

ATTACHMENT A
Rationale for Decisions in
Precedent Transmission Service Agreement Reform Process

The Bonneville Power Administration's (Bonneville) decisions in the Precedent Transmission Service Agreement Reform (PTSA) process mark another milestone in the region's experience with Bonneville's Network Open Season (NOS). As explained below, Bonneville has decided to enter into agreements¹ with BP Wind Energy North America, Inc., EDP Renewables North America, LLC, and Iberdrola Renewables, LLC. This result reflects the principles that Bonneville adopted for the PTSA Reform process, taking into account the stakeholder comments that Bonneville received on the general concept, the concepts applied, and the three proposals that emerged from the process.

Background

Bonneville initiated the first NOS in March 2008, with the goals of being able to manage Bonneville's long-term transmission service request queue, to identify the new transmission infrastructure that would be necessary to support those requests for service, and to facilitate the integration of renewable resources in the region needed to comply with state Renewable Portfolio Standards. To date, NOS has successfully achieved these goals. Bonneville has processed over 26,625 MW of requests for service through the NOS process, has offered over 2,600 MW of new transmission service on the existing system, and has completed three cluster studies that have identified over \$1 billion in new transmission infrastructure that would be needed to provide the requested service. Over 7,000 MW of the requests processed through NOS have been for renewable energy resources.

A key component of NOS was the desire to achieve some certainty in terms of which requests for service reflected a legitimate need for transmission capacity and which were speculative. Bonneville attempted to achieve that certainty through the requirement for customers to sign a PTSA and secure the commitments in the agreement by providing, in most cases, "performance assurance" equal to the charges for one year of service. The PTSA creates a binding commitment to take service if Bonneville determines that it can provide that service at the rolled-in rate and, after Bonneville completes environmental review, it decides to build facilities that are necessary to provide that service. Bonneville offers the PTSA to all customers with eligible TSRs in the queue at the beginning of the NOS process, and Bonneville removes the TSRs of eligible customers that do not sign the agreement from the queue.

Bonneville offered over 500 PTSAs for a total of 26,625 MW in the 2008-2010 NOS processes. Customers signed 263 (11,722 MW) of those agreements, and 14,903 MW of TSRs

¹ The discussion in this document refers to the "agreement" between parties for simplicity. There is no binding agreement between the parties until a final, written agreement is signed.

for which customers did not sign the agreement were removed from the queue. As a result, Bonneville was able to offer 2615 MW of service on the existing transmission system.

While NOS has successfully achieved a number of its goals, it has not been as successful at achieving the certainty that Bonneville desired. Since the first NOS, the region has experienced significant changes in economic conditions and the demand for new renewable energy. In June 2011, regional energy leaders gathered to discuss the Northwest's strategy for integrating wind resources. At that meeting, renewable energy developers described the conditions that they were facing in the Pacific Northwest, and certain Bonneville customers with signed PTSAs indicated that their need for service may have changed.

As a result of the comments of renewable energy developers, Bonneville became concerned that the potential changes in customers' needs could impact the need for the new transmission projects that had emerged from the previous NOS processes and that were either undergoing environmental review or in construction. To further assess this issue and to better understand the timing of need for the projects, the Bonneville Administrator indicated that Bonneville would consider initiating discussions regarding potential changes to PTSAs for which the customer indicated that it no longer has a need for service.²

Bonneville held the first public meeting to discuss potential changes to PTSAs in July 2011.³ These discussions initially were included in the NOS Reform process that had been started in early 2011. Bonneville first solicited stakeholder feedback to assess the interest in terminating or modifying PTSAs, identify support or opposition to those actions, and defined specific criteria or principles that should apply if Bonneville agreed to consider such changes.⁴

Bonneville received a robust, but mixed, response to its request for comments. Some stakeholders opposed any modification to the commitments in the PTSAs. Nonetheless, based on initial responses, customers indicated potential interest in termination of 37 PTSAs for 1,983 MW and modification of 25 agreements for 1,045 MW.⁵ Given this significant volume of interest and support from a number of customers who were not seeking modification of their PTSAs, Bonneville decided that the issue needed further discussion. In September 2011, Bonneville announced that it was re-prioritizing resources to focus on a "PTSA Reform" project and that it would do so separately from the NOS Reform process.

