

# **A SPECIAL MEETING OF THE BOARD OF DIRECTORS OF WELLS RURAL ELECTRIC COMPANY**

**JANUARY 5, 1988**

A special meeting of the Board of Directors of Wells Rural Electric Company was held in the office of Robert O. Vaughan, WREC attorney, 530 Idaho Street, Elko, Nevada and called to order January 5, 1988, at 10:00 A.M.. The meeting was presided over by President Vernon Dalton.

Directors present were Larry Bradshaw, Ferris Brough, Ray Crawford, Vernon Dalton, Daryl Eriksen, Lois Nannini, Jerry Parkin, Vernon Scott, Leslie Sharp, and Mary Wright. Wanda Borden was not present.

Present from the staff were Dan Kessler, Warren Linnell, Paul Johnson (afternoon session), Clay Fitch and Diane Griswold. Bob Vaughan was present. Also present from Bonneville Power Administration (BPA) were Bob Laffel, District Manager Idaho Falls; Pat McRae, Power Sales Manager; Tom Wagenhoffer, Snake River Area Manager; and Lynn Geren, Engineer.

Vernon Dalton introduced each of the people representing BPA. Pat McRae addressed BPA's transfer service used to serve preference customers in the Snake River area. Also addressed was quality of service through the transfer service and the problems arising from serving remote areas located long distances from BPA's system (i.e., economic feasibility of building to our points of delivery).

Mr. McRae also addressed the current transfer agreement with Sierra Pacific. Delivery to Eightmile Creek of 20MW demand limit is currently \$3.79 per KW of demand ratcheted over a twelve month period. He noted it was the most costly transfer service anywhere in the Northwest. The average, depending on load factor, is approximately 5 1/2 - 8 mills KWH. Most transfer services average in the neighborhood of 2 mills per KWH. Even at that high of transmission cost, BPA could not justify either building their own system down to our point of delivery or having us construct and they lease the line. He noted that BPA is not happy with the existing terms in the current transfer agreement due to the price and the four year termination notice. If Sierra decided they did not want to continue to provide that service, they could terminate the contract.

According to Mr. McRae, the new mining load opportunity has offered a chance for BPA to improve the new arrangements that they have for service from Sierra to us. This load (mining) is for a significant new addition of load which provided more revenue which maybe was enough to justify construction which BPA took into consideration. The amount of time for notification was a concern (approximately 2 months). Mr. McRae stated that two months was not enough time; normally four years lead time in regard to transmission construction is warranted. It has been done in cooperation with other utilities, as well as Wells Rural, in a much shorter time frame than four years (construction of line to Wendover). Mr. McRae noted that a year's notice is not very much time when talking about any new facilities.

The most economical and efficient way to construct this line would be to build from Mid-Point on Idaho Power system down to Wells and then from Wells to the Eightmile point of delivery. The estimated cost of construction was \$18 million. If a better agreement with Sierra could not be agreed upon, BPA told Sierra they would consider building this line.

Due to being a mining load, the risk involved is much greater because of the load not being a fixed or base load. The length of operation is not guaranteed by the customer. Not knowing what the load will do in magnitude and longevity is a negative factor in the economic analysis. These factors were taken into consideration in regard to the BPA/Sierra negotiations.

The key factors, according to Pat McRae, that BPA wanted from Sierra are as listed:

- 1) Long-term assurance (30 year contract) that Sierra would provide service.
- 2) Improvement in price if at all possible.
- 3) Guarantees on the quality of service (assurance that Sierra will give BPA and Wells customers as good of service as they give their customers off the same system).
- 4) Unencumbered ability to compete for new loads and the right to grow.
- 5) Increase the transmission demand at the point of delivery from 20MW to 50MW.

McRae stated that BPA went through some intensive negotiations with Sierra and got most of what was wanted. (i.e., 30 year contract; a price that is less than what the annual costs on the construction of new facilities would be and depending on how long the ore body lasts, the price paid would be considerably less than what it would be if the facility were to be built; quality of service provisions; 50MW demand limit; and assurances that if Bonneville asks for more they will get it). If the WREC Board agrees with this transfer agreement, BPA will sign the contract and send it to Sierra. There is a clause within the contract stipulating that if WREC does not agree to sell the 120 kV line to Sierra, the contract is null & void (thus giving WREC the final say).

