts in two phases. First, standard contract templates will be developed and refined in consultation with customers. A standard template will be created to reflect each product offered. These standard contract templates will be released for public review and comment, and BPA will then finalize the templates. Second, a "window" or time period for customer product/contract selection between individual customers and BPA will be provided to take into account individual utility service circumstances and allow time for contract finalization and signature. Changes to the standard contract prototype provisions will be limited to issues that are unique to a customer (generally resource issues, metering information, etc.).

BPA will use most of the provisions of the current Subscription contracts as the starting point for drafting the Regional Dialogue contracts, with some changes in contract language to reflect changes in policy, products and improved business practices.

4. Loads and Resource Information Requirement

To help BPA minimize the cost of achieving its goals for conservation and renewable resources and to help implement regional resource adequacy standards, new contracts will require customers to annually provide basic information on their loads and resource plans for the next 10 years. This will include an assessment by each customer of the consistency of the customer's planned resource additions with the Regional Council's latest Power Plan. A utility that is required by state law to produce an integrated resource plan that includes this information can use that plan to meet this contractual requirement. BPA will produce load and resource information for customers who certify that they plan to rely on BPA for their additional power needs during the 10-year period.

In addition to this planning information, BPA's contracts will require specific information necessary to implement the contract such as historic data needed for load forecasting and resource information needed for net requirements purposes. These specific requirements will be developed during the next phase of the Regional Dialogue

5. Resource Planning Provision for Follow-on Contracts

BPA will clarify in contract development and negotiations its customer utilities' resource planning obligations for the last few years of the 20-year Regional Dialogue contract, such as how the notice and purchase commitments will operate during the last years (or beyond) of the contract.

6. Single Contract for Requirements Service

BPA will offer a single contract for net requirements load service that may apply to both Tier 1 and Tier 2 service.

XIII. ENVIRONMENTAL ANALYSIS

BPA has reviewed this final Policy for environmental considerations under the National Environmental Policy Act (NEPA) in a NEPA ROD that has been prepared separately from the Administrator's ROD prepared for this Policy. The following provides a summary of the environmental review contained in the NEPA ROD.

BPA has reviewed each of the individual policy issues, as well as the potential implications of these issues taken together. For some issues, there are no environmental effects resulting from the implementation of the Policy for that issue, and thus NEPA is not implicated. For other issues, the Policy is merely a continuation of the status quo, and NEPA is not triggered.

For the remaining policy issues, any environmental effects resulting from these policy issues have already been addressed in the Business Plan Final Environmental Impact Statement, DOE-EIS-0183, June 1995 (Business Plan EIS). The Business Plan EIS was prepared to support a number of BPA decisions including the products and services BPA will market, rates for BPA's products and services, policy direction for BPA's sale of power products to customers, contract terms BPA will offer for power sales, and plans for BPA resource acquisitions and power purchase contracts. Upon a review of the Business Plan EIS, implementation of the remaining policy issues of the final Policy would not result in significantly different environmental effects from those described in this EIS. Furthermore, BPA's decisions for these policy issues are adequately covered within the scope of the Market-Driven Alternative identified and evaluated in the Business Plan EIS and adopted by BPA in the August 15, 1995, Business Plan ROD.

Taken as whole, BPA's Long-Term Regional Dialogue Policy could be viewed as representing a change in BPA's overall policy for how it conducts its business. From an environmental standpoint, however, the final Policy does not deviate significantly from BPA's already adopted policies for its power supply role in the region. In fact, the final Policy represents a direct application of BPA's earlier decision to use a Market-Driven approach, consistent with its statutory responsibilities, for participation in the electric power market in the region. Furthermore, this final Policy does not present potential environmental impacts that are substantially different from those already described and analyzed in the Business Plan EIS and other NEPA documentation previously prepared by BPA.

BPA recently completed a review of the Business Plan EIS and ROD through a Supplement Analysis to the Business Plan EIS. The Supplement Analysis, which was issued in March 2007, was prepared to assess whether the Business Plan EIS still provides an adequate evaluation, at a policy level, of environmental impacts that may result from BPA's current business practices, and whether these practices are still consistent with the Market-Driven Alternative adopted in the Business Plan ROD. Changes that have occurred in the electric utility market and the existing environment were evaluated as part of the preparation of the Supplement Analysis, and developments that have occurred in BPA's business practices and policies were considered. The Supplement Analysis found that the Business Plan EIS's relationship-based and policy-level analysis of potential environmental impacts from BPA's business practices remains valid and that BPA's current business practices are still consistent with BPA's Market-Driven approach. The Business Plan EIS and ROD thus continue to provide a sound basis for making

determinations under NEPA concerning BPA's policy-level decisions, such as BPA's decisions related to the final Long-Term Regional Dialogue Policy.

BPA, therefore, has appropriately decided to tier the NEPA ROD for this final Policy to the Business Plan ROD, as provided for in the Business Plan EIS and Business Plan ROD. Copies of the NEPA ROD for the final Policy are available on BPA's Web site at www.bpa.gov/power/regionaldialogue or by contacting BPA's Public Information Center at (800) 622-4520.