



Nebraska Public Power District

Always there when you need us

ROD RINNE

Contracts Manager

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April 26, 2011

SENT VIA E-MAIL AND REGULAR MAIL

Reference: NPPD Response and Comments Pertaining to the 2021 Power Marketing Initiative

Jody S. Sundsted
Power Marketing Manager
Upper Great Plains Region
Western Area Power Administration
2900 4th Avenue North
Billings, MT 59101-1266

John A. Pankratz
Public Utilities Specialist
Upper Great Plains Region
Western Area Power Administration
2900 4th Avenue North
Billings, MT 59101-1266

Dear Gentlemen:

Attached is a copy of NPPD's January 12, 2011, correspondence that was previously provided to Western as a follow up to the November 30, 2010, Firm Power Customer meeting pertaining to the year 2021 Power Marketing Initiative (2021 PMI). As a follow up to the April 2011 Customer meetings that were held and pertained to the 2021 PMI, NPPD has determined that the comments previously provided in January 2011 are still current and that they continue to comprise NPPD's comments pertaining to the 2021 PMI. Thus, NPPD resubmits these previously provided comments for the comment period ending on May 4, 2011.

Additionally, once Western's tasks associated with the 2021 PMI are completed, NPPD representatives would like to meet with representatives from Western to discuss Western's alternatives for participation in an RTO and Energy Markets, and the potential impacts on grandfathered arrangements and future arrangements between NPPD and Western.

NPPD appreciates this opportunity to provide input into the 2021 PMI process. If Western has any questions pertaining to these comments provided by NPPD, please feel free to contact me by calling (402) 563-5632.

Sincerely,

Rod Rinne
Contracts Manager

/sk

Attachment

cc: M. E. Wagner
P. L. Pope
T. L. Bender

GENERAL OFFICE

1414 15th Street / P.O. Box 499 / Columbus, NE 68602-0499

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Billings, MT 59101-1266

John A. Pankratz
Public Utilities Specialist
Upper Great Plains Region
Western Area Power Administration
2900 4th Avenue North
Billings, MT 59101-1266

Dear Gentlemen:

Western has held a series of Firm Power Customer meetings to provide information to customers pertaining to the year 2021 Power Marketing Initiative (2021 PMI). Representatives of NPPD attended the November 30, 2010, Firm Power Customer meeting held in Lincoln, Nebraska.

During the meeting, Western provided and discussed information pertaining to the 2021 PMI, which included, among other things, six "Key 2021 PMI Principles". Western's proposals pertaining to these six principles were to provide the basis of how Western would market hydro power and the associated contracts for the 2021 PMI. Western requested input from customers to be provided by January 14, 2011.

NPPD COMMENTS:

- 1) In general, NPPD does not oppose or object to the Six Key 2021 PMI Principles as identified by Western or its proposals pertaining to them. Essentially, what Western proposes would maintain and continue Firm Power Service from Western to its customers, in its current form (or substantially so) through December 31, 2050.
- 2) While not specifically addressed in Western's informational materials for the Firm Power Customer meetings, NPPD understands that Western is proposing no material changes to Peaking Service. NPPD requests that Western would verify whether or not our understanding pertaining to Peaking Service is correct.

ADDITIONAL COMMENTS AND CONSIDERATIONS:

In addition to the above comments, NPPD has a few additional questions and items that we raise for Western's consideration.

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As a preface to these items, Western recognized the need to engage customers in the 2021 PMI process to support customers' ability to perform long-range planning. Additionally, Western is proposing a new contract, which would have a 30-year term commencing at the completion of the current contract. While we understand the value and benefits of long-term contracts, this represents a very long-term time horizon, and potentially great uncertainty associated with that. NPPD is currently conducting a strategic planning process, and would be interested in receiving input or information from Western on the following items to assist us in our planning.

RATES AND RATE STABILITY:

Other than power repayment studies and associated cost analysis, "Has Western performed any analysis, or does Western have any forecasts or other information that it can make available pertaining to Western's rates for future years, beyond near-term forecasts having a one- or two-year horizon?" Additionally, while we are not aware that Western has a Rate Stabilization Fund or other Reserve Fund(s) that could be drawn upon for mitigating future rate increases, any information that Western could provide as to Western's reserves (if any) and their allowed use would be beneficial.

In the financials contained in Western's year 2009 annual report, an Accumulated Net Deficit for Hydroelectric Power Systems is shown in the amount of (\$591) million. "What are Western's plans, or is there a specific timeframe, for the collection of this deficit in future year rates?"

In the event that Western's rates were to increase dramatically, and purchasing Firm Power Service would no longer be advantageous to a customer, "What, if any means, would a customer have to relinquish or reduce its purchase from Western?" and "Are there any alternatives or 'off ramps' for the customer?"

FLEXIBILITY IN THE USE OF THE RESOURCE:

Western and NPPD currently have a contract for Control Area Regulation Service, provided by Western to NPPD through Western's scheduled firm electric service to NPPD. This regulation service is an example of additional value that can be provided to customers, through flexibility allowed in the use of Western's resources in providing service, while remaining within the bounds of what Western's firm power service would allow. "To what extent is Western willing to continue to offer such services, and to explore the possibility of expanding such services, within the bounds of what Western's firm power service would allow?"

STATEMENT OF INTEREST IN ANY WESTERN FLEXIBILITY AND INTEGRATION SERVICES:

NPPD is definitely interested in cooperating in any study or pursuing purchase of any hydro-based services that Western may develop which provides greater flexibility, especially with respect to integration of variable resources.

STRATEGIC PLANS BY WESTERN:

"To what extent has Western conducted strategic planning to assure customers of the optimization and best use of its hydro power resources?"

"Are there any future projects or infrastructure modifications being explored, which would provide for greater flexibility in the operation of Western's hydro resources (such as integration of renewables, or pumped storage) while still providing for the maintaining of flows and hydrology requirements?"

Jody S. Sundsted / John A. Pankratz
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January 12, 2011

NPPD appreciates the opportunity to provide input in the 2021 PMI process. Should Western have any questions pertaining to the comments provided by NPPD, please feel free to contact me by calling (402) 563-5632.

Sincerely,

A handwritten signature in black ink, appearing to read "Rod Rinne", with a long horizontal flourish extending to the right.

Rod Rinne
Contracts Manager

/sk

cc: M. E. Wagner
P. L. Pope
T. L. Bender