Bonneville articulated five primary principles to guide its decisions in PTSA Reform:

² As discussed on page 8, Bonneville has since determined that sound business cases still support the projects.

³ Materials for all of the public meetings related to PTSA Reform are posted on the PTSA Reform website at: http://transmission.bpa.gov/Customer_Forum/ptsa_reform/. The citations to the BPA presentations and other materials on PTSA Reform use the names of the materials as they appear in the links on the PTSA Reform website.

⁴ PTSA Modification Survey (7/28/2011).

⁵ PTSA Reform Initiative Overview (09/12/2011).

- Customer satisfaction for all customers, not just those seeking to change PTSAs
- Decisions must support Bonneville’s ability to make appropriate infrastructure decisions and best utilize Bonneville’s capital
- Transparency
- Expedited process
- Regional stakeholders must be made whole in terms of rate impact⁶

These principles were intended to reflect a philosophy that any action in PTSA Reform should result in a “win-win” for the customers seeking to terminate or modify agreements and for all other customers. Specifically, any proposal to terminate or modify agreements for a particular customer would have to, use the principles defined and leave other customers in a position that is as good as or better than before NOS. Bonneville emphasized that the process would be transparent and that stakeholders would have the opportunity to review and comment on the terms of any proposed deal before Bonneville would enter into any agreement. Bonneville also emphasized that it intended to conclude this process as quickly as reasonably possible. Bonneville discussed resolving the discussions quickly by developing “template” proposals for termination or modification based on common criteria and offering those proposals on a “take it or leave it” basis. Bonneville initially hoped to reach a decision on any proposed deals by December 2011.

The PTSA Reform initiative has proven far more complicated and lengthy than Bonneville originally anticipated. By December 2011, Bonneville had concluded that the circumstances and needs surrounding each customer that expressed interest in contract changes were so different that applying common criteria to develop “template” proposals would be unworkable. As a result, Bonneville announced that it would accept specific proposals from each customer and negotiate on a bilateral basis.⁷ Bonneville emphasized that the customer seeking termination or modification would have to demonstrate the “value” in its proposal and encouraged customers to explore all the opportunities to demonstrate this “value” rather than pre-defining how value had to be demonstrated. Bonneville set a January 20, 2012 deadline for customer proposals and a schedule to conclude the process by July 2012.

Bonneville received proposals from 12 different customers to take actions regarding PTSAs representing approximately 3400 MW. The proposals included requests to modify start dates for service, modify points of receipt and delivery (redirects), terminate agreements, and transfer agreements. Although Bonneville had initially defined the scope of the process to include requests related to PTSAs only, Bonneville received requests for action related to point-to-point transmission service agreements signed before NOS as well.⁸ Bonneville included the requests related to pre-NOS transmission service agreements in the PTSA Reform process.

⁶ *Id.*

⁷ PTSA Reform Overview (12/6/2011).

⁸ PTSA Reform Initiative: Summary of Proposals (Updated - 2/24/2012); PTSA Reform Update (10/24/2012).

Bonneville was able to process proposals related to approximately 500 MW consistent with its generally applicable policies or under the terms of the existing agreement between the parties.⁹ No additional agreement or negotiation was needed to accommodate these requests, and Bonneville is addressing these proposals through its standard processes outside of PTSA Reform.

For the remaining proposals, Bonneville's internal discussions and the negotiations between Bonneville and each customer continued into the Fall of 2012. Bonneville provided periodic updates to stakeholders during this period.

