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U.S. Bonneville Power
Administration

EXECUTIVE SUMMARY

LONG-TERM INTERTIE ACCESS POLICY

**U.S. DEPARTMENT OF ENERGY
BONNEVILLE POWER ADMINISTRATION**

MAY 17, 1988

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INTRODUCTION

The Pacific Northwest-Pacific Southwest Intertie began operation in 1968. Congress authorized the construction of the Intertie to provide an additional market for surplus BPA power, thereby providing greater assurance that we would repay the U.S. Treasury for the Federal investments in the Northwest's power system. To the extent there was capacity excess to Federal needs, Congress also intended that the Intertie allow nonfederal utilities in the Northwest and California to take advantage of the diverse load patterns and resource types between the two regions.

The present capability of the Intertie is about 5,200 megawatts (MW), 3,200 MW on the two alternating-current (AC) lines and 2,000 MW on the direct-current (DC) line. Ownership of the Intertie in the Northwest is shared by BPA, Portland General Electric Company (PGE) and Pacific Power & Light Company (PP&L). We provide access to all Northwest generating utilities. Ownership in California is shared by four investor-owned and municipal utilities.

In the early 1980s demand for sales over the Intertie increased dramatically. Nearly every utility in the Northwest had excess power to sell and forecasted a surplus into the next decade and beyond. Northwest utilities frequently filled the Intertie with nonfirm energy and sought to negotiate long-term transactions with California. Prior to 1984 and the implementation of the Interim Intertie Access Policy (IAP), BPA lost significant revenue opportunities by allowing other utilities unfettered access to the Intertie. Combined effects of (1) the Northwest Preference Act, 16 U.S.C. §837, et seq., which gives Northwest utilities a special competitive advantage over us; (2) oversupply conditions in the Northwest; and (3) a restricted market in California due to limited ownership of the Intertie in California caused us to lose sales. We were unable to make our payments to the U.S. Treasury.

In 1984 we implemented the Interim IAP, followed by the Near-Term IAP in 1985. These policies governed access to the Intertie while we developed a Long-Term Intertie Access Policy (LTIAP).

The LTIAP, issued by the Administrator on May 17, 1988, accomplishes the following objectives which have guided us throughout the process:

1. The LTIAP assures BPA of reasonable access to the Intertie to sell both firm and nonfirm energy, thereby enhancing our ability to repay, with interest, \$8 billion in Treasury investments.
2. The policy is a reasonable and effective means of safeguarding our \$120 million investment in fish and wildlife protection.
3. It balances the competing demands of nonfederal utilities for Intertie access to sell, exchange, or purchase both firm power (through long-term contracts) and nonfirm energy (through the short-term, spot-market).

4. It provides a basis for greater planning certainty to utilities.
5. It allows for efficient use of generating resources in the Northwest and California.
6. It specifically addresses competitive concerns between California and the Northwest.
7. In doing all of the above, it strikes a balance between the Northwest and California, among generating and nongenerating utilities, other BPA customers, environmental interests and Federal taxpayers.

Issuance of this policy culminates our review of comments submitted by over 150 different utilities, regulatory agencies and interest groups. Through a combination of formal, transcribed meetings and informal discussions, we have increased our knowledge of their positions -- and they of ours. We have twice appeared before the U.S. House Subcommittee on Water and Power Resources to answer questions regarding the IAP. Though often cumbersome and lengthy, the process has produced a policy which addresses the demands of all parties.

Balancing interests. We have been put in the difficult position of balancing the competing interests for use of the Intertie. The sum of the demands placed on the Intertie far exceeds the facility's ability to meet them.

Our total-requirements customers insist that BPA should protect its revenues in order to maintain stable power rates and to repay the U.S. Treasury in a timely manner. They suggest that BPA should allocate firm and nonfirm Intertie access to itself first, always assuring that BPA would be able to sell its surplus power. Northwest generating utilities seek a policy which allows sufficient and assured access for their own firm and nonfirm sales. California parties generally argue for a policy which allows them unconstrained access to inexpensive Northwest and Canadian resources. Environmental organizations support a policy that would prevent the Intertie from encouraging development that would harm fish and wildlife resources.

Our main concern in reaching this balanced policy has been reconciling BPA's need to meet its fiscal obligations with these other competing demands for use of the Intertie. While BPA has the discretion to implement the "Federal-first" policy supported by our full requirements customers, the LTIAP instead provides significant access to nonfederal utilities for a variety of transactions while protecting BPA from revenue shortfalls.

It is not reasonable to suggest, as California commenters did in the public process, that BPA incur revenue losses to be recovered through rate increases to its total-requirements customers. These customers have a strong statutory argument -- explained in the decision -- that we should adopt a Federal-first policy to maximize Federal sales over the Intertie. By rejecting Federal-first, we incur an obligation to provide these customers with rate stability through alternative means. First among these alternative protections is the reservation of Intertie capacity for BPA sales.

If the revenue-protective measures adopted in the LTIAP prove unworkable or unduly controversial, the obvious remedy is not more access for nonfederal utilities. Instead, it is Federal-first.

FORMULA ALLOCATION

The Intertie accomodates transactions in two distinct markets. Sellers of power to California sell in two distinct markets, one for long-term transactions and one for short-term sales. Formula Allocation in the LTIAP refers to Intertie capacity made available for short-term sales of energy. We have taken a hard look at Formula Allocations as it has been one of the most hotly debated issues throughout the LTIAP's development.

The LTIAP continues the basic Formula Allocation method used in the Near Term Intertie Access Policy (NTIAP) of allocating access to the Intertie based on three possible conditions. We have changed the specifics of each Condition to reflect criticisms and suggestions made on the two LTIAP drafts. Provisions for Conditions 2 and 3 address directly the contentious anti-competitive concerns between California and the Northwest.

Condition 1. Condition 1 under the NTIAP incorporated the pre-existing Exportable Agreement, which expires on December 31, 1988. Parties to the agreement declare amounts of surplus energy available for export at the applicable BPA rate. If total declarations of exportable energy exceed the available Intertie Capacity or the size of the Pacific Southwest market, whichever is smaller, each party to the agreement is allocated access to the smaller amount based on its share of total declarations.

The 1986 draft LTIAP proposed that upon expiration of the Exportable Agreement a condition of spill or likelihood of spill on the Federal Columbia River Power System (FCRPS) would trigger Condition 1. BPA and Northwest Scheduling Utilities could declare surplus energy available for export and BPA would allocate access to the Intertie based on the ratio of each declaration to the sum of all declarations multiplied by the available Intertie Capacity. Each Scheduling Utility's allocation would be limited by the ratio of its regional hydroelectric capacity to the total regional hydroelectric capacity of the Scheduling Utilities multiplied by the total of all declarations (the "Hydro Cap").

