

**REQUEST FOR
POWER SUPPLY PROPOSALS
BY
WESTERN AREA POWER ADMINISTRATION**

Issued: March 18, 2008

Proposals Due: April 4, 2008

REQUEST FOR PROPOSALS

1. NATURE OF THE RFP

This Request for Proposals ("RFP") is being issued by Western Area Power Administration ("Western"), for acquiring electric supply services for a 6-month to 10-year period starting on or after January 1, 2009. Thus, the Suppliers may offer a later start date than January 1, 2009. The Suppliers are also encouraged to offer any alternate option of supplying power, which they believe they can deliver power more economically and reliably to Western. Please see Section 7, "Power Supply Flexibility."

2. PURPOSE OF THE RFP

The purpose of this RFP is to invite qualified suppliers of power to submit proposals for Western to meet its obligations to supply capacity and energy to Sandia National Laboratory ("SNL") and Kirtland Air Force Base ("KAFB") (collectively "SNL/KAFB"). These resources are being procured to serve loads commencing on or after January 1, 2009, and continuing for a minimum period of 6 months and a maximum period of 10 years. A brief description of these two facilities is contained in Section 3, below.

3. DESCRIPTION OF SNL AND KAFB

- 3.1 SNL is a government-owned, contractor-operated research and development laboratory located on KAFB. KAFB is located on the southern boundary of the City of Albuquerque, New Mexico, and also includes multi-disciplinary military facilities.
- 3.2 Both of these facilities are served through the Public Service Company of New Mexico ("PNM") transmission network and Balancing Authority.
- 3.3 Western anticipates that Merchant Desk services for scheduling and balancing SNL/KAFB supply and load requirements on a real-time basis are to be provided by the Los Alamos Power Pool ("LAPP"). The LAPP is a joint operation of the Los Alamos National Laboratory ("LANL") and the Los Alamos County Department of Public Utilities ("LAC"). Western anticipates that real-time information on loads and resources of SNL/KAFB will be electronically communicated to the LAPP dispatch center for purposes of scheduling, balancing, real-time purchases, and real-time excess power marketing.

4. DESCRIPTION OF LOAD

- 4.1 The combined load of SNL/KAFB in FY 2007 approximated 75 MW with an annual load factor of about 68 percent. SNL/KAFB is supplied in part through a 3.5 MW allocation of Federal hydroelectric power from Western, with the remaining 71.5 MW supplied by Western under an Intra-Agency Agreement, whereby Western enters into purchase power agreements with third parties. The hourly load data for the years 2004 through 2007 and projected monthly requirements from 2009 through 2018 are posted on Western's website at <http://www.wapa.gov/CRSP>.
- 4.2 At present, Western has a wholesale requirements power sales and services agreement which expires on December 31, 2008. The power sales to Western for SNL/KAFB requirements is delivered through a Network Integration Transmission Service Agreement ("NITSA") and a Network Operating Agreement ("NOA") between Western and PNM and this service is provided in accordance with PNM's Open Access Transmission Tariff ("OATT") filed with Federal Energy Regulatory Commission ("FERC"). A second NITSA and a second NOA are in place between LAC and PNM. Tentative arrangements are being finalized for the LAPP Merchant Desk to schedule and balance the combined resources and load requirements of the LAPP and SNL/KAFB. Currently, the Network Points of Interconnection where power may be delivered by Western and LAC into PNM's transmission system is Four Corners 230-kV as defined in the Network Operating Agreement ("Network Points of Interconnection"). However, 345-kV at San Juan and Four Corners are expected to be available and possibly other interconnection points with PNM's system. Capacity and Energy will be delivered by PNM to Western and LAC Load Metering Points as defined in the NOAs ("Western and LAC Load Metering Points), which are located at SNL/KAFB and LANL/LAC. If power is to be delivered to the interconnections with PNM at any other point than Four Corners 230-kV, the award of the contract as a result of this RFP is subject to the Available Transmission Capability ("ATC") on the PNM system for delivery of power from the new point to the Western Load Metering Points and LAC Delivery Points for the delivery to LANL.

