




INTERNAL CORRESPONDENCE

“CONFIDENTIAL”

DATE: June 1, 1993
TO: Central Files - 195 MEZZ
FROM: Jerry Miller - 424 PSB 
SUBJECT: May 28, 1993 Letter of Understanding between PacifiCorp and Bonneville Related to Intertie Issues

Enclosed for vault files is a fully executed original of the above referenced Letter of Understanding.

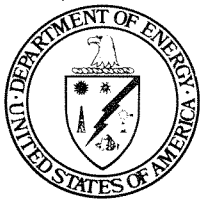
The Letter of Understanding lists the principles, which will be embodied in the appropriate contracts, between PacifiCorp and Bonneville related to PacifiCorp's use of the Pacific Northwest to Pacific Southwest A.C. and D.C. Interties.

The Letter of Understanding will not be filed with the FERC. The affected contracts and contract amendments will be filed pursuant to the FERC's rules and regulations.

The Letter of Understanding or its content are not to be released without the consent of Dennis P. Steinberg, Floyd Hammerquist or Jerry Miller.

cc: Bayless, Cory, Duvall, Eakin-1228 PSB, Eddy-270 NTO, Galloway-27 SIC, Hammerquist, Hill-SPCC, Johannsen, Kaake-SPCC, Morris-330 NTO, Persichetti, Sickels, Stamper, Steinberg-1600 POP, Sias, Walton-330 NTO, Watters, Wood-27 SIC

File: BPA



Department of Energy
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

OFFICE OF THE ADMINISTRATOR

In reply refer to: PMTI

MAY 28 1993

Mr. Dennis P. Steinberg
Vice President
Power Systems & Development
PacifiCorp
700 NW. Multnomah, Suite 1600
Portland, OR 97232

Dear Mr. Steinberg:

PacifiCorp and the Bonneville Power Administration (Bonneville) have reached agreement on principles to resolve a number of outstanding issues related to the Intertie Agreement, Contract No. DE-MS79-86BP92299, and the Midpoint-Medford Agreement, Contract No. DE-MS79-79BP90091. Therefore, subject to Bonneville's statutory requirements, including appropriate environmental review, the parties agree to finalize appropriate agreements to implement the following:

1. PacifiCorp's South-to-North AC Intertie Scheduling Rights Under the Intertie Agreement. PacifiCorp will have the following rights:
 - (a) PacifiCorp's south-to-north (S>N) Intertie scheduling rights under the Intertie Agreement will equal 400 MW divided by the north-to-south (N>S) rated transfer capability (RTC) times the S>N RTC. PacifiCorp agrees to cooperate with Bonneville in its efforts to secure up to a 4800 MW S>N RTC.
 - (b) PacifiCorp shall have the right to net its N>S and S>N schedules.
 - (c) The Intertie Agreement shall be amended to explicitly state that the Agreement applies to the parties' S>N rights as well as to the parties' N>S rights.
2. Priority S>N Non-Firm Transmission for PacifiCorp:
 - (a) For a term of 30-years, on hours that PacifiCorp's S>N scheduling capability (including rights under 1(a), net schedules under 1(b), NFP under 3(a), and firm transmission services under 3(a) or 3(b)) is less than 582 MW on off-peak hours, Bonneville will provide PacifiCorp the right to utilize unused Bonneville S>N AC and DC capability at the IS-A rate. Unused Bonneville S>N capability, for up to a total of 582 MW of S>N scheduling capability, is defined as capability not required to satisfy Bonneville's firm contractual commitments as determined by Bonneville.