We received comments on the 1986 draft which led us to revise Condition 1 to mirror the Exportable Agreement more closely. Under the 1987 draft a condition of spill or likelihood of spill on the FCRPS determined Condition 1. BPA and Scheduling Utilities could declare surplus energy available for export at the applicable BPA rate and receive a share of available Intertie Capacity based on the Hydro Cap. To the extent that the market for Northwest energy at BPA's price was less than the available Intertie Capacity, we allocated access to the Intertie to equal that market.

Generally, commenters on the 1987 draft did not argue against Condition 1 per se. They focused instead on its specific provisions. The bulk of the comments were directed at the Hydro Cap and at allocating Intertie capacity based on the size of the California market rather than the size of the Intertie capacity. In response to concerns heard at the public meetings in January 1988, we proposed an alternative Condition 1 allocation method. The LTIAP adopts this recent proposal.

The True-Up. The market for power in California is often less than the available Intertie capacity because of minimum generation requirements in California. As the Intertie is expanded and Southwest utilities bring on new generation that cannot be displaced with spot-market purchases, the frequency of this situation is likely to grow.

The 1987 draft allocated Intertie capacity based on the size of the California market as a protection against revenue shortfalls. Analyses indicated that we would lose approximately \$16.4 million in 1989 by allocating to the Intertie rather than the market. This loss would decrease to \$10.7 million in fiscal year 1992. Beyond 1992 the difference would increase, mainly due to projected fuel price increases.

The heart of the revenue problem is the Northwest Regional Preference Act, 16 U.S.C. 837, et seq., which requires BPA to quote an energy price to Northwest utilities before making any sale to the Southwest. This creates a problem in which Northwest utilities, which are BPA's competitors, know our price -- but we do not know their prices. In Condition 1, where the size of the Southwest market is less than available Intertie Capacity, Northwest utilities are able to use this information to undercut the BPA price and use their allocations to reduce BPA's hourly sales to a small Southwest market. If a "real-time" BPA pricing iteration were even possible, we would still be required to announce our new price to the Northwest. Regional preference makes BPA a "sitting duck" for its competitors.

Allocating according to the California market size would reduce BPA's vulnerability by reducing the size of Scheduling Utility allocations. This provision came under attack, however, from both California and Northwest parties. The alternative discussed at the January 27 public meeting seemed to allay concerns regarding BPA's market control. No one disputes that the Regional Preference Act causes BPA a revenue dilemma, especially at times when we face spill on the hydro system. The true-up alternative is the least intrusive remedy.

The Hydro Cap. Both the 1986 and 1987 LTIAP drafts allocated Intertie capacity based on a utility's hydroelectric capability. The logic for the Hydro Cap was that when the Federal system is spilling or likely to spill, the maximum allocation to utilities with greater hydroelectric resources would increase, thus decreasing the probability of wasting the resources by spilling. Under this provision, BPA's share of allocations would tend to increase due to its large hydroelectric capacity.

Much of the debate over the Hydro Cap focused on two issues. First, removing the Hydro Cap could cause hydro-based utilities to spill. Second, without the Hydro Cap, utilities could "overdeclare" by including uneconomic combustion turbines in their declarations with no intent of ever operating them.

Discussion at the January meetings helped resolve these concerns. When the Federal hydro system faces spill, other systems might not always be in the

same condition. The Hydro Cap could give disproportionately large shares of Intertie Capacity to hydro-based utilities when they may not face a threat of spill, while frustrating the marketing activities of utilities with hydro and thermal resources. Furthermore, several utilities and BPA indicated that if a utility is facing spill with insufficient access to market the available energy on the Intertie, such energy could generally displace Northwest thermal generation.

Several factors would help deter overdeclarations. First, the take-or-pay feature of our IS-87 transmission rate requires a utility to pay for its allocation whether or not it is used. Second, BPA monitors declarations and is aware of each utility's resources and capabilities. We have not observed significant overdeclarations under past policies. Third, from time to time we can request documentation on each utility's declaration as a further insurance against abuse.

Conditions 2 and 3. Allegations of anti-competitive practices on both the northern and southern portions of the Intertie were made during the debate over Formula Allocations. California commenters argue that pro-rata allocations to nonfederal utilities under the LTIAP would tend to stabilize prices at levels higher than those at which sellers might increase their total sales by reducing prices. The Northwest just as logically concludes that pro-rata allocations of California Intertie capacity suppress prices below levels that would prevail in a market where more buyers independently bid for Northwest energy.

We recognized that in implementing a long-term policy we must try to resolve this issue to meet the goals outlined for the LTIAP. We therefore proposed in section 5(d) of the 1987 draft LTIAP to cease pro-rata allocations to non-Federal utilities under Conditions 2 and 3 after completion of the third AC Intertie, provided anti-competitive problems in the Southwest were cured by that time. This proposal was discussed extensively during the public meetings in January 1988 and again in comment letters, mainly from California parties. The final LTIAP takes this proposal a step further. Section 5(d) now ceases pro-rata allocations under Conditions 2 and 3 for an 18-month experimental period.

We will analyze the success or failure of the experiment throughout its term. We will be particularly concerned about the removal of restrictions on California's portion of the Intertie. Utilities, regulators, and other interested parties will be encouraged to express their views in writing and through informal discussions. At least 30 days before the experiment ends, we will issue a written report on whether to continue the experiment.

The experiment will work as follows. Under Condition 2, when the declarations of BPA and Northwest utilities exceed Intertie capacity, we will make a pro-rata allocation to BPA and leave the remaining block of Intertie capacity available to Northwest utilities as a whole. Each Northwest utility could then compete to make sales to Southwest utilities, with no assurance of any individual allocation. Under Condition 3, when the declarations of BPA

and Northwest utilities are less than Intertie capacity, BPA will receive an allocation equal to its declaration and Northwest utilities will receive a block allocation equal to the sum of their declarations. After regional utilities, U.S. extraregional utilities and then Canada have access to remaining Intertie capacity. During Condition 3, we expect significant competition whenever the size of the California market is less than Intertie capacity.

Until the experiment is in effect, Conditions 2 and 3 are similar to those in the NTIAP and the two LTIAP drafts.