McRae noted that one of the troubling aspects of the old point of delivery was the fact that the load was transfer tripped. Sierra has agreed that if BPA pays an additional charge Sierra will remove the transfer trip over those loads thus giving BPA some control over those loads that they did not have before.

The question of being transfer tripped as being "all that bad" was addressed by McRae. He felt that it should not be. He felt it should be as good as radial service that anyone else gets, now that Sierra has the bugs worked out of their system.

McRae asked the Board what they would like addressed - terms of the contract, economics in general? Vernon Dalton asked that the terms of the contract be addressed. Copies of the contract were handed out to the Board.

The first section of the agreement deals with the term of the agreement which becomes effective on the date of execution and lasts for 30 years. Sierra cannot get out of the contract. McRae stated, "I think personally that doing this transfer agreement is by far the best thing to do. Maybe I ought to just go ahead and tell you that now so you will know where I am coming from and as we go through the contract, you can pick that position apart if you can. I want to convince you, hopefully I will convince you before I leave today, that it is the thing to do."

He went on to address some very basic things that BPA has done with the contract that are important. One of them is the contract was written so that Bonneville can get out at anytime, a year, two years from now, and limited it as much as they could as to costs involved in pursuing this plan of service. McRae stated, "If we don't get out of this contract before Sierra closes that loop, there will be some fixed costs involved there that will be laid on Newmont Mine - I assume that decisionally you guys wanted to pass those through, or not. The only other sunk cost that there is in pursuing this course of action is whether you sold that line or not."

"We think delaying any construction project for about 2 years, more than saves enough money to make up for the loss of the line economically. What you are faced with is you go back in and build 2 years, or 3 years later, 10 years later and probably rebuild that (your own) line again. But, looking at the economics again, you will still come out better if you wait and see and defer the construction costs for a few years and then see what it is you really want to do. So with that in mind, we built all the flexibilities in this transfer agreement we can get out of that thing to do that."

McRae went on to explain the risks involved regarding each alternative. He felt that serving a mining load of that size and depending on the revenue to pay off \$18 million of construction was risky, and that some of the risk should be put on the mine if they would swallow it. He felt the mine could view Sierra Pacific as a better alternative.

Tom Wagenhoffer addressed the concerns of a hostile takeover and assured the Board that WREC's best interests are BPA's also. He stated, "It's Bonneville's sincere concern about protecting our customers and we are here to serve you. That is our responsibility. We are committed to that. And Jura has made it very clear here recently that if there is any talk of any takeover, hostile takeover with any of our customers, he is going to take a very strong stance."

Wagenhoffer also addressed the economics of constructing a line down to the mining load. "We have to look at the economics of things, we can't invest large sums of money that we know we can't recover over time. We do have an economic analysis approach we take in supporting construction based on things we know today in view of the mining loads, the size of those loads we can't support building a transmission line. We would like to, Vernon believe me, but we just can't do it at this time, but like Pat says we have included flexibility in this agreement that will allow us that option in the future. If there are loads that develop, not just mining loads, the skiing development that you mentioned here sometime back, but we need some firm loads that we can depend on for payback of that investment."

Vernon Dalton addressed the time factor regarding WREC forecasting new loads and Bonneville's inability to commit serving loads until verification is received from BPA in writing (i.e., the Wendover load growth forecast). Mr. Dalton stated that the load growth (mining) is there now and also possibilities in Carlin and Pine Valley and that Bonneville should be planning for future growth in that area.

Also addressed by Dalton was load capacity. Dalton asked, "If we can't get the capacity over Sierra's line, we are at their mercy." McRae answered, "Well you've got 50MWs. I haven't got any doubts that we can get at least 70, I don't have any doubts that they will keep giving it to us until they don't have anymore to give out of Humboldt." Dalton interceded, "You are talking about now. I mean with the new transfer agreement." McRae, "Yes." Dalton - "The one that we are under is totally different, this is what I am saying, we are always up against that gun. Now if the new transfer agreement does, in fact, give us the assurance that we can get up to 70 or above, I think that is the right direction to be starting to plan. Vaughan interceded. "This is a subject I need to discuss at some time and it seems like it has come right into it. You said that the things you want us to be able to compete for new loads and that you can get additional, you were talking that you could get 70 or up to 100?" McRae, "I think that maybe we can get all they've got to give out of Humboldt. They are limited there, obviously." Vaughan, "Here's my problem, I want you to tell me why I am wrong. I'm not against this, but I realize you folks' difficulty. And I'm not criticizing. I am advising my Board that above 45MW you are absolutely at Sierra's mercy. I am telling staff that looking at this, that if you can look at this and say that it is a good deal if we know we can only get 45MW, why fine. I might explain why I'd take that position. And that is because of first of all the basic agreement is great as far as you can have all the power, you can build and everything else. It is just like a great big pipe line and then when we get to Exhibit D, it says we are limited to what you can get on your transfer