3. PacifiCorp's Additional Intertie Delivery Rights:

- (a) Non-Federal Participation (NFP). Bonneville's current draft of the Environmental Impact Statement (EIS) for NFP includes analysis of impacts of additional NFP above 725 MW. In the event that Bonneville offers additional NFP, Bonneville will propose to make 125 MW available to PacifiCorp. If the Administrator has not issued a Record of Decision in favor of proceeding with an additional NFP offer of at least 125 MW of NFP by January 1, 1994, then Bonneville shall offer PacifiCorp interim firm transmission contract(s) that will provide 125 MW of N>S wheeling for PacifiCorp's WAPA and Redding contracts and S>N wheeling equal to 125 x S>N RTC/4800. Such interim firm transmission contract demand for N>S shall be 75 MW starting January 1, 1994, and 125 MW starting June 1, 1994.
- (b) If PacifiCorp has not obtained 125 MW of NFP by January 1, 1995, then Bonneville shall offer long-term firm transmission contracts as described in 3(a). PacifiCorp may use such contracts for firm or non-firm schedules. PacifiCorp may use such contract rights up to a 100 percent load factor.
- (c) If PacifiCorp executes either an interim firm transmission or a long-term firm transmission contract, the transmission rate applicable to such contract shall be Bonneville's then applicable IS-B rate. PacifiCorp shall pay the IS-B rate based upon a 125 MW N>S contract demand plus a S>N contract demand equal to 125 x S>N RTC/4800 for a term equal to the WAPA and Redding Contracts. The agreement(s) shall otherwise include Bonneville's standard terms and conditions for firm transmission, provided that no mitigation charges shall be applied. The settlement of issues contained in this letter of understanding incorporates all necessary mitigation. If PacifiCorp executes long-term firm transmission contracts for deliveries for its WAPA and Redding contracts, Bonneville agrees that upon the termination date of such contracts, it will offer to extend such services for a period of up to 25 years, based upon Bonneville's then standard terms included in similar agreements, provided that no mitigation charges shall be applied, beyond the applicable FERC-approved Bonneville rates, if PacifiCorp requires such service.
- (d) If PacifiCorp executes a N>S interim firm transmission contract or a N>S long-term firm transmission contract pursuant to 3(a) or 3(b) PacifiCorp, in addition to the contract demand charges, agrees to pre-pay, on a take or pay basis, the then effective energy component of the IS-B rate based on a 85 percent load factor. PacifiCorp shall pay one-twelfth of such amount each month. Based on Bonneville's estimated IS-B (93) rate, such amount would be calculated as follows: $125 \text{ MW} \times 8760 \text{ hr} \times 1.43 \text{ M/kWh} \times 0.85 \div 12 = \$110,914.37/\text{mo}$.
- (e) If PacifiCorp executes a S>N interim firm transmission contract or a S>N long-term firm transmission contract pursuant to 3(a) or 3(b) PacifiCorp shall not be required to pre-pay any charges for such service beyond the contract

demand charges associated with such contract. (No pre-payment of the IS-B energy charge).

- (f) PacifiCorp's Main Grid Wheeling Rights to Access the AC Intertie. If PacifiCorp received NFP rights or if PacifiCorp executes interim or long-term firm transmission contracts pursuant to this Section 3, it is agreed that PacifiCorp shall require no additional main grid wheeling on the Federal System to use the rights described above. However, if insufficient capacity exists in the Midpoint-Malin 500 kV Transmission Line segment, then appropriate charges shall be applied consistent with the Intertie Agreement.
- (g) In order to implement these principles, the parties agree to establish Summer Lake, Malin, Captain Jack, and Alvey as Points of Delivery (POD) in the appropriate agreements. Bonneville also agrees to amend the Surplus Firm Capacity Sale Agreement, Contract No. DE-MS79-92BP93757, to include Summer Lake as a 500 kV POD. Use of the Summer Lake POD by the Parties shall not impact PacifiCorp's load carrying capability (LCC) (as defined in the Intertie Agreement) or Bonneville's usage of the AC Intertie.