In October 2012, Bonneville made a decision and informed stakeholders that it would not agree to the proposals to modify the start date for approximately 1300 MW of PTSAs. Bonneville concluded that the financial impacts of the proposed start date modifications did not support Bonneville concluding that this action would result in a neutral or positive outcome for the region. The proposals therefore were not consistent with the principles that Bonneville had adopted for PTSA reform and that defined actions Bonneville would consider. In addition, section 17.7 of Bonneville's OATT already provides customers an opportunity to defer the commencement of service up to five times for up to one year each time. Bonneville preferred to rely on the existing tariff rights related to modifications of start dates, particularly when the benefits under the terms proposed by the customer appeared insufficient to ensure that others customers remained neutral or better off.

Bonneville's October 2012 update included a new timeline for concluding the PTSA Reform process for the four remaining proposals. The timeline provided for concluding negotiations in mid-November, for a public comment on any proposed deals through mid-December, and for a decision by the end of January 2013.

Bonneville did not reach agreement with one of the four customers that remained in the process after October 2012, and this customer subsequently declined the opportunity to have its proposal posted for public review to assess the level of regional support.

Bonneville did reach agreement in principle on the terms of proposed deals with the other three customers – BP Wind, EDPR, and Iberdrola. These proposals from these customers represented 1395 MW of the contracts included in the PTSA Reform process.

Consistent with the revised timeline for concluding PTSA Reform, Bonneville began posting term sheets reflecting the proposed agreements with these customers for public review in late November 2012, and it requested comments from customers by mid-December 2012. Nine stakeholders provided comments on the proposals. The customer comments are included as an

⁹ PTSA Reform Update (10-24-12).

attachment to the Administrator's close out letter.¹⁰ Bonneville addresses these comments in the discussion of its decisions that follows.

Discussion of Decisions

The proposed agreements with BP Wind, EDPR, and Iberdrola each contain one or more termination or modification elements. The discussion below addresses the scope and effect of Bonneville's decision today, summarizes the elements of each agreement, responds to customer comments, and describes the rationale for Bonneville's decisions.

1. Scope of Decision on PTSA Reform

Prior to deciding to consider proposals to terminate existing transmission service agreements in PTSA Reform, Bonneville had consistently taken the position that it would not agree to terminate a transmission service agreement for a customer that simply no longer wanted service. Although the discussions in PTSA Reform have been characterized as termination or modification of PTSAs, any termination of the commitment to take service in that agreement would also include termination of the obligation to take and pay for service under the service agreement for long-term firm point-to-point transmission service. The discussion below addresses termination or modification of the obligation to take and pay for service under the point-to-point transmission service agreements and the PTSAs.

Bonneville has adopted FERC's *pro forma* agreement for point-to-point transmission service, and that agreement provides that customers retain the rights to reserved capacity even if the customer does not use the capacity. If a customer does not need or want to use the capacity it reserves, the customer has tariff rights to defer the start date for service, to transfer or resell the capacity, or to request to redirect the capacity to another part of the network. Because the customer retains the rights to the reserved capacity, it retains the payment obligation as well. This allocation of benefits and obligations is inherent in the agreement, and Bonneville expects that both parties understand and acknowledge that allocation of risk when they enter into the agreement.

The decisions to enter into the agreements described below do not reflect the adoption of a new policy with respect to termination of agreements for point-to-point transmission service. Although customers are always free to approach Bonneville to discuss issues related to their service and agreements, Bonneville is not setting any new policy with these decisions and customers should not expect that Bonneville will agree to terminate on the same or similar terms in the future. Bonneville's decisions today are the product of the specific circumstances facing

¹⁰ The customer comments are posted on Bonneville's website at: <http://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=179>. The citations to the customer comments in this letter refer to the customer's name and the date comments were submitted.

Bonneville and its customers at this time and create no precedent for the future. Bonneville's fundamental position on the allocation of benefits and obligations inherent in its point-to-point transmission service agreements remains unchanged.

Bonneville also is not adopting or endorsing the methodologies and assumptions described in the terms sheets, financial analysis, or other PTSA Reform materials for any purpose other than the settlement discussions in the PTSA Reform process. For example, Bonneville used a 9% discount rate for purposes of these particular settlement discussions for all of the PTSA Reform proposals, and the decisions today do not adopt a policy of using that discount rate for any other similar purpose.