agreement, it is just like bringing that big pipe line down to 2" pipe. It's a bottle neck right there. Under the new agreement it says that if you ask for one or more of three things, increased demand, new points of delivery or having additional capacity, they can refuse, which could not be unreasonably with them, they can agree but as their agreement is subject to the conditions they put in their agreement." McRae answered, "Sure". Vaughan went on to say, "They could set the terms of what they agree to or they can refuse. Now the scenario I see, if we are on a noncompeting load, I don't see any problem, but, if we are on a competing load, you're not going to get any additional capacity out there, I am sure. Let me give you the scenario. We've watched Sierra and their legitimate purpose, you know, is to acquire as much facility and territory - we are not complaining that is not the proper motive for them - but we have watched them try and grab all of Central and North Central Nevada, watched them fight Harney, take them to the courts and beat them by delay in the courts. And what I say, if there is a competing load, Sierra is going to refuse and they will say we'll be happy to litigate you about whether it is reasonable or not while you lose that customer. They were willing to litigate Harney when they knew we're both going to lose a customer." McRae stated, "You might lose that future customer, but if you try to build down there now, you might lose the one you've got on the hook right now." Vaughan - "I'm not arguing which is the best alternative, I am saying that I want to know what assurance can you give us that we can have more than the 45 or 50MWs." McRae - "Let me explain my thinking on that and my philosophy on doing this kind of agreement. We have learned what it is those guys fear and we use that against them. That is the one thing we have against any of them. What they fear is Bonneville building into their service territory. There are lots of times, most cases where we use transfer service we do it because at that time can't afford to do the construction. But, we threaten it. You know as if we are irrational and don't do economic analysis and so on. We threaten it and they react to that. They have a pretty good idea about when construction starts getting economical. If you get over 60MW or so of load on your system down there pretty soon it starts looking like construction is something you can do. They know that and the last thing in the world they want to see is the ogre Bonneville down here with transmission after their service territory. They are going to give us the capacity we ask for because that keeps the worst thing from happening to them. That's one thing that we use. I'm not even worried about relying on that. If your loads get up in the 60/70MW range you've got something out there in the future that we can construct down to in a reasonable time frame then - what we do the Wendover thing in a year and a half? If you have got year and a half lead time on something and the total loads are going to get up in the higher range, we probably are going to be looking at building. We don't care if we get anything more out of Sierra. But we will hang onto what we've got so that you'll have a line and a transfer agreement and then you've got, what, 150MW maybe." Vaughan - "I understand that, I think it is very much appreciated that we have got our load served so far. But I have to look at the contract as if every other party is going to be vicious and ornery and obstinate and everything else. You guys aren't going to be there forever." McRae - "Yea" Vaughan - "So I have to look at it like we may not get all that cooperation. just don't want the Board to believe that under this contract they can get more than the 45MWs. You're saying I can because of what you folks won't do and the pressures you will bear. That they have no legal right to deliver more than the 45 and I am not complaining about that but I want you to either agree with me or tell me where I am wrong. If I am wrong because you say you'll put the pressures on and get them what you need and you have ways of doing it, I accept that. But, you won't look to this agreement and take it to a commission or court and get more than the 45." McRae - "Well, in the section that you are referring to Section 11 we'll get to that but it does say in here, agreement to the things we asked for cannot be unreasonably withheld and that means something. In the utility circles, that means something." Vaughan - "If you are competing for a load you'll be in court with Sierra long past losing that load." Wagenhoffer "Are talking about an uncertificated area?" Vaughan - "Yes." Wagenhoffer - "Of course, that's one that both co-op and the company would then go to the Public Utility Commission." Vaughan - "They had to give up the Harney fight."