5. AUTHORIZED REPRESENTATIVES FOR WESTERN

Western will be the contracting party. SNL/KAFB will be responsible for payments as the result of contracts awarded. Western will have no financial responsibility to the Supplier. Western will attempt to consolidate all billing for SNL/KAFB. Western will be responsible for administering the power supply agreement(s) entered into as a result of this RFP. The Primary Authorized Representative for Western is:

Lyle Johnson
150 East Social Hall Avenue
Suite 300
Salt Lake City, Utah 84111
Phone: 801-524-5585
E-mail: ljohnson@wapa.gov

During times that Mr. Johnson is not available, the Alternate Authorized Representative for Western will be:

Burt Hawkes
150 East Social Hall Avenue
Suite 300
Salt Lake City, Utah 84111
Phone: 801-524-3344
E-mail: hawkes@wapa.gov

All bid proposals, correspondence, and questions shall be submitted to the Primary Authorized Representative with a copy provided to the Alternate Authorized Representative. Western Reserves the right to change the primary and/or Alternative Authorized Representative.

6. RFP SCHEDULE

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| RFP Issued | March 18, 2008 |
| Supplier's letter of Intent (Attachment A) due by E-mail or Fax. See Section 14.1 | March 27, 2008 |
| Proposals Due | April 4, 2008 |
| Preliminary Evaluation and Tentative Selection | April 8, 2008 |
| Evaluation Completed | By April 14, 2008 |
| Finalist Notified and Negotiations Proceed | By April 21, 2008 |
| Contract Awards | By April 22, 2008 |
| Earliest Delivery Start Date | January 1, 2009 |

Western Reserves the right to extend or postpone the above schedule at any time.

7. POWER SUPPLY FLEXIBILITY

- 7.1 Suppliers may propose resources to supply all or part of the Basic Option amounts specified in Section 8.1 below.
- 7.2 Suppliers may propose any contract period of 6 months to 10 years

starting on or after January 1, 2009. To provide access to new base-load and/or new renewable resources, the Supplier may offer and Western will consider a term starting from a later date and ending 10 years thereafter, or at an earlier date desired by the Supplier.

- 7.3 The Supplier may offer any other option such as Unit Commitment Service, different quantities, later contract start date, or different contract period (including partial year services), renewable energy up to 35 GWh per Contract Year to meet power supply needs described above; however, the Supplier should fully explain the option and clearly demonstrate the benefit of such an option to Western over the Basic Option included in the RFP. Western shall have the right to select any single offer or combination of offers and to award multiple contracts.
- 7.4 The Supplier shall clearly explain each proposed option with all the conditions and exceptions. A copy of the proposed power supply agreement for the Basic Option (Section 8.1) is posted on Western website www.wapa.gov/CRSP. The draft contract is presented for discussion purposes only and Western has the right to amend and/or change the draft contract. The Supplier should indicate its major concerns and desired changes with the proposed power supply agreement and the contract(s) will be finalized based on negotiations with the successful Supplier(s).

8. CHARACTERISTICS OF BASIC POWER SUPPLY

- 8.1 The Basic Option consisting of firm block Capacity and Energy, including the Western Electric Coordinating Council ("WECC") required reserves ("Reserves"), in the following amounts is provided, but a Supplier may offer any size up to the amounts specified below:

For each of the Contract Periods of 2009-2013, 50 MW of base load Around the Clock Energy.

During the months of June through September for each of the Contract Periods of 2009-2013: 20 MW Block On-Peak Energy (6 x 16 hours) and 5 MW Block Off-Peak Energy.

During the months of October through May for each of the Contract Periods of 2009-2013: 10 MW Block On-Peak Energy (6 x 16 hours).

For each of the Contract Periods of 2014-2018, 55 MW of Base Load Around the Clock Energy.

During the months of June through September for each of the Contract

Periods of 2014-2018: 20 MW Block On-Peak Energy (6 x 16 hours) and 5 MW Block Off-Peak Energy.

