

15 September 2002

Mr. Stephen J. Wright
Administrator and Chief Executive Officer
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

RE: Solicitation of Proposals and Comments on the Sale of Power by BPA after 2006

Dear Mr. Wright:

The following is offered in response to the Bonneville Power Administration's (BPA's) announcement of the beginning of a regional discussion regarding how BPA will market power and share the costs and benefits of the Federal Columbia River Power System (Federal System) in the Pacific Northwest after 2006. Central Montana Electric Cooperative (Central Montana) is expressing an interest in this process based on the announcement in the August 2002 issue of the **Journal**. It is our understanding that in the first phase of this discussion, jointly sponsored by BPA and the Northwest Power Planning Council, that BPA is requesting interested parties to share recommendations with the region on how BPA will market power and share the benefits of the Federal System post 2006. Central Montana is thankful for this opportunity to comment on this most important matter.

Background

In accordance with section 508 of Public Law 104-46 and section 5(f) of the Northwest Power Act, Central Montana and BPA executed a Firm Power Sales Agreement on 12 January 1998. This agreement is the contractual underpinning of Central Montana's ability to fulfill its role as a wholesale provider of electric energy and related services to 13 retail electric cooperatives that serve a significant segment of Montana's rural/quasi-urban customer base in NorthWestern Energy's (NWE) – formerly the Montana Power Company's - load control area.

With the advent of the Energy Policy Act of 1992 and Federal Energy Regulatory Commission (FERC) Orders number 888 and 889, Central Montana was able to avail itself of the benefits of a wholesale power purchase relationship with BPA. Absent the provisions of the Energy Policy Act (and subsequent FERC orders), Central Montana did not have access to transmission facilities necessary to deliver its portion of the highly valued "Hungry Horse Reservation" to the member systems it serves. Once all the "pieces were in place", Central Montana was able to bridge the final gap allowing a needy segment of Montana's electric consumers access to public power. On 22 June 2000, Central Montana began purchasing electric energy and related services from BPA to meet the wholesale power needs of our member systems in NWE's load control area.

Central Montana's requirements from BPA are currently met with a combination of the Hungry Horse Reservation, not fully utilized by electric cooperatives with ranking rights to receive service from BPA in western Montana, and Excess Federal Power (EFP) not fully subscribed by regional customers with preference rights. Central Montana understands that all purchases must be made in accordance with Section 508(a) and 508(b) of Public Law 104-46, 16 U.S.C. 832m, and be consistent with BPA's Excess Federal Power Policy.

The Federal System represents a significant regional benefit and the value of this resource is clearly recognizable. What Central Montana wishes to propose is a way for BPA to fully meet the needs of customers with regional preference and those of Central Montana whose access to EFP diminishes with increased regional reliance on resources currently meeting our needs. We understand that this task must be accomplished without adversely impacting traditional regional preference customer rights to the benefits of the Federal System.

Sharing the Benefits of the Federal Columbia River Power System

Access to reliable, affordable and quality wholesale electric energy will be a key component in the ability of the member systems we serve to continue their important role in the rural reaches of Central Montana. The cost of electric energy is an important variable in the economic viability of agricultural producers, small businesses, homeowners and community service providers. In many instances, a modest increase in the cost of energy would dramatically undermine the ability of the aforementioned entities to continue breathing life into this struggling segment of the Montana landscape.

Central Montana believes the power supply relationship that has been in place with BPA since 22 June 2000, sharing the benefits of the Federal Power System, can continue through the term of our contract without adversely impacting the region. We understand that as the regional demand on BPA resources grows, access to regional surplus currently used to meet our purposes will diminish. However, there is language in our contract that establishes the criteria under which our mutual interest can be preserved in the event demand on BPA resources exceeds traditional supply. Under the terms of our contract that is effective until 2017, as Central Montana's access to EFP diminishes as a function of regional demand, external purchases of wholesale energy can be requested to fill this gap as necessary. Perhaps there is similar language in other contracts as well.

