

2008 Final Transmission Proposal

Administrator's Record of Decision

TR-08-A-01

April 2007



BONNEVILLE POWER ADMINISTRATION
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1.0 PROCEDURAL HISTORY

1.1 Introduction

This record of decision contains the decisions of the Administrator of the Bonneville Power Administration (BPA) establishing transmission and ancillary services rates for the two-year rate period beginning October 1, 2007, and ending September 30, 2009 (fiscal years (FY) 2008-2009) (2008 Final Transmission and Ancillary Services Rate Proposal). These decisions are based on the record compiled in this rate proceeding. The transmission and ancillary services rates established herein are the rates proposed as a result of a comprehensive settlement agreement between BPA's Transmission Services organization (TS) and a diverse group of transmission customers, including BPA's Power Services organization (PS), regional investor-owned utilities, BPA's partial and full requirements wholesale power customers, power marketers and merchant generators. The decision to adopt the rates and charges proposed by the settlement agreement is not intended to create or imply any factual, legal, procedural or substantive precedent, or to create agreement to any underlying principle or methodology.

1.2 Procedural History of the Rate Proceeding

BPA's 2008 Transmission Rate proceeding was preceded by several public processes that together formed the basis for the 2008 Final Transmission and Ancillary Services Rates adopted herein. These processes are described below.

1.2.1 Other Proceedings

1.2.1.1 2007 Power Rate Case

A number of issues that affect the 2008 Final Transmission and Ancillary Services Rates were addressed in BPA's 2007 Power Rate Case. On July 17, 2006, the Administrator established wholesale power rates for the period October 1, 2006, through September 30, 2009. The Federal Energy Regulatory Commission (Commission) granted interim approval of the 2007 Power rates on September 21, 2006. *See* 116 FERC ¶61,264.

In the 2007 Power Rate Case, the following inter-business line issues were decided:

- the costs for generation inputs for ancillary services, including operating reserves, regulating reserves, and energy and generation imbalance;
- the generation costs of station service and remedial action schemes allocated to transmission;
- the allocation of the transmission costs of generation integration and generator step-up transformers to power revenue requirements associated with the Federal system resources;

- BPA's 2007 power rates will not include \$20.4 million in each of FY 2008 and FY 2009, as revenue from TS for generation supplied reactive power (GSR) inside the band;
- TS will continue to pay PS \$4.464 million in each FY 2008 and FY 2009 for synchronous condensers; and
- TS will compensate PS for operating reserves at a unit price of \$5.63/kW per month.

See Chapter 7.0 Transmission and Inter-Business Line Issues, Administrator's Final Record of Decision, WP-07-A-02, at 7-1 through 7-21.

Those decisions are not revisited here. The decisions made in the 2007 Power Rate Case are incorporated into the revenue requirement studies and documentation supporting the 2008 transmission and ancillary services rates adopted herein. *See* Revenue Requirement Study, TR-08-FS-BPA-01, at Chapter 2; and Documentation for the Revenue Requirement Study (Documentation), TR-08-FS-BPA-01A, at 2-2.

On March 1, 2007, BPA filed a motion to stay the Commission's review of BPA's 2007 Power Rates until September 4, 2007. BPA requested the stay to reopen the 2007 Power Rate Case, if necessary, to correct the calculation of BPA's average system cost (BASC), which is a factor used in implementing a formula power rate. The supplemental proceeding is limited to correcting the BASC and would not provide the opportunity to revisit any other decisions reached in the Administrator's Final Record of Decision adopting the 2007 Power Rates, including decisions on the preceding inter-business line issues.

1.2.1.2 Programs in Review Meetings and Workshops

In spring and summer 2006, TS provided opportunities for public participation and input on transmission program cost levels through the Programs In Review (PIR) public process. PIR opened on May 10, 2006, with a widespread notification by electronic mail to TS's customers and interested parties of meeting dates and topics. Notices were also published on TS's external website. During the PIR process, BPA conducted five public meetings around the region in May and June 2006 and provided a separate briefing to the Affiliated Tribes of the Northwest Indians. At these meetings TS discussed and solicited input on future capital investments in the transmission system and proposed expense levels for transmission system development, operation, and maintenance for FY 2008-2009. A total of 64 entities, including customers and other interested parties, attended the regional meetings. BPA held an additional technical workshop in July 2006 to discuss information regarding the transmission capital program.

These workshops were interactive and provided customers the opportunity to receive answers to their detailed questions. The customers submitted additional written questions after the workshops, to which BPA staff responded in writing. TS also provided

informational materials through direct mailings, electronic mailings, and publication on TS's external website. Meeting and workshop participants provided substantial oral and written comments with regard to BPA's planned transmission capital spending and program expenditures.

The PIR meetings and workshops explored customer and interested parties' views on priorities for transmission investment and sources of capital for transmission infrastructure, as well as pressures due to (1) stricter enforcement of capitalization policies that result in more cost pressures on expenses; (2) new regulatory requirements; (3) delays in non-electric plant maintenance due to budget constraints; (4) efforts to manage a constrained transmission system; (5) maintenance of a skilled and trained workforce; and (6) right-of-way management. TS accepted written and oral comments on proposed transmission capital spending and expenses through September 7, 2006. Customers participating in the PIR process asked to be more involved in BPA's capital review process. Other comments sought input on regional transmission planning, expansion and maintenance practices. On November 22, 2006, BPA shared revised program levels with customers and interested persons, and allowed an additional two-week comment period. On January 26, 2007, I issued a letter summarizing the issues raised during PIR, and my decisions regarding programs and program level expenditures for FY 2008-2009. *See* Revenue Requirement Study, TR-08-FS-BPA-01, Appendix B (PIR Close-out Letter). Those capital and program level expenditures are reflected in the revenue requirements, including repayment studies, in the transmission and ancillary services rate proposal, and in this record of decision. Revenue Requirement Study, TR-08-FS-BPA-01, at 7-8.

1.2.1.3 Rate Case Workshops

In preparation for the 2008 Transmission Rate Case, TS held three public rate case workshops with BPA's transmission customers and interested parties on July 27, August 16, and October 3, 2006. TS published notices for all three workshops, which were well attended. During the workshops, TS presented and discussed detailed information about costs, revenue forecasts, transmission products, pricing, and rate design. Customers and interested parties had adequate opportunity to participate, raise issues and ask questions and comment on the information that TS presented. At the workshops, the customers approached BPA about settlement of the 2008 rate case. Metcalf and Parker, TR-08-E-BPA-03, at 2.

1.2.1.4 NEPA Compliance

BPA has assessed the potential environmental effects associated with the 2008 Transmission and Ancillary Services Rate Proposal, consistent with the National Environmental Policy Act (NEPA), 42 U.S.C. § 4321 *et seq.* The NEPA analysis is conducted separately from the formal rate process. Comments raising environmental issues that are received as part of the formal rate process, if any, are evaluated by BPA's environmental staff in the separate NEPA analysis for the rate proposal. No comments were received, including comments raising environmental concerns. Section 5 provides a discussion of BPA's NEPA analysis for the 2008 transmission and ancillary services rate proposal.

1.2.2 Settlement Discussions

1.2.2.1 Settlement Negotiations

At the rate case workshops, customers suggested that BPA and the customers should explore the possibility of settling the rate case. On October 13, 2006, TS met with customers to identify issues for settlement discussions. During October and November, TS published notice of the settlement discussions and related documents on TS's website and met with customers and interested parties to negotiate a settlement of the proposed 2008 transmission and ancillary service rate levels and resolution of other significant issues. These settlement discussions were held on October 20, October 23, October 30, November 6, November 13, November 20, and November 28, 2006. TS provided customers and interested parties adequate opportunity to raise issues and participate in and comment on the settlement process, in general, and the terms of the Settlement Agreement as negotiations occurred. TS arranged a telephone bridge to provide customers and interested parties the opportunity to monitor and participate in meetings by telephone.

At the settlement negotiations certain parties were regular or frequent attendees and actively participated in negotiating the proposed transmission rates and settlement agreement terms and conditions. Other parties attended the settlement discussions intermittently to comment on issues and areas of direct concern to their interests. Draft settlement agreements were periodically circulated and posted on TS's website for review and comment.

1.2.2.2 Settlement Agreement

TS and all of the parties that attended the negotiation sessions reached agreement on the proposed rate levels and other issues, and the terms were incorporated into the jointly developed Settlement Agreement. The Settlement Agreement is appended to this record of decision as Appendix A. On November 30, 2006, TS posted the negotiated Settlement Agreement on TS's website and sent the agreement to TS's transmission customers and to customer umbrella organizations by electronic mail. As part of the Settlement Agreement, TS agreed to submit an Initial Proposal that reflected the agreed upon terms.

TS indicated that it would decide whether to proceed with the Initial Proposal outlined in the Settlement Agreement based on the executed agreements it received by January 5, 2007. TS further indicated that it would execute the Settlement Agreement if, based on such signed agreements, it concluded that sufficient consensus supporting the Settlement Agreement existed. By January 5, 2007, over 120 transmission customers or customers represented by customer groups signed or indicated they would sign the Settlement Agreement. The Settlement Agreement signatories comprise a diverse group of BPA's transmission customers, including PS, regional investor-owned utilities, BPA's partial and full requirements wholesale power customers, and some power marketers and merchant generators. For a list of the Settlement Agreement signatories, see Appendix A at 19-21. TS executed the Settlement Agreement on January 12, 2007. Metcalf and Parker, TR-08-E-BPA-03, at 2.

1.2.3 Formal Proceedings

1.2.3.1 Initiating and Conducting the Formal Proceeding

Section 7(i) of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act) requires that BPA's wholesale power and transmission rates be established according to certain procedures. 16 U.S.C. § 839e(i). These procedures include, among other things, issuance of a Federal Register notice announcing the proposed rates; one or more hearings; the opportunity for interested parties to participate and comment on BPA's rate proposal and to submit written views, supporting information, data, questions, and arguments; and a decision by the Administrator based on the record. The proceeding is governed by BPA's rules for general rate proceedings, §1010.9 of the *Procedures Governing Bonneville Power Administration Rate Hearings*, 51 Fed. Reg. 7611 (1986) (Procedures). These Procedures implement the statutory section 7(i) requirements. The 2008 transmission rate proposal is a proposal made by BPA's Transmission Services organization. BPA's Standards of Conduct do not permit preferential access by PS to information on BPA's transmission and ancillary services pricing. PS, therefore, was a party to the transmission rate proceeding, with all of the rights and responsibilities of a party in the rate proceeding, including prohibition of *ex parte* communications. *See* Procedures § 1010.7. In a notice dated February 1, 2007, TS advised customers and interested parties of the commencement of the *ex parte* rule effective as of February 1, 2007.

On February 5, 2007, BPA published notice of the 2008 Transmission Rate Case and the public hearing and comment process in the Federal Register which described the Settlement Agreement and proposed rates, stated the justification and reasons for the proposal, and listed dates for the hearing. *See 2008 Transmission Rate Case; Public Hearing and Opportunities for Public Review and Comment* (Federal Register Notice), 72 Fed. Reg. 5283 (2007), TR-08-FR-01. The notice included a schedule that set the prehearing conference and filing of BPA's Initial Proposal Direct Case on February 14, 2007, and the proposed deadline for filing objections to the Initial Proposal on February 21, 2007. The notice also set the deadline for filing non-party written comments as March 16, 2007.

The formal rate proceeding began with the prehearing conference on February 14, 2007. At the prehearing conference, TS distributed its Initial Proposal to the parties. As contemplated by the Federal Register notice, TS proposed a limited hearing schedule until it was determined whether anyone that had not signed the Settlement Agreement would file an objection. *Id.* at 5284. At the prehearing conference, the Hearing Officer established the following schedule: February 20, 2007—Clarification; February 21, 2007—Objections to Initial Proposal Due; February 26, 2007—Scheduling Conference; April 30, 2007—Record of Decision. The schedule provided interested parties an adequate opportunity to review and comment on the Settlement Agreement and BPA's rate proposal. Parties wishing to engage in clarification had to notify TS of their intent to do so by 5 p.m. on February 16, 2007. Further, parties had to file a notice of objection to the Initial Proposal by February 21, 2007, or they otherwise waived their rights to challenge the Initial Proposal. *See* Order Establishing Interim Schedule, TR-08-O-06.

February 21, 2007 was also the date proposed for such objections in the Federal Register Notice. *See* Federal Register Notice, TR-08-FR-01 at 5284.

No party asked for clarification of the TS witnesses, and clarification was cancelled. *See* February 16, 2007 Electronic mail from Hearing Officer, TR-08-C-01. In addition, no party objected to the Initial Proposal. Because no party objected to the Initial Proposal, the scheduling conference was cancelled and no dates were established for filing testimony by the parties or for cross-examination. *See* February 23, 2007 Electronic mail from Hearing Officer, TR-08-C-05. No non-party submitted written comments to BPA. The date for issuing the record of decision remained April 30, 2007.

This record of decision establishing the proposed 2008 Final Transmission and Ancillary Services Rates will be filed with the Commission. The Commission will review the proposed rates for conformance with statutory standards, and if the rates are confirmed and approved by the Commission, they will go into effect on October 1, 2007, for a two year period.

1.2.3.2 Opportunity to Participate in the Settlement Process and Comment on Settlement Agreement

Prior to the 2008 Transmission Rate hearing, the Settlement Agreement was negotiated in open forums to which BPA's transmission customers and interested parties were invited. TS published and distributed notice of all meetings and documents to allow any interested transmission customers and other entities to participate in the settlement discussions and express any concerns regarding the settlement process or the terms of the settlement. For more detail, see section 1.2.2.1, above.

