



Department of Energy

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

POWER SERVICES

March 7, 2013

In reply refer to: PS-6

To Regional Customers, Stakeholders, and Other Interested Parties:

On December 18, 2012, the Bonneville Power Administration (BPA) received a letter from Pend Oreille County Public Utility District (Pend Oreille) requesting an early change in its purchase obligation under its Regional Dialogue Power Sales Agreement (Regional Dialogue contract) from the Slice/Block product to the Block product. Pend Oreille states that due to unforeseen expenses and operational difficulties associated with managing its Slice product, it believes the Block product would be a better fit for the utility. Pend Oreille's December 18th letter to BPA is included as Attachment 1. BPA is considering Pend Oreille's request to make an early change in products under its Regional Dialogue contract, and BPA is asking interested parties to provide written comment on this request. Comments must be submitted to BPA by March 22, 2013, and may be emailed to comment@bpa.gov or submitted on the BPA website at www.bpa.gov/comment.

Section 11 of BPA's Regional Dialogue contracts allow customers a one-time right to change their purchase obligation with notice to BPA by May 31, 2016, and with the change in purchase obligation becoming effective on October 1, 2019. Pend Oreille has notified BPA of its request to exercise early its one-time right to change its purchase obligation, and has requested that BPA expedite the effective date to be as soon as practicable. BPA believes the first practical date for such a change in product to be effective is October 1, 2013, to coincide with the Fiscal Year 2014-2015 Rate Period. BPA previously stated in its October 2008 *Long-Term Regional Dialogue Contract Policy Record of Decision* that it would consider requests to change purchase obligations outside of the timing in section 11 on a case-by-case basis as long as it does not shift costs or risks to BPA and its other customers. If BPA grants Pend Oreille's request, Pend Oreille will have exercised its one-time right to change its purchase obligation. The resulting Block contract would not grant Pend Oreille an additional right to change its purchase obligation for the remaining term of its Regional Dialogue contract.

Pend Oreille is requesting to switch to BPA's standard Block product. The Regional Dialogue Block contract template is available on BPA's website at <http://www.bpa.gov/power/pl/regionaldialogue/implementation/documents/#20yrRDcontracts>. Pend Oreille is asking that its Block be shaped monthly in accordance with Pend Oreille's already-determined 2010 monthly shaping factors and delivered flat throughout the month. Pend Oreille's requested shape under the Block product is the same shape as its current Block delivery under its Slice/Block product.

Under Regional Dialogue, approximately 27 percent of the output of the BPA's "Tier 1" federal-based system is sold as the Slice Product. Pend Oreille's Slice percentage is 0.18549 percent. This equates to around 13 average megawatts on a planned basis, and is the smallest of all of BPA's Slice customers' Slice percentages. Additionally, as discussed above, there would be no change to the shape of Pend Oreille's Block delivery. BPA has done an extensive rate and risk analysis of Pend Oreille's request to change to the Block product. Based on the above factors, BPA has determined that if Pend Oreille were allowed to convert to the Block product in October 2013 any cost shifts or risks to BPA and its other customers are *de minimis*. As a result, BPA does not propose to assess any charges to Pend Oreille per section 11.1.3 of its Regional Dialogue contract. A summary of BPA's analysis is included as Attachment 2.

If permitted, Pend Oreille's change from the Slice/Block product to the Block product would result in 0.18549 percent of unallocated Slice product. In accordance with section 11.1.5 of the Load Following Regional Dialogue contract, BPA intends to reserve this unallocated Slice percent for Load Following customers that may exercise their one-time right to change their purchase obligation and that request a change to the Slice/Block product. BPA will consider reallocating any remaining unallocated Slice after May 31, 2016, when all requests to make a change in purchase obligation have been received by BPA.

BPA has not received any other requests from customers for an early change in purchase obligation under BPA's Regional Dialogue contracts. Any such requests would be considered on a case-by-case basis.

If you have any questions, please contact your Account Executive or me at (503) 230-7640.

Sincerely,

/s/ Mark O. Gendron

Mark O. Gendron
Vice President
Northwest Requirements Marketing



Pend Oreille County Public Utility District

Administrative Offices - P.O. Box 190 • Newport, WA 99156 • (509) 447-3137 • FAX (509) 447-5824
Box Canyon Hydro Project - P.O. Box 547 • Ione, WA 99139 • (509) 446-3137 • FAX (509) 447-6790

December 18, 2012

Nancy Schimmels
Account Executive
Bonneville Power Administration
707 West Main Ave., Suite 500
Spokane, WA 99201

Subject: Request to Change Regional Dialogue Power Sales Agreement
Product from Slice/Block to All Block

Dear Nancy,

Background / History

In 2008 the District and BPA signed a Slice/Block Regional Dialogue Power Sales Agreement. Under this long-term agreement, the District's Slice share is 0.18549 percent¹ and Block amount is about 15.6 aMW. Since that time, BPA and its Slice/Block customers worked diligently and cooperatively to develop the intricate details of the Slice product and its related management obligations.