It has been mentioned that concern may arise as to how BPA could act in the capacity of Central Montana's purchasing agent, without first offering the power purchased on our behalf to the region. Traditional regional customers have (and have always had) the right to step forward and purchase power in accordance with their regional rights – and BPA has the obligation to meet their needs within the limits of energy resources they produce, or secure under contract for this purpose. It should be noted that it was the region's unwillingness to commit to long-term purchases that set the stage for our current contract. Several years ago, BPA was faced with significant surpluses and a limited market and

now there seems to have been a “change of heart” precipitated by volatile regional power prices.

Our proposal will assure that traditional regional customers maintain preferential rights to the benefits of the Federal System and all activities undertaken by BPA must first focus on fulfilling your obligations to meet their needs. This statutory production/purchase relationship that exists between BPA and the customers it serves, is not a relationship that we view lightly. Given the same opportunity we would closely guard this benefit as well. However, once BPA has made an assessment and engaged in a process to match projected resource availability with need, there should be some latitude for action taken to assist in fulfilling our needs while holding the region harmless from risk.

Under this scenario, the region will have “first bite at the apple” and there will be no limitations placed on BPA’s activities by the pending relationship to assist Central Montana. Clearly, BPA’s primary responsibility is to meet the regions energy demands and help afforded our cause would be secondary. But once BPA has acted to meet the needs of the region, Central Montana should be permitted to step forward with an arrangement that would allow us to work in concert with BPA to meet our needs. Central Montana would be required to assume total financial responsibility associated with the transaction and the region would bear no exposure to the implication of the transaction.

The acquisition of wholesale resources from non-BPA facilities to meet our needs would be structured to protect regional preference customers, while spreading the non-tangible benefits of the Federal System - without casting a shadow on regional power supply nexus. This could be truly be a “win – win” situation for the region and Central Montana. Perhaps this could also serve as a model for others to meet their needs in the event BPA’s resources were fully allocated and the customers would be required to bear the responsibility of developing power supply portfolios to meet their residual supply needs.

As the all power requirements provider of electric energy and related services for the member systems we serve, Central Montana has in essence traditionally “taken title” to all wholesale power that flows through us to the member systems we serve. A scenario where we would be required to assume ownership of wholesale power, specific for the needs of our members in order to access related ancillary services from BPA, may be the answer to our dilemma. If Central Montana was the “title holder” to power delivered to BPA’s system from third party providers that would fully meet our energy needs, our remaining requirements would be for ancillary services only – the same ancillary services BPA provides (and would be available to) your existing customers on an open access tariff basis. The traditional act beneficiary customer of BPA would see no reduction in federal benefits earmarked for the region, and the members served by Central Montana would share in the enhanced contribution BPA would be able to garner from its limited resources.

Any costs associated with providing load shaping, scheduling and resources delivery services would be borne by Central Montana, with the potential for positive residual attributes of the transaction being made available to BPA first. A transaction resulting in

power flows from west to east may also result in making a small contribution to relieving transmission constraints resulting from the heavy flow of energy from east to west over severely limited facilities. Granted, the magnitude of the problem is much greater than the relief realized in meeting our needs, but this would be a step in the right direction.

Expanding the benefits of the BPA system to a wider customer base, without adversely impacting the regional energy consumers with “first right” to the resource, should be viewed as a “good thing” worthy of broad-based support. The member systems of Central Montana must be ever watchful of ways to avail themselves to affordable, reliable and quality electric energy and related services if we are to continue as viable contributors to our regions economy. A small savings in the price paid for electric energy could hold in the balance the ability for rural farms, ranches and businesses to survive in the vast are we serve.

BPA’s willingness to help facilitate power purchases to meet our needs from non Federal System generating entities holds promise. Reasonable assistance from BPA would go a long ways in putting in place a shaped, firm product closely resembling our existing power supply situation.

Sincerely,

Tim R. Gregori
General Manager