TS provided all transmission customers and interested parties the opportunity to participate in the settlement discussions and to comment on or propose terms for settlement. The discussions described in section 1.2.2.1 resulted in the Settlement Agreement, which BPA offered to customers and customer representatives participating in the discussions and to BPA's other transmission customers and interested parties, on November 30, 2006. By January 5, 2007, a diverse group of over 120 transmission customers or customers represented by customer groups signed or indicated they would sign the Settlement Agreement. *See* Appendix A at 19-21. In addition, the February 5, 2007, Federal Register Notice announced a proposed date, February 21, 2007, for parties to file objections to the Initial Proposal, which was based on the Settlement Agreement. That date was confirmed by the Hearing Officer at the prehearing conference on February 14, 2007. Clarification was scheduled for February 20, 2007, so that parties had an opportunity for discovery before deciding whether to object. Three of the parties who intervened in the 2008 Transmission Rate Case did not sign the Settlement Agreement. None of these parties filed or raised any objections to the Initial Proposal. As no objections were raised, no further formal proceedings were scheduled. In addition, no non-party entities filed written comments on the Initial Proposal. The Initial Proposal is established as the Final Transmission and Ancillary Services Rate Proposal.

1.3 Legal Guidelines Governing Establishment of Rates

1.3.1 Statutory Guidelines

The Northwest Power Act (Act) sets forth various rate directives for BPA to follow in establishing rates. Section 7 of the Act directs the Administrator to establish, and periodically review and revise, rates for the sale and disposition of electric energy and capacity and for the transmission of non-Federal power. 16 U.S.C. § 839e(a)(1). Rates are to be set to recover, in accordance with sound business principles, the costs associated with the acquisition, conservation, and transmission of electric power, including amortization of the Federal investment in the Federal Columbia River Power System (including irrigation costs required to be repaid by power revenues) over a reasonable period of years. *Id.*

Section 7(a)(2) of the Act sets forth the overall guidelines to be used in establishing rates. Under section 7(a)(2), rates are effective upon confirmation and approval by the Commission upon a finding by the Commission that the rates:

- are sufficient to assure repayment of the Federal investment in the Federal Columbia River Power System (FCRPS) over a reasonable number of years after first meeting the Administrator's other costs;
- are based upon the Administrator's total system costs; and
- insofar as transmission rates are concerned, equitably allocate the costs of the Federal transmission system between Federal and non-Federal power utilizing such system.

Section 7 also includes rate directives the Administrator is to use in establishing rates for particular customer classes. Finally, section 7 establishes procedural guidelines to be used when developing rates. These include publication of notice of the proposed rates in the Federal Register, a hearing before a hearing officer, and an opportunity to submit oral and written comments and to refute or rebut other material submitted for the record. 16 U.S.C. § 839e(i). BPA has expanded on these statutory directives by promulgating rules of agency procedure to aid in the conduct of rate hearings. 51 Fed. Reg. 7611 (1986).

In addition to the Northwest Power Act, the Flood Control Act of 1944 (Flood Control Act) and the Federal Columbia River Transmission System Act (Transmission System Act) include various rate directives. 16 U.S.C. §§ 825s and 838. Section 9 of the Transmission System Act provides that rates shall be established: (1) with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates consistent with sound business principles; (2) with regard to the recovery of the cost of producing and transmitting electric power, including amortization of the capital investment allocated to power over a reasonable period of years; and (3) at levels that produce such additional revenues as may be required to pay when due the principal,

premiums, discounts, expenses, and interest in connection with bonds issued under the Transmission System Act. 16 U.S.C. § 838g. Section 10 of the Transmission System Act allows for uniform rates and specifies that the costs of the Federal transmission system be equitably allocated between Federal and non-Federal power utilizing the system. 16 U.S.C. § 838h.

The Flood Control Act contains ratemaking requirements similar to those in the Transmission System Act. Section 5 of the Flood Control Act directs that rate schedules should encourage the most widespread use of power at the lowest possible rates to consumers consistent with sound business principles. 16 U.S.C. § 825s. Section 5 also provides that rate schedules should be drawn having regard to the recovery of the cost of producing and transmitting electric energy, including the amortization of the Federal investment over a reasonable number of years.

In addition, Section 212(i) of the Federal Power Act sets forth additional ratemaking requirements applicable to BPA for transmission rates in connection with transmission service ordered by the Commission. 16 U.S.C. § 824k(i). Section 211A of the recently enacted Energy Policy Act of 2005 also provides authority for the Commission to, by rule or order, require unregulated transmitting utilities to provide transmission service at rates that are comparable to those that the unregulated transmitting utility charges itself. 16 U.S.C. § 824jA.

1.3.2 The Administrator's Broad Ratemaking Discretion

The Administrator has broad discretion to interpret and implement statutory standards applicable to ratemaking. These standards focus on cost recovery and do not restrict the Administrator to any particular rate design methodology or theory. *See Pacific Power & Light v. Duncan*, 499 F. Supp. 672 (D.C. Or. 1980); *accord City of Santa Clara v. Andrus*, 572 F.2d 660, 668 (9th Cir. 1978) (“widest possible use” standard is so broad as to permit “the exercise of the widest administrative discretion”); *Electricities of North Carolina v. Southeastern Power Admin.*, 114 F.2d 1262, 1266 (4th Cir. 1985).

The United States Court of Appeals for the Ninth Circuit has recognized the Administrator's ratemaking discretion. *Central Lincoln Peoples' Utility District v. Johnson*, 735 F.2d 1101, 1120-29 (9th Cir. 1984) (“Because BPA helped draft and must administer the Northwest Power Act, we give substantial deference to BPA's statutory interpretation”); *PacifiCorp v. F.E.R.C.*, 795 F.2d 816, 821 (9th Cir. 1986) (“BPA's interpretation is entitled to great deference and must be upheld unless it is unreasonable”); *Atlantic Richfield Co. v. Bonneville Power Admin.*, 818 F.2d 701, 705 (9th Cir. 1987) (BPA's rate determination upheld as a “reasonable decision in light of economic realities”); *cf. Aluminum Company of America v. Central Lincoln Peoples' Utility District*, 467 U.S. 380, 389 (1984) (“The Administrator's interpretation of the Regional Act is to be given great weight”); *Dep't of Water and Power of the City of Los Angeles v. Bonneville Power Admin.*, 759 F.2d 684, 690 (9th Cir. 1985) (“Insofar as agency action is the result of its interpretation of its organic statutes, the agency's interpretation is to be given great weight”).

1.4 Confirmation and Approval of Transmission Rates

BPA's rates become effective upon confirmation and approval by the Commission. 16 U.S.C. §§ 839e(a)(2). The Commission's review is appellate in nature, based upon the record developed by the Administrator. *United States Dep't of Energy-Bonneville Power Admin.*, 23 F.E.R.C. ¶¶61,157, 61,339 (1980). The Commission may not modify rates proposed by the Administrator, but may only confirm, reject or remand them. *United States Dep't of Energy—Bonneville Power Admin.*, 23 F.E.R.C. ¶¶61,378, 61,801 (1983). The Federal Power Act ratemaking provisions that apply to BPA for Commission-ordered transmission service pursuant to the Energy Policy Act of 1992 did not alter this process. H.R. Conf. Rep. No. 102-1018, 102nd Cong., 2d Sess. 389 (1992), *reprinted in* 1992 U.S.C.C.A.N. 2480. BPA charges the same rates for Federal and non-Federal transmission service, so there is not an issue as to process under the provisions of the recently enacted section 211A.

Under the Northwest Power Act, the Commission reviews BPA's rates to determine whether they: (1) are sufficient to assure repayment of the Federal investment in the FCRPS over a reasonable number of years after first meeting BPA's other costs; (2) are based on BPA's total system costs; and (3) as to transmission rates, equitably allocate the cost of the Federal transmission system between Federal and non-Federal power using the system. 16 U.S.C. § 839e(a)(2); *See also, United States Dep't of Energy—Bonneville Power Admin.*, 39 F.E.R.C. ¶¶61,078, 61,206 (1987). This limited Commission review permits the Administrator substantial discretion in the design of rates, which is not subject to Commission jurisdiction. *Central Lincoln Peoples' Utility District v. Johnson*, 735 F.2d 1101, 1115 (9th Cir. 1984).

Sections 211 and 212(i) of the Federal Power Act authorize the Commission to order transmission providers to provide transmission service upon application by an eligible entity. Section 212(i) of the Federal Power Act contains provisions specifically applicable to the Federal Columbia River Transmission System (FCRTS):

- (1) The Commission shall have authority pursuant to section 824i of this title, section 824j of this title, this section, and section 8241 of this title to (A) order the Administrator of the Bonneville Power Administration to provide transmission service and (B) establish the terms and conditions of such service. In applying such sections to the Federal Columbia River Transmission System, the Commission shall assure that:
 - (i) the provisions of otherwise applicable Federal laws shall continue in full force and effect and shall continue to be applicable to the system; and
 - (ii) the rates for the transmission of electric power on the system shall be governed only by such otherwise applicable provisions of law and not by any provision of section 824i of this title, 824j of this title, this section, or section 8241 of this title, except that no rate for the transmission of

power on the system shall be unjust, unreasonable, or unduly discriminatory or preferential, as determined by the Commission.

16 U.S.C. § 824k(i)(1)(ii).

The Federal Power Act preserved all existing statutory ratemaking standards. In addition, the transmission rates for transmission service ordered by the Commission pursuant to the Federal Power Act must not be unjust and unreasonable or unduly discriminatory or preferential. 16 U.S.C. § 824k(i)(1)(B)(i) and (ii).

The Joint Explanatory Statement of the Committee of Conference reinforces Congress's intent to leave prior law governing BPA intact. The Conference Report makes clear that, except for adding a new standard for Commission-ordered transmission, the amendments to the Federal Power Act did not change the Commission's authority to review BPA's transmission rates:

Rates for transmission services provided by BPA under an order issued under section 211 are to be established by BPA and reviewed by Commission through the same process and using the same statutory requirements as are applicable to all other transmission rates established by BPA, with the additional requirement that such rates for transmission services must also be just and reasonable and not unduly discriminatory or preferential as determined by the Commission, taking into account BPA's other statutory authorities and responsibilities.

H.R. Conf. Rep. No. 102-1018, 102nd Cong., 2d Sess. 389 (1992) reprinted in 1992 U.S.C.C.A.N. 2480 (Conference Report). Thus, the Administrator's rate decisions remain entitled to substantial deference by the Commission.

In its final rule Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Service by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities (Order 888), the Commission included a reciprocity provision applicable to non-public utilities that own, control or operate interstate transmission facilities and that take service under a public utility's open access tariff. FERC Stats. and Regs. ¶¶31,036, 31,760-31,763 (1996). Under the reciprocity provision, non-public utilities may voluntarily submit to the Commission a transmission tariff and a request for a declaratory order that the tariff meets the Commission's comparability (non-discrimination) standards. *Id.* at 31,761. In order to find that a non-public utility's tariff is consistent with the Commission's comparability standards, the Commission must also have sufficient information to conclude that the rates the non-public utility charges itself are comparable to the rates it charges others. *Id.* The Commission retained the reciprocity provisions, in the final rule Preventing Undue Discrimination and Preference in Transmission Service, (Order 890), 72 Fed. Reg. 12266, 12293-12294 (2007).

2.0 SETTLEMENT AGREEMENT

TS proposed 2008 transmission and ancillary services rates that reflect the terms of the Settlement Agreement TS entered into with the parties. Metcalf and Parker, TR-08-E-BPA-03, at 2. *See* Settlement Agreement, Appendix A. As noted above, no rate case party filed any objection to any aspect of the TS rate proposal. Therefore, TS recommended that the Administrator establish rates consistent with the Settlement Agreement.

2.1 Changes in Rates

The proposed 2008 Final Transmission and Ancillary Services Rates, contemplated by the Settlement Agreement, result in a zero percent average rate increase. Federal Register Notice, TR-08-FR-01, at 5285. The rate levels for BPA's 2008 transmission and ancillary service rates during the FY 2008-2009 rate period are as provided in Attachment 1 to the Settlement Agreement and reflected in the 2008 Transmission and Ancillary Services Rate schedules included in Appendix B to this record of decision.

Revisions to the 2008 transmission and ancillary services rate schedules, consistent with the Settlement Agreement, include: elimination of the Reservation Fee for deferred service; inclusion of a formula rate in the Formula Power Transmission (FPT) FPT-08.3 rate schedule to capture any changes over the rate period in the Reactive Supply and Voltage Control from Generation Sources (GSR) service rate level; updating certain values in the FPT-08.1 formula rate and the Integration of Resources (IR) IR-08 Short Distance Discount formula rate; elimination of components in the GSR formula rate that recovered GSR payments to BPA's PS and certain transmission communications and operations costs; addition of Conditional Firm Transmission Service under the availability section of the PTP-08 rate schedule; inclusion in the rate schedules for Operating Reserves services rates applicable to customers who elect to self-supply or third-party supply Operating Reserves and who default on such obligations back to TS; clarification of the non-firm hourly billing factor in the rate schedules for PTP transmission service when non-firm PTP transmission service is interrupted; clarification of the applicability of the two required Ancillary Services (Scheduling, System Control and Dispatch Service and Reactive Supply and Voltage Control from Generation Sources) to transmission service subject to an Unauthorized Increase Charge; and removal of formula rates for the Ancillary and Control Area Services of Regulation and Frequency Response and Operating Reserves. Metcalf and Parker, TR-08-E-BPA-03, at 2-3.

2.2 Other Settlement Agreement Provisions

Consistent with the Settlement Agreement, TS will pay PS on a per-event basis at the PS bid price for redispatch services provided under Attachment K to BPA's Open Access Transmission Tariff (OATT). *Id.* at 3 and 10. In addition, the transmission revenue requirements for each of FY 2008 and FY 2009 include \$4.5 million for projected payments to Federal and non-Federal entities for redispatch services provided. In the

calculation of the revenue requirements for each year \$15 million of TS's cash reserves is modeled as a funding source for BPA's transmission capital programs. *Id.* at 3-4, and 11.

