

BPA Preliminary and Non-Binding Counterproposal
Provided to Iberdrola Renewables, LLC for Settlement Purposes
as Part of PTSA Reform Process
Revised - December 3, 2012

Disclaimer: This counterproposal includes preliminary and non-binding terms proposed by BPA in response to Iberdrola Renewables, LLC's (Iberdrola) proposal described below. BPA is providing this preliminary counterproposal for settlement purposes only, and nothing in this document waives any of BPA's rights under the PTSAs or any other agreement between BPA and Iberdrola. In addition, nothing in this document constitutes agreement with any of the facts, assertions, or representations in Iberdrola's proposal.

BPA is providing this preliminary counterproposal as part of the "PTSA Reform" process. As BPA has described previously in this process, the terms of any agreement in principle regarding termination or modification of a PTSA will be subject to public review and comment prior to BPA deciding to enter into a final agreement. BPA will not decide whether to enter into any final agreement regarding PTSA termination or modification on any terms, including the terms in this preliminary counterproposal, until after providing an opportunity for public comment. This process is subject to change as circumstances warrant.

I. Summary of Iberdrola's Proposal

Iberdrola submitted a proposal regarding their desire for a point of delivery (POD) modification associated with the Precedent Transmission Service Agreements (PTSA) listed in Table 1, below. Iberdrola also has proposed to acquire four additional Transmission Service Requests (TSRs) with associated PTSAs from another entity to provide the available flowgate capacity (AFC) for the requested modification of the POD. Those TSRs are listed in Table 2. Finally, Iberdrola has also proposed to terminate the table for the conditional firm reservation associated with one PTSA listed in Table 1 (PTSA #09TX-14409), below.

Table 1 - TSRs currently held by Iberdrola

PTSA	AREF	MW	POR	POD	Conformed Source/POR	Sink	Current Start Date	Term (yrs)
09TX-14409	76374196/ CF AREF 76210180	50	SLATT	JOHN DAY Intertie	N/A	JOHN DAY INTI500	12/1/2012	5
09TX-14411	76767725	50	SLATT	BIG EDDY	N/A	BIG EDDY CNTGS	4/1/2013	5
10TX-15066	74412693 76767735	100	SLATT 230	JOHN DAY Intertie	SLATT230/SLATT 230	JOHN DAY INTI500	4/1/2013	5

The net present value (NPV) of the above three TSRs using a 9% discount rate is \$11,550,000.

Table 2 - TSRs Currently Held by Another Entity

PTSA	AREF	MW	POR	POD	Conformed Source/POR	Sink	Current Start Date	Term (yrs)
09TX-14289	72674839	50	NEWPOINT BPAT	BPAT.PGE	JOHNDAY500/ BPAPOWER	PGE_ CNTGS	1/1/2010	5
09TX-14290	72674841	50	NEWPOINT BPAT	BPAT.PGE	JOHNDAY500/ BPAPOWER	PGE_ CNTGS	1/1/2010	5
09TX-14291	72674842	50	NEWPOINT BPAT	BPAT.PGE	JOHNDAY500/ BPAPOWER	PGE_ CNTGS	1/1/2010	5
09TX-14292	72674846	50	NEWPOINT BPAT	BPAT.PGE	JOHNDAY500/ BPAPOWER	PGE_ CNTGS	1/1/2010	5

The NPV of these four TSRs using a 9% discount rate is \$11,550,000. The total NPV of the seven TSRs combined (again using a 9% discount rate) is \$23,100,000.

II. BPA Preliminary, Non-Binding Counterproposal

Following a final decision by BPA to enter into a written agreement reflecting the terms in this proposal, and no later than September 30, 2013, Iberdrola will notify BPA of its decision to proceed with one of the following options:

- (1) BPA would process the POD modifications proposed by Iberdrola, subject to the terms and conditions described below,
- (2) Iberdrola would retain the TSRs set forth in Tables #1 and #2 without pursuing the re-direct or termination steps set forth below. All PTSAs will remain in effect under the existing terms and conditions.
- (3) Iberdrola would retain the TSRs in Table #1 and would terminate up to 200 MW of the TSRs set forth in Table #2 by making a single, lump sum payment to BPA in the amount of up to \$3,115,200 (reflective of the amount of performance assurance associated with the 200 MW of PTSAs in Table #2, pro rated to reflect the amount of termination). BPA would then release the performance assurance associated with the PTSAs that are terminated to Iberdrola following receipt of the lump sum payment.