It was not until late summer of 2012, when BPA's Slice application began to mature, that the District was able to begin to understand the new Slice product's capability and the resultant impact of Slice power deliveries. Because of the District's uniquely small Slice percentage we found that making a relatively insignificant change in our Slice delivery requires making a very large change at the Slice System level. For example, making a 5 MW change to our Slice delivery requires a 2,700 MW change in the Slice system. We understand that in actuality, BPA can, on occasion, move the entire system on the order of 2,700 MW, but does so over a period of about a day. The District's small Slice percentage increases the risk that we will be unable to effectively operate the Slice product within the contractual restraints of the Federal System. This limited flexibility greatly reduces the material value of the Slice product, and yet we will incur significant overhead administrative costs to implement and operate the Slice product within the parameters required by the Slice agreement.

¹ This Slice percentage is significantly smaller than the 0.38190 percent Slice amount that the District operated in the previous Subscription Power Sales Agreement. This reduction in the Slice percentage was a result of our increase in Boundary power purchases in 2005 and the proper re-allocation of power purchased between Slice and Block that was part of the TRM and Regional Dialogue power sales agreement negotiation processes.

Based upon firm vendor proposals, the District will need to spend more than a half-million dollars in the first year of Slice operation and at least a quarter-million dollars (escalating) every year thereafter to interface with BPA's Slice application. In addition, significant ongoing internal staff efforts will be required to make this vendor's product usable by our existing power management systems and to assist in the resolution of Slice operating issues that are expected to arise. The District has come to believe our limited Slice flexibility and small percentage does not justify the high overhead administrative costs to operate our Slice product.

Pend Oreille County's economy is in the lower one-third of Washington State counties. The County has a population of 13,100 with a per capita income of only \$29,426 versus a state wide average of \$42,589. Current year unemployment has been as high as 13 percent (improved over the 14.5 percent unemployment in 2009). Nearly 80 percent of the District's retail sales are to Ponderay Newsprint Company (PNC). At 175 people, PNC is the county's third largest employer behind our hospital and the Kalispel Tribe. PNC is a key and vital aspect to our local economy. With electricity being a material cost of PNC's operation, it is important that the District keep its costs as low as possible to allow PNC to be competitive in the newsprint market. PNC is fully supportive of the District's conclusion that switching from Slice/Block to all Block will be less costly and bring greater stability to power supply costs.

District Request

Given this situation, the District is hereby requesting that BPA change our Regional Dialogue Power Sales Agreement from Slice/Block to entirely Block and wishes to negotiate the details of this change with BPA. The District requests that the Block be shaped monthly and delivered flat throughout the month. Our understanding is that this is a BPA standard product offering.

The District does understand that this requested change must be made by mutual agreement and that BPA will conduct a public process before it can make a final decision on our request. Operationally, the District is willing and able to make the change from Slice to Block immediately. However, we understand that BPA's decision making processes will take some time to complete. It is our preference that the process be designed to conclude during the first quarter of 2013.

At the present time the District is operating under section 5.10.5 of the Slice/Block Agreement. Until such time as BPA has addressed this request to switch products, it is the District's intention to continue operating under section 5.10.5 and discontinue its efforts to fully implement the Slice product. The District is hopeful any associated Slice management penalties can be forgiven, provided such penalties remain relatively immaterial to both parties, and provided that the District uses its best efforts to manage the Slice product under 5.10.5.

The District very much appreciates the effort that BPA must undertake in addressing this request. On behalf of all the people who make Pend Oreille County their home, District leadership wishes to thank BPA for helping maintain our local economy. We look forward to working with you and other BPA staff in the future.

Warm Regards,

A handwritten signature in black ink, appearing to read "John Jordan". The signature is fluid and cursive, with the first name "John" being more prominent than the last name "Jordan".

John Jordan
General Manager

cc: Mark Gendron/BPA Portland
Steve Oliver/BPA Portland
Loren Baker/Loren Baker Consulting

Attachment 2: Pend Oreille Block Conversion Rates Analysis

Conversion of Pend Oreille from the Slice/Block product to the Block product for the BP-14 rate period has a *de minimis* impact on rates to non-Slice customers. BPA updated the BP-14 Initial Proposal rates models (RAM and RevSim) with assumptions for loads, Slice percentages, and Tiered Rates Methodology billing determinants and calculated the BP-14 proposed rates under the assumption that Pend Oreille was allowed to convert to the Block product. The revised net secondary sales distribution, combined with revenues under the proposed rates, was then used to create a distribution of total net revenues. This was run through Tool Kit to evaluate the effect on the Treasury Payment Probability (TPP) and the likelihood of needing to invoke the Cost-Recovery Adjustment Clause (CRAC). The results showed:

- No change in the effective rate to non-Slice customers (at \$32.41 per MWh), because higher net secondary revenue credits were spread over slightly higher sales to non-Slice customers.
- A small decrease in the Composite Customer Charge, leading to a small decrease in the Slice rate for firm energy (from \$37.83 to \$37.81 per MWh). There was no change to the amount of anticipated secondary energy delivered to the remaining Slice customers.
- A small increase in the “width” of the net secondary sales distribution across 3200 games. The standard deviation of the distribution increased by an annual average of less than \$550,000 over the rate period.
- This increase in the width of the net secondary distribution has no impact on TPP, nor the likelihood of a CRAC.