As part of the Settlement Agreement, TS revised and clarified Attachment K to BPA's OATT relating to the procedures for redispatch of the Federal hydro system. Attachment K clarifies the circumstances under which TS may request redispatch from PS, and distinguishes the situations in which PS has or does not have discretion to provide redispatch pursuant to such request. *Id.* at 3. PS must provide redispatch when TS declares a system emergency (Emergency Redispatch). PS must also comply with requests for redispatch of Network Integration Transmission (NT) Service when a transmission constraint may impair reliability and TS has curtailed or interrupted non-firm PTP and secondary NT service (NT Firm Redispatch) to the extent it can without violating non-power constraints. For redispatch requests prior to curtailment or interruption of any non-firm PTP or secondary NT service, PS has discretion whether to provide the redispatch (Discretionary Redispatch). *Id.* at 10. Further, during the rate period, TS will track and post on its website detailed information on redispatch that is provided and curtailments that are requested. *Id.* at 3-4. In a separate filing, TS will submit to the Commission the revised Attachment K as a proposed revision to BPA's OATT for FY 2008 and FY 2009. *Id.* at 10.

Prior to the 2008 transmission rate proceeding, BPA, BPA's Slice customers and the Northwest Requirements Utilities (NRU) resolved disputes relating to certain true-up adjustments under BPA's Block and Slice Power Sales agreements (BPA's Slice Product) in Agreement No. 07PB-12273 (Slice Settlement Agreement). Thus, as part of the Settlement Agreement, BPA, BPA's Slice customers and NRU agreed to a process for satisfying BPA's procedural and public process requirements under the Slice Settlement Agreement regarding the Debt Optimization Program (DOP) and Debt Service Reassignment (DSR) demonstration for transmission rates at the 2007 annual meeting, and for the 2008 transmission rate case. Among other things, the DOP/DSR demonstration required a showing that transmission rates are no higher with the DOP than they would have been in the absence of the DOP (which includes DSR). *Id.* at 4. BPA presented the first annual DOP/DSR demonstration on January 23, 2007. In letters dated February 7, 2007, each of the Slice customers and NRU acknowledged that BPA's 2007 demonstration showed transmission rates were lower in all years of the demonstration period except two, 2013 and 2024. Because the forecast DOP cost decreases over the demonstration period substantially exceed the forecast increases, and the increases for the two years were not forecast to occur in either FY 2008 or FY 2009, each of the Slice customers and NRU stipulated that the 2007 annual transmission rate DOP demonstration was satisfactory. *See* Order Adopting Stipulation Resolving Issues of the Slice customers and NRU Regarding Debt Optimization Demonstration, TR-08-O-08.

Finally, the Settlement Agreement provides notice that during the rate period, BPA may conduct a special rate case to establish a rate for generation regulation service and generation following service. *Id.* at 4.

3.0 TRANSMISSION REVENUE REQUIREMENT

3.1 Introduction

BPA is a self-financed power marketing agency within the Department of Energy (DOE). Sales of electric power and transmission services provide BPA's primary sources of revenue. *See Central Lincoln Peoples' Utility District v. Johnson*, 735 F.2d 1101, 1116 (9th Cir. 1984). BPA's transmission and ancillary services rates are based on the Administrator's total system costs, and must produce revenues which are sufficient to assure repayment of the Federal investment in the FCRPS over a reasonable number of years after first meeting the Administrator's other costs. 16 U.S.C. § 839e(a)(2)(A) and (B). At the same time, BPA must set transmission and ancillary services rates with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates consistent with sound business principles. 16 U.S.C. § 825s, § 839g, and § 839(a)(1).

BPA has determined generation and transmission revenue requirements using separate repayment studies since 1984, pursuant to a Commission order. *See United States Department of Energy - Bonneville Power Admin.*, 26 FERC ¶61,096(1984). Rates to recover the costs set forth in BPA's generation revenue requirement were established in BPA's 2007 power rate case for the period FY2007 - FY 2009. *See Administrator's Final Record of Decision, WP-07-A-02*. The inter-business line costs developed for generation inputs for ancillary services rates and other elements relevant to the transmission function in that proceeding are incorporated into the FY2008 - FY 2009 transmission revenue requirements and recovered by the revenues in this filing. *See Revenue Requirement Study, TR-08-FS-BPA-01*, at 19; and Documentation, TR-08-FS-BPA-01A, Chapter 2.

The proposed 2008 Final Transmission and Ancillary Services Rates established herein recover BPA's costs as set forth in the transmission revenue requirement. Consistent with BPA's statutory obligations, the transmission revenue requirement is comprised of the Administrator's total transmission-related costs, including costs to assure the timely repayment of the Federal investment in BPA's transmission assets. The transmission revenue requirement establishes the level of revenue required to recover all of BPA's costs of transmitting electric power, which include: the Federal investment in transmission and transmission-supporting facilities; operations and maintenance (O&M) expenses; transmission marketing and scheduling expenses; the cost of generation inputs for ancillary services and reliability; and all other transmission-related costs incurred by the Administrator. *See Revenue Requirement Study, TR-08-FS-BPA-01*, at 3.

3.2 Revenue Requirement Development

BPA develops its revenue requirement to recover its costs in conformance with its statutory obligations and the financial, accounting, and repayment requirements of the Department of Energy's (DOE) Order No. RA 6120.2. *Id.* at Chapter 5.

The transmission revenue requirement for the FY 2008-2009 rate period was developed using a cost accounting analysis comprised of three components:

- Repayment studies are conducted to determine the schedule of amortization payments and to project annual interest expense for bonds and appropriations that fund the Federal investment in transmission. Repayment studies are conducted for each year of the two-year rate test period, and include a 35-year repayment period.
- Operating expenses functionalized to transmission and minimum required net revenues (if needed) are projected for each year of the rate test period.
- Annual Planned Net Revenues for Risk (PNRR), if any, are determined based on the risks identified, BPA's cost recovery goals, and risk mitigation measures.

Id. at 4.

Based on these analyses, the transmission revenue requirement is set at the revenue level necessary to fulfill BPA's cost recovery requirements and objectives. DOE Order No. RA 6120.2 requires that BPA test the adequacy of its existing rates to meet cost recovery requirements and objectives for the rate test and repayment periods. The current revenue test demonstrated that revenues from current rates would be sufficient to meet cost recovery requirements and objectives for the rate test period and the repayment period. *Id.* at 27-28. The proposed 2008 transmission rates, however, are set at levels that are higher than current rates by \$0.082/kw-mo to recover increased transmission costs. The proposed rate for Reactive Supply and Voltage Control from Generation Sources (GSR-08 rate) is forecast to be zero during the rate period as BPA is forecasting no payments to non-federal generators. The increase in transmission rates and the forecast decrease in the GSR-08 rate result in no increase in total revenues for the rate period. Metcalf and Parker, TR-08-E-BPA-03, at 4-5.

DOE Order No. RA 6120.2 also requires that BPA demonstrate the adequacy of proposed rates to recover its costs. The revised revenue test determines whether projected revenues from proposed rates will meet cost recovery requirements and objectives for the rate test and repayment periods. The revised revenue test demonstrates that revenues from proposed transmission and ancillary services rates recover transmission costs in the rate test period and over the ensuing 35-year repayment period. Revenue Requirement Study, TR-08-FS-BPA-01, at 28. In this proceeding, rate test period costs are demonstrated to be recovered with a high confidence level. Risks have been quantified and analyzed, and TS has achieved at least a 95 percent probability that planned payments to Treasury will be made on time and in full over the two-year rate period. *Id.* at 8-9.

The Settlement Agreement did not result in any changes to the method that BPA uses to develop the revenue requirement. *See* Settlement Agreement, Appendix A; and Homenick *et al.*, TR-08-E-BPA-05, at 2.

3.3 Changes in Cost Obligations and Assumptions Used in Calculation of the Revenue Requirement

The Revenue Requirement Study incorporates new payment obligations associated with customer-financed network upgrades under provisions of the Large Generator Interconnection Agreements under BPA's OATT. Homenick *et al.*, TR-08-E-BPA-05, at 3. Under these agreements, Interconnection Customers provide up-front payments in an amount sufficient to cover the cost of construction of network upgrades. The Interconnection Customer is entitled to transmission credits, which are used to offset charges for eligible transmission service. The customer's credit is based on the sum of funds advanced to BPA, plus interest that accrues on the balance beginning at the time BPA receives the funds. The credit balance is reduced as the customer receives transmission credits. *Id.* at 4.

These transactions are reflected in the Revenue Requirement Study. BPA added the "Non-Federal Projects Debt Service" category to the Income Statement. It is composed of both the interest earned by customers on their upfront payment balances and the Allowance for Funds Used During Construction (AFUDC) accrued by these network upgrade projects. Since this is a non-cash item of the revenue requirement, it also appears in the Statement of Cash Flows. The Depreciation and Amortization expense category also includes the depreciation of the investment in customer-funded upgrades. *Id.* at 6. Since these agreements also produce non-cash (accrual) revenues due to the use of transmission credits, "Accrual Revenue" category in the Statement of Cash Flows also includes the non-cash revenues associated with the transmission credits. *Id.* at 6-7.

3.4 Other Cost Obligations and Assumptions Used in Calculation of the Revenue Requirement

3.4.1 Use of Reserves to Finance Capital Projects

The Settlement Agreement provides that BPA will model \$15 million of TS's cash reserves in the calculation of revenue requirements in each year of the FY 2008-2009 rate period as a funding source for BPA's transmission capital programs. *Id.* at 7-8.

3.4.2 Third-Party Lease-Purchase Model

BPA entered into a third-party lease-purchase agreement with a private party, which was used to finance construction of the 500 kilovolt Schultz-Wautoma transmission line. The annual lease payment is included in the rate period revenue requirements as an operating expense, and the debt service stream over the life of the lease-purchase agreement is included in the transmission repayment studies as a fixed expense. *Id.* at 2-3; and Revenue Requirement Study, TR-08-FS-BPA-01, at 12-13.

3.4.3 Debt Optimization and Debt Service Reassignment

Because access to Treasury borrowing is limited, BPA, since FY 2001, has carried out a program to replenish its Treasury borrowing authority, the Debt Optimization Program (DOP). Under this program, BPA refinances (extends) Energy Northwest debt and uses monies available through the refinancing to pay down Treasury debt, thus replenishing BPA's Treasury borrowing authority. In 2003, BPA began applying this program to transmission Treasury debt. In return, transmission revenues recover the debt service of the associated Energy Northwest refinanced debt. This is Debt Service Reassignment. Transactions completed through 2006 were modeled in calculating the transmission revenue requirement. Homenick, *et al.*, TR-08-E-BPA-05, at 2-3; and Revenue Requirement Study, TR-08-FS-BPA-01, at 13.

3.4.4 Debt Optimization Demonstration

Prior to the 2008 transmission rate proceeding, BPA, BPA's Slice customers and NRU were involved in litigation regarding true-up adjustments under BPA's Slice Product. In late November 2006, the parties signed a Memorandum of Understanding of the Slice Settlement Agreement that provided, in part, that BPA would make a demonstration showing that "rates of each of BPA's business lines (Transmission Business Line ("TBL") and Power Business Line ("PBL")) are no higher with the DOP than they would have been in the absence of the DOP." The Slice Settlement Agreement further provided that BPA would present its transmission-related demonstration in the next general transmission rate proceeding. Homenick, *et al.*, TR-08-E-BPA-05, at 10. As part of the Settlement Agreement of the 2008 transmission rates, BPA, and the Slice customers and NRU agreed that the demonstration would be made in a public workshop, that the Revenue Requirement Study would include clear description of the Debt Optimization costs, and that testimony would draw attention to this description. *Id.* at 10-11. The demonstration itself is contained in Chapter 14 of the Revenue Requirement Study Documentation, TR-08-FS-BPA-01A.

3.5 Repayment Studies

Repayment studies are performed as the first step in determining revenue requirements. The studies establish the schedule of annual U.S. Treasury amortization for the rate test period and the resulting interest payments.

In this rate filing, as in the previous transmission rate filing, the repayment period has been set at 35 years. This study horizon reflects the fact that the longest term of bonds BPA has issued does not exceed 35 years (up to 35 years for transmission investments and up to 15 years for environmental investments for transmission maintenance). As such, all outstanding appropriations and bonds in the transmission system are fully repaid within this period under a schedule determined to be the lowest levelized debt service stream necessary to repay all transmission obligations within the required repayment period. Revenue Requirement Study, TR-08-FS-BPA-01, at 15-16.

The Revenue Requirement Study includes the results of transmission repayment studies for each of the two years in the rate test period, FY 2008 and 2009. In conducting the repayment studies, BPA includes outstanding and projected transmission repayment obligations on appropriations and on bonds issued to the U.S. Treasury. Funding for replacements projected during the repayment period also is included in the repayment study, consistent with the requirements of RA 6120.2. *Id.* at 15.

3.6 Planned Net Revenues for Risk

In the 1993 Final Rate Proposal, BPA determined that, as a long-term policy, it would plan to set its total rates to maintain financial reserves sufficient to achieve a 95 percent probability of meeting Treasury payments in full and on time for each two year rate period. 1993 Final Rate Proposal, Administrator's Record of Decision, WP-93-A-02, at 72-73.

The probability of meeting its Treasury payment obligation is the primary measure of BPA's ability to recover its costs. BPA applied the same analysis in the FY 2008-2009 rate period as in the past. Homenick, *et al.*, TR-08-E-BPA-05, at 8-9. To achieve the above Treasury Payment Probability (TPP), the following risk mitigation "tools" were considered:

1. Starting reserves: Starting financial reserves include cash and the deferred borrowing balance attributed to the transmission function. The most likely value for starting reserves is projected to total \$287 million at the beginning of FY 2008. Revenue Requirement Study, TR-08-FS-BPA-01, at 8-9.
2. Planned Net Revenues for Risk: PNRR is a component of the revenue requirement that is added to annual expenses. PNRR adds to cash flows so that financial reserves are sufficient to mitigate short-run volatility in costs and revenues and achieve the TPP goal. No PNRR were required to meet the TPP standard in this rate filing. *Id.* at 9
3. Two-Year Rate Period: The rates established in this record will be effective for a two-year rate period. The ability to revise rates after two years, or more frequently if necessary, serves as an important risk mitigation tool. A two-year rate period limits the effects of uncertainty. *Id.* BPA retains the right to initiate a process to raise rates during the rate period if necessary.