4. S>N DC Intertie Rights and West-to-East (W>E) Summer Lake-Midpoint Rights:

- (a) Bonneville shall offer PacifiCorp a firm S>N wheeling contract on the DC Intertie for 200 MW. PacifiCorp may use such contract for firm or non-firm deliveries up to a 100 percent load factor. Such contract shall have a term equal to the term of the Intertie Agreement. The contract demand shall be 100 MW starting January 1, 1994, and 200 MW starting January 1, 1995. PacifiCorp shall pay the IS-B, or its successor rate, based upon the yearly contract demands as specified in this Section 4(a). PacifiCorp, in addition to the Contract Demand charges associated with its DC Intertie rights, agrees to pre-pay on a take or pay basis, the then effective energy component of the IS-B rate based on a 30 percent load factor. PacifiCorp shall pay one-twelfth of such amount each month. Based on Bonneville's estimated IS-B (93) rate such amount, based on a 100 MW contract demand, would be calculated as follows: $100 \text{ MW} \times 8760 \text{ hr} \times 1.43 \text{ M/kWh} \times 0.30 \div 12 = \$31,317/\text{mo}$. The Agreement shall also include Bonneville's standard terms and conditions for firm transmission, provided that no mitigation charges shall be applied beyond the applicable FERC-approved Bonneville rates. The settlement of issues contained in this letter of understanding incorporates all necessary mitigation.
- (b) Midpoint-Medford Transmission Agreement, Contract No. DE-MS79-79BP90091. The term of this Agreement shall be extended for the life of the facilities. Bonneville shall have an option to acquire up to 400 MW of W>E firm scheduling rights over PacifiCorp's Summer Lake-Midpoint 500 kV Line and an option to tap such line to serve loads and for inter-regional transfers. Bonneville's right to exercise its option shall be for the term of the Intertie Agreement. During periods when the W>E transfer

capability of PacifiCorp's Summer Lake-Midpoint 500 kV line is reduced, Bonneville's W>E scheduling rights shall be reduced pro-rata with such reduction. However, during periods when transfer capability is reduced, PacifiCorp will provide Bonneville the right to utilize its capability not required for PacifiCorp's firm needs, as determined by PacifiCorp, at no cost. If Bonneville exercises its options for W>E use of the Summer Lake-Midpoint 500 kV line, Bonneville will pay PacifiCorp's then effective applicable FERC filed tariff rate for transmission service. In the event Bonneville desires to tap PacifiCorp's Summer Lake-Midpoint 500 kV line, Bonneville and PacifiCorp shall mutually develop the plan of service for such tap. Such tap shall not degrade or reduce PacifiCorp's East-to-West (E>W) transfer capability on its Midpoint-Malin 500 kV line or reduce PacifiCorp's LCC as defined in the Intertie Agreement. Unless otherwise mutually agreed, Bonneville shall be responsible for all costs associated with such tap. Unless otherwise mutually agreed, such tap shall not increase Bonneville's W>E transfer rights on the Summer Lake-Midpoint line.

- (c) PacifiCorp shall enter into an FPT Transmission Agreement associated with its DC Intertie rights, pursuant to 4(a) to wheel power delivered to Big Eddy to PacifiCorp's Main System. If at some future date, PacifiCorp elects to convert to an IR wheeling agreement, then Big Eddy would become a point of integration or interconnection under such IR contract.

5. Intertie Agreement, Contract No. DE-MS79-86BP92299. The term of the Intertie Agreement shall be extended for the life of facilities.

6. Additional Transformer Capacity in Southern Oregon:

- (a) PacifiCorp shall provide Bonneville firm capacity in the existing 500/230 kV transformer at Malin, at a use-of-facilities rate, for Bonneville's firm requirements; provided, however, that such capacity will be made available to Bonneville only after PacifiCorp has determined the capacity necessary to meet its own requirements; provided further, that Bonneville's right to use the existing Malin transformer shall be limited to 200 MW.
- (b) At such time as the Parties mutually agree, which agreement shall not be unreasonably withheld, that a second 500/230 kV transformer at Malin, or a 500/230 kV transformer at Captain Jack Substation is required, the Parties shall jointly develop the plan of service for such transformer(s). Each Party shall have the right to acquire up to a one-half ownership interest in such transformer(s) at a pro-rata share of cost, provided that PacifiCorp's LCC is not impacted. If a Party does not participate in the ownership at the time such transformer(s) are installed, such Party shall have the unilateral right to acquire up to a one-half ownership interest at a future date to the extent that capacity is available.