Wagenhoffer - "That was a different circumstance." Vaughan - "Well, money doesn't mean that much to these mining loads and they want power. My point is that in all probability you will not get a competing load under the contract. If you good folks will put all the pressures that you've got and all that, well maybe we do." Wagenhoffer - "But, if you go to the PSC and it is decided that you are the choice of the load you'd become a load of BPA and we're obligated to serve that load." Vaughan - "If you do it timely." Wagenhoffer - "Timely?" Vaughan - "We're several months to the PSC and then we go to court from there." Wagenhoffer - "I think, there again," Vaughan - "Then you are talking about a year, year and a half or something like that?" Wagenhoffer - "Yes and I don't know that Sierra has any other choice either. It takes them time to build into an uncertificated area and so its who can build it the fastest. I don't know if that is the only choice. The power costs obviously is the big consideration to a new load." Kessler - "Construction costs." Vaughan - "There are a lot of scenarios that can happen and I don't know that we need to discuss those. What I'm saying, tell me if I'm wrong, they can't look to these agreements and look to more than 45 for sure." McRae - "I think you are wrong, Bob. We do business with them. This is not an abnormal way for us to do business. We have contracts like this with every investor owned in the Northwest. I can't think of any time. . ." Vaughan - "I'd be more precise, I said look to the contract. If we can look to BPA, I'm happy for them to look to you and say yes you can go get it for us." McRae - "That's what we are saying." Vaughan - "o.k." McRae "Transmission is our responsibility. This is the way we choose to do it. We don't have any doubts that we can serve or we wouldn't do this. It's hard to, you can't say anything more in a contract than what's been said in there as far as rights to future capacity because what if their system is loaded up? Can we expect them to build new facilities..." Vaughan - "I realize you just have to pay and negotiate for additional capacity. Don't be get me wrong, I'm not telling the Board that you folks can't do this thing. I just don't want them to be misled that they can get the contract terms that we will give it to them." McRae - "We don't have it - I'm sure we can get the additional capacity. I have no doubt about that but that's not what, in my mind, we've been planning on doing. This is an improvement over what we've got right now and still allows all kinds of flexibility as to what we might do in the future in the way of construction and it carries you without question up to 50MWs. By then I think we'll know what we want to do here to reach that point. I'm not sure that" Vaughan - "While you are building which is your threat you could easily lose a competing load." McRae - "Say again now" Vaughan - "The very time factor in building a line down could lose the competing load in an uncertificated area." McRae - "You might. There is no certainty there. In fact there is not that much rate differential between you guys and Sierra anyway. And there wouldn't be - if we didn't absorb these transmission costs, by the way for you guys, your rates wouldn't even be close to Sierra. We sell to you at a loss... but that's a fact of life too. I'm not complaining about that but that's there." Wagenhoffer - "That's part of the Bonneville project act, the postage stamp rate and it assists the less populated areas of the region. That's the way it has been for the last 50 years." McRae "That's what we are here for and that is what our job is" Dalton - "There would be a differential without question." Kessler - "I guess what I hear you saying, just to kind of recap it, is that if we'll start to approach something in the neighborhood of 60MWs even though you have assurances you can get to 70 and probably more as long as the capacity is available out of Eightmile. But it starts to change Bonneville's thinking as to why not have a line down here and starts to sway justification for the construction to begin more towards that. So you're actual thought right now is not looking at how can we acquire 70,80,90, get to 100MWs, if when we start to approach 60,70MWs, the whole construction scheme changes, whereas right now under 45MWs does not." McRae - "Yea. I mean give lots of time to build a solid base on some of this load growth. Stuff that is not speculative. You know if you reach eighty or ninety megawatts you're going to have, I think, some more stable load that follows that up and why not start out with a flexible arrangement for serving your loads until you see which way the land lays. And when you get to that first decision point, which is probably right around 50MWs, then you figure what are we going to do from here? Well obviously the next best thing is that your comfortable you've got stable, reliable load, stable source of revenues, then you build that first line down there , and that gets you 70 or IOOMWs that you've got fixed costs for,