3.7 Transmission Risk Analysis

To quantify risks, the effects of uncertainty in costs and revenues on transmission cash flows were analyzed using a Monte Carlo simulation method. The analysis estimated the probability of successful Treasury payment (on time and in full) for both years of the rate period. Successful Treasury payment is deemed to occur when the end-of-year transmission cash reserve, after Treasury payments are made, is sufficient to cover the transmission liquidity reserves requirement of \$20 million. The liquidity reserves threshold is based on the monthly net cash flow patterns and requirements for the transmission function. *Id.* at 9-10.

The risk analysis covers the period FY 2007 through FY 2009. This time frame is used to permit analyzing the change in revenues, costs, and accrual-to-cash adjustments that are expected to occur between the development of the final rate proposal and the end of the rate period. The advantage to this approach is that cash reserves at the start of the FY 2008-2009 rate period may be estimated, thus helping to define the starting conditions for the next rate period. *Id.*

The foundation of the risk analysis is a transmission financial spreadsheet model, using a Monte Carlo simulation method. This model was developed to estimate the effects of risk and risk mitigation on end-of-year cash reserves and the likelihood of successful Treasury payment during the rate period. Cash reserve levels at the end of the fiscal year determine whether BPA is able to meet its Treasury payment obligation. *Id.* at 10-11. If cash reserves are sufficient to cover liquidity reserves requirements at the end of the fiscal year, it can be assumed that the Treasury payment was made in full and on time that fiscal year. End-of-year cash reserves during the rate period are the main outcome of interest in the model. Parameters for the probability distributions were developed from historical data and analysis of risk factors. *Id.*

The transmission risk analysis simulation performed for this rate case achieved a Treasury Payment Probability greater than the 95 percent standard for the FY 2008 through 2009 rate period. *Id.* at 8.

4.0 TRANSMISSION AND ANCILLARY SERVICES RATES

4.1 Description of Transmission Rates and Ancillary Services Rates

BPA's proposed 2008 Final Transmission and Ancillary Services Rates are attached as Appendix B. These rates reflect the rate provisions and rate levels of the Settlement Agreement.

The majority of the proposed rates apply to transmission service under BPA's OATT. The rates applicable to the OATT are the Network Integration (NT-08) rate, Point-to-Point (PTP-08) rate, Southern Intertie (IS-08) rate, Montana Intertie (IM-08) rate, and the Ancillary and Control Area Services (ACS-08) rates. The proposed Use-of-Facilities (UFT-08) rate and Advanced Funding (AF-08) rate may be used in conjunction with open access service. The UFT-08 and AF-08 rates also apply to pre-OATT transmission service. The ACS-08 rate schedule includes rates for the six ancillary services included in OATT service, plus rates for four control area services that are required for reliability of resources and load service in the BPA Control Area.

In addition, the Integration of Resources (IR-08) rate and the Formula Power Transmission (FPT-08) rates are proposed for pre-OATT firm transmission contracts. Two rates, Townsend-Garrison (TGT-08) and Eastern Intertie (IE-08), are available to parties to the Montana Intertie Agreement. A variety of other charges are also proposed, including a Delivery Charge for use of low-voltage DSI and Utility Delivery facilities, the Failure to Comply Penalty Charge, a Power Factor Penalty Charge, and the Reservation Fee.

The proposed 2008 transmission rates are higher by \$0.082/kw-mo, and the GSR rate is forecast to be zero during the FY2008-2009 rate period. Metcalf and Parker, TR-08-E-BPA-03, at 4-5. The forecast of the proposed GSR-08 rate during the rate period is zero as BPA is forecasting no payments to non-Federal generators. The increase in transmission rates and the forecast decrease in the GSR-08 rate result in no increase in the average rates for the rate period. *Id.* The proposed changes in rate levels reflect the rate levels agreed to in the Settlement Agreement. *Id.* at 2.

4.1.1 2008 Transmission Rates

Consistent with the Settlement Agreement, BPA revised certain transmission rate schedules.

The proposed FPT-08.3 rate schedule includes a formula rate to capture any changes over the rate period due to changes in the GSR-08 rate level. This change to the formula rate design will make the FPT-08.3 rate schedule identical to the FPT-08.1 rate schedule. The formula rate design for the FPT-08.1, FPT-08.3 and IR-08 rate schedules allow recovery of any GSR costs as they become known during the rate period, if BPA must pay non-Federal generators for GSR through payment of a Commission-approved rate or self-supply credits. *Id.* at 6.

As specified in the Settlement Agreement, BPA also updated certain values in the FPT-08.1 formula rate and the IR-08 Short Distance Discount formula rate. Consistent with the Settlement Agreement, revisions to the rate charges in section II of the FPT-08.1 and FPT-08.3 rate schedules are made to increase the Main Grid and Secondary System charges. In addition, a revision is made to section II.A.1 of the IR-08 rate schedule to increase a component of the Base Rate. *Id.* at 2-3.

BPA eliminated the Reservation Fee for deferred service under the PTP-08, IM-08 and IS-08 rate schedules, but retains the Reservation Fee for extensions of Service Commencement Date (SCD). *Id.* at 8. Currently, “deferred service” is defined as any advanced reservation with an SCD greater than one year from the transmission service request date. Applying the Reservation Fee to deferred service discouraged customers from making requests for transmission service until one year prior to the Service Commencement Date. BPA proposed this change to the 2008 transmission rates to encourage customers to request transmission service with as much advance notice to BPA as possible. *Id.*

BPA modified the non-firm hourly billing factor in the PTP-08, IM-08 and IS-08 rate schedules that is applicable in situations when non-firm PTP transmission service is interrupted. The billing factor for that service will be the Reserved Capacity minus curtailed capacity, if service is curtailed or interrupted before the close of the hourly non-firm scheduling window and if the curtailment or interruption originates from conditions on BPA’s transmission system. *Id.* at 8. If service is curtailed or interrupted after the close of the scheduling window or if service is curtailed or interrupted at any time due to conditions originating on a transmission system other than BPA’s transmission system, the billing factor will be Reserved Capacity. *Id.*

BPA also added Conditional Firm Transmission Service under the Availability section of the PTP-08 rate schedule which allows BPA to charge the PTP-08 rate for Conditional Firm Transmission Service, should BPA offer that service during the rate period. TS is working on development of that service. *Id.* at 8.

4.1.2 2008 Ancillary Service and Control Area Service Rates

4.1.2.1 2008 Reactive Supply and Voltage Control from Generation Sources Service

Beginning on October 1, 2007, TS will no longer compensate PS, the BPA affiliate, for GSR. Accordingly, BPA revised the proposed 2008 Reactive Supply and Voltage Control from Generation Sources (GSR-08) formula rate to eliminate the component for the cost of GSR payments to PS from the GSR-08 formula rate. Metcalf and Parker, TR-08-E-BPA-03, at 5. In addition, the component for certain communications and operations transmission costs previously recovered under the GSR rate is also eliminated from GSR-08 formula rate. *Id.* The decision to eliminate compensation to PS for GSR is consistent with the decision in the 2007 Power Rate Case not to forecast \$20.4 million in each of FY 2008 and FY 2009, as revenue from TS for GSR. *See*

Administrator's Record of Decision, WP-07-A-02, Chapter 7.0, Transmission and Inter-Business Line Issues, at 7-2 through 7-21. TS will continue to pay PS in each FY 2008 and FY 2009 for synchronous condenser operations, which are distinct from providing GSR inside the band. *Id.* at 7-2 and 7-8 through 7-9. The decisions made in the 2007 Power Rate Case are not revisited here.

During the rate period, TS does not intend to compensate third parties for GSR. *See* Settlement Agreement, Appendix A at 3. BPA intends to submit filings with the Commission to end GSR payments to each non-Federal generator as of October 1, 2007. Metcalf and Parker, TR-08-E-BPA-03, at 5. If BPA is successful in its filing with the Commission, payments for GSR to non-Federal generators will cease. *Id.* TS projected no payments to non-Federal generators for GSR for the FY 2008-2009 rate period, resulting in a forecast GSR rate of zero. In addition, TS does not expect any self-supply of GSR by customers during the rate period, due to the forecast GSR rate of zero. *Id.* at 7. Because the Commission's determination on the GSR payment issue is unknown at this time, the remaining formula rate components in the GSR-08 are designed to pass through to customers the cost of payments to non-Federal generators for GSR and self-supply credits, if any, on a quarterly basis. *Id.* at 5.

4.1.2.2 Other 2008 Ancillary Services

Consistent with the Settlement Agreement, BPA modified the Billing Factors for the ACS-08 rates for Scheduling, System Control and Dispatch Service and GSR service to include the Unauthorized Increase Charge billing factor. These revisions clarify that the unauthorized transmission use charged for under the UIC rate will also be charged the two required ancillary services. Metcalf and Parker, TR-08-E-BPA-03, at 9.

Furthermore, BPA replaced the formula rate structure for the Operating Reserve rates for Spinning Reserve and Supplemental Reserve Services with a fixed rate for the entire 2008 rate period. *Id.* The generation input costs associated with these Operating Reserve services were determined in the 2007 Power Rate Case, making a formula rate unnecessary. *Id.* Additionally, customers who choose to self-supply or third-party supply Operating Reserve services during the 2008 rate period, but then default on their self-supply or third-party supply obligations, will be subject to a new "default" Operating Reserve rate that is 15 percent higher than the standard rate for the applicable Operating Reserve service. *Id.*

Consistent with the Settlement Agreement, BPA replaced the formula rate for Regulation and Frequency Response Service (RFR) with a fixed rate for the 2008 rate period. *Id.* The generation input cost associated with RFR for the rate was determined in the 2007 Power Rate Case, making a formula rate unnecessary. *Id.*

4.2 Equitable Allocation

4.2.1 The Equitable Allocation Standard

Section 7(a)(2)(C) of the Northwest Power Act provides that the Commission will confirm and approve BPA's rates upon a finding that "such rates equitably allocate the costs of the Federal transmission system to Federal and non-Federal power using the system." 16 U.S.C. § 839e(a)(2)(C). *See also*, Transmission System Act section 10, 16 U.S.C. § 838h, which includes an equitable allocation standard. In addition to the equitable allocation standard, section 7(a)(1) of the Northwest Power Act, 16 U.S.C. § 839(a)(1), incorporates by reference section 9 of the Transmission System Act, 16 U.S.C. § 838g, which provides that rates "shall be fixed and established: (1) with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles." Similar language is also contained in section 5 of the Flood Control Act. 16 U.S.C. § 825s.

Accordingly, BPA can choose among a variety of rate designs for particular transmission rates, as long as BPA's transmission rates in total are designed to ensure that the costs of the transmission system are equitably allocated.

4.2.2 Comparability

In its final rule *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Service by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities* (Order 888), the Commission included a reciprocity provision applicable to non-public utilities that own, control or operate interstate transmission facilities and that take service under a public utility's open access tariff. FERC Stats. and Regs. ¶31,036, 31,760-31,763 (1996). Under the reciprocity provision, non-public utilities may voluntarily submit to the Commission a transmission tariff and a request for a declaratory order that the tariff meets the Commission's comparability (non-discrimination) standards. *Id.* at 31,761. In order to find that a non-public utility's tariff is consistent with the Commission's comparability standards, the Commission must also have sufficient information to conclude that the rates the non-public utility charges itself are comparable to the rates it charges others. *Id.* The Commission retained the reciprocity provisions in the final rule *Preventing Undue Discrimination and Preference in Transmission Service* (Order 890), 72 Fed. Reg. 12266, 12293-12294 (2007)

BPA sets rates for transmission over the FCRTS to conform to the policies announced in Order 888, and continued in Order 890. Equitable allocation and comparability are similar concepts in that, under each, Federal and non-Federal power have access to the FCRTS under the same or comparable rates, terms and conditions.

4.2.3 Settlement Rates Satisfy Equitable Allocation Standard and Comparability

The proposed 2008 Final Transmission and Ancillary Service Rates provide an equitable allocation of Federal transmission costs between Federal and non-Federal power. Prior to the 2002 Transmission rate case, BPA segmented the transmission system and developed a methodology to allocate costs between Federal and non-Federal power using the transmission system. These segmentation and cost allocation methodologies formed the basis for the demonstration that costs were equitably allocated. BPA has not performed a segmentation study for this rate case. Nevertheless, for two reasons the proposed settlement rates represent an equitable allocation between Federal and non-Federal power using the system. Metcalf and Parker, TR-08-E-BPA-03, at 11.

First, equitable allocation between Federal and non-Federal power is achieved through adherence to the principle of comparability. Prior to 1996, when most transmission for Federal power was provided for in bundled power sales contracts, an allocation of costs in the rate case was needed to demonstrate equitable allocation of transmission costs between Federal and non-Federal power. Under BPA's OATT, purchasers of transmission for Federal power, including both PS and BPA's power customers, receive the same service and pay the same rates as purchasers of transmission for non-Federal power. An equitable allocation of transmission costs between Federal and non-Federal power is achieved through application of the same rates to the two classes of service. *Id.*

Second, equitable allocation is demonstrated by the breadth of the settlement and the diversity among the settling parties. The settling parties include the PS and PS full requirements customers; large partial requirements customers that both buy Federal power and wheel large amounts of non-Federal power; large wheeling customers, such as the region's Investor Owned Utilities which purchase little Federal power; and power marketers and independent power producers. BPA would not have been able to obtain the agreement of such a large group of customers with such diverse interests unless the proposed allocation of costs was equitable. *Id.* at 12.

