

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.