During the months of October through May for each of the Contract Periods of 2014-2018: 10 MW Block On-Peak Energy (6 x 16 hours).

All the block quantities are at 100 percent load factor delivered at the Western Network Points of Interconnection; i.e. Western is responsible for PNM's transmission losses from Network Points of Interconnection (at which the Supplier will deliver power to Western) to Western's Load Metering Points located at KAFB/SNL and LAC Metering Points, which are currently 3 percent.

- 8.2 During the Summer Months of June through September, On-Peak Hours are from Hour Ending ("HE") 6:00 AM to HE 10:00 PM Mountain Standard Time during weekdays of Monday thru Saturday, excluding National Electric Reliability Council ("NERC") Holidays; and during the other months of October through May, the On-Peak Hours are from HE 7:00 AM to HE 11:00 PM Mountain Standard Time. All other times, including NERC Holidays, are Off-Peak Hours.
- 8.3 The Supplier shall provide Capacity, including Reserves, which is acceptable to the Transmission Provider (PNM), as a designated network resource.
- 8.4 The Supplier shall deliver Capacity and Energy, including Reserves, to the Network Points of Interconnection.
- 8.5 The Supplier shall be responsible for all costs and transmission losses incurred for delivery of power to the Network Points of Interconnection.
- 8.6 Western shall be responsible for all transmission and ancillary service costs as per the Transmission Provider's (PNM) OATT from the Network Points of Interconnection to Western's Load Metering Points and LAC Metering Points.
- 8.7 All congestion charges incurred for delivery to the Network Points of Interconnection shall be the Supplier's responsibility and all the congestion charges incurred from the Network Points of Interconnection to the Western's Load Metering Points and LAC Metering Points shall be Western's responsibility. Western shall retain all of the Firm Transmission Rights ("FTRs"), Auction Revenue Rights ("ARRs") and/or Congestion Revenue Requirements ("CRRs") allocated to Western on the PNM's system.

- 8.8 The Supplier shall be responsible for all scheduling, NERC electronic tagging, and dispatching services to the Network Points of Interconnection. All balancing requirements related to the delivery at the Western's Load Metering Points and LAC Metering Points will be Western's responsibility.
- 8.9 The Supplier shall coordinate with Western and/or LAPP for scheduling, NERC electronic tagging and dispatching supplies from the Network Points of Interconnection to Western's Load Metering Points and LAC Metering Points.
- 8.10 If the Supplier is proposing to supply Unit Commitment Capacity and Energy, then the Supplier shall specify the Unit. The Supplier shall be obligated to provide the contracted amounts of Capacity and Energy unless the Unit is down due to a scheduled maintenance or a forced outage. Western will have the right to supply Capacity and Energy during these outages. However, if the Unit's availability factor is less than 90 percent during the summer months of June-September and winter months of December, January, and February and 80 percent during other months, the Supplier shall be responsible for the replacement power costs to the extent the stated availability factors are not met. Further, the Supplier shall not schedule maintenance in the above-specified summer and winter months unless maintenance is required due to emergency and/or reliability considerations. If the Unit is derated, the Supplier shall be obligated to supply the Contracted Capacity and Energy, including Reserves, during the time the Unit is available within the above-specified availability factors.
- 8.11 If the Supplier offers a renewable power supply, Western shall have the sole discretion to ascertain whether the source specified by the Supplier meets Western's criteria for a renewable resource which are posted on Western's website at www.wapa.gov/CRSP. Separate contracts may be required for the renewable component and for the firming component.
- 8.12 In the event a Supplier is awarded the contract for renewable power supply only, the scheduled rate of delivery of the renewable resource may vary, but shall not exceed a maximum rate of 10 MW per hour.
- 8.13 The Supplier shall be responsible for any and all present lawful taxes applicable to the wholesale sales of services, delivery, capacity, and energy to the Network Points of Interconnection. The contract prices will be revised to reflect future changes, if any, in taxes which are related solely to the generated energy and shall not include any revenue and/or income related taxes.