5.0 ENVIRONMENTAL ANALYSIS

5.1 Introduction

BPA has assessed the potential for environmental effects from the proposed 2008 Final Transmission and Ancillary Services Rates, consistent with the National Environmental Policy Act (NEPA), 42 U.S.C. § 4321 *et seq.* BPA previously evaluated the environmental impacts of a large range of business structure alternatives that included, among other things, various rate designs for BPA's transmission products and services. Business Plan Final Environmental Impact Statement, Volume 1 – Analyses, June 1995 (Business Plan EIS), TR-08-EV-01. In August 1995, BPA issued a record of decision that adopted the Market-Driven alternative from the Business Plan EIS. Business Plan Final Environmental Impact Statement Record of Decision, August 1995 (Business Plan ROD), TR-08-EV-03. As discussed in more detail below, the proposed 2008 Final Transmission and Ancillary Services Rates fall within the scope of the Market-Driven alternative and are not expected to result in significantly different environmental impacts from those examined in the Business Plan EIS. The decision to implement this rate proposal thus is tiered to the Business Plan EIS and ROD.¹

5.2 Business Plan EIS and ROD

The Business Plan EIS was prepared in response to a need for an adaptive business policy that would allow BPA to be more responsive to the evolving and increasingly competitive wholesale electricity market, while still meeting both its business and public service missions. BPA thus designed the Business Plan EIS to support a wide array of business decisions, including decisions to establish rates for products and services in rate cases in 1995 and thereafter. *See* Business Plan EIS, TR-08-EV-01, at section 1.4. BPA identified several purposes for consideration, including: achieving strategic business objectives; competitively marketing BPA's products and services; providing for equitable treatment of Columbia River fish and wildlife; achieving BPA's share of the Northwest Power Planning Council conservation goal; establishing rates that are easy to understand and administer, stable, and fair; recovering costs through rates; meeting legal mandates and contractual obligations; avoiding adverse environmental impacts; and establishing productive government-to-government relationships with Indian Tribes. *Id.* at section 1.2; and Business Plan ROD, TR-08-EV-03, at sections 5 and 6.

¹ Although BPA is tiering its decision to the Business Plan EIS and ROD, BPA notes that this rate proposal is the type of action typically excluded from NEPA pursuant to U.S. Department of Energy NEPA regulations, which are applicable to BPA. More specifically, this rate proposal falls within Categorical Exclusion B4.3, found at 10 CFR 1021, Subpart D, Appendix B, which provides for the categorical exclusion from NEPA documentation of “[r]ate changes for electric power, power transmission, and other products or services provided by a Power Marketing Administration that are based on a change in revenue requirements if the operations of generation projects would remain within normal operating limits.” Nonetheless, BPA included a strategy in the Business Plan EIS and ROD for NEPA compliance concerning future business-related decisions, and believes that a ROD tiered to the Business Plan EIS and ROD is an appropriate means for ensuring NEPA consideration of this rate proposal.

BPA's Business Plan EIS evaluates six alternative business directions: Status Quo (No Action); BPA Influence; Market-Driven; Maximize Financial Returns; Minimal BPA; and Short-Term Marketing. Each of the six alternatives provides policy direction for deciding 19 major policy issues that fall into five broad categories: Products and Services, Rates, Energy Resources, Transmission, and Fish and Wildlife Administration. Business Plan EIS, TR-08-EV-01, at section 2.4. Policy issues related to transmission services include: Unbundling of Transmission and Wheeling Services; Transmission and Wheeling Pricing; Transmission System Development; Transmission Access; Assignability of Rights Under BPA Wheeling Contracts; Retail or DSI Wheeling; Customer Service Policy and Sub-transmission; and Operations, Maintenance, and Replacement of the Transmission System. *Id.* at section 2.4. These issues incorporate information about the various rate designs and charges that could be implemented for BPA's transmission products and services. *Id.* at sections 2.4.1.6 and 2.4.2.2; and Business Plan Final Environmental Impact Statement, Volume 2 – Appendices, June 1995 (Business Plan EIS Appendices), TR-08-EV-02, at Appendix B. Table 2.4-1 of the EIS shows how the alternatives evaluated in the EIS treat these issues, and Figure 2.4-3 shows the major influences, including products and pricing, on transmission development.

Four policy options, or modules, were also developed in the EIS to allow variations of the alternatives in key areas, including rate design. The alternatives and modules are designed to cover the range of options for the important issues affecting BPA's business activities, as well as the impacts of those options, and variations can be assembled by matching issues and substituting modules among the six alternatives. Business Plan EIS, TR-08-EV-01, at section 2.1.2. All of the alternatives and modules are examined under two widely different hydro operations strategies that serve as "bookends" for reasonably possible hydro operations. These alternatives thus represent a range of reasonable alternatives for BPA's business activities and BPA's ability to balance costs and revenues.

The Business Plan EIS focuses on BPA's relationships to the market. BPA's business decisions, such as setting or revising rates, do not have a direct effect on the environment. Previous environmental studies for key BPA actions have shown that actual environmental impacts are determined by the market responses to BPA's marketing and business decisions, rather than by the actions themselves. *Id.* at sections 2.1.5 and 4.1.2. Four types of market responses are identified: resource development; resource operations; transmission development and operation; and consumer behavior. These market responses determine the environmental impacts, which include air, land, and water impacts, as well as socioeconomic impacts. *Id.* at Figure 2.1-1 and figure S-2. For transmission ratemaking, the Business Plan EIS describes how BPA rates can affect the environment through market responses. *Id.* at section 2.4.2 and figure 2.4-1.

Thus, the Business Plan EIS is based on a "relationship analysis" – BPA has quantitatively and qualitatively evaluated relationships between variables in the short run, and assumed that these relationships will hold true in the long term. Some of the Market Responses that were predicted as a result of transmission and wheeling pricing include

potential changes in the location and type of new generation resources, or shifts in the market for new or upgraded transmission facilities. *Id.* at section 4.2.2.2. While the Business Plan EIS does provide a numerical example based on assumptions about rates, loads, resources, and other factors, this discussion was provided as an illustrative example only, and was not intended to be relied on for quantitative comparisons in the future. *Id.* at sections 4.4.1.1 and 4.4.3.

To determine the potential environmental consequences of the various alternatives, the EIS identifies general market responses to key policy issues. *Id.* at Table 4.2-1. The market responses for products and services are discussed for each of the alternative business directions, and the market responses for rates are also discussed. *Id.* at sections 4.2.1 and 4.2.2. The market responses and the environmental consequences are discussed both in general terms and in terms specific to each alternative. *Id.* at section 4.3. Table 4.3-1 details the typical environmental impacts from power generation and transmission. Section 4.4 presents the market responses and environmental impacts by alternative, under the two hydro operation “bookend” scenarios. Table 4.4-19 summarizes the key environmental impacts by alternative. *Id.* at section 4.4.3.8. In addition, Appendix B to the Business Plan EIS includes an extensive evaluation of rate design, including market response and environmental impacts. Business Plan EIS Appendices, TR-08-EV-02, at Appendix B.

Each of the alternative business directions examined in the Business Plan EIS were also evaluated against the purposes for the action to determine how well each of the alternatives meets the need. Business Plan EIS, TR-08-EV-01, at section 2.6.5. Based on the evaluation of potential environmental impacts and the comparison of each alternative to the identified purposes, the Administrator adopted the Market-Driven alternative as the Agency’s overall business policy in the August 1995 Business Plan ROD. Business Plan ROD, TR-08-EV-03, at section 6. The Market-Driven alternative strikes a balance between marketing and environmental concerns. It also assists BPA in maintaining the financial strength necessary to continue a relatively high level of support for public service benefits, such as energy conservation and fish and wildlife mitigation activities, while keeping BPA rates and the costs of other BPA products and services as low as possible.

Recognizing that the Administrator could select a variety of actions, BPA included many mitigation response strategies in the Business Plan EIS and ROD to address changed conditions and allow the agency to balance costs and revenues. These response strategies include measures that BPA could implement to increase revenues (including rates), decrease spending, and/or transfer costs if its costs and revenues do not balance. Business Plan EIS, TR-08-EV-01, at section 2.5; Business Plan ROD, TR-08-EV-03, at section 7. These strategies enable BPA to best meet its financial, public service, and environmental obligations, while remaining competitive. In the Business Plan ROD, the Administrator decided to implement as many response strategies, or equivalents, as necessary to balance costs and revenues. Business Plan ROD, TR-08-EV-03, at section 7.

The Business Plan EIS and ROD also document a decision strategy for tiering subsequent business decisions to the Business Plan EIS and ROD. Business Plan EIS, TR-08-EV-01, at section 1.4; Business Plan ROD, TR-08-EV-03, at section 8. For each such decision, as appropriate, the BPA Administrator reviews the Business Plan EIS and ROD to determine whether the proposed subsequent decision falls within the scope of the Market-Driven Alternative evaluated in the EIS and adopted in the ROD. If the proposed decision is found to be within the scope of this alternative, the Administrator may tier his decision under NEPA to the Business Plan EIS and ROD. Business Plan ROD, TR-08-EV-03, at section 8. Tiering a ROD to the Business Plan EIS and ROD helps BPA delineate its business decisions clearly and provides a logical framework for connecting broad policy decisions to more specific actions. Business Plan EIS, TR-08-EV-01, at section 1.4

5.3 Environmental Analysis for Proposed 2008 Final Transmission and Ancillary Services Rates

The Business Plan EIS and ROD were reviewed to determine whether the proposed 2008 Final Transmission and Ancillary Services Rates fall within the scope of the EIS and the Market-Driven alternative adopted in the Business Plan ROD. The key policy issues analyzed in the Business Plan EIS included several rate-related decisions, such as transmission pricing and unbundling or rebundling of BPA's transmission products and services.

The Business Plan EIS identified general market responses to BPA actions, including establishing rates, and these market responses in turn are the source of environmental impacts. The environmental impacts addressed in the EIS include those related to the natural environment, such as impacts to air, land, and water, as well as impacts to the socioeconomic environment. Based on the environmental analysis in the Business Plan EIS, the potential environmental impacts of all business direction alternatives fall within a fairly narrow band, and several of the key impacts are virtually identical across alternatives. In addition, the costs of environmental externalities differ only slightly among alternatives. *Id.* at Table 4.4-20. Thus, the differences among alternatives in total environmental impacts are relatively small. The market responses and environmental impacts are discussed throughout Chapter 4 of the Business Plan EIS, and are summarized in Table 4.2-1.

The primary environmental impacts of transmission prices and rate attributes are through the choices customers make in their preferred transmission provider and also in generation resources and conservation. *Id.* at Section 4.2.2.2. For example, increasing rates may cause more customers to seek alternative transmission providers, or construct new transmission facilities. Transmission and wheeling pricing could also influence customer decisions on resource siting, or the marketability of resource output based on the influence of wheeling costs on the total cost to the purchaser of power services offered by different suppliers.

Based on the review of the Business Plan EIS and ROD, the proposed 2008 Final Transmission and Ancillary Services Rates are a direct application of the Market-Driven alternative. The rate proposal continues most of the elements of BPA's 2006 rate designs, with minor changes and modifications. Even with these revisions, the rate proposal remains consistent with the type of rate designs identified and evaluated in the Business Plan EIS.

This rate proposal thus is consistent with the competitive and unbundled yet cost-based characteristics of the Market-Driven alternative. The issues related to this proposal are consistent with the analysis of key policy issues related to transmission services identified for the Market-Driven alternative. *Id.* at sections 2.2.3 and 2.6. In addition, this rate proposal does not differ substantially from the types of rate designs considered and evaluated in the Business Plan EIS. *Id.* at sections 2.4.1.6, 2.4.2.2, 2.44; and Business Plan EIS Appendices, TR-08-EV-02, at Appendix B. Implementation of this rate proposal will not result in significantly different environmental impacts from those examined for the Market-Driven alternative in the Business Plan EIS.

Furthermore, the proposed 2008 Final Transmission and Ancillary Services Rates will assist BPA in accomplishing the goals of the Market-Driven alternative identified in the Business Plan ROD. This alternative was selected as BPA's business direction because, among other reasons, it allows BPA to: (1) recover costs through rates; (2) competitively market BPA's products and services; (3) develop rates that meet customer needs for clarity and simplicity; and (4) continue to meet BPA's legal mandates.

The proposed 2008 Final Transmission and Ancillary Services Rates provide a competitive rate structure that includes various mechanisms to account for potential revenue shortfalls. The rate proposal thus allows BPA to continue to recover its transmission and ancillary service costs through its rates while remaining competitive, and is consistent with the general approach to setting rates and managing and responding to risk that was developed in the Market-Driven alternative and continued through subsequent rate cases. In addition, the rate designs for the rates in the rate proposal are clear and straightforward to administer. Finally, BPA believes that the rate proposal allows BPA to meet all of its applicable legal mandates. Accordingly, the proposed 2008 Final Transmission and Ancillary Services Rates are consistent with these aspects of the Market-Driven Alternative

BPA recently completed a review of the Business Plan EIS and ROD through a Supplement Analysis to the Business Plan EIS. The Supplement Analysis 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, 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 continue to provide a sound basis for making determinations under NEPA concerning BPA's policy-level decisions. Supplement Analysis to the Business Plan EIS, April 2007 (Supplement Analysis), TR-08-EV-04.

Thus, the proposed 2008 Final Transmission and Ancillary Services Rates fall within the scope of the Market-Driven alternative identified and evaluated in the Business Plan EIS and adopted by the Administrator in the Business Plan ROD. The decision to implement this rate proposal therefore is tiered to the Business Plan EIS and ROD.

6.0 ADMINISTRATOR'S DECISION

As required by law, the Transmission and Ancillary Services rates established and adopted by this record of decision have been set to recover the costs associated with the transmission of electric power, including the amortization of the Federal investment in the FCRTS over a reasonable period of years, and all other costs and expenses incurred in carrying out the requirements of the Northwest Power Act and other provisions of law. The rates have been established with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles. In addition, the transmission and ancillary services rates are designed to equitably allocate the cost of the Federal transmission system between Federal and non-Federal power using the system. Finally the rates satisfy the Commission's comparability standards, as the transmission of Federal power will be charged the same rates as the transmission of non-Federal power under BPA's OATT.

BPA must establish its transmission and ancillary services rates based on the record developed in a proceeding pursuant to section 7(i) Northwest Power Act. BPA began a formal 7(i) proceeding with publication of a Federal Register Notice of Transmission Rate Case on February 5, 2007. The Hearing Officer certified that the record is full and complete and interested parties were afforded adequate opportunity to present their views and comment on the proposed rates, as required by law. Hearing Officer's Certification of the Official Record, TR-08-A-02.

BPA has evaluated the potential environmental impacts of BPA's 2008 Transmission and Ancillary Services rate proposal, consistent with NEPA. I have considered the environmental analysis contained in the Business Plan EIS and supplemental documents in making the decisions adopted in this record of decision, and I have determined that this rate proposal is adequately covered within the scope of the environmental analysis provided by the Business Plan EIS. Since the rate proposal also is consistent with the Market-Driven alternative adopted in the Business Plan ROD, the decision to implement this rate proposal is tiered to the Business Plan ROD.