fixed revenues, semi-fixed revenues anyway, pay that off and then you keep this contract until then wind up with your fixed amount of base capacity coming into here, you're still on top of that and have this contract with ability to get that amount additional without having fixed costs tied up there. You just keep building that way. To me that seems like the more prudent way to go. And the cost for doing that is the line. You let that go. The alternative is.. What happens to you if we build this. This line is built and you've got \$18 million worth of investment tied up there that somebody is on the hook for and hopefully you can get Newmont to go on the hook but you might not or they might not be very happy about that. I think you had better hope the load stays there and better hope stays there for 45 years or you are going to come up short somewhere down the line." Kessler - " We've done a ball park analysis based on I think approximately 23 million figure was tossed around in Wells. Using the \$23 million figure, we arrived at a 30 year minimum guarantee of \$110,000.00, but the revenue that comes into the Carlin area currently minus Carlin Gold Mine is a \$110,000.00 minimum payment a month. The revenue we get in Carlin right now minus the Gold Mine load is at 40 to 45,000 at best that is without the mine. And the mine has never given us any indication of what is in a 30 year contract. Obviously they're looking at a speculative business and I think they went in at 15 on a contract to get their power credits back. But, they didn't seem to indicate they wanted to go any further than what we have existing now. We haven't approached them about going, round those numbers out over 30 years and the loads that we have now, knowing that things that we talked about Vernon may develop in Pine Valley or what may add Carlin, a lot of those are infrastructure and building equipment mining loads were developing. People would relocate there to support that business, but we lack, we come up with about one third of what the minimum power bill would be if we had to sign a 30 year contract right now to guarantee those revenues. Revenues just aren't there in Carlin without that Gold Mine." McRae - "Who knows what those revenues, hopefully the price of gold is going to go up and they are going to stay there and that maybe it's just going to be a bulge in gold prices and they want to get it all out now. A lot of things are more favorable than..." Kessler - "The other side of the coin is in 1964 when they came to town and projected, as near as I can remember, a 10 year life span and they'd run the tailings through. They haven't run the tailings through yet. They've got more finds and they've been there since 1964." McRae - "You'll know more about what's going to happen a few years down the road and we'd know more about what we might be interested in the way of construction by the way too. We've got negotiations going on with Idaho Power right now for transfer service to everybody in Southern Idaho including you guys. You get double hit, you get served over Idaho by transfer and then over Sierra by transfer. Everybody else in Southern Idaho gets served by transfer over Idaho Power and some of them get stuck with Idaho and Utah. Everybody does that in Southern Idaho and Northern Nevada -- Utah and we don't know how those arrangements are going to come out and we may be looking at some construction to build around Idaho if that doesn't come out right. If that were to happen, we wouldn't want to be building up to MidPoint and then be stuck on the Idaho system forever with \$18 million worth of investment. We just don't how all of this is going to come out. We might want to do something different. It's conceivable we might become a business partner of Sierra and might start making surplus sales to them and we might want to be a part owner in some significant transmission enlargement from Northwest down into Nevada. So, I mean there are a number of possibilities out there, all of which can be beneficial and it doesn't seem to us like this is the time to jump into some sort of fixed investment because you might be.. to me it looks like there is significant chance you might be sorry you did it." Dalton "Well, we all have copies of this agreement, maybe we can go through it"

Pat McRae began going over the agreement with the Board and explained each section, etc.. He noted that the contract is for 30 years in which Sierra is committed for full term with Bonneville having the option of terminating in 2 years or earlier by paying a transfer demand and ratchet. "We did that for the reason of maybe wanting to construct down there. And there are off-ramps all through this contract for that purpose." He continued on through the provision. The first section states that the contract is effective if WREC sells the line. If an agreement is not in place with Sierra

to sell the line by March 1, 1988 this agreement is terminated even if both parties have signed. At that time the previous agreement goes back into effect.

The 2nd section takes care of terminating the old agreement if the new agreement is effective.

The 3rd section states that the Exhibits are part of the agreement.

The 4th section contains provision relating to delivery. An important part of this section is: provided, however, that in the event of an outage on the Midpoint-Humboldt 345 kV transmission line, the Transfer Trip load, as defined in subsection (f) below, shall be interrupted. Bonneville has the right jointly with WREC to determine how much the load will be transferred tripped and how much won't be. A price has to be paid for everything that isn't transfer tripped. Whatever load falls under this provision is under Bonneville's control. A discussion ensued regarding the quality of service and transfer trip. Mr. McRae noted that Bonneville would have to pay a stiff price to not have a load transfer tripped and that Bonneville is not willing to pay the whole price. Subsection (f) was reviewed.

The 5th Section is Replacement of Power Delivered. Bonneville will replace, to Sierra, the energy that Sierra delivers to WREC.

The 6th Section is Emergency and Breakdown Relief. This refers to another contract in which Bonneville and Sierra agrees to help each other out if there is a problem. Bonneville has these arrangements with all investor owns they deal with.