A significant component of the "value" that Bonneville assumed in evaluating all of the PTSA Reform proposals relates to the potential benefits associated with the release of the capacity (or Available Flowgate Capability (AFC)) through termination of PTSAs. Bonneville heard consistently in the stakeholder discussions of PTSA Reform that settlement discussions should consider the value of returning significant amounts of AFC to inventory for release to customers with pending requests. Bonneville agreed that it would be unreasonable to assume for purposes of the settlement discussions in PTSA Reform that released AFC has no value. As a result, Bonneville developed a "Returned AFC Methodology" to establish an analytical basis for assumptions about the value associated with the release of AFC by terminating customers.¹¹

Bonneville also developed a methodology to define an assumption about the value of avoiding payment of transmission credits associated with generator interconnection requests related to the EDPR agreements at issue in PTSA Reform. This methodology is discussed in more detail in the discussion of the terms of the agreement with EDPR. EDPR was the only customer with a termination proposal that had transmission credits at issue.

Although Bonneville developed these methodologies to quantify assumptions about the potential value associated with termination in a manner that applied consistently to all customers in PTSA Reform, these methodologies were developed for settlement purposes only. By deciding to enter into the agreements developed for PTSA Reform, however, Bonneville is not adopting or endorsing these methodologies for any purpose other than the settlement discussions in the PTSA Reform process.

¹¹ The details of the Returned AFC Methodology and the estimates of the amount of AFC that would be released through the actions in PTSA Reform are described in the documents titled "Returned AFC Methodology Updated (12/12/2012)" and "Estimated in Changes to AFC from PTSA Reform (12/12/2012)" posted at http://transmission.bpa.gov/Customer_Forum/pts_a_reform/default.cfm?page=proposals. As described in the latter document, referring to the release of "AFC" as a result of termination of agreements in PTSA Reform is somewhat imprecise. Because many of the reservations in PTSA Reform were not confirmed, the term released "encumbrance" is more appropriate for those TSRs. Bonneville uses the terms AFC, capacity, and encumbrance interchangeably in this document for simplicity.

1. BP Wind Energy North America, Inc.

a. Summary of Agreement

Under the terms of the agreement with BP Wind, Bonneville is providing an option to terminate up to 400 MW of PTSAs (eight agreements for 50 MW each). BP Wind would be required to provide notice of its intent to terminate by September 30, 2013. If BP Wind provides notice that it intends to terminate any of the agreements, BP Wind would make a payment of \$778,800 to Bonneville for each agreement it terminates.

b. Response to Customer Comments and Rationale for Decisions

The customer comments reflect the lack of consensus regarding whether Bonneville should agree to terminate any PTSAs at this time. Many customers appear to share Bonneville's perspective that it is preferable to proactively address the issues that gave rise to PTSA Reform by terminating agreements at this point in time and making that capacity available for other uses now rather than waiting to experience unknown consequences in the future.¹² Public Power Council (PPC), Northwest Requirements Utilities (NRU), Pacific Northwest Generating Cooperative (PNGC), and Cowlitz Public Utility District reluctantly support the notion that termination now on the terms in the term sheets is a reasonable solution to the problem at hand. Several customers also emphasize that the efforts in NOS Reform must better protect against the risk of default by high-risk entities.¹³

Powerex opposes agreeing to terminate any PTSAs.¹⁴ Powerex states that customers have made significant investments in projects (transmission projects and other types of projects) and commercial arrangements that depend on receiving transmission service within a specified timeframe and that, "[i]n principle, it is discriminatory to subject those customers who fulfill their NOS obligations to uncertainty and potential financial harm because others have a new ability to terminate or modify their agreements."¹⁵

Bonneville shares the perspective that customers that commit to taking service should be held to those commitments. As described above, Bonneville's fundamental position is that the point-to-point transmission service agreements (like the FERC *pro forma* agreement) allocates the rights and payment obligations associated with the reserved capacity to the customer, and both parties should be aware of that allocation of risk in deciding whether to sign the agreement.