Based upon the record compiled in this proceeding, the decisions expressed herein, and the requirements of law, I hereby adopt the attached Transmission and Ancillary Services Rate Schedules as the Bonneville Power Administration's proposed 2008 Final Transmission and Ancillary Services Rates. The rate levels and other provisions in the attached rate schedules are consistent with the rates proposed in the Settlement Agreement. In accordance with the Commission's filing requirements applicable to Federal power marketing administrations, 18 CFR § 300.10(g), I hereby certify that the Transmission and Ancillary Services rates proposal adopted herein are consistent with applicable.

Issued in Portland, Oregon this 23rd day of April, 2007.

A handwritten signature in black ink, appearing to read "Stephen J. Wright". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Stephen J. Wright
Administrator and Chief Executive Officer
Bonneville Power Administration

Appendix A
Settlement Agreement

SETTLEMENT AGREEMENT
Bonneville Power Administration 2008 Transmission Rate Case

The undersigned signatories to this Settlement Agreement hereby agree to the following:

1. In the Bonneville Power Administration (BPA) 2008 Transmission Rate Case (Rate Case), BPA Transmission Services (TS) will submit a proposal (Initial Proposal) to establish rates for FYs 2008-2009 (Rate Period) as shown in Attachment 1.
2. The Initial Proposal will also include the following changes to existing rate schedules and no other changes:
 - a. Formula rates for Formula Power Transmission Rate FPT-08.1 and FPT-08.3, Integration of Resources (IR) Rate, Reactive Supply and Voltage Control from Generation Sources Service, and the Short Distance Discount Rate in the IR rate schedule, as shown in Attachment 2.
 - b. The deletion of “a. FY 2006 (October 2005 through September 2006)” in section 1 of the Regulation and Frequency Response Service rate schedules in both the Ancillary Services Rates and the Control Area Services Rates, and the deletion of section 1.b of such rate schedules.
 - c. The deletion of section II.E.1.a. from the Operating Reserve – Spinning Reserve Service rate schedule in the Ancillary Services Rates and section III.C.1.a from the Operating Reserve – Spinning Reserve Service rate schedule in the Control Area Services Rates, and their replacement with the following language:
 - a. **Spinning Reserve Service**
 - (i) For customers that elect to purchase Operating Reserve – Spinning Reserve Service from BPA Transmission Services, the rate shall not exceed 7.93 mills per kilowatthour.
 - (ii) For customers that are required to purchase Operating Reserve – Spinning Reserve Service from BPA Transmission Services because they defaulted on their self-supply or third-party supply obligations, the rate shall be 9.12 mills per kilowatthour.
 - d. The deletion of section II.F.1.a from the Operating Reserve – Supplemental Reserve Service rate schedule in the Ancillary Services Rates and section III.D.1.a from the Operating Reserve – Supplemental Reserve Service rate schedule in the Control Area Services Rates, and their replacement with the following language:

a. Supplemental Reserve Service

(i) For customers that elect to purchase Operating Reserve – Supplemental Reserve Service from BPA Transmission Services, the rate shall not exceed 7.93 mills per kilowatthour.

(ii) For customers that are required to purchase Operating Reserve – Supplemental Reserve Service from BPA Transmission Services because they defaulted on their self-supply or third-party supply obligations, the rate shall be 9.12 mills per kilowatthour.

e. The deletion of the reservation fee for deferred service in the PTP, Southern Intertie (IS), and Montana Intertie (IM) rate schedules and in section II.E of the General Rate Schedule Provisions. The reservation fee for an extension of the Service Commencement Date will be retained.

f. The deletion of the following language in section IV.D. of the PTP rate schedule; section IV.C of the IS rate schedule; section IV.C of the IM rate schedule; section A.2.a. of the Scheduling, System Control and Dispatch Service rate schedule; and section B.2.a. of the Reactive Supply and Voltage Control From Generation Sources Service rate schedule:

If Hourly Non-Firm PTP Transmission Service is Curtailed or Interrupted, the Transmission Customer will be charged for actual use during the hour, and not Reserved Capacity. If the Curtailment originates from conditions on another Transmission Provider's Transmission System, no adjustment will be made to the Reserved Capacity billing factor.

and its replacement by the following language:

i. If the need for Curtailment is caused by conditions on the Federal Columbia River Transmission System, the Billing Factor will be as follows:

a. If Hourly Non-Firm PTP Transmission Service is Curtailed or Interrupted before the close of the hourly non-firm scheduling window, the Billing Factor will be the Reserved Capacity minus the curtailed capacity.

b. If Hourly Non-Firm PTP Transmission Service is Curtailed or Interrupted after the close of the hourly non-firm scheduling window, the Billing Factor will be the Transmission Customer's actual schedule in the hour.

ii. If the need for Curtailment is caused by conditions on another transmission provider's transmission system, the Billing Factor will be the Reserved Capacity.

g. The addition of the following language to section 2 of the Scheduling, System Control and Dispatch Service rate schedule and the Reactive Supply and Voltage Control From Generation Sources Service rate schedule:

For Transmission Customers taking Point-to-Point Transmission Service (PTP, IS, and IM rate schedules) that are subject to a UIC in a billing month, the Billing Factor for the billing month shall be the Billing Factor calculated above plus the UIC Billing Factor calculated under section II.G.2.a. of the GRSPs.

For Transmission Customers taking Network Integration Transmission Service that are subject to a UIC in a billing month, the Billing Factor for the billing month shall be the Billing Factor calculated above plus the UIC Billing Factor calculated under section II.G.2.b. of the GRSPs.

h. The addition of the following language at the end of the second sentence of section I of the PTP rate schedule:

and to customers taking Conditional Firm (CF) Transmission Service, if BPA adopts CF Transmission Service.

3. During the Rate Period, TS does not intend to compensate BPA Power Services (PS) or third parties for generation-supplied reactive power (GSR). Notwithstanding any provision of the Initial Proposal terminating such compensation and notwithstanding paragraph 7 of this Settlement Agreement, this Settlement Agreement is not intended to, and does not, resolve the dispute between BPA and certain signatories regarding such signatories' right to compensation for GSR. By executing this Settlement Agreement, no signatory shall be deemed to have waived or relinquished its position on any issue relating to compensation for GSR that is raised in Docket No. WP-07, including but not limited to the treatment of costs related to GSR provided by synchronous condensers.

4. The signatories recognize that during the Rate Period BPA may conduct a rate case for the purpose of adopting a rate for generation regulation service and/or generation following service.

5. Financial Reserves

a. BPA expects to use, and the signatories will not object to or otherwise challenge BPA's use of, \$15 million recorded as Transmission reserves in each year of the Rate Period (for a total of \$30 million) as a funding source for transmission capital programs. Nothing in this Settlement Agreement prohibits the signatories from objecting to or otherwise challenging, in a forum other than the Rate Case, the level of Transmission capital programs, the specific projects included in capital programs, or the level of expenditures for any project(s); and

b. In the calculation and presentation of the revenue requirement in the Rate Case, BPA will model the use of Transmission reserves as a funding source for transmission capital programs as described in paragraph 5.a.

6. BPA, BPA's Slice customers and Northwest Requirements Utilities ("NRU") executed an agreement settling litigation and other disputes relating to certain Slice true-up adjustments, Agreement No. 07PB-12273 (the "Slice Settlement Agreement"), effective November 22, 2006. BPA, BPA's Slice customers and NRU agree that the following process satisfies BPA's procedural and public process requirements regarding the Debt Optimization Program (DOP) and Debt Service Reassignment (DSR) demonstration under the Slice Settlement Agreement: (1) for transmission rates at the 2007 annual meeting and (2) for the Rate Case:

a. At the annual DOP and DSR meeting planned for January 2007, the demonstration for transmission rates will be addressed separately from the demonstration for power rates. BPA will demonstrate that transmission rates are no higher with the DOP than they would have been in the absence of the DOP (which includes DSR). BPA will demonstrate achievement of this principle by running and presenting results from repayment studies that compare a base transmission repayment study that includes all debt management activities completed as of September 30, 2006, with a transmission repayment study that includes new DOP and DSR projections for the current and upcoming fiscal years ("Transmission Rate DOP Demonstration"). Time will be made available at the January 2007 meeting for the BPA Slice customers, NRU and other interested parties to discuss with BPA the information presented at the meeting, to ask questions about such information and to state their concerns and information needs. Any requests for information from BPA shall be limited to the facts of the Transmission Rate DOP Demonstration, such as how it was constructed, the sources of data, assumptions and bases for assumptions, how conclusions were derived, description of methods used in the repayment studies or affirmative reasons for using these methods. BPA will not provide information to requests that seek privileged or proprietary information, information that is unduly burdensome to produce, or that requires BPA to perform any new studies or perform or run any different analysis. A follow up meeting may be scheduled, if necessary, no later than 8 days following the January 2007 DOP Demonstration meeting to respond to requests for information made at the first meeting, and to further address concerns regarding the Transmission Rate DOP Demonstration. No later than 15 days after the first meeting in January 2007, each of BPA's Slice customers and NRU shall notify BPA, in writing, that it either has no objections and is satisfied with the Transmission Rate DOP Demonstration and agrees to the stipulation described below, or has concerns about the Transmission Rate DOP Demonstration that remain unresolved.

b. For purposes of the Rate Case, BPA's Initial Proposal shall include (1) the Transmission Rate DOP Demonstration made available at the January, 2007 meeting(s); (2) language in the Transmission Revenue Requirement Study in accordance with the Slice Settlement Agreement, Exhibit D, Section B (Attachment 3), that clearly and transparently describes the DOP-related costs for which transmission rates are being set; and (3) testimony that draws attention to that language.

- i. If each of BPA's Slice customers and NRU have no objections and are satisfied with the Transmission Rate DOP Demonstration, then all of BPA's Slice customers and NRU agree to (1) stipulate to such conclusion, (2) move to enter the stipulation into the Rate Case record at the prehearing conference, and (3) request an order from the Hearing Officer directing that no party direct case testimony be submitted on the Transmission Rate DOP Demonstration during the Rate Case by any rate case party, or
- ii. If any of BPA's Slice customers or NRU have concerns that remain unresolved ("Objecting Party(ies)"), then the Objecting Party shall have the opportunity to submit direct case testimony on the Transmission Rate DOP Demonstration. If an Objecting Party submits direct case testimony, then other rate case parties will also be afforded the opportunity to submit direct case testimony on the Transmission Rate DOP Demonstration. BPA and all rate case parties shall have the right to submit rebuttal testimony on any party direct case testimony on

the Transmission Rate DOP Demonstration, and BPA and all rate case parties will have the opportunity to cross examine the BPA, Objecting Party or other rate case party witnesses on that topic, and all rate case parties may submit briefs and participate in oral argument. The rate case parties agree to limit any direct case testimony, rebuttal testimony, cross examination of witnesses, and briefs and oral arguments to the Transmission Rate DOP Demonstration issue, and will not contest any other aspects of the Initial Proposal presenting testimony on any other provisions agreed to under this Settlement Agreement unless such contest is otherwise permitted pursuant to the other paragraphs of this Settlement Agreement.

c. In the application to the Federal Energy Regulatory Commission (FERC) seeking confirmation and approval of the proposed 2008 Transmission Rates, BPA will draw FERC's attention to the Revenue Requirement Study language regarding the Transmission Rate DOP Demonstration.

d. Compliance by BPA with the foregoing provisions of this paragraph 6 shall satisfy the procedural and public process requirements of BPA under the Slice Settlement Agreement regarding BPA's Transmission Rate DOP Demonstration for the 2007 annual meeting and the Rate Case and FERC filing obligations, and does not establish any precedent for BPA's demonstration obligation in any subsequent year or BPA transmission rate case.

e. All other signatories to this Settlement Agreement agree to not oppose this paragraph 6 or any actions by BPA, any Slice customer, NRU or any other rate case party taken in accordance with this paragraph 6. BPA will undertake all necessary and appropriate actions to defend the commitments made under this paragraph, before FERC and elsewhere.

7. Except as provided in paragraph 6, the signatories agree not to contest any aspect of the Initial Proposal, including but not limited to the level of any transmission or ancillary services or control area services rate or any of the elements thereof, the methodologies and principles used to derive such rates, or any aspect of the rate schedules or general rate schedule provisions, or any other issue that is included in this Settlement Agreement, and further agree to waive their rights to cross-examination and discovery with respect thereto. If, however, TS does not submit an Initial Proposal consistent with the terms of this Settlement Agreement, the signatories may contest any aspect of the Initial Proposal.

8. Revised Attachment K (Attachment 4 to this Settlement Agreement) is intended to replace the existing Attachment K in BPA's Open Access Transmission Tariff. The signatories agree not to contest any aspect of the revised Attachment K and waive their rights in the Rate Case to cross-examination and discovery with respect thereto. If no party in the Rate Case contests any aspect of the revised Attachment K, BPA will submit such revised Attachment K to the FERC for approval as an amendment to BPA's Open Access Transmission Tariff. Nothing in this Settlement Agreement limits a signatory's right to argue in an appropriate forum that, when making curtailments, BPA has not curtailed on a non-discriminatory basis the transaction(s) that effectively relieve the constraint.

9. BPA expects to implement a "Within Hour Reliability Redispatch Pilot Program," (Pilot Program) in coordination with the Congestion Management Steering Committee, to acquire redispatch from federal and non-federal generators in the summer of 2007. As soon as

practicable after the conclusion of the Pilot Program, BPA will hold a public meeting or meetings to evaluate the Pilot Program and redispatch under Attachment K. If BPA concludes, based upon the evaluation of the Pilot Program, that the continued participation of non-federal entities is appropriate, BPA will include non-federal generators in any follow-on redispatch program, and will consider including non-federal entities other than generators. BPA will also consider whether it is appropriate to revise Attachment K, including whether to include non-federal entities.