The LTIAP retains pro-rata allocations under Condition 1. Allocation under Condition 1 appears to be of less concern to California commenters than allocation during other conditions. Alternative Formula Allocation proposals recognized the importance of pro-rata allocations when the Northwest faces spill conditions. Retention of Condition 1 allocations will (1) help assure nonfederal utilities of Intertie access when hydrological conditions might otherwise force them to spill, and (2) provide an enforcement mechanism for the Protected Area provisions described below.

Some commenters have suggested that we allow access to Canadian utilities equal to that of Northwest utilities. The courts, however, have upheld our policy that capacity excess to our needs must be provided on a fair and nondiscriminatory basis first to Northwest utilities. If the Free Trade Agreement between Canada and the United States now being considered in Congress and the Canadian parliament is implemented, the distinction between U.S. extraregional utilities and Canadian utilities will no longer be made.

ASSURED DELIVERY

Utilities seek firm access to the Intertie for long-term transactions. The LTIAP refers to this kind of access as Assured Delivery. The earlier NTIAP did not provide for Assured Delivery service.

Amount. The final LTIAP reserves 800 MW for Assured Delivery transactions. This is an increase from the 420 MW reserved in the 1986 draft. BPA lost \$213 million in fiscal year 1987; we do not want to exacerbate this problem with the final LTIAP. Given these uncertainties, we are cautious about committing major portions of the Intertie for long-term nonfederal use.

Yet, the 800 MW upper limit in itself is a fairly dramatic departure from the past. It will facilitate a greater number and variety of firm transactions than before. Our studies indicate an annual revenue loss of approximately \$9 million in lost nonfirm revenue and displaced firm power sales to our public agency customers. The revenue effects on BPA have been quantified further in a study by the PNUCC. These adverse revenue effects, offset by mitigation measures discussed below, have been found acceptable by a fairly broad cross-section of commenters.

In the public meeting and comment letters, most parties seemed satisfied with the 800 MW if we were to consider increasing it upon completion of the third AC project. BPA will reassess the 800 MW limit upon commercial operation or termination of the project.

Exhibit B Allocations. As for the limits on types of transactions, BPA is convinced of the wisdom of imposing limitations on firm power sales. These limits are shown in Exhibit B of the LTIAP. From the standpoints of environmental quality and financial risks, it seems appropriate to limit Assured Delivery capacity to the amount of firm surplus presently available in the Northwest for export sales. In a change from the 1987 draft policy, the LTIAP provides that Scheduling Utilities may use their individual Exhibit B amounts for sales or exchanges.

The final LTIAP does not allocate the remaining 356 MW of Assured Delivery capacity among Scheduling Utilities. That amount will be available for exchange transactions of Scheduling Utilities on a first-come, first-served basis.

We have reached agreement (or agreement in principle) covering 341 MW of Assured Delivery service. Agreements include a 20-year 105 MW firm power sale from Montana Power Company to Los Angeles Department of Water and Power; a 41 MW firm power sale from Tacoma City Light to Western Area Power Administration (WAPA); a 45 MW firm power sale from Longview Fibre/Cowlitz County Public Utility District to WAPA; and a 20-year 150 MW seasonal exchange between The Washington Water Power Company and Pacific Gas and Electric Company. Each of these agreements accommodates our lost revenue concerns differently.

To allow for maximum use of the Intertie, a utility granted Assured Delivery may shape its firm power sale into the months of September through December by delivering up to 1.8 times its Exhibit B amount. During those fall months, spot market energy sales to the Southwest tend to be less than in the spring when the region's hydroelectric dams are more often near or in a spilling condition. If a utility shapes Assured Delivery energy into the fall, less firm energy may be shaped into remaining months of the operating year so that the total energy delivered does not exceed its annual Exhibit B energy maximum for firm sales.

BPA will also continue to work with Nonscheduling Utilities to provide the opportunity to sell the output of their generating resources over BPA's Intertie capacity.

Mitigation. Mitigation refers to conditions imposed on a utility for an Assured Delivery contract. Intertie Capacity not available to BPA because of Assured Delivery contracts executed between a Northwest utility and a Southwest utility can reduce BPA revenues and inhibit BPA's ability to make its Treasury payments. During the operating year BPA often has power available to fully load the Intertie. Assured Delivery granted under these circumstances would reduce BPA's revenues, thereby putting at risk our ability to meet our obligations to the Treasury.

This fiscal concern is in potential conflict with the policy objective underlying the 800 MW of Assured Delivery -- assisting Northwest utilities in disposing of their surpluses by means of long-term firm power sales to the Southwest. Strong objection was received from our Priority Firm Power customers to our absorbing the entire cost (lost revenues) of these transactions and the subsequent passing of the costs to them in increased rates. California and Northwest generating utilities generally tend to agree that some form of mitigation is due BPA. They question the level of compensation and what provisions for mitigation should be included in the LTIAP.

The 1986 draft of the LTIAP allowed Assured Delivery without regard to the adverse impacts on BPA's ability to sell firm power or nonfirm energy. Both the 1987 draft and the LTIAP impose mitigation upon utilities with Assured Delivery contracts. The mitigation provisions in the LTIAP provide only partial compensation for the revenue impacts resulting from transactions, but provide sufficient assurance that these transactions over the Intertie will not harm our revenue recovery.

It would be a false precision to claim that we could develop mitigation measures that offset dollar-for-dollar the losses projected in any 20-year study. Assumptions about annual rainfall, gas prices, aluminum prices, and load growth make this exercise judgmental. With this limitation in mind, the LTIAP incorporates the following mitigation provisions.

One mitigation measure requires that during any hour in which prescheduled energy sales are made under Condition 1 and Condition 2 Formula Allocation

procedures, a utility must deduct its Assured Delivery amount from its Formula Allocation amount. The total amount of Intertie access granted to each utility is equal to its Formula Allocation. If a utility's Assured Delivery amount is greater than its Formula Allocation, then that utility must purchase enough energy from BPA or, during Condition 1, other Northwest utilities to make up the difference. This mitigation measure will partially offset the spot-market revenues BPA will lose by granting Assured Delivery.

Under the other mitigation measure, if BPA has invoked Condition 1 or Condition 2 Formula Allocations, cash out provisions of exchange contracts become inoperative. Cash outs allow a Northwest utility to accept dollar payments from a Southwest utility in lieu of actual energy returns. Prohibiting these during Conditions 1 and 2 has the effect of increasing the north-to-south capability of the Intertie when energy is being returned and increasing the size of the market for BPA and Scheduling Utility sales.

The draft LTIAP required energy returns under seasonal exchanges to the California/Oregon border (COB) or the Nevada/Oregon border (NOB). This was initially included in the mitigation provisions for seasonal exchanges. However, BPA needs the certainty of available capacity resulting from return requirements at COB/NOB. For this reason, the final LTIAP includes this provision as a standard requirement for all exchanges rather than considering it a mitigation measure.