9. PRICING

- 9.1 All proposed prices should preferably be stated in a single rate expressed in \$/MWh (e.g. \$40.00/MWh). Western may consider separate rates for Capacity and Energy. A load factor of 100 percent for the applicable delivery period will be used in evaluating proposed Capacity and Energy rates.
- 9.2 All pricing must be provided in current or nominal dollars without any discounting and without removing or adding the effect of inflation or any other index.
- 9.3 All prices must be fixed for the term encompassed by the offer. The term "fixed" means stated prices per contract period. Such prices may vary among the different contract periods.
- 9.4 The pricing shall include the following services:
 - 9.4.1 Capacity and Energy, including Reserves, as specified in Section 8, above.
 - 9.4.2 All transmission and Ancillary Services costs, including congestion costs and losses, up to the Network Points of Interconnection.
 - 9.4.3 All other costs associated with the delivery of Capacity and Energy, including Reserves, to the Network Points of Interconnection.

10. OTHER TERMS AND CONDITIONS

- 10.1 Capacity resource(s) should be acceptable by the Transmission Provider (PNM) as a designated network resource.
- 10.2 All Capacity and Energy, including Reserves, provided shall be firm and shall not be interrupted for any reason except only for "Uncontrollable Forces" (as that term is defined in the resulting contract) on the transmission system.
- 10.3 All Unit Commitment Capacity and Energy, up to the availability factor requirements described in Section 8.11, shall be firm and shall not be interrupted for any reason except only for "Uncontrollable Forces" (as that term is defined in the resulting contract) on the transmission system.
- 10.4 All acquisitions under this RFP are subject to the availability of Federal

appropriations.

- 10.5 In any contract resulting from this RFP, Suppliers must agree that SNL/KAFB shall have sole responsibility for all payments due for power provided under this RFP. Western will attempt to consolidate all billing for SNL/KAFB

11. INFORMATION TO BE PROVIDED BY SUPPLIER

The Supplier shall provide at least the following information with its proposal:

- 11.1 Full description of proposed option(s) with prices.
- 11.2 Description of designated resource(s).
- 11.3 Details of the delivery to the Network Points of Interconnection including evidence of a firm transmission path.
- 11.4 For the Unit Commitment option, specific unit based supplies and the Renewable Energy portion of any supplier's potential portfolio, the Supplier shall submit the following information for the designated power supply source(s):
 - 11.4.1 All technical details.
 - 11.4.2 Evidence of ownership of or rights to power supply sources(s).
 - 11.4.3 Location of power supply source(s).
 - 11.4.4 Performance history for the last 5 years or the period of time since the date of initial operation if the unit has not been in service for 5 years.
 - 11.4.5 If any source does not have a performance history, provide all the predicted performance characteristics, experience with similar resources as well as performance guarantees obtained from the equipment manufacturer and/or installer or other source. Also provide a copy of the project report prepared for technical or project feasibility purposes. In addition, if any such report indicating performance history is submitted to any regulatory body and/or provided for project financing purposes, provide a copy of that report.
- 11.5 If any source is not in commercial operation at the time of the submission of the bid, the Supplier shall provide the following additional information:

11.5.1 Estimated commercial operation date.

11.5.2 Current project status details such as permitting, including the status of all environmental permits, Engineering Procurement Contract (EPC) and vendor selection, actual construction, etc.

11.5.3 Whether financing has been obtained.

11.5.4 In the event the unit is not completed as scheduled, the financial protection provided to Western. The Supplier may wish to provide examples such as: indemnification, hold-harmless, insurance, and/or performance guaranties.

11.5.5 Proposed ownership of renewable energy certificates.

11.6 Experience

The Supplier shall provide a full description of itself and its experience and statistical information on its services to wholesale or retail customers, specifically indicating the delivery quantities as well as the number of wholesale and retail customers it has served during last 3 years and at least one reference of a wholesale customer the Supplier serves.

11.7 Financial Condition

Supplier's financial condition and credit-worthiness shall be an important selection criterion. A Supplier shall be required to demonstrate adequate financial and physical resources to provide capacity and energy to Western to meet SNL/KAFB requirements during the term of the contract.