10. For redispatch and curtailment during the Rate Period:

a. TS will include in its revenue requirement for the Rate Period \$4.5 million per year for expected payments for redispatch of generation under Attachment K or its successor and under any reliability redispatch program.

b. For each request for redispatch that TS makes under Attachment K, PS will provide TS a bid price for providing the redispatch. If TS accepts the bid price and PS provides the redispatch, TS will pay PS the bid price.

c. For all requests for redispatch or curtailment made on or after June 1, 2007, TS will track and post on its website the following information:

(i) For redispatch provided by PS or a non-federal entity: type of redispatch (Discretionary, Emergency, NT Firm, Pilot Program or other program), date, hour starting and hour ending, megawatts, source of increase, source of decrease, and reason triggering the redispatch request including constrained flowgate, as soon as practicable after the end of each month. In addition:

(a) For the quarter beginning October 1, 2007, and for each quarter thereafter, TS will post, no later than 30 days after the end of such quarter, the inc and dec price for each redispatch provided under Attachment K; provided *however*, BPA shall not be required to explain the basis of the price for any redispatch under Attachment K.

(b) For requests for redispatch on or after June 1, 2007, under the Pilot Program or any other redispatch programs other than Attachment K, TS will post pricing information as required by such program.

(ii) For curtailments requested by TS of any transmission customer: date, hour starting and hour ending, megawatts curtailed, curtailment location (Network Flowgates, external interconnections and/or Interties), summary of Curtailment Calculator if applicable, and reason(s) for triggering the curtailment including constrained flowgate, as soon as practicable after the end of each month.

d. If, during FY 2008, the cumulative costs paid by TS for redispatch reach \$2.25 million, within 30 days TS will schedule a public meeting or meetings to review TS's implementation of redispatch including the data listed in paragraph 10.c.i.; provided *however*, BPA shall not be required to explain the basis of the price for any redispatch under Attachment K. Workshops for the transmission rate case for the FY 2010 -11 period will include a review of redispatch events, payment methodologies and payments subject to the provisions of paragraph 10.c.i.a. above.

11. On or before October 1, 2007, BPA will post notice of a potential Spill Condition on the TS website no later than 11am PT on preschedule day. BPA will have no liability for the failure of the potential spill condition to materialize or for the materialization of spill conditions that are not forecasted at preschedule. BPA will continue to use the declared spill posted after the fact for billing purposes.

12. The signatories will move the Hearing Officer to specify a date within a reasonable time of the prehearing conference by which (a) any party to the Rate Case that has not executed this Settlement Agreement must object to the settlement proposed in this Settlement Agreement and identify each issue such rate case party chooses to preserve for hearing, or (b) NRU or any Slice customer that has objected to the Transmission Rate DOP Demonstration pursuant to paragraph 6 and that is a party to the Rate Case must identify each issue on which such rate case party will file direct testimony or be deemed to have waived any right to object to the settlement proposal or to the Transmission Rate DOP Demonstration or preserve issues for hearing. If no rate case party objects to the settlement proposal and preserves issues for hearing, and neither NRU nor any Slice customer has preserved an issue for hearing, TS shall propose to the Administrator that he adopt the Initial Proposal in its entirety and BPA shall submit the revised Attachment K to FERC as a proposed amendment to BPA's Open Access Transmission Tariff. In the event that any rate case party does so object to the settlement proposal, TS may, but shall not be required to, revise the Initial Proposal as it believes appropriate and BPA may, but shall not be required to, revise Attachment K as it believes appropriate, either after such rate case party states its objection or after parties file their direct testimony. If TS decides to revise the Initial Proposal, or if BPA decides to revise Attachment K, the parties will meet promptly to discuss a new procedural schedule that they will propose to the Hearing Officer, allowing TS or BPA, as the case may be, a reasonable time in which to present a revised proposal and the parties a reasonable time to respond to such revised proposal. In that event, the signatories may contest any aspect of the revised proposal.

In the event that no rate case party objects to the settlement proposal, but either NRU or any Slice customer has preserved an issue for hearing, TS may, but shall not be required to, revise the Initial Proposal as it believes appropriate, either after such rate case party states its objection or after such rate case party files its direct testimony. If TS decides to revise the Initial Proposal, the rate case parties will meet promptly to discuss a new procedural schedule that they will propose to the Hearing Officer, allowing TS a reasonable time in which to present a revised proposal and the parties a reasonable time to respond to such revised proposal. In such event, the signatories may contest any aspect of the revised proposal related to the Transmission Rate DOP Demonstration. If TS does not revise its Initial Proposal, the parties will propose to the Hearing Officer a procedural schedule that will allow the objecting party and other rate case parties to file testimony on the Transmission Rate DOP Demonstration.

13. If TS submits an Initial Proposal consistent with the terms of this Settlement Agreement, and does not submit a revised proposal pursuant to paragraph 12, the signatories agree not to enter any evidence into the Rate Case or make any argument in the Rate Case contesting any provision of section 36 of BPA's current Open Access Transmission Tariff. If the Administrator establishes transmission rates consistent with the Initial Proposal and submits such rates to FERC for confirmation and approval, the signatories agree not to make any such argument regarding section 36 of BPA's Open Access Transmission Tariff before FERC or any judicial forum during the Rate Period.

14. Nothing in this Settlement Agreement is intended in any way to alter the Administrator's authority and responsibility to periodically review and revise the Administrator's transmission rates or the signatories' rights to challenge such revisions.

15. If the Administrator establishes transmission rates consistent with the Initial Proposal and submits such rates to FERC for confirmation and approval under the applicable standards of the Northwest Power Act or as a reciprocity filing, the signatories agree not to challenge such confirmation and approval of such rates or any element thereof, including the methodologies and principles used to establish such rates, or support or join any such challenge, and agree not to challenge such rates or any element thereof, including the methodologies and principles used to establish such rates, in any judicial forum. The signatories further agree not to contest the approval by FERC of the revised Attachment K, and if FERC approves the revised Attachment K without change, the signatories agree not to challenge such approval or any element of Attachment K in any judicial forum.

The signatories agree that in the usual course any rate case party has the right to argue to FERC, based on BPA's Transmission Rate DOP Demonstration, that FERC should deny confirmation and approval of BPA's transmission rates on the ground that the rates violate one or more of the statutory ratemaking standards in section 7(a) of the Northwest Power Act, and to challenge such rates in any appropriate judicial forum. If, however, the Administrator adopts the rates proposed in the Initial Proposal, the signatories agree not to bring any such contest or challenge to such rates.

16. The signatories agree that they will not assert in any forum that anything in this Settlement Agreement or any action with regard to this Settlement Agreement taken or not taken by any signatory, the Hearing Officer, the Administrator, FERC, or a court, creates or implies any procedural or substantive precedent or creates or implies agreement to any underlying principle or methodology, or creates any precedent under any contract between BPA and any signatory.

17. By executing this Settlement Agreement, no signatory waives any right to pursue BPA Open Access Transmission Tariff (OATT) dispute resolution procedures consistent with BPA's OATT (including without limitation any complaint concerning implementation of BPA's OATT) or any claim that a particular charge, methodology, practice or rate schedule has been improperly applied.

18. Nothing in this Settlement Agreement amends any contract or modifies rights or obligations or limits the remedies available thereunder.

This Settlement Agreement may be executed in counterparts.



_____ for
Cathy L. Ehli
VP, Transmission Marketing and Sales

Bonneville Power Administration Transmission Services
Party

Date January 12, 2007

Attachment 1

Summary of Rate Levels

	Units	Proposed 2008 Rates	
		FPT-08.1	FPT-08.3
FPT-08.1 and FPT-08.3			
M-G Distance.....	\$/kW-mi-yr	0.0587	0.0587
M-G Miscellaneous Facilities.....	\$/kW-yr	3.35	3.35
M-G Terminal.....	\$/kW-yr	0.68	0.68
M-G Interconnection Terminal.....	\$/kW-yr	0.61	0.61
S-S Transformation.....	\$/kW-yr	6.31	6.31
S-S Interconnection Terminal.....	\$/kW-yr	1.73	1.73
S-S Intermediate Terminal.....	\$/kW-yr	2.44	2.44
S-S Distance.....	\$/kW-mi-yr	0.5772	0.5772
Overall FPT Rate.....	\$/kW-yr	15.93	15.93
Overall FPT Rate.....	\$/kW-mo	1.327	1.327
IR-08			
Demand.....	\$/kW-mo	1.498	
NT-08			
Base Rate (\$/kW-mo).....	\$/kW-mo	1.298	
Load Shaping (\$/kW-mo).....	\$/kW-mo	<u>0.367</u>	
Base plus Load Shaping.....	\$/kW-mo	1.665	
PTP-08			
Demand.....	\$/kW-mo	1.298	
Daily Block 1 (day 1 thru 5).....	\$/kW-day	0.060	
Daily Block 2 (day 6 and beyond).	\$/kW-day	0.046	
Hourly.....	mills/kWh	3.74	
Utility Delivery			
Demand.....	\$/kW-mo	1.119	
IS-08			
Demand.....	\$/kW-mo	1.293	
Daily Block 1 (day 1 thru 5).....	\$/kW-day	0.060	
Daily Block 2 (day 6 and beyond).	\$/kW-day	0.045	
Hourly.....	mills/kWh	3.72	
IM-06			
Demand.....	\$/kW-mo	1.312	
Daily Block 1 (day 1 thru 5).....	\$/kW-day	0.061	
Daily Block 2 (day 6 and beyond).	\$/kW-day	0.043	
Hourly.....	mills/kWh	3.78	
Intertie East			
IE-06.....	mills/kWh	1.13	

Attachment 1

Summary of Rate Levels

	Units	Proposed 2008 Rates
Power Factor Penalty Charge		
Demand -- Lagging.....	\$/kVAr-mo	0.28
Demand -- Leading.....	\$/kVAr-mo	0.24
Scheduling Control and Dispatch ('08)		
Demand.....	\$/kW-mo	0.203
Daily Block 1 (day 1 thru 5)....	\$/kW-day	0.010
Daily Block 2 (day 6 and beyond).	\$/kW-day	0.006
Hourly.....	mills/kWh	0.59
Generation Supplied Reactive ('08)		
Demand.....	\$/kW-mo	0.000
Daily Block 1 (day 1 thru 5)....	\$/kW-day	0.000
Daily Block 2 (day 6 and beyond).	\$/kW-day	0.000
Hourly.....	mills/kWh	0.00
Regulation and Frequency Response		
Hourly.....	mills/kWh	0.33
Energy Imbalance		
Hourly.....	mills/kWh	100.00
Operating Reserves		
Spinning.....	mills/kWh	7.93
Supplemental.....	mills/kWh	7.93
Operating Reserves -Default Rate		
Spinning.....	mills/kWh	9.12
Supplemental.....	mills/kWh	9.12

Attachment 2

Formula Rates

FPT-08.1
Formula Power Transmission Rate

***** Updated the denominator of the formula rate which is the average FPT rate based on FY08-09 data**

The Main Grid and Secondary System charges are calculated each quarter beginning October 2007 according to the following formula:

$$\left(1 + \frac{\text{GSR}_q}{\$1.327/\text{kW}/\text{mo}} \right) * \text{FPT Base Charges}$$

Where:

- GSR_q = The ACS-08 Reactive Supply and Voltage Control From Generation Sources Service Rate for Long-Term Firm PTP Transmission Service and NT Service, section II.B.1.a., that is effective for the quarter for which the FPT rate is being calculated, in \$/kW/mo.
- FPT Base Charges = The following annual Main Grid and Secondary System charges:

FPT-08.3
Formula Power Transmission Rate

*****Included formula rate for Main Grid and Secondary System charges for FPT X.3**

The Main Grid and Secondary System charges are calculated each quarter beginning October 2007 according to the following formula:

$$\left(1 + \frac{\text{GSR}_q}{\$1.327/\text{kW}/\text{mo}} \right) * \text{FPT Base Charges}$$

Where:

- GSR_q = The ACS-08 Reactive Supply and Voltage Control From Generation Sources Service Rate for Long-Term Firm PTP Transmission Service and NT Service, section II.B.1.a., that is effective for the quarter for which the FPT rate is being calculated, in \$/kW/mo.
- FPT Base Charges = The following annual Main Grid and Secondary System charges:

Attachment 2 Formula Rates

**IR-08
Integration of Resources Rate**

****Updated the denominator of the formula rate which is the sum of the base IR rate minus the SCD rate*

B. SHORT DISTANCE DISCOUNT (SDD) RATE

For Points of Integration (POI) specified in the IR agreement as being short-distance POIs, for which Network facilities are used for a distance of less than 75 circuit miles, the monthly rate shall be the sum of:

1. \$0.203/kW/mo; and
2. ACS-08 Reactive Supply and Voltage Control From Generation Sources Service Rate for Long-Term Firm PTP Transmission Service and NT Service, section II.B.1.a., effective for the quarter for which the IR rate is being calculated, in \$/kW/mo; and
3. $(0.6 + (0.4 \times \text{transmission distance}/75)) \times \$1.295/\text{kW/mo}$

Where:

The transmission distance is the circuit miles between a designated POI for a generating resource of the customer and a designated Point of Delivery serving load of the customer. Short-distance POIs are determined by BPA-TBL after considering factors in addition to transmission distance.

REACTIVE SUPPLY AND VOLTAGE CONTROL FROM GENERATION SOURCES SERVICE

****Removed payments to PS in formula and updated bd*

a. Long-Term Firm PTP Transmission Service and NT Service

The rate, in dollars per kilowatt per month (\$/kW/mo), shall not exceed:

$$\frac{4(N_q + U_{q-1} + Z_{q-1})}{bd - 4S_q}$$

Where:

- bd = 407,916 MW-mo = Average of forecasted FY 2008 and FY 2009 GSR Service billing determinants. Each annual billing determinant is the sum of the 12 monthly billing determinants.
- N_q = Non-federal GSR cost to be paid by BPA-TBL under a FERC-approved rate during the relevant quarter, as anticipated prior to the quarter. (\$)
- U_{q-1} = Payments of non-federal GSR cost made in the preceding quarter(s) that were not included in the effective rate for the

preceding quarter(s). Any refunds received by BPA-TBL would reduce this cost. U_{q-1} is a true-up for any deviation of non-federal GSR costs from the amount used in a previous quarter's GSR rate calculation. For calculating the GSR rate effective October 1, 2007, U_{q-1} is zero. (\$)

S_q = Reduction in effective billing demand for approved self-supply of reactive during the relevant quarter, as anticipated prior to the quarter. (MW-mo)

Z_{q-1} = A dollar true-up for under- or overstatement of reactive self-supply in rate calculations for the preceding quarter(s). For calculating the GSR rate effective October 1, 2007, Z_{q-1} is zero. Z_{q-1} will be calculated by multiplying the under- or overstated megawatt amount of self-supply by the GSR rate that was effective during the quarter of self-supply deviation. (\$)

“Relevant quarter” refers to the 3-month period for which the rate is being determined.