The LTIAP also allows utilities the opportunity to negotiate individual packages of mitigation in addition to the LTIAP's stated mitigation provisions. Such case-by-case mitigation packages could be a combination of the above mitigation provisions or could include beneficial arrangements for BPA that have not been addressed in this policy. Our main concern in any mitigation package is recovery of any spot-market revenue losses, but we will also be looking at the operational impacts of any proposal.

Extraregional Access. Provisions in the 1987 draft for firm transactions by extraregional utilities required that the utility must provide some benefit to BPA, such as increased storage, improved system coordination or operation, or other consideration of value. In addition, the utility must agree to the mitigation provisions of the policy. Canadian utilities were required to wait for access until after the Intertie was rated at 7900 MW.

In reconsidering this provision we saw no reason for denying Canadian utilities access for firm transactions until after the Intertie is upgraded to 7900 MW if Canadian utilities are willing to provide increased coordination or other items of value. This provision of limiting Canadian access to after an upgrade of the Intertie has been deleted from the LTIAP.

As with Formula Allocation, BPA anticipates that if the Free Trade Agreement is passed the distinction between U.S. extraregional utilities and Canadian utilities will no longer exist.

FISH AND WILDLIFE PROTECTION

Protected Areas. The LTIAP prohibits Intertie access for new hydro projects licensed within "protected areas" -- river reaches withdrawn from hydro development due to the presence of wildlife or anadromous and high-value resident fish. BPA also has designated areas where we have determined that investments in habitat, hatchery, passage, or other projects may result in the presence of anadromous fish. The Northwest Power Planning Council (Council) has proposed a protected area program that covers the entire Northwest. BPA's designations, however, cover only the Columbia River basin.

Our focus is on hydro developments which will frustrate our investments made in the region to achieve the goals of the Council's Fish and Wildlife Program. The LTIAP ensures that those expenditures and existing productive habitat will not be harmed by future hydro developments. BPA has designated protected areas by using information collected through the Council's Hydro Assessment Study.

Under the LTIAP, we will consider the Council's final protected area program or any revisions the Council may include in the future. We will also consider appropriate state comprehensive river plans. The policy should effectively eliminate utilities' fears that they never know with certainty whether a hydro resource will qualify, or continue to qualify, for access to the Intertie.

The LTIAP does not necessarily prevent hydro development in protected areas. However, the protected area provisions will send an unambiguous, self-enforcing message to FERC, other regulators, and hydro developers that no Intertie access will be provided for projects constructed in areas of greatest concern to BPA and the Council.

Enforcement. If a Scheduling Utility proceeds to acquire a license or purchase power from a hydro project developed in a protected area, BPA will reduce the amount of that utility's power transmitted over the Intertie during Condition 1. Depending upon the size of the project, the reduction may affect both Assured Delivery and Formula Allocations. These reductions will take place regardless of whether power from the protected area project is actually transmitted on the Intertie. There is no need to trace power flows from a protected area resource.

Projects not affected by the Policy. For all hydro projects not affected by BPA's protected area designations, BPA will intervene in FERC proceedings if we determine that projects -- new or existing, inside or outside the Columbia Basin -- pose significant threats to our fish and wildlife responsibilities.

The provisions do not affect hydro projects licensed before the effective date of the policy. While we recognize a potential for existing projects to harm BPA fish and wildlife investments, we do not believe there is sufficient evidence to indicate that those projects are presently operating contrary to

the Council's Fish and Wildlife Program or that the Council has been unable or unwilling to implement Program measures through the FERC process. Measures affecting existing projects in the Council's Program are explicitly directed to FERC and state agencies for implementation.

We have provided a limited procedure to provide access to the Intertie in the case of a project a developer believes will contribute to the Council's Fish and Wildlife Program and BPA investments. However, our decision to provide access relies on a clear demonstration of the benefits and a regional consensus.

Finally, the LTIAP creates a limited exception for Protected Area projects that an investor-owned utility might be forced to acquire under PURPA. To qualify, however, the affected utility must pursue all legal remedies available to avoid purchasing the Protected Area project output.



LONG-TERM INTERTIE ACCESS POLICY

**GOVERNING TRANSACTIONS OVER FEDERALLY OWNED
PORTIONS OF THE
PACIFIC NORTHWEST-PACIFIC SOUTHWEST INTERTIE**

**U.S. DEPARTMENT OF ENERGY
BONNEVILLE POWER ADMINISTRATION
MAY 17, 1988**



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FINAL LONG-TERM INTERTIE ACCESS POLICY

Section 1. Definitions

1. "Administrator" means the Administrator of Bonneville Power Administration (BPA) and is used interchangeably with BPA.

2. "Administrator's Power Marketing Program" refers to all marketing actions taken and policies developed to fulfill BPA's statutory obligations. These actions and policies are based on exercises of authority to act, consistent with sound business principles, to recover revenue adequate to amortize investments in the Federal Columbia River power and transmission systems, while encouraging diversified use of electric power at the lowest practical rates. In the Northwest, the Administrator's Power Marketing Program covers BPA's obligations to provide an adequate, reliable, economical, efficient, and environmentally acceptable power supply, while preserving public preference to Federal power. In the Southwest, the Administrator's Power Marketing Program covers activities to market surplus Federal power at equitable prices, while preserving regional and public preference to Federal power, and to assist in marketing Northwest nonfederal power.

3. "Allocation" means the share of the Intertie Capacity made available for short-term sales of energy.

4. "Assured Delivery" means firm transmission service provided by BPA under a transmission contract to wheel power covered by a contract between a Scheduling Utility and a Southwest utility. Assured Delivery contracts may not exceed 20 years in duration. The service is interruptible only in the event of an uncontrollable force or a determination made pursuant to sections 7 or 8 of this policy.

5. "Available Intertie Capacity" is defined as the physically available capacity controlled by BPA, reduced by the capacity reserved under Section 2 of this policy, and the capacity necessary to satisfy Assured Delivery contracts not subject to operational mitigation requirements under this policy.

6. "BPA Resources" means Federal Columbia River Power System hydroelectric projects; resources acquired by BPA under long-term contracts; and resources acquired pursuant to section 11(b)(6)(i) of the Federal Columbia River Transmission System Act.