¹² See Comments of PNGC, December 13, 2012; Comments of NRU, December 14, 2012; and Comments of PPC, December 13, 2012; Comments of Cowlitz PUD, December 14, 2012.

¹³ See Comments of PNGC, December 13, 2012; Comments of NRU, December 14, 2012; and Comments of PPC, December 13, 2012.

¹⁴ Comments of Powerex, December 14, 2012.

¹⁵ *Id.*

Bonneville had to consider how rigidly it should adhere to its fundamental position, however, when initial comments on terminating or modifying PTSAs indicated that over 60 agreements representing approximately 3,000 MW were at issue. In addition, indications from some of the customers involved at that time were that a good deal of this service was at significant risk of default. Because not all of the initial comments included detail about the potential agreements at issue, Bonneville was compelled to explore this issue further if for no other reason than to identify whether the demand still existed for the new transmission projects that were under construction or in environmental review. Since the initial solicitation of interest, Bonneville determined that there is still a sound business case to continue construction of Big Eddy-Knight and environmental review for the I-5 reinforcement notwithstanding the terminations and modifications.

Bonneville disagrees that terminating the PTSAs at issue now is discriminatory. Powerex suggests that Bonneville is offering a “new” ability to terminate an agreement. The potential for Bonneville to agree to terminate a service agreement is not new. That right is inherent in any agreement. Bonneville’s point-to-point service agreements (the FERC *pro forma* agreement) make this right explicit. Section 4 states that the agreement “shall terminate on such date as mutually agreed upon by the Parties.” In other words, FERC specifically provided for the ability to agree to termination, which could occur before or after service commences. Although Bonneville’s practice has been to decline requests to terminate unwanted transmission service agreements prior to PTSA Reform, non-discrimination principles do not prohibit Bonneville from agreeing to termination at this time or on these terms.

The PTSA Reform process itself was non-discriminatory. All customers had the opportunity to submit proposals in PTSA Reform. Moreover, no customer can credibly claim “surprise” regarding Bonneville’s actions. The decisions today close out public discussions that began in July 2011. Bonneville consistently emphasized transparency in these discussions and periodically updated customers on its actions and proposals.

Agreeing to terminate the PTSAs at issue will not impact the ability of Powerex or any other customer to receive transmission service from Bonneville “within a specified timeframe.” In fact, termination may increase the likelihood that some customers will obtain service sooner since the AFC associated with terminated contracts will be released back to the inventory from which Bonneville offers service. Powerex does not explain its concerns about receiving service within a specified timeframe in detail, but Bonneville’s decisions in PTSA Reform will not delay construction or environmental review of any of the Bonneville transmission projects that have emerged from NOS. Specifically, construction of Big Eddy-Knight and environmental review of the I-5 Reinforcement are continuing under the current schedules.

Finally, Powerex expresses concern generally that agreeing to terminate agreements creates uncertainty and potential financial harm for non-terminating parties. With respect to uncertainty, Bonneville believes that the decision to terminate agreements actually increases the

certainty for Powerex and other customers. The uncertainty associated with ignoring the significant interest in terminating PTSAs seems much greater from Bonneville's perspective. Taking this action now will help Bonneville refocus on beginning its NOS process again and will provide clarity about study assumptions used in that process to determine what new infrastructure is needed to provide new requested service. Bonneville agrees with the perspective of PNGC and NRU that agreeing to terminate some agreements at this point is preferable to potentially experiencing a scenario in the future in which a customer might defer up to five times and then default.¹⁶

Powerex's allegations of financial harm are a serious concern given the principle that customers should be at least neutral or better off as a result actions in PTSA Reform. Powerex's comments do not provide much detail about this claim. Bonneville has relied on the financial analysis presented in PTSA Reform to demonstrate that, based on the assumptions used in this process, customers are made whole by the various forms of value provided under the agreements. Neither Powerex, nor any other commenter, object to the proposals on the basis of any specific aspect of Bonneville's financial analysis. Some commenters suggest Bonneville's conclusions are reasonable.¹⁷ Without any specific information about the financial harm alleged by Powerex, and without objection to the proposals based on criticism of Bonneville's financial analysis following the public review, Bonneville believes the agreements in principle represent a reasonable outcome to the PTSA Reform process.