A. General Terms and Conditions

This counterproposal is contingent on Iberdrola acquiring and assuming the rights and obligations of the PTSAs and TSRs listed in Table #2 before BPA processes any request for modifications of PODs. Iberdrola will accomplish the transfer of the PTSAs and TSRs consistent with BPA’s applicable business practice. BPA understands that Iberdrola’s acquisition of the TSRs listed in Table #2 would be contingent upon BPA’s making a final decision to enter into a written agreement reflecting the terms of this proposal.

B. Redirect Terms and Conditions

In the event Iberdrola elects to implement the POD modifications resulting in 200 MW of long-term firm transmission service agreements with modified PODs (option (2)), the following terms and conditions would apply:

- 1. Following Iberdrola’s acquisition of the TSRs listed in Table 2, Iberdrola will submit transmission service requests to redirect the Sinks of each of the requests in Table 2 from PGE_CNTGS to KEELER230 (Redirect #1). BPA will evaluate and process this redirect request consistent with its current policy.
- 2. Iberdrola previously submitted transmission service requests (OASIS AREFs 77112797, 77112808, 77112816) to modify the delivery points of the requests in Table 1 to BPAT.PGE (Redirect #2).
- 3. For purpose of evaluating and processing Redirect #2, BPA will combine the AFC encumbered by the TSRs in Table 1 with the AFC encumbered by the TSRs in Table 2, as modified by Redirect #1. These TSRs have a combined total demand of 400 MW.
- 4. The TSRs that would result from Redirects #1 and #2 are displayed in Table 3. The TSRs will remain subject to the PTSAs identified in Table 3 and service cannot commence until the Big Eddy-Knight (BE-K) project is energized unless service otherwise becomes available earlier in queue order.

Table 3 – TSRs Resulting from Redirects #1 and #2

PTSA	AREF	MW	POR	POD	Sink	Start Date	Term
09TX-14409	TBD	50	SLATT	BPAT.PGE	KEELER230	Dependent upon BE-K	5
09TX-14411	TBD	50	SLATT	BPAT.PGE	KEELER230	Dependent upon BE-K	5
10TX-15066	TBD	100	SLATT 230	BPAT.PGE	KEELER230	Dependent upon BE-K	5

- 5. Following completion of the redirects, Iberdrola and BPA would agree to terminate the PTSAs in Table # 2 according to the financial terms and conditions in section II.C. BPA would take the OASIS actions necessary to annul or otherwise remove the associated TSRs from BPA’s transmission service request queue on OASIS. Iberdrola will agree to waive and relinquish all rights associated with these PTSAs and associated TSRs and with all MW of capacity not used to carry out Redirect #2.

C. Financial Terms and Conditions for Termination of the Agreements and TSRs

If Iberdrola elects options 1 or 3 listed above, the following financial terms and conditions would apply:

- 1. Iberdrola and BPA will agree to terminate the PTSAs in Table #2 and the table for conditional firm reservation with 76210180 in Table 10, Revision No. 2, to Iberdrola's Conditional Firm Point-to-Point Transmission Service Agreement No. 00TX-10367. This is the conditional firm reservation associated with PTSA No. 09TX-14409 in Table 1. The parties agree that BPA can take the OASIS actions necessary to annul or otherwise remove the associated TSRs from BPA's transmission service request queue on OASIS. Iberdrola agrees to waive and relinquish all rights associated with these agreements and associated TSRs and with all MW of firm capacity not used to carry out Redirect #2.
- 2. Iberdrola would make a single, lump sum payment to BPA in the amount of up to \$3,115,000 (reflective of the amount of performance assurance associated with the 200 MW of PTSAs in Table #2, pro rated to reflect the amount of termination).
- 3. BPA would release the performance assurance associated with the PTSAs that are terminated to Iberdrola following receipt of the lump sum payment.

D. Financial Terms and Conditions for TSRs Resulting from Redirects #1 and #2

If Iberdrola elects option 1 above, the following condition would apply in addition to those in sections II.B and II.C:

- 1. The NPV of the resulting 200 MW revenue stream (discounted at 9%) is \$11,550,000.
- 2. Using the methodology that BPA developed to value returned AFC for settlement purposes only and as part of the PTSA reform process, BPA identified approximately 47 MW of returned AFC that would be returned to the market after Redirect #2 is completed. The NPV of the 47 MW of AFC returned with a 9% discount rate is \$2,728,000.