7. "Exchange" refers to various types of transactions that take advantage of diversity between Northwest and Southwest loads through deliveries of firm power, at prespecified delivery rates, from North to South during the Southwest's peak demands and returns of capacity and/or energy from South to North during other times. Transactions vary depending on the lag between deliveries and returns. A "naked capacity" transaction might require off-peak energy returns within 24 hours, whereas a seasonal exchange might call for firm power returns within 6 months.

8. "Extraregional Utilities" are generating utilities, or divisions thereof, that do not provide retail electric service and do not own or operate significant amounts of generating capacity in the Northwest.

9. "Formula Allocation" means the process by which Intertie Capacity made available for short-term sales of energy.

10. "Intertie" means the two 500-kv alternating current (AC) transmission lines and one 1000 kv direct current (DC) line, which extend from Oregon into California or Nevada, and any additions thereto identified by BPA as Pacific Northwest-Pacific Southwest Intertie facilities.

11. "Intertie Capacity" means the North to South transmission capacity of the Intertie controlled by BPA through ownership or contract; increased by power scheduled South to North, decreased by loop flow, outages, and other factors that reduce transmission capacity; and further decreased by Pacific Power & Light Company's schedules, under its scheduling rights at the Malin substation (BPA Contract Nos. DE-MS79-86BP92299 and DE-MS79-79BP90091).

12. "Mitigation" refers to the requirements imposed by BPA on a utility in return for an Assured Delivery contract. Mitigation helps offset operational and economic problems, attributable to a Scheduling Utility's firm power transaction, that inhibit BPA's ability to generate revenues. The Mitigation measures specified in this policy must be included in all Assured Delivery contracts, unless a scheduling utility either agrees to a specially designed charge or negotiates substitute measures with BPA on a case-by-case basis.

13. "Nonscheduling Utility" means a nonfederal Northwest utility that owns a Qualified Northwest Resource, but does not operate a generation control area within the Pacific Northwest. A Nonscheduling Utility requesting Intertie access for its resource must do so through the Scheduling Utility (or BPA) in whose control area the resource is located.

14. "Pacific Northwest" (or "Northwest") is defined in the Northwest Power Act, 16 U.S.C. §839e, as the states of Oregon, Washington, and Idaho; the portion of Montana west of the Continental Divide; portions of Nevada, Utah, and Wyoming within the Columbia River drainage basin; and any contiguous service territories of rural electric cooperatives serving inside and outside the Pacific Northwest, not more than 75 air miles from the areas referred to above, that were served by BPA as of December 1, 1980.

15. "Protected Area" means a stream reach within the Columbia River drainage basin specially protected from hydroelectric development because of the presence of anadromous or high value resident fish, or wildlife. Protected areas may also include stream reaches which could support anadromous fish if investments were made in habitat, hatcheries, passage, or other projects.

16. "Qualified Extraregional Resource" means:

(a) a generating unit located outside the Northwest that was in commercial operation on the effective date of this policy. However, the term excludes portions of units covered as Qualified Northwest Resources.

(b) after BPA has determined that the capacity of the Intertie is rated at approximately 7,900 MW, all resources located outside of the Northwest, other than the portions of extraregional resources covered as Qualified Northwest Resources.

17. "Qualified Northwest Resource" excludes BPA Resources, but includes:

(a) Resources located inside the Northwest that are in commercial operation as of the effective date of this policy.

(b) Scheduling Utility extraregional generating resources dedicated to Northwest loads on the effective date of this policy. This term includes pro rata portions of Montana Power Company's and Pacific Power and Light Company's shares of the Colstrip No. 4 generating station, based on the ratio of their respective regional loads to their respective total loads; and Idaho Power Company's share of Valmy No. 2.

(c) New regional resources of Scheduling Utilities, except for hydroelectric resources located in Protected Areas.

18. "Resource" means an electric generating unit or stack of particular electric generating units identified to supply power or capacity for sale over the Intertie.

19. "Scheduling Utility" means the Northwest portion of a nonfederal utility that operates a generation control area within the Northwest, or any utility designated as a BPA "computed requirements customer." The term excludes Utah Power & Light Company, either as a separately owned company or as a division of another corporation, which has sufficient transmission capacity to the Southwest without access to the Federal Intertie.

20. "Seasonal Exchange" means a transaction that takes advantage of seasonal diversity between Northwest and Southwest loads through transfers of firm power, at a prespecified delivery rate, from North to South during the Southwest's summer load season and from South to North during the Northwest's winter load season. Seasonal Exchanges may involve payments of additional consideration to reflect the relative seasonal values of power throughout the western United States. Seasonal Exchange schedules of Northwest utilities will be referred to as "deliveries," and schedules of Southwest utilities will be referenced as "returns." A Scheduling Utility must be able to support its summertime firm power deliveries with generating resources that are surplus to its Northwest requirements. The sum of a Scheduling Utility's energy resources for each month in which deliveries are made (with special concern for August) must exceed its corresponding Northwest loads by an amount sufficient to support the Seasonal Exchange.

21. "Section 9(i)(3) resource" means a Scheduling Utility resource that BPA has granted priority in receiving BPA transmission, storage and load factoring services as defined in §9(i)(3) of the Northwest Power Act.

Section 2. Intertie Capacity Reserved for BPA

The Administrator reserves for BPA's use Intertie Capacity sufficient to:

(a) transmit all of BPA's surplus firm power and to serve other obligations,

(b) perform obligations, including, but not limited to, the existing transmission contracts listed in Exhibit A, to the extent such obligations differ from the conditions specified in this policy,

(c) provide Assured Delivery service for transactions not subject to limits under Exhibit B to this policy, and

(d) satisfy BPA firm obligations, that have not been prescheduled, by using unutilized portions of Formula Allocation amounts.

Section 3. Conditions For Intertie Access

(a) All Intertie access will be granted pursuant to the conditions and procedures of this policy, unless otherwise specified in the three existing BPA transmission contracts listed in Exhibit A.

(b) BPA will provide Intertie access only for BPA Resources and the Qualified Northwest Resources of Scheduling Utilities, except to the extent that Qualified Extraregional Resources are permitted access under this policy.

(c) BPA will provide Assured Delivery and allocate remaining Intertie Capacity when providing such access will not substantially interfere with operating limitations of the Federal system. Examples of these limitations, which reflect BPA's obligation to operate in an economical and reliable manner consistent with prudent utility practices, include:

- (1) The BPA Reliability Criteria and Standards,
- (2) Western Systems Coordinating Council minimum operating reliability criteria,
- (3) North American Electric Reliability Council Operating Committee minimum criteria for operating reliability, and
- (4) coordination agreements among BPA, scheduling utilities and other Federal agencies regarding resource and river operations.