2. EDP Renewables North America, LLC

a. Summary of Agreement

Under the agreement with EDPR, the parties agree to terminate six PTSAs for a total of 300 MW. EDPR would be required to make a payment to Bonneville of \$4,623,572 in exchange for Bonneville's agreement to terminate these contracts. This amount reflects an offset of approximately \$50,000 to account for a deferral fees paid by EDPR after it submitted its request to terminate but before the PTSA Reform process was concluded.

The agreement with EDPR also provides for the redirect of the reservations in nine PTSAs representing 495 MW. Bonneville understands that EDPR is likely to transfer the PTSAs

¹⁶ The Western Public Agencies Group's (WPAG) comments suggest that Bonneville has claimed in PTSA Reform that BP Wind, EDPR, and Iberdrola are, "in the main," project-specific limited liability companies, and that the "most likely" scenario in the absence of the proposed agreements is that these customers will defer service for five years, default on their obligations, and declare bankruptcy. Comments of WPAG, December 14, 2012. Bonneville does not agree that it characterized BP Wind, EDPR, or Iberdrola in this manner. Bonneville presented a variety of risk scenarios to help analyze the proposed actions in PTSA Reform, but Bonneville did not provide information or comment on the risk posed by specific entities or the likelihood of default or bankruptcy.

¹⁷ Comments of Cowlitz PUD, December 14, 2012.

to another customer after the redirects are complete. These redirects and transfers are consistent with Bonneville's standard procedures for such actions.

Bonneville agreed to grant EDPR an option to terminate any or all of the agreements for the 495 MW of redirected reservations after 2½ years of service has been taken. EDPR would pay a termination payment that is pro-rated based on the amount of megawatts that is terminated at that point.

As part of the negotiation of the termination payment for the redirects, EDPR agreed to withdraw three generation interconnection requests related to the redirected TSRs. Customers in the interconnection process advance funds for network upgrades that are necessary for the interconnection, and Bonneville effectively returns the funds to customers by providing transmission credits that are applied against invoices for services. The proposed interconnections associated with EDPR's requests would have resulted in Bonneville having to provide a fairly significant amount of transmission credits associated with EDPR advance funding construction of network upgrades. EDPR's interconnection requests are the only ones that needed these particular network upgrades. Because EDPR will withdraw the interconnection requests, Bonneville will avoid having to construct the network upgrades and provide transmission credits in exchange for EDPR's advance funding. As discussed further below, Bonneville assumed that the avoidance of the transmission credit obligation provided some value under these circumstances. This value reduces the amount of the payment required to hold the region "whole."

EDPR also agreed to waive rights to defer the commencement of service for seven of the nine redirected reservations. EDPR waived all but one right to defer, so those seven reservations can be deferred for a maximum of one year. The other two reservations are in deferral status already, and those reservations retain all remaining deferral rights.

Based on all of these factors, the maximum payment for terminating all 495 MW of redirected reservations would be \$2,124,000. The agreement provides for a pro-rated termination payment depending on the amount of megawatts terminated.

b. Response to Comments and Rationale for Decisions

Termination of the EDPR PTSAs and the option to terminate the redirected reservations in the future poses the same issues that Bonneville addressed in the discussion of the BP Wind agreement. Bonneville is agreeing to terminate agreements at this point and to provide EDPR the option to terminate in the future for the reasons described previously.

The redirect of the 495 MW of EDPR agreements is consistent with Bonneville's current practices for redirects. Bonneville will process those requests consistent with standard practice.