- Iberdrola would exercise rollover rights for the TSRs resulting from Redirect #2 to provide for a final commitment to taking at least 10 years of service. For purposes of PTSA reform, this increase in duration of commitment is assumed to make up the difference between the NPV of the 400 MW, and the revenue stream from the redirected 200 MW, the value credited for AFC returned to market after the redirects are executed based on the methodology proposed for use in PTSA reform and the performance assurance amount for the 200 MW that would be terminating. Extending the original 5 year commitment for a commitment of 10 years has a NPV of \$7,507,000.

E. Iberdrola PTSAs and TSRs Resulting from the Redirects and Termination

- Modification and termination of Iberdrola’s PTSAs and TSRs consistent with this preliminary counterproposal Option 1 would result in PTSAs and TSRs as shown in Table 4.

Table 4 - Resulting Redirected TSRs with Commitment to 10 Years of Service

PTSA	AREF	MW	POR	POD	Sink	Start Date	Term
09TX-14409	TBD	50	Slatt	BPAT.PGE	KEELER230	Dependent upon BE-K	10
09TX-14411	TBD	50	Slatt	BPAT.PGE	KEELER230	Dependent upon BE-K	10
10TX-15066	TBD	100	Slatt 230	BPAT.PGE	KEELER230	Dependent upon BE-K	10

III. Deadline for Response to BPA’s Preliminary Counterproposal

Given the need to continue to move forward in the PTSA Reform process, BPA requests a written response from Iberdrola to this preliminary proposal in no more than 3 business days. BPA may withdraw this preliminary counterproposal at any time.

Financial Analysis of ~~Two-Parent~~ Iberdrola ~~Redirect~~ Proposal – Option One

Value of Original Contract (\$000)	
1 Contract MWs	400 MW
2 Present Value ¹ of Original Contracts	\$ 23,100

Value of Option 1 (\$000)	
3 Present Value ¹ of Transferred 200 MW	\$ 11,550
4 NPV ¹ of Released AFC ²	\$2,728
5 Value of Redirect & AFC	\$14,278

6 Value Required to Remain Whole	\$8,822
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Value of Planned Additional Customer Actions (\$000)	
7 Value of 200 MW Performance Assurance	\$3,115
8 NPV ¹ of 5 Year Contract Extension*	\$7,507
9 Value to Region of Additional Customer Actions	\$10,622

Total Value of Proposal \$24,900*

*Note that the customer chose to make a longer contract extension than necessary in order to maintain rollover rights.

Assumptions

- 1) Discount Rate of 9% Applied
- 2) Released AFC is remarketed January 2015 or randomly within 10 Years of release

**Attachment to BPA’s Preliminary and Non-Binding Counterproposal
PTSA Reform Process for Option 2**

Financial Analysis of Iberdrola ~~Redirect~~ Proposal

Value of Original Contracts (\$000)		
1	Contract MWs	400 MW
2	NPV¹ of Original Contracts	\$ 23,100
Value of Option 2 (\$000)		
3	NPV ¹ of 400 MW	\$ 23,100
7	Total Value of Proposal	\$ 23,100

Footnote: Assumptions

1) Discount Rate of 9% Applied

**Attachment to BPA’s Preliminary and Non-Binding Counterproposal
PTSA Reform Process for Option 3**

Financial Analysis of Iberdrola ~~Redirect~~ Proposal

Value of Original Contracts (\$000)		
1	Contract MWs	400 MW
2	NPV¹ of Original Contracts	\$ 23,100
Value of Option 3 (\$000)		
3	NPV ¹ of Retained 200 MW	\$ 11,550
4	Value of 200 MW Performance Assurance	\$ 3,115
5	NPV ¹ of Credit for Value of Released AFC ^{2*}	\$8,435
6	Total Value of Proposal	\$ 23,100

*While the methodology for crediting returned AFC could provide opportunity to credit a higher value, this is the maximum credit the BPA is willing to provide for released AFC given the principle that performance assurance is the minimum.

Footnote: Assumptions

- 1) Discount Rate of 9% Applied
- 2) Released AFC is remarketed January 2015. This value assumes that all offers made are accepted.