11.8 Performance Assurance

Supplier may be required to provide a Performance Assurance that mitigates conditions of financial insecurity and that compensates Western for replacement power and all costs incurred to restore supply in the event of non-performance by the Supplier. The Performance Assurance may be required under three conditions: (1) if the contracting entity does not have significant tangible assets and its own credit rating, it will be required to provide a Performance Assurance from its parent or affiliated company with good credit rating; (2) if the Supplier's or its guarantor's credit rating is downgraded to below investment grade level; (3) and if the Supplier fails to perform more than two to three times in the absence of Force Majeure conditions. If the Supplier proposes a

financially guaranteed Performance Assurance that would be in effect at the time of contract commencement, the Supplier shall disclose the cost of the Performance Assurance and indicate whether such cost is included in its bid prices.

12. PRE-SUBMISSION INQUIRIES

All questions or requests for clarifications shall be submitted in writing to the Authorized Representative (either by e-mail or fax). Responses to questions and clarifications that would be applicable to all Suppliers shall be distributed to Suppliers by e-mail to the address provided in the Supplier's Notice of Intent. Western will not respond to any question unless it is submitted in writing delivered by e-mail or fax.

13. EVALUATION CRITERIA

13.1 Evaluation of all proposals will be performed in two steps. Step 1 will include evaluation of Suppliers' experience and financial condition, location of supply source(s), reliability of supply source(s) and adequacy of transmission path. Further evaluation of the Supplier's proposal will not be made if the Supplier does not pass the Step 1 evaluation. Those passing Step 1 will be evaluated further.

To qualify in Step 1, the Supplier must demonstrate its ability to supply its proposed quantities of Capacity and Energy in its proposal for the proposed term and that it has, or will be able to obtain, the firm transmission service contract for delivering Capacity and Energy to the Network points of Interconnection. The Supplier, or the entity guaranteeing the transactions proposed in the Supplier's proposal, must have an investment grade rating by an authorized rating agency.

13.2 Step 2 will include the evaluation of the type and firmness of product supplied, duration of the proposed supply period and pricing.

13.2.1 \$4.00/MWh will be added to the proposed Unit Commitment option prices.

13.2.2 \$2.00/MWh will be subtracted from the proposed prices of renewable energy up to 35 GWh.

13.2.3 Based on the Step 2 evaluation and proposed indicative pricing, the suppliers will be short-listed for price refreshing and further negotiation procedure.

13.3 In view of the volatile and ever-changing power market, the evaluation process will involve Western's judgment in selecting a proposal, which at the time of the selection process, Western, in its sole discretion, determines to be most beneficial to the government.

14. SUBMISSIONS

14.1 Notice of Intent: Although not mandatory, any Supplier who desires to participate in this RFP should submit by fax or e-mail a properly executed Notice of Intent (See Attachment A hereto) to the Authorized Representative as specified in Section 5 of this RFP by 4:30 p.m. (MDT) by March 27, 2008.

14.2 Proposals are due by 4:30 p.m. (MDT) on April 4, 2008. Five copies of the proposals shall be submitted to Western's Authorized Representative as specified in Section 5 of the RFP. The proposals may be submitted electronically, but the official hard copy and four copies must be received by Western by 4:30 p.m. (MDT) on April 7, 2008.

14.3 Western recognizes the importance of a timely evaluation of a Supplier's proposal and the difficulty of holding a price. Suppliers will state the duration that all price quotes and terms are in effect. All Suppliers will have the right to refresh their prices prior to signing a binding letter of intent or binding memorandum of understanding or a power supply agreement. Suppliers shall indicate the period for which the refreshed prices will be held; however, this time period shall not be less than 24 hours. Western will have the right to refuse refreshed bids if Western deems the changes unfair or unreasonable and to award the contract(s) to other Supplier(s).

14.4 Western reserves the right to award contracts to one or more Suppliers, and to award contracts for any time period. In addition, if in Western's sole determination, fair and reasonable bids are not obtained from one or more Suppliers, Western may elect to not award contracts under this RFP.