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April 3, 2008

MEMORANDUM

TO: Power Committee

FROM: Bill Hannaford
Terry Morlan

SUBJECT: Briefing on Bonneville Regional Dialogue Implementation and Other Rate and Contract Processes

There are several important processes underway at Bonneville that are directly or indirectly related to the implementation of the Regional Dialogue Policy. The Regional Dialogue Policy, as well as two critical Ninth Circuit decisions from last year, have important implications for how Bonneville interacts with its utility customers. Central to this changed relationship is a reduction in Bonneville's role in new resource acquisition and an effort to expose public utilities to the cost of new resources needed to serve their customers' growing demands. This change in direction will realize one of the key recommendations regarding Bonneville in the Council's Fifth Power Plan as well as a central recommendation in the 1996 Comprehensive Review of the Northwest Power System.

These changes must be implemented through a tiered rates methodology rate case, new power sales contracts for Bonneville's public utility customers, a rate case bringing Bonneville's residential exchange program into line with the requirements of the Northwest Power Act, and eventually a process to set rates for the post-2011 period, when the new contracts take effect. An intensive process is continuing to develop the details of the new power sales contracts and the tiered rate methodology.

At the same time there are other formal processes underway at Bonneville, which may only indirectly be related to the implementation of the Regional Dialogue Policy. These include a process to set rates for wind integration services, a process to determine costs that must be recovered by rates in the 2010-11 period, a process to determine rates for the 2010-11 period, and, as mentioned, a process to modify rates for the 2007-09 period to conform with recent court rulings invalidating the residential power exchange settlements.

Although the Council is not typically involved extensively in these formal legal proceedings between Bonneville and its customers, staff has been following the progress of these activities. We do not intend to become involved in the details of the rate cases or contract development.

But we do intend to track the progress of these proceedings to ensure the key policy initiatives are indeed being implemented. Bill Hannaford, Leann Bleakney, and Howard Schwartz have been serving this role, and you have seen their regular reports. At the Power Committee meeting in Boise you will receive a brief report on these processes.

A more detailed description of these processes and their current schedules is attached for your information.

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MEMORANDUM

TO: Power Committee

FROM: Bill Hannaford

SUBJECT: Schedules for Bonneville Processes

Implementation of the Regional Dialogue and Bonneville's reaction to the Portland General Electric v. Bonneville and Golden Northwest Aluminum Co. v. Bonneville decisions that the Ninth Circuit handed down in May of last year have a number of working parts, some of which are closely interrelated. What follows is a brief outline of the various proceedings, including dates that are current as of today. Experience shows that these schedules often change.

1. Tiered rate methodology (TRM) rate case.

- A. Preliminary work on the TRM has been underway since August 1, 2007 in the regional dialogue workshops and will continue over the next six weeks, or so.
- B. The formal TRM 7(i) rate case is set to open on April 11, 2008 with the publication of the initial proposal in the Federal Register. The case is set to conclude on July 31, 2008.

2. The Supplemental WP-07 Rate Case. This case is intended to determine Bonneville's long-term Regional Exchange Program, Bonneville's overpayments to exchanging utilities for 2002-2008, as well as power rates for 2009. Bonneville determined that its the rates for 2007-2008 rate period suffered from the same defects as the 2002-2006 rates that the Ninth Circuit remanded to Bonneville in the Golden Northwest decision last year.

- A. The Federal Register notice for the Supplemental WP-07 rate case, including the Average System Cost Methodology proposal was published Friday, February 8, 2008. Note: The Average System Cost Methodology is a separate, but concurrent, proceeding. The Act requires Bonneville to consult with the Council, among others, in developing this methodology. Bonneville made a presentation at the Power Four in Portland on February 12, 2008 and invited the Council to consider how it wishes to pursue this consultation process. Bonneville anticipates concluding development of this methodology on May 2, 2008.

- B. The WP-07 Supplemental Proceeding also includes proposed revisions to Bonneville's Section 7(b)(2) Legal Interpretation and Section 7(b)(2) Implementation Methodology. Staff is currently reviewing these documents and will brief the Power Four in the future.
- C. It should be noted that a number of issues have been expressly excluded from the WP-07 rate case. Program level expenses forecasts and commitments are determined in other fora and the Administrator has directed the rates Hearing Officer to exclude any materials or arguments attempted to be submitted regarding Columbia Generating Station, fish and wildlife costs, or any other program categories. Near-term policy decisions in the areas of the availability of the lowest cost PF rate to public agency customers, the term of the rate period, DSI service options, and the availability of products for new or existing customers are also out of bounds. So also DSI service, transmission issues, the post-2006 conservation program structure proposal, federal and non-federal debt service and debt management issues, the Average System Cost methodology, as well as any potential environmental impacts that might result from the rates being developed in this rate case. The staff will brief the Power Four in the near future on the other proceedings in which these issues have been or will be determined.
- D. The rate case is scheduled to conclude on July 31, 2008.

3. The offering and signing of power sales contracts. This ongoing process involves many issues that have been discussed in the regional dialogue workshops. Some discrete components are the following:

- A. Draft and negotiate product and rate-related contract provisions for slice, block and load-following contract templates. December 1, 2007 through January 31, 2008. The templates will be released for public review in April 2008.
- B. Revise the 5b/9c policy, take public comment and develop record of decision. The proposed policy was to have been released on January 28, 2008, but has been delayed. Comment was to have run through February 29, 2008. New dates will be announced soon.
- C. Finalize draft IOU, DSI, and public contract templates, including dispute resolution. February 1, 2008 through March 31, 2008. The DSI contract template will not be available until later.
- D. Allow for public comment on the templates. April 1, 2008 through May 14, 2008.
- E. Finalize all templates. May 15, 2008 through July 31, 2008.
- F. Offer contracts for signature. August 1, 2008 through December 1, 2008.

4. The rate case for the next rate period, 2010-11, will be in two parts.

- A. The cost determination proceeding, which is called the Integrated Business Review, will begin in May 2008. This will be a review of program and capital expenses in anticipation of the 2009 rate case. Preliminary rate case workshops will begin this summer.

B. The rate case itself will begin with publication of the initial proposal in January 2009.

5. The WI-09 Wind Integration Rate Case began this month.

A. The Federal Register notice of the initial Wind Integration proposal was published on February 7, 2008. Ex parte restrictions began with publication of the proposal.

B. Bonneville anticipates concluding this rate case on July 28, 2008.