The 7th Section is Quality of Service. This in an important section of the contract. A commitment on Sierra's part to provide a good quality of service to Bonneville's customers. Subsection (b) states that WREC will not incur more outage time than Sierra's customers. McRae noted that the contracts state: The above provisions of this subsection (b) shall not apply to Transfer Trip loads which have been interrupted pursuant to subsection 4(a) above. Records (dispatching, switching, and outages) must also be kept by Sierra and be made available on request for examination by Bonneville and the affected Bonneville customer.

Subsection C states that Sierra, Bonneville and Bonneville's customer shall meet once each year during the term of this agreement to discuss any problems, etc..

Subsection D says that if Sierra wants to take a planned outage they have to let WREC and Bonneville know (5 days advance notice in writing).

The 8th Section is Scheduling Provisions. This relates to how Sierra and Bonneville do business in scheduling power from Bonneville's system to Sierra's system for WREC's use.

The 9th Section is Payment for Transfer of Power. This section describes how Bonneville pays for the service. Bonneville gets a ratcheted 11 month demand. A certain peak is established in a given month and BPA continues to pay that amount even though WREC's loads may run less than that.

Vernon Dalton asked, "As far as the Quality of Service and it's written in here what quality they will provide and everything else. What if they don't provide it? What happens?" McRae - "We arbitrate it I guess. Give damages out. If you can't work it out with them in just discussions, to the extent that you can determine you've been damaged, you can arbitrate." Dalton - "Bonneville would arbitrate?" McRae - "Yea. Up to where it's the point of delivery to you it's our responsibility and if you are unhappy with the quality of service your getting, we're unhappy and they haven't lived up to this contract for example and we're unhappy and we would go after them. But I don't know what kind of things that could occur under this contract that it would be all that damaging to you. They serve

loads off that same line that you do and whatever voltage problems you experience they're going to be experiencing and they are going to have to live with their own customer complaints. Same thing with outages except with the Transfer Trip outages." Further discussion ensued. Bonneville used to pay \$3.79, under the new contract it is approximately \$3.65 a KW per month.

Subsection (e) of Section 9 involves the price Bonneville pays for getting off the Transfer Trip service (8 mills). McRae went on to explain that the reason for such a stiff price is that every MW hour of power Bonneville brings down over their Midpoint/Humboldt line to serve WREC, Sierra is unable to import economy energy for their own consumers. Sierra is a thermal based system and imports a lot from the Northwest costing Sierra additional money to not have WREC's load transfer tripped. He also explained that Bonneville proposes to not pay the charge for the original 20MWs but will pay for anything over the 20MWs Bonneville will pick up 5 mills and ask that Wells pass on 3 mills to Newmont. That keeps Bonneville's transmission costs low enough for service. to WREC in the same ball park as what Bonneville makes on economy sales to California. McRae put a diagram up on the board to further explain the above purchase displacement cost. A thorough discussion ensued.

McRae went on to explain the passing on of the 3 mills to WREC's customer due to being a cost of service. It was asked why Bonneville's rate with Sierra was higher than any other investor/owned. McRae stated that it was due to Sierra's low density, being spread all over, having a lot of investments and their cost per KWH is pretty high. Bonneville pays Sierra's postage stamp rate for using their system. WREC is a long way from BPA's system.

He went on to say that Bonneville does not bear the cost if they do something to improve reliability over what would normally be the case. That they cooperate with that activity but do not pay for it. McRae felt that Newmont could absorb the extra cost (3 mills). Newmont could afford it better than BPA; BPA is losing money on the sale. Also McRae felt that due to the deep pocket (Newmont's) he did not see anything wrong with charging Newmont extra for the improved reliability. "It gives Newmont some reason to think about before they ask for the increase in service." He went on to say that Bonneville has a hard time breaking even and are out to make the best business deal they can. "If I were a private utility, I probably wouldn't pick up the 5 mills." He also said that Bonneville was doing the best they can to give WREC service. He went on to say, "If I thought you guys were going to have to pay the 3 mills, I would look at it differently. But I think you can put that on to the mine. I don't think that it is unreasonable if they want improved quality of service." Further discussion ensued regarding transfer trip and postage stamp rates.

Section 10 is Payment of Bills. Bonneville has to pay on time.

Section 11 is Provisions Relating to Additional Capacity, New Points of Delivery, and Revisions to Points of Delivery. Subsection (a) was reviewed. Subsection (b) states that Bonneville has to make a written request one year prior to the date they want the increase.