(d) Any utility that has contractual or ownership rights to Pacific Northwest-Pacific Southwest Intertie capacity or to other transmission lines to California or the Southwest market must fully utilize such capacity prior to receiving any access to BPA's Intertie Capacity. If a Scheduling Utility with Intertie rights needs BPA Intertie Capacity to reach a particular Southwest utility, BPA will consider negotiated swaps of capacity to accommodate such requests.

Section 4. Assured Delivery for Intertie Access

Subject to the limitations and other conditions in this section and in other sections of this policy, BPA has determined that it can provide limited Assured Delivery to Scheduling Utilities without causing substantial interference with the Administrator's Power Marketing Program.

(a) **General Provisions**

(1) **Existing Transmission Contracts.** BPA will provide Assured Delivery for the remaining terms of the firm power sale and Seasonal Exchange contracts identified in Exhibit A to this policy.

(2) **Utilities Owning Or Controlling Southwest Interconnections.** Assured Delivery is intended primarily for Scheduling Utilities which lack interconnections with the Southwest. Except for transactions covered by section 4(b) of this policy, a utility with capacity on an intertie, through contract or ownership, must utilize all such capacity on a firm basis before receiving any Assured Delivery.

(3) **Nature Of Transactions.** BPA will not provide Assured Delivery for transactions which a Scheduling Utility cannot demonstrate to be other than an advance arrangement to sell nonfirm energy.

(4) **Waiver Of BPA Service Obligation.**

(A) **Hydroelectric Resources.** Assured Delivery contracts that facilitate the export disposition of Northwest hydroelectric energy shall provide, under 16 U.S.C. §837b(d), for a reduction of BPA's power sale contract obligation the Northwest utility, for the period of the disposition, equal to the amount of energy for which Assured Delivery is provided .

(B) **Thermal Resources.** Assured Delivery contracts that facilitate the export disposition of Northwest thermal energy shall provide, under 16 U.S.C. §839f(c), for a reduction of BPA's power sale contract obligation the Northwest utility, for the period of the disposition, equal to the amount of energy for which Assured Delivery is provided. Such reduction shall become effective at the time BPA determines that it has reached energy load/resource balance, or at a date as specified in the Assured Delivery contract.

(5) **Exchange Contracts.** Exchange contracts must specify that all return energy be scheduled to either the AC Intertie point of interconnection at the California-Oregon border ("COB") or the DC Intertie point of interconnection at the Nevada-Oregon border ("NOB"). Exchange contracts must also specify prescheduled determinations of hourly energy returns.

(6) **Satisfying Requests For Assured Delivery.** All relevant power contracts must be presented for review no later than the date on which a request for Assured Delivery is made.

(b) **New Transactions Not Subject To Capacity Limits**

(1) **Joint Ventures.** Joint ventures between BPA and utilities, such as firm displacement contracts, which allow BPA to increase its sales of surplus power qualify for Assured Delivery.

(2) **Sales In Lieu Of Exchanges.** BPA may offer to satisfy Scheduling Utility demands for Seasonal Exchanges by selling them incremental amounts of surplus firm power during winter months. Upon committing to purchase such incremental firm power at negotiated prices that reflect BPA's

lost opportunities for summer sales, a Scheduling Utility will qualify for Assured Delivery (with mitigation) to wheel an equal amount of firm capacity and energy over the Intertie during summer months.

(3) **Conditions.** A Scheduling Utility may request at any time the Assured Delivery of transactions identified in sections 4(b)(1) and 4(b)(2). Relevant contracts must be presented for review when Assured Delivery is requested. BPA will satisfy a request within 60 days after a Scheduling Utility has demonstrated satisfaction of the requirements of this policy.

(c) **Transactions Subject To Capacity Limits Under This Policy**

(1) **Maximum Amounts Of Assured Delivery.** BPA will provide 800 MW of Assured Delivery for firm power sales and Exchanges identified in this policy. BPA will reassess the amount of Assured Delivery capacity when the 3d AC Intertie project is either completed or abandoned. Moreover, the 800 MW amount may be subject to some reduction if the DC Terminal Expansion project is not completed on schedule.

(2) **Exhibit B amounts.**

(A) **Current maximum.** Each Scheduling Utility's maximum Assured Delivery amount for firm sales equals its average firm energy surplus, shown in Exhibit B to this policy. BPA will reserve capacity equal to each Scheduling Utility's Exhibit B allocation subject to section 4(c)(2)(D) below. Except for Montana Power Company (MPC), Tacoma City Light, and Cowlitz County Public Utility District, Exhibit B represents projected Scheduling Utility surpluses for the 1988-89 operating year. In satisfaction of all obligations to MPC under Northwest Power Act section 9(i)(3), MPC's Exhibit B amount is set at 105 MW to facilitate long-term sales of firm power from its share of the Colstrip No. 4 coal-fired generating station. Exhibit B amounts for Tacoma and Cowlitz are increased to accommodate existing firm power transactions.

(B) **Shaping.** Firm power sales eligible for Assured Delivery may be shaped within the following ranges. During the months of September through December, a Scheduling Utility may deliver firm energy at a rate up to 1.8 times its Exhibit B average firm surplus amount. During the months of January through August, a Scheduling Utility may deliver firm energy at a rate no greater than 1.0 times its Exhibit B amount. However, total delivered energy may not exceed the Exhibit B annual firm energy maximum.

(C) **Other uses of Exhibit B amounts.** BPA will not entertain Assured Delivery requests for firm power sales in excess of a utility's Exhibit B maximum. However, a Scheduling Utility may use any portion of its Exhibit B maximum, not used for firm power sales, for exchange transactions supported by Qualified Northwest Resources.

(D) **Future changes.** BPA may, at its discretion, revise Exhibit B to reflect changes in the firm power surpluses of individual utilities; however, the Exhibit B average firm surplus total is not subject to increase. Any unutilized Assured Delivery amount will be revoked if, upon revision, a utility's individual Exhibit B amount has declined or if a utility has sold firm power to another utility seeking to increase its Exhibit B

average firm surplus amount. A Scheduling Utility may increase its individual Exhibit B amount by purchasing surplus firm power from BPA or any Scheduling Utility with an Exhibit B amount.

(3) **Other Capacity.** The remaining capacity available for Assured Delivery under this policy is offered to Scheduling Utilities, on a first-come, first-served basis, for Exchange transactions supported by Qualified Northwest Resources. When section 4(c)(2)(D) of this policy is implemented to reduce the Exhibit B maximum of any Scheduling Utility, the reduction will be added to the capacity made available under this provision. Any utility with an Exhibit B amount must exhaust such capacity before requesting Assured Delivery under this provision.