7. AC Intertie Reactive Support. After joint studies have been completed and parties mutually agree that additional reactive support is required at Malin or Captain Jack to support the AC Intertie, PacifiCorp shall be financially responsible for its share of such added reactive support.
8. Remedial Action Schemes (RAS) to Support PacifiCorp's AC and DC Intertie Schedules. PacifiCorp shall be responsible for providing or assuring at its cost the provision of its pro rata share of RAS required to support the RTC and OTC of the AC Intertie in either the N>S or S>N direction. In support of its obligations to provide generator dropping for its net N>S AC Intertie schedules, PacifiCorp shall provide generation dropping from its share of Mid-Columbia generation on-line at the time of the RAS requirement. Bonneville may, after it has exhausted its own capability to provide generator dropping in support of its obligation for net N>S AC Intertie Schedules, have access to PacifiCorp's total Mid-Columbia rights on-line at the time of the RAS requirement. Such access to PacifiCorp's Mid-Columbia generator dropping capability by Bonneville shall be at no cost. To the extent that PacifiCorp does not have the capability on-line to provide generator dropping from its Mid-Columbia rights for its net N>S AC Intertie schedules, Bonneville shall, to the extent it has available on-line generation, provide generator dropping capability to PacifiCorp at no cost. In support of PacifiCorp's net S>N schedules on the AC Intertie or its S>N schedules on the DC Intertie, PacifiCorp shall be responsible for making arrangements for any load dropping requirements. To the extent possible, as determined by Bonneville, Bonneville shall offer to sell RAS service to PacifiCorp to enable PacifiCorp to meet its obligations under this Section 8.
9. Midpoint-Medford Agreement Revisions. The following revisions will be made to the Midpoint-Medford Transmission Agreement, Contract No DE-MS79-79BP90091:
 - (a) Revise transmission charges in Exhibit E to reflect the elimination of the Hatwai Point of Interconnection.
 - (b) Revise Exhibit H to reflect the 1187 MW capability of PacifiCorp's Midpoint-Malin-Medford lines as agreed to by IPC/WWP/BPA and PacifiCorp in the Idaho-Northwest Uprate Agreement, Contract No. DE-MS79-90BP93103.
 - (c) Revise Exhibit H to reflect bypass of Burns capacitors.
10. Losses. Prior to energization of PacifiCorp's Dixonville-Meridian 500 kV line and the associated uprating of the AC Intertie N>S RTC to 4800 MW, the parties shall make best efforts to study and reach agreement on an equitable allocation of the parties' control area losses in Southern/Central Oregon associated with the parties' use pursuant to the Intertie Agreements. Such allocation of losses shall consider both heavy and light AC Intertie schedules and area loads, as well as S>N and N>S AC Intertie schedules.

11. Access to Palo Verde. For a period equal to the term of PacifiCorp's March 23, 1993, Transmission Service Agreement with Southern California Edison Company, PacifiCorp, on hours that it does not require its transmission capacity rights under the SCE/TSA, shall offer Bonneville a first right of refusal to utilize PacifiCorp's SCE/TSA transmission rights. PacifiCorp shall have the sole determination as to its requirements to use its SCE/TSA transmission rights. If Bonneville exercises its rights to use PacifiCorp's SCE-TSA transmission rights, Bonneville shall reimburse PacifiCorp its costs under the SCE/TSA. Such cost shall be based on PacifiCorp's then effective transmission demand costs paid to SCE under the SCE/TSA which shall initially be 4.0 M/kWh. If Bonneville exercises its first right of refusal to utilize PacifiCorp's SCE/TSA transmission rights, Bonneville shall use its own AC or DC, as the case may be, Intertie capacity to accept power scheduled under this Section 11. Additionally, such access by Bonneville to PacifiCorp's transmission rights under the SCE/TSA shall not preclude PacifiCorp from utilizing its transmission rights acquired under 3(a), 3(b) or 4(a).
12. Summer Storage. PacifiCorp and Bonneville shall enter into a 20-year agreement whereby PacifiCorp shall accept and store energy for Bonneville during the months of June and July of each year. Such energy shall be delivered to PacifiCorp at POD's specified in Exhibit C of Contract No. DE-MS79-92BP93757 or such other points as may be mutually agreed. PacifiCorp may, but shall not be required to, accept more than 100,000 MWh/mo and Bonneville shall be required to deliver a minimum of 25,000 MWh/mo. Bonneville shall store such energy with PacifiCorp prior to entering into the market to sell surplus energy. Bonneville shall provide notice to PacifiCorp, 1-week prior to the beginning of the month in which energy will be stored, of the amount of energy to be stored by PacifiCorp. The rate of delivery shall be determined by dividing the total energy to be stored in the month by the number of hours in such month, provided, on any hour PacifiCorp shall not be required to back down its thermal units to accept such energy. Except for system emergencies, once the parties have agreed to a schedule for such stored energy, Bonneville shall deliver such energy to PacifiCorp. PacifiCorp shall return such stored energy to Bonneville during the months of September, October, and November of each year in which such energy was delivered to PacifiCorp. The rate of return to Bonneville shall be determined by summing the total energy delivered to PacifiCorp during the prior June and July period, dividing such sum by 3 and dividing such product by the hours in the month in which the energy is to be returned to Bonneville. Except for system emergencies, PacifiCorp shall return such energy to Bonneville at the rate of delivery as determined above. Except for constraints on the parties' transmission systems, the first 110 MW of returned energy shall be delivered to Bonneville at Hot Springs with the remainder delivered to Summer Lake or such other mutually agreed to POD. Storage provided pursuant to this Agreement shall be at no cost to Bonneville.
13. March Energy Option. PacifiCorp and Bonneville shall enter into a 20-year agreement whereby PacifiCorp will deliver to Bonneville, at Hot Springs or such