Kessler asked how 'new loads within Bonneville's Customer's service territory' (Section 11, Subsection (b)) applied to service territory to be acquired, pending service territory boundaries, or existing service territory boundaries. McRae "For uncertified territory we have assumed you would have to file with the PSC to get it." Kessler - "We couldn't get it until we had a commitment that we could be served which this agreement would give us. There's a lot of horses you have to line up before they" McRae - "If the PSC decides in your favor then you have the right, the ability to serve it is the way I see it and I don't know how else we could put that in there. You're not going to serve anything other than service territory that has been given to you by the PSC." Kessler - "It's really all we need, Bob, to go before the PSC is a commitment from Bonneville to serve that load saying sure you get the territory we'll serve the load?" Vaughan "Well, we got to show that we are able to serve

them, right?" Kessler - "Right." Vaughan - "And we go with this contract, right? And the first thing it says at this point - it says they can refuse. Then we can argue about whether it is reasonable or not." Kessler - "Yea." Warren Linnell - "Didn't we on the original gold mine Bob, didn't we provide a copy of the BPA All Requirements Contract in our application to the PSC?" McRae - "I was going to say you had a contract with us that says that we'll serve your load growth and we will. We have just simply right now have chosen this as the lowest cost alternative." Vaughan - "Your contract is limited to what you have under a transfer agreement." Bob Laffel - "You're a full requirements customer." Vaughan - "Well." Laffel "Bonneville has to serve you one way or the other. Whether its our problem is whether we can serve on the Sierra contract or that we have to do something else. We have to do something to serve you as a full, your Power Sales Contract not this contract, Bob. Vaughan - "Yea." Laffel - "Power Sales Contract says that we must serve your loads. We have a commitment to serve you. So if you get a 50MW load developed in Carlin, Bonneville, with or without Sierra Pacific's assistance in this contract, has a contractual requirement to serve you based on your Power Sales Contract with Bonneville. How we serve you is Bonneville's problem in that case." Vaughan - "Well" Laffel - "Not contingent on the Sierra contract. That's what we showed the PSC originally when we talked about territory boundaries in the Carlin area." Vaughan - "Well, I like that and to you say that it isn't limited by the transfer contracts." Laffel - "Your contract with us, tell if I'm wrong Tom, is the Power Sales Contract that was signed in '81 or '2." Wagenhoffer - "'81, yea." Laffel - "And that says, Bonneville will meet your full requirements and that's the contract you showed to the PSC in my mind that says we can serve a load in Carlin based on what this contract Power Sales says." Vaughan - "Whatever develops." Laffel - "Whatever develops it's our problem. If 50 new MWs comes to the City of Carlin in the form of anything that's a firm load it's a Bonneville problem then to serve Wells if that's in your territory cause you are a full requirements customer of Bonneville's." Dalton - "But Bob, in what time frame?" Laffel - "I can't remember what's in a Power Sales Contract, offhand. There's a notification time." McRae - "Customer Service Policy. Like I said when I started this meeting we like four years notice. That's the way we generally do business and most of 'em you know don't have that kind of notice from a lot of industries but boy I've never seen any shorter notice than what we have had with this load." Vaughan - "I understand the basic contract if its under 10MWs it's just reasonable notice you must provide it immediately. If it's over 10 but under 35 it's a two year." McRae - "That's Power Supply though that doesn't have anything to do with transmission." Vaughan - "Well, I thought we were talking about our Power Supply contract." McRae - "We're talking about the commitment through Bonneville to serve your loads under the Power Supply Contract and it has some things in there that are.." Wagenhoffer - "If we have to build new generation to meet that load, that's one thing. But it's now, of course we are in a surplus situation for some time so those same requirements may not hold today." Vaughan - "Well, you have exceptions for when there's curtailment." Wagenhoffer - "Yea, we're in a deficit situation. That's the reason why we need those kinds of notices." Vaughan - "We're talking about the, I thought the question was the notice and it does, it requires two year's notice if it's over 10MWs but under 35. If it's under 10, in a 12 year, a 12 month period, then it's just reasonable notice and you must supply it immediately as I understand the contract. Then if it's over 35, we get into the seven year deal or over 35 and over 75 or something." Wagenhoffer - "That's what I was saying, that's more directed to Power Supply. Whether Bonneville has the resources to serve those kinds of loads and it's our protection for us if we don't have resources to serve that load to go out and find it." Vaughan - "Yea, I understand that." McRae - "There's nothing contractual about notice provisions for transmission or in providing new points of delivery. There's nothing in that Power Sales Contract that says what kind of notice you have to provide and what we do with utilities is work cooperatively and do our best to satisfy whatever it is we're faced with, like we have done in this one. And like I said, we have never run across a shorter notice period than this. If you want to build something, a lengthy transmission facility you know at Bonneville we are going to build it with the things we've got to do for environmental and so on and it takes us about four years to do that. To get the service into Wendover where you guys had POWER Engineers construct for you and we leased it, we did that in