(d) **Mitigation**

(1) **Operational Mitigation**

(A) **Southbound deliveries.** During any hour in which BPA has invoked Condition 1 or Condition 2 allocation procedures to preschedule energy deliveries, each utility's Assured Delivery amount shall be deducted from its formula allocation to determine its share of energy scheduled on the Intertie. If the remainder is negative for a given utility, then that utility must make up the difference by purchasing sufficient energy as follows:

(i) during Condition 1 from BPA or any Scheduling Utility with a Formula Allocation during that hour;

(ii) during Condition 2 from BPA, however, if BPA is not in the market the utility may purchase sufficient energy from any other utility.

(B) **Northbound returns.** During any hour in which BPA has invoked Condition 1 or Condition 2 allocation procedures, a utility may utilize the cash-out provisions of an Exchange contract only by reducing one-for-one the amount of North-to-South Intertie capacity otherwise available to it under this policy. The rate of cash out during any condition shall not exceed the rate at which the exchange return could have been scheduled.

(2) **Negotiated mitigation.** A Scheduling Utility may also elect to negotiate with BPA on a case-by-case basis a package of mitigation measures involving mutually agreeable consideration of value commensurate with the service provided.

Section 5. **Formula Allocation Methods**

(a) **Limits On Intertie Capacity Available For Formula Allocation.** Generally, BPA will determine Intertie Capacity available for Formula Allocations after first taking into account the amount of Intertie Capacity necessary to satisfy requirements of the Administrator's Power Marketing Program, existing transmission contracts listed in Exhibit A, and Assured Delivery contracts executed by BPA pursuant to this policy. However, in determining Available Intertie Capacity during Condition 1, BPA will not consider the Assured Delivery contracts to the extent they are subject to operational mitigation requirements. BPA may reduce any allocation, if additional Intertie Capacity is required to minimize revenue losses associated with actions taken to protect fish in the Columbia River drainage basin.

(b) **Protected Area Decrements.** Except as provided in section 4(d)(2)(A) of this policy, BPA will reduce each Scheduling Utility's allocation by any Protected Area decrement imposed pursuant to section 7(d).

(c) **Allocation Methods.**

(1) **Condition 1**

(A) **Until December 31, 1988.** Intertie Capacity will be allocated pursuant to the Exportable Agreement (BPA Contract No. 14-03-73155), when applicable.

(B) **After December 31, 1988.** Condition 1 will be in effect when the Federal hydro system is in spill or there is a likelihood of spill, as determined by BPA. Available Intertie capacity will be allocated pursuant to the following procedure:

(i) Each hour, the maximum Condition 1 allocations for BPA and each Scheduling Utility will be based on the ratio of their respective declarations to total declarations, multiplied by the Available Intertie Capacity.

(ii) During Condition 1, whenever BPA is unable to utilize its full pro rata share of intertie usage BPA will take larger allocations on ensuing days until the difference in pro rata intertie usage is eliminated.

(2) **Condition 2**

(A) When Condition 1 is not in effect, but BPA and Scheduling Utilities declare amounts of energy that exceed available Intertie capacity, Formula Allocations for BPA and each Scheduling Utility will approximate, by hour, the ratio of each declaration to the sum of all declarations, multiplied by the available Intertie capacity.

(B) If BPA sales drop below 75 percent of its allocation during Condition 2, BPA may take larger allocations on ensuing days until the difference is eliminated.

(3) **Condition 3**

When Condition 1 is not in effect and when the total surplus energy declared available by BPA and Scheduling Utilities is less than the total available Intertie Capacity, BPA and Scheduling Utilities' allocations will equal their declarations. The remaining Intertie capacity will be made available first to U.S. Extraregional Utilities and then to other Extraregional Utilities. Section 3(d) of this policy shall not apply to Scheduling Utilities during Condition 3.

(d) **Formula Allocation Experiment.** BPA is interested in exploring the proposal that it cease making individual Formula Allocations to Scheduling Utilities under Conditions 2 and 3. However, BPA must work with Northwest and Southwest utilities to develop the information capability to accommodate a new scheduling system for nonfederal access. As soon as this can be accomplished BPA will substitute the following provisions for section 5(c) on an 18-month experimental basis:

(1) **Condition 1**

Same as section 5(c)(1).

(2) **Condition 2**

(A) When Condition 1 is not in effect, but BPA and Scheduling Utilities declare amounts of energy that exceed available Intertie capacity, the Formula Allocation for BPA will approximate, by hour, the ratio of BPA's declaration to the sum of all declarations, multiplied by the Available Intertie Capacity. The remaining capacity will be made available as a block to Scheduling Utilities. Section 5(c)(2)(B) of this policy shall apply.

(3) **Condition 3**

When Condition 1 is not in effect and when the total surplus energy declared available by BPA and Scheduling Utilities is less than the total available Intertie Capacity, BPA's allocation will equal its declaration. The remaining Intertie capacity will be made available, first, as a block to satisfy the declarations of Scheduling Utilities, second, to U.S. Extraregional Utilities, and third to other Extraregional Utilities. Section 3(d) of this policy shall not apply during Condition 3.

(e) **Data Collection and Evaluation.** Commencing when this policy goes into effect and continuing during the course of the experiment described in section 5(d), BPA will collect information on the following topics relevant to future allocation procedures:

(1) effect on BPA revenue of allocating to nonfederal utilities as a group rather than individually.

(2) impairment of Intertie access for California utilities presently lacking ownership in the southern portion of the Intertie,

(3) any loss of sales to BPA due to a failure to share unused capacity among California entities with ownership or contractual interests in the Intertie,

(4) effects of the experiment on small Scheduling Utilities.

During the course of the experiment, interested parties may submit written comments and recommendations on these issues.

(f) **Findings and conclusions.** At least 30 days before the end of the experiment described in section 5(d), BPA shall publish a report of its findings on the experiment and its decision on whether section 5(d), with possible modification, should be continued as the permanent method of Formula Allocation.

Section 6. **Access for Qualified Extraregional Resources**

(a) **Assured Delivery.** Any request for Assured Delivery of power from a Qualified Extraregional Resource would be granted only by contract which, in addition to the Mitigation measures specified in section 4(d), must include

benefits to BPA such as increased storage, improved system coordination or operation, or other consideration of value commensurate with the services provided. Proposed contracts would be evaluated by BPA and reviewed publicly to determine whether they would cause substantial interference with the Administrator's Power Marketing Program. An environmental review would also be conducted.