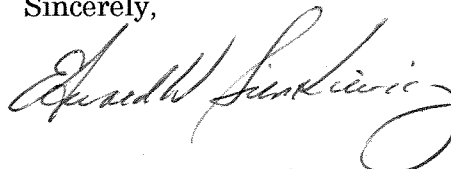
other mutually agreed to PODs, during off-peak hours, up to 50,000 MWh during the month of March of each year. The maximum rate of delivery for such energy shall be 200 MW/hr. To exercise its option to take this energy, Bonneville shall notify PacifiCorp by February 15 of each year as to the amount of energy Bonneville desires to have delivered during March of such year. Except for system emergencies, PacifiCorp shall deliver such energy to Bonneville. Bonneville shall return such energy to PacifiCorp during the following June 1 through July 15 period during off-peak hours and at a rate of delivery determined by dividing the amount of energy PacifiCorp made available to Bonneville during March by the number of off peak hours in the June 1 through July 15 period. Such March energy shall be returned to PacifiCorp at POD's specified in Exhibit C of Contract No. DE-MS79-92BP93757 or such other points as mutually agreed.

14. Firm Transmission/NFP Exchange Rights. PacifiCorp shall have the right to exchange all or a portion of its AC Intertie firm transmission contract rights acquired pursuant to 3(b) with any party receiving NFP rights for up to 125 MW of NFP rights, to the extent the NFP party has rights to assign all or a portion of its NFP allocation. To the extent Bonneville has a first right of refusal to acquire NFP rights from an NFP party, PacifiCorp's exchange rights under this Section 14 shall have priority. Such exchange between PacifiCorp and the NFP party shall be approved by Bonneville, which approval shall not be unreasonably withheld, and shall ensure that rights, benefits and obligations to Bonneville under the affected agreements are reserved.

The provisions of this letter of understanding are interdependent and not severable. The parties will proceed promptly to draft definitive agreements incorporating the provisions of this letter of understanding. Such definitive agreements shall be consistent with statutory requirements, appropriate environmental review by Bonneville and approval by the

Federal Energy Regulatory Commission. In the event either Party is unable to implement these principles hereunder, notwithstanding its best efforts to do so, this letter of understanding shall have no further force or effect.

Sincerely,



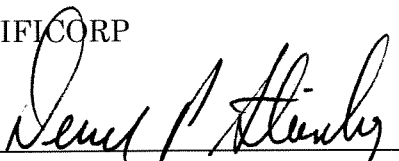
Senior Assistant Administrator

Name Edward W. Sienkiewicz
(Print/Type)

Date May 28, 1993

IT IS SO AGREED:

PACIFICORP

By 

Name DENNIS P STEYNBERG
(Print/Type)

Title Vice President

Date June 1, 1993

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