No customer commented specifically on the terms of the EDPR agreement or Bonneville's assumptions or financial analysis. Bonneville believes the financial analysis demonstrates that agreement meets the principles set out in PTSA Reform, and Bonneville is agreeing to the EDPR deal for that reason.

The waiver of deferral rights by EDPR and the value assumed for the avoided transmission credits are unique to the EDPR agreement. The start date for service for the majority of redirected TSRs is tied to energization of the Big Eddy-Knight project. Waiver of deferral rights for these TSRs will provide greater certainty that Bonneville will receive revenue associated with the redirected service close in time to the energization of Big Eddy-Knight. Bonneville believes that all customers will benefit if Bonneville receives more revenue closer in time to the energization instead of having to wait for the receipt of those revenues over a lengthy deferral period.

Bonneville agreed to assume a limited amount of value for avoided payment of transmission credits associated with EDPR's pending interconnection requests. EDPR has agreed to withdraw these generation interconnection requests. Bonneville took the position in the initial stages of PTSA Reform that it would not assume any value associated with avoidance of transmission credits. Bonneville viewed its agreement to terminate the transmission agreements as the benefit to the customer. As negotiations progressed, however, Bonneville became convinced that there likely was some benefit associated with avoiding the creation of transmission credits in the case of network upgrades that are within the sole control of the customer seeking termination. Bonneville's tariff includes the policies regarding interconnection-related transmission credits in FERC's *pro forma* interconnection agreements, and Bonneville could not change those policies without FERC approval. If EDPR had moved forward with these interconnections, Bonneville would have had to provide transmission credits for the network upgrades. EDPR's agreement to withdraw the interconnection request and not move forward with the interconnection likely will result in Bonneville avoiding payment of some transmission credits under these circumstances, and Bonneville believes the decision to assume some value for that benefit is reasonable for purposes of settlement.

3. Iberdrola Renewables, LLC

a. Summary of Agreement

Under the agreement with Iberdrola, Iberdrola would acquire, via a transfer from another customer, 200 MW currently under PTSAs. Iberdrola has other PTSAs that it currently holds for another 200 MW under consideration in PTSA Reform, for a total of existing and transferred PTSAs of 400 MW. Iberdrola would have the opportunity to choose, by September 30, 2013, one of the following options:



- A multi-parent redirect, under which the 400 MW of reservations would be consolidated to achieve a redirect of 200 MW. The term of the resulting reservation would be extended from five years to 10 years. The PTSAs for the remaining 200 MW would be terminated. In exchange for the termination, Iberdrola would make a payment of \$3,115,200 to Bonneville.
- Retain and take service under all the PTSAs (400 MW of service) without a multi-parent redirect and without termination.
- Retain and take service under Iberdrola's original existing PTSAs (200 MW of service), with the option to terminate some or all of the transferred PTSAs (up to 200 MW) of service. Like the agreements with BP Wind and EDPR, Iberdrola would pay a termination payment that is pro-rated based on the amount of megawatts that is terminated. If all 200 MW are terminated, Iberdrola would make a payment of \$3,115,200.

Iberdrola proposed the concept of the multi-parent redirect in its negotiations with Bonneville. Under Bonneville's normal redirect processes, any redirect request has only one original "parent" request and Bonneville "credits" the capacity held by that parent request against the capacity needed by the desired redirect. Under the multi-parent concept, Bonneville would combine the capacity held by multiple parent reservations to evaluate and grant a single redirect request. Any capacity that remains unused after the redirect request is granted would be returned to inventory. Bonneville has not processed redirect requests in this manner previously, and to its knowledge, no other transmission provider processes redirects in this manner.

b. Response to Comments and Rationale for Decisions

Given that the multi-parent redirect approach is untested, Bonneville discussed the concept with stakeholders on multiple occasions and sought comments on both the proposed approval of such a redirect in PTSA Reform and whether Bonneville should consider allowing multi-parent redirects on a more broadly applicable basis.

