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October 3, 2007

MEMORANDUM

TO: Power Committee

FROM: Terry Morlan

SUBJECT: Bonneville Resource Consistency Determination Proposal

The Power Committee will discuss a proposed process for the Council to receive information about resource acquisitions that Bonneville is considering and to make a determination of whether the acquisition is consistent with the Council's power plan. This process does not replace the Section 6(c) determination for major resource acquisitions. It is intended to be used for smaller (non-major) resource acquisitions, which may characterize many of Bonneville's future acquisitions.

The objectives of this proposed process are:

- To accomplish the goals and objectives of the Council's plan and the business transactions of Bonneville in a cooperative and non-confrontational process;
- To provide the Council an opportunity to express concerns about individual, or an accumulation of, non-major resource acquisitions;
- For Bonneville to be able to check for any Council concerns about a proposed acquisition before a final commitment is made;
- To do this expeditiously so that Bonneville can move opportunistically if necessary without the delays inherent in a formal review;
- To allow Bonneville to share commercially sensitive data about proposed acquisitions with the Council staff through confidentiality agreements.

Working with the legal division, I have drafted a proposed process, which is attached, with some options for Power Committee discussion. Bonneville has already asked for a staff opinion about a specific acquisition and provided information about it under a confidentiality agreement. The staff response to Bonneville is also attached as an example of the type of finding that might be produced through this process.

Bonneville has suggested that major resource acquisitions are not out of the question in the future. Bonneville and the Council still may want to revisit our respective 6(c) policies as included in Action Item Mon-9 of the Fifth Power Plan prior to implementing the Regional Dialogue contracts.

Proposed approach for Council evaluation of Bonneville resource acquisition consistency

Bonneville expects to be acquiring some additional generation resources over the next several years to augment the Federal Base System under the regional dialogue policy. The individual acquisitions are unlikely to meet the Act's threshold for a formal 6(c) process for the acquisition of a "major" resource. Although it may be possible to specify a renewable resource acquisition program under the existing 6(c) policy, we have not defined such a program. But even if no "major" resources are involved, the Act still imposes on Bonneville an obligation to acquire resources consistent with the Council's Power Plan (with carefully limited exceptions).

Unlike the situation with major resources and Section 6(c), the Act does not specify any particular role and process for the Council to review these proposed non-major acquisitions for plan consistency. However, Bonneville has stated that it does want to work with the Council to make sure that Bonneville's acquisitions are considered consistent with the Power Plan. For that reason, we propose the following approach for Council review of these proposed acquisitions:

Bonneville and the Council have developed a confidentiality agreement that will allow Bonneville to provide detailed information on their proposed acquisitions and for the Council to review the acquisitions for consistency. The intent is to allow the Council to raise any concerns before the final acquisition is completed, but without unduly delaying the commercial transactions.

The proposed approach is for the Council staff to review all the information on a proposed acquisition, including the confidential information, and make a recommendation to the Council as to whether the proposed acquisition appears to be consistent (or not) with the Power Plan. The recommendation and a redacted summary of the information about the proposed acquisition goes to the Council; the full background information, including the confidential information, would not.

There are alternatives to consider and choose from for how the Council itself would take the final step to review the staff recommendation and come to its determination:

Alternative 1: The staff provides the recommendation and information to the members by e-mail. If the staff recommendation is that the proposed acquisition is consistent with the power plan, the recommendation comes with a date specified for members to register concerns or objections. Absent objections from one or more members, the staff will then communicate the recommendation of consistency to appropriate Bonneville staff. If a member objects, the matter is then scheduled for consideration by the full Council at a regular or special Council meeting. If the staff recommendation is that the proposed acquisition is *not* consistent with the power plan, we schedule a closed-door meeting or conference call of the Power Committee to decide how next to proceed, including pressing the matter to full Council review, working with Bonneville to express immediate concerns, or both.

Alternative 2 (a and b): All staff recommendations are reviewed by the Council at a Council meeting, either a regular meeting or a special meeting by conference call. The members then

make their determination known either by (a) discussion followed by informal concurrence through lack of objection or other guidance, or (b) formal motion and vote to accept or modify the staff recommendation.

The point is for the Council to settle on the process before we receive further requests about the consistency of proposed acquisitions.

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