Attachment 3

Slice Settlement Agreement, Exhibit D, Section B

B. BPA Commitments Concerning the Debt Optimization Program

1. BPA, working with Energy Northwest (“EN”), has developed the DOP to increase its available borrowing authority from the United States Treasury using proceeds accomplished as a result of EN bond refinancings.

2. One of the fundamental principles of the DOP, created at the time Debt Service Reassignment (DSR) (described more fully in Section B.4 below) was developed, is that the rates of each of BPA’s business lines (Transmission Business Line (“TBL”) and Power Business Line (“PBL”)) are no higher with the DOP than they would have been in the absence of the DOP. BPA will manage the DOP in conformance with, and to achieve realization of, this principle, notwithstanding that the mechanics of recording the DOP transactions and understanding their impact on rates are complex. BPA annually demonstrates achievement of this principle by running repayment studies that compare a base repayment study that includes all debt management activities completed to date with a DOP repayment study that includes new DOP projections for the upcoming years, the results of which comply with such principle. BPA will continue to so demonstrate achievement of this principle annually and in the next and subsequent general wholesale power and transmission rate proceedings so long as new DOP refinancings occur. The demonstration for power rates will be made in the power rate case, and for the transmission rates in the transmission rate case. The Participants agree that for purposes of making its demonstration in the next general transmission rate proceeding, BPA will introduce the information for the first time in its rebuttal case, and the Administrator will direct the hearing officer in writing to provide parties a reasonable period of time to respond to such information with surrebuttal testimony and, if requested by any party (including BPA), a further reasonable period of time to respond to such surrebuttal with sur-surrebuttal testimony. Furthermore, BPA will adhere to this principle and will not move away from adherence to this principle without a public review and comment period, consistent with Section C of this MOU and any requirements of law.

3. In a letter to the EN Executive Board on December 11, 2000, BPA's Administrator stated that the success of the DOP in achieving its objectives depends both on the successful completion of the extension of the Columbia Generating Station debt and on the disciplined application of the proceeds from that action by BPA to amortize more Federal debt than would otherwise be scheduled for amortization. The Administrator gave the EN Executive Board BPA's commitment that this increased amortization would equal the reduction in BPA's net billing obligation resulting from debt management actions under this program on an annual basis and that only under extreme financial pressure would BPA consider deviating from the actions required to implement this program. These assurances also apply to extensions of Projects 1 and 3 debt. BPA will adhere to this principle and will not move away from adherence to this principle without a public review and comment period, consistent with Section C of this MOU and any requirements of law.
4. Customers have expressed a desire for assurance that BPA match, by business line, the benefit received (prepayment of Federal debt) with the obligation incurred (issuance of new EN debt). BPA has researched and believes it has implemented the appropriate accounting treatment and rate case methodologies to ensure that costs are recovered (per the repayment study) and debt service expense is attributed accurately as reflected in BPA's PBL and TBL income statements, thereby matching, by business line, the benefit received (prepayment of Federal debt allocated to a business line) with the obligation incurred (issuance of new EN debt) under DOP. When EN debt is issued and there is a resulting benefit to TBL, the original EN debt that was due in that particular year (and refinanced) is considered "paid" by the PBL. The original debt is no longer in existence due to the refinancing and the TBL responsibility for paying the debt service on the new debt is reflected in the accounting and rate case methodologies mentioned above. This all describes DSR, which is a component of DOP. References in this MOU to DOP shall include DSR, unless the context clearly requires otherwise.

BPA intends and will act to ensure that any EN debt service assigned to TBL through DSR cannot be later reassigned or reallocated to PBL customers during the term of such debt, consistent with law and contract. While net billing constraints, priority of payment requirements, and BPA ratemaking requirements to assure total cost recovery make it possible—though a very remote possibility—that BPA could find itself in a position unable to fulfill this commitment, BPA will seek to prevent that and, if it cannot, will inform the Participants consistent with Section C of this MOU. BPA does not now see any reason why it could or would not continue to set transmission rates to recover transmission costs and power rates to recover power costs, *i.e.*, it does not anticipate being in the situation where a transmission cost (*e.g.*, in this context, obligations resulting from DSR) would need to be reallocated or reassigned to PBL for recovery, but in any event BPA will utilize the Communication Protocols set forth in Section C of this MOU to keep customers apprized of any change in circumstances.

Under BPA's priority of payment requirements, obligations resulting from DSR must be repaid before BPA repays Federal interest and amortization. That priority of payments makes it even more unlikely that obligations resulting from

DSR would ever need to be allocated or assigned from TBL to PBL in order to assure total BPA cost recovery. However, in the event BPA did find itself in the situation where obligations resulting from DSR needed to be allocated or assigned back from TBL to PBL in order to assure total BPA cost recovery, BPA commits to treat the allocation or assignment in a manner where the costs would be tracked and the PBL would be fully compensated for its recovery of the TBL cost. The means of compensation would be proposed in a rate case and would be subject to review and comment by parties in that rate case, as addressed below.

5. In each general BPA PBL and TBL wholesale rate proceeding conducted while EN bonds refinanced under DOP, including EN debt service reassigned under DSR to TBL, are still outstanding, BPA will include the language of Sections B.1, B.2, B.3 and B.4 above in its Revenue Requirement Study, will clearly and transparently describe the DOP-related costs for the business line (PBL or TBL) for which rates are then being set, and will draw attention to that language in its testimony, except that the references to "Section C of this MOU" will be changed to give a complete citation to this MOU. After BPA's rate proceeding, and when BPA files its proposed rates with the Federal Energy Regulatory Commission (FERC), BPA will draw FERC's attention to such Revenue Requirement Study language in its cover letter. BPA will take all necessary and appropriate actions to defend the commitments made in this Section B, before FERC and elsewhere. In the event BPA were to propose to allocate or assign obligations resulting from DSR from TBL to PBL for recovery, BPA agrees that allocation or assignment must be implemented through a section 7(i) hearing and that it will not argue or otherwise assert that the Participant(s) are precluded from arguing or otherwise asserting in any such section 7(i) rate proceeding and thereafter in any proceeding before the FERC for approval of BPA wholesale rates, and thereafter in any proceeding for judicial review of BPA's rates, that BPA's proposal violates the equitable allocation standard or other standard of law.

Attachment 4

Attachment K: Procedures for redispatch of the federal hydro system

This attachment establishes parameters and procedures for the period October 1, 2007, through September 30, 2009, for redispatch of the federal hydro system by BPA's Power Services (PS) at the request of BPA's Transmission Services (TS). TS may request redispatch during any period when TS determines that a transmission constraint exists on the Transmission System and such constraint may impair the reliability of the system. TS may not request redispatch under this Attachment K to make additional firm or non-firm transmission sales.

Definitions

Under this Attachment K, redispatch is the intentional incrementing or decrementing of generating units or projects by PS, or the limitation of generation at specific locations by PS, at the request of TS. There are three types of redispatch under this Attachment K:

- A. Emergency Redispatch is redispatch requested by TS upon declaration of a "system emergency" as that term is defined by the North American Electric Reliability Council (NERC).
- B. NT Firm Redispatch is redispatch requested by TS for the purpose of maintaining firm network transmission (NT) schedules after TS has curtailed non-firm point-to-point (PTP) schedules and secondary network schedules in a sequence consistent with the NERC curtailment priority. For NT Firm Redispatch, TS shall request redispatch from PS and shall curtail firm PTP schedules in amounts proportionate to the non-secondary NT and firm PTP flows on the affected transmission flowgates at the time of the request.
- C. Discretionary Redispatch is redispatch requested by TS prior to its curtailment of any firm or non-firm PTP schedules or secondary NT schedules for the purpose of avoiding or ameliorating curtailments.

Provisions

1. PS must comply with requests for Emergency Redispatch even if PS must violate non-power constraints.
2. PS must comply with requests for NT Firm Redispatch to the extent that it can do so without violating non-power constraints.
3. PS may respond to requests for Discretionary Redispatch by offering, at each generating unit or project, either no redispatch or any amount of redispatch up to the amount requested at each generating unit or project.
4. TS may request redispatch for the following maximum time periods:
 - a) If TS requests redispatch before twenty minutes after the hour, TS may request redispatch only for the remainder of the hour.
 - b) If TS requests redispatch at or after twenty minutes after the hour, TS may request redispatch for the remainder of the hour and the next hour.
 - c) If TS requests Discretionary Redispatch and, before the expiration of the period for which it has requested Discretionary Redispatch, requests NT Firm Redispatch at the same generating units or projects, the amount of Discretionary Redispatch, if any, that PS provided shall be treated as having been provided in response to the request for NT Firm Redispatch for purposes of calculating the proportionate amounts of non-secondary NT Redispatch and firm PTP

curtailments that must take place in response to the OTC violation that resulted in the need for redispatch.

5. In response to any redispatch request, PS may provide redispatch through purchases and/or sales rather than by changing federal generation levels. PS will inform TS at the time of the request if it intends to implement the redispatch through purchases.
6. PS may respond to a TS request for redispatch specific to Network Load located in other control areas through transmission purchases, federal redispatch and/or power purchases.

**SIGNATORIES TO THE
2008 TRANSMISSION RATE CASE
SETTLEMENT AGREEMENT**

Ashland, City of
Avista Corporation
Benton County Public Utility District
Bonneville Power Administration Power Services
Bonneville Power Administration Transmission Services
Calpine Corporation
Chehalis Power Generating, LLC
Clark County Public Utility District #1
Consolidated Irrigation District
Cowlitz County Public Utility District No. 1
Emerald People's Utility District
Franklin County Public Utility District #1
Grant County Public Utility District
Idaho Energy Authority
Northwest and Intermountain Power Producers Coalition
Northwest Requirements Utilities

Signing for:

Ashland, City of
Benton Rural Electric Association
Big Bend Electric Co-Operative, Inc.
Bonners Ferry, City of
Burley, City of
Cascade Locks, City of
Central Lincoln People's Utility District
Cheney, City of
Columbia Basin Electric Cooperative
Columbia Power Cooperative
Columbia River People's Utility District
Columbia Rural Electric Association
East End Mutual Electric Co., LTD.
Ferry County Public Utility District #1
Flathead Electric Cooperative
Forest Grove, City of
Glacier Electric Cooperative, Inc.
Harney Electric Cooperative
Hermiston Energy Services
Heyburn, City of
Hood River Electric Cooperative
Idaho County Light & Power
Inland Power & Light
Klickitat County Public Utility District
Kootenai Electric Cooperative, Inc.
Lincoln Electric Cooperative, Inc.
Lower Valley Energy

McMinnville Water & Light
Midstate Electric Cooperative
Mission Valley Power
Missoula Electric Cooperative
Modern Electric Water Company
Monmouth, City of
Nespelem Valley Cooperative
Northern Wasco County People's Utility District
Orcas Power & Light Cooperative
Oregon Trail Electric Cooperative
Peninsula Light Company
Ravalli County Electric Cooperative
Richland, City of
Rupert, City of
Salem Electric
Skamania County Public Utility District
Surprise Valley Electrification Corp.
Tanner Electric Cooperative
Tillamook People's Utility District
United Electric Cooperative
Vera Water & Power
Vigilante Electric Cooperative, Inc.
Wasco Electric Cooperative
Wells Rural Electric
Ohop Mutual Light Company
PacifiCorp
Public Utility District No. 1 of Pend Oreille County
Pacific Northwest Generating Power
Signing for:
Pacific Northwest Generating Power
Blachly-Lane Electric Cooperative
Central Electric Cooperative, Inc.
Clearwater Power Company
Consumers Power, Inc.
Coos-Curry Electric Cooperative, Inc.
Douglas Electric Cooperative
Fall River Rural Electric Cooperative, Inc.
Lane Electric Coop, Inc.
Lost River Electric Cooperative
Northern Lights, Inc.
Okanogan County Electric Cooperative, Inc.
Raft River Rural Electric Cooperative, Inc.
Salmon River Electric Cooperative, Inc.
Umatilla Electric Cooperative
West Oregon Electric Cooperative, Inc.

Portland General Electric Company
Powerex Corp.
Public Power Council
Puget Sound Energy, Inc.
Richland, City of
Salem Electric
Seattle City Light
Seattle, Port of
Snohomish County Public Utility District #1
Springfield Utility Board
Tacoma Power
TransAlta Centralia Generation, LLC
Wahkiakum County Public Utility District #1
Western Montana Electric Generating & Transmission Cooperative, Inc.

Signing for:

Flathead Electric Cooperative
Glacier Electric Cooperative
Lincoln Electric Cooperative
Missoula Electric Cooperative
Mission Valley Power
Ravalli County Electric Cooperative
Vigilante Electric Cooperative

Western Public Agencies Group

Signing for:

Benton Rural Electric Association
Clallam County Public Utility District #1
Ellensburg, City of
Grays Harbor County Public Utility District #1
Kittitas County Public Utility District #1
Lewis County Public Utility District #1
Mason County Public Utility District #1
Mason County Public Utility District #3
Pacific County Public Utility District #2
Peninsula Light Company
Port Angeles, City of
Members of the Pierce County Cooperative Power Association

Which includes:

Alder Mutual Light Company
Eatonville, Town of
Elmhurst Mutual Power and Light Company
Lakeview Light and Power Company
Milton, City of
Ohop Mutual Light Company
Parkland Light and Water Company
Steilacoom, Town of