The customer comments reflect a lack of consensus on whether Bonneville should allow multi-parent redirects either for purposes of PTSA Reform only or on a more broadly applicable basis. Several customers do not specifically express an opinion on the multi-parent redirect concept, but comment generally that the three proposals appear preferable to a "defer, defer, default" scenario in the future.¹⁸ NRU and PNGC do not oppose the multi-parent redirect proposal as used in the Iberdrola agreement, but indicate that Bonneville should engage in a stakeholder process before using the concept again or adopting it on a generally-applicable basis

¹⁸ See Comments of Renewable Northwest Project, December 14, 2012; Comments of Cowlitz PUD, December 14, 2012; Comments of Portland General Electric Company, December 14, 2012; Comments of Seattle City Light, December 14, 2012.

to evaluate whether it has merit.¹⁹ Puget Sound Energy states that it does not have sufficient information to support or reject the concept at this time, but encourages Bonneville to work with stakeholders to evaluate it further.²⁰ PPC raises a concern that multi-parent redirects may create risk of stranded assets, unless customers continue to be held responsible for payment for capacity that is released back to inventory but has not yet been sold.

Powerex opposes any arrangement that results in individual customers being offered flexibility that is not offered to all customers.²¹ Powerex states that any contract modification, including a multi-parent redirect, “should be carried out under well-defined business rules in a non-discriminatory manner applicable to all customers including existing Firm Rights holders. To the extent Bonneville proposes to make changes to its tariff and/or business practices, it is important to consider whether such changes will result in equal or superior service to the pro-forma OATT.”²²

Bonneville agrees with commenters that suggest that this proposal provides value to the region, particularly compared to a scenario where the customer would exercise their right to defer up to five times and then default. In response to PPC’s comments, Bonneville generally shares the concerns regarding avoiding stranded assets and costs. With respect to the Iberdrola multi-parent redirect, Bonneville believes that any stranded cost concerns are mitigated by the termination payment that Iberdrola would provide for termination of the megawatts that remain after the redirect is processed, the value received for returned AFC, and extension of the contract term from five to 10 years.

Bonneville acknowledges Powerex’s concern that the multi-parent redirect provides flexibility that is not currently available to all customers. In some ways, Powerex’s comment reflects that all customers could benefit from the multi-parent redirect concept, which generally aligns with other customers’ suggestions to further evaluate the concept before adopting any generally applicable policy.

The financial analysis and other information supporting the Iberdrola agreement, including the potential multi-parent redirect, demonstrate that the proposal satisfies the criteria that Bonneville set forth in PTSA Reform. Bonneville assigns significant weight to abiding by the principles it established at the outset of this process. Furthermore, Bonneville does not believe that rejecting the Iberdrola agreement because of concerns about the limited applicability of the multi-parent redirect would result in the best outcome for the region.

¹⁹ See Comments of PNGC, December 13, 2012; Comments of NRU, December 14, 2012; Comments of PPC, December 13, 2012.

²⁰ Comments of Puget Sound Energy, December 14, 2012.

²¹ Comments of Powerex, December 14, 2012.

²² *Id.*

Bonneville agrees with the suggestions to explore the implications of providing all customers with opportunities for multi-parent redirects in a general policy discussion. Bonneville hopes that initiating such a policy discussion regarding the multi-parent redirect at this time will help balance the concerns that all customers do not currently have this opportunity with the suggestions that the region should evaluate this concept more thoroughly.

For all of these reasons, Bonneville is approving the Iberdrola agreement and will initiate stakeholder discussions regarding a multi-parent redirect policy soon. Bonneville appreciates the stakeholder interest in pursuing such a policy.

Conclusion

Bonneville does not believe that the region has seen the end of customers requesting that Bonneville terminate agreements under which the customer committed to take transmission service. Nevertheless, Bonneville is placing an emphasis on bringing the PTSA Reform process to a close at this time. Bonneville has decided to move forward with the agreements for BP Wind, EDPR and Iberdrola and will initiate discussions about a general multi-parent redirect policy in the region. These decisions bring the PTSA Reform process to a close.