(b) **Formula Allocation.** Under Condition 3, energy from Qualified Extraregional Resources has access to the Intertie. In addition, BPA may provide Extraregional Utilities with Formula Allocation under other conditions, if the utility agrees by contract either to increased participation in the Pacific Northwest's coordinated planning and operation, or to provide other consideration of value, apart from the standard BPA wheeling rate, commensurate with the services provided.

Section 7. **Fish and Wildlife Protection**

(a) **Purpose.** New hydroelectric projects constructed in Protected Areas may substantially decrease the effectiveness of, or substantially increase the need for, expenditures and other actions by BPA, under Northwest Power Act section 4(h), to protect, mitigate or enhance fish and wildlife resources. Intertie access will not be provided to facilitate the transmission of power generated by any new hydroelectric projects located in Protected Areas and licensed after the effective date of this policy. This provision does not apply to added capacity at existing projects.

(b) **Effect.** This section imposes automatic operational limitations on a utility by reducing the amount of energy that can be scheduled over the Intertie, thereby increasing costs or reducing revenues for any utility owning or acquiring the output of a Protected Area hydroelectric resource.

(c) **Implementation.** Protected Area designations for stream reaches in the Columbia River Basin are shown in Exhibit C to this policy. Exhibit C uses Environmental Protection Agency stream reach codes. Subject to review and possible modification, BPA will consider the adoption of comprehensive state watershed management plans and a comprehensive protected area program developed by the Pacific Northwest Electric Power and Conservation Planning Council subsequent to implementation of this policy. BPA will also consider revisions to Protected Area designations if the Council's Program is amended.

(d) **Enforcement.** If a Scheduling Utility or Nonscheduling Utility owns, or acquires the output from, a hydroelectric project covered under the restrictions of section 7(a), BPA will reduce that utility's Formula Allocation by either the nameplate rating of the project (in the case of ownership), or the amount of capacity acquired by contract.

(e) **Exceptions.**

(1) **PURPA Projects.** BPA will entertain requests that it not enforce the provisions of section 7 in situations where an investor-owned utility has been compelled to acquire the output of a Protected Area hydroelectric resource under section 210 of the Public Utilities Regulatory Policies Act (PURPA). To qualify for this exception, the investor-owned utility must demonstrate:

(A) that it has exercised all opportunities available under federal and state laws and regulations to decline to acquire the output of the Protected Area resource in question;

(B) that it has petitioned its state regulatory authority(ies) to reduce the rate(s) established under PURPA for purchases from Protected Area resources in recognition of the increased costs or reduced revenues caused by operation of section 7(c) of this policy;

(C) that BPA was provided reasonable notice of all relevant regulatory and judicial proceedings to allow for timely intervention in such proceedings; and

(D) after taking all of the foregoing steps and exhausting all reasonable opportunities for judicial review, that it was compelled to acquire the output of a Protected Area hydroelectric resource by final order of FERC or a state regulatory authority issued under PURPA.

(2) Projects Contributing to Council's Fish and Wildlife Program or BPA Investments. Access will be automatically denied for projects developed in protected areas unless BPA receives sufficient demonstration that a particular project will provide benefits to existing or planned BPA fish and wildlife investments or the Council's Program. BPA's determination will be based on:

(A) information provided by the project developer, Federal and state fish and wildlife agencies, and tribes; or

(B) action by the Pacific Northwest Power Planning Council.

Section 8. **Other Enforcement Provisions**

(a) Whenever the terms of this policy are not being met, BPA will inform the appropriate utility of the nature of the noncompliance and actions that may be taken to achieve compliance. If noncompliance is not corrected within a reasonable period, BPA may deny access for a resource and refuse to accept schedules.

(b) Upon approval of the proposed U.S.-Canada Free Trade Agreement by the Canadian Parliament and the United States Congress, any and all distinctions made in this policy between Canadian and United States Extraregional Utilities shall terminate on the effective date of the Agreement.

EXHIBIT A
EXISTING AGREEMENTS FOR INTERTIE CAPACITY

This is a list of existing BPA transmission contracts that were signed before the implementation of the NTIAP and will continue to receive Intertie access under the LTIAP.

<u>Utility</u>	<u>BPA Contract No.</u>	<u>Expiration Date</u>
Washington Water Power Company	DE-MS79-81BP90185	07/01/91
Washington Water Power Company	14-03-791101	09/01/88
Western Area Power Administration	DE-MS79-84BP91627	10/31/90

EXHIBIT B
INTERTIE CAPACITY AVAILABLE FOR ASSURED DELIVERY

BPA has reserved 800 MW of Intertie capacity to be available for nonfederal firm transactions. This capacity is allocated as follows:

A. Average Firm Surplus Allocations:

<u>UTILITY</u>	<u>AVERAGE MW FIRM SURPLUS</u>
Chelan County PUD #1	10
Cowlitz County PUD #1	45 ^{1/}
Douglas County PUD #1	0 ^{2/}
Eugene Water and Electric Board	14
Grant County PUD #1	26
Seattle City Light	23
Snohomish County PUD #1	0
Tacoma City Light	41 ^{3/}
Idaho Power Company	87
Montana Power Company	105 ^{4/}
Puget Sound Power and Light	0
Washington Water Power	<u>93</u>
	444

NOTE: The Average Firm Surplus (AFS) is directly from the PNUCC Northwest Regional Forecast of March 1987 for the period 1988-89 except as noted below. It includes resources operational on the effective date of this policy. Export contracts are included as loads. Utilities may use their AFS allocations for long term firm sales or for exchanges. Portland General Electric Company and Pacific Power & Light Company are not eligible for an AFS allocation because of their existing interconnections with the Southwest.

- 1/ Cowlitz Co. PUD's AFS is the amount of their existing export of the Longview Fibre resource. Longview Fibre is considered to be a Federal resource in the Northwest Regional Forecast and is not included under Cowlitz.
- 2/ Douglas County PUD's AFS is 2; but Douglas has previously requested to show zero.
- 3/ The amount displayed for Tacoma is the amount of their existing exports displayed in the Northwest Regional Forecast.
- 4/ Montana Power Company's AFS was increased from 80 MW to 105 MW in settlement of obligations under Northwest Power Act section 9(i)(3).

B. Intertie Capacity Available for Exchanges: The above allocations for sales of firm surplus may be used for exchanges. The remaining 356 MW of capacity is available on a first come-first serve basis for exchanges only under the terms of the LTIAP. If there is a decrease in a utility's firm surplus and the utility does not have a contract for that amount, BPA will allocate the difference to capacity available for exchanges by revising this Exhibit B.