a year and a half, which is admirable. I don't know of any kind of thing we ever did faster than that either. So it can be done in a year and a half. If you've got less than a year and a half notice you've got problems with any kind of construction unless it is real short. Like I say, I hope we don't go up against that again. But one thing I just pointing out in here under this contract Sierra's got to they got to give they've agreed to provide (tape went blank) Kessler - "So if we want to modify this contract by 20MWs or 30MWs, we can do that under these conditions and they can refuse, but if that 30 or 50MW load develops in uncertificated area or in our service territory we're superseded by the Power Sales Contract. We've got with Bonneville to meet those requirements and this can decrease on termination and we can serve it another way. We have the ability to modify this contract if we want to, add on another 10 or something but if we get a bigger load this contract is superseded by the Power Sales Agreement we have with BPA." McRae - "I would hope that a couple of years down the road you might have a, well maybe it won't be a couple of years even before you know what is going to happen with some of the other ore bodies and such that you've got there, that's about all you've got in the way of real potential in that area anyway isn't it, is gold?"

Kessler - "Yea, as far we know but I think we're also looking at a time limit ourselves that we've got to be noticed. We can't be told one month, you know we need 25 in the next month we need 40. We've got to get ourselves a reasonable time frame to be able to perform as well so we're looking at something." McRae - "But if we get into some sort of a competitive circumstance where we've got you know where Sierra's going to drag their feet and so on I guess the only real insurance I can give you there if we get into that spot is like I said earlier - We've got forty attorneys on our legal staff and those guys are there for a reason. They're pretty good at what they do. I think we might cause Sierra some problems too if we thought they were treating us unfairly in this contract and I would consider, I would say that we were being treated unfairly if they refused to give us that point of delivery and I knew that they had capacity on their system." Dalton - "You know they've got capacity on their system. They get to Eightmile..." McRae - "You know when they do this, when they finally change this plant service I think they're going to have something like this, they're going to have another substation tapping off that 345 line. You know that 600MW there that loops going to have some capacity there. They're going to have a hard time telling anybody they don't have room for another 10 or 12MWs. Who in the hell is going to believe that. I don't think it's gonna, it's not going to get tied up before any PSC or anybody else for a very long period of time because it is ludicrous. There are some technical realities involved in this thing too and they would have a hard time making any case if they shouldn't do that." Mary Wright - "Bob, you said when you were speaking about on our service contract you're obligated to serve our needs if and you made the statement if a firm demand develops, a say 50MWs, in the Carlin area does BPA have the right to review and determine what makes what a firm demand or is that the Company's responsibility or is that BPA's discretion?" Laffel - "I think here we would get into both because if we were looking at something like a mine load that might have a life of 2 or 3 or 4 years we would be hesitant to come in and do a major construction all the way down from Idaho to serve that." Wright - "Even though we might say to BPA we have this load and we need this service." Laffel - "If it's a Wendover load for example it's a casino load, it's a load that's a business that's not a temporary business but if you're looking at a temporary business then we have to prudently look at what it is also. A mining type load unless the mine gives assurances of either putting upfront money as you require or meeting minimal billing requirements for a number of years to amortize that warrant, we would have a problem. But that's no different than a normal business relationship would be if you were doing a contract with someone yourself whether it be an electric (?) or just herding cattle." Wright - "But you do have the power to over rule, so to speak? Say, if we think we have the demand and we think we need this power and you have the power to come in and say, 'Well, we don't think you do?' Is that right or not?" Wagenhoffer - "I think there is an example here recently we entered into a contract with one of our customers with the U.S. Air Force, and I think we all know a lot of the defense projects are, no one knows the lives of those either they can be here today and gone tomorrow. We're talking about a \$5

or \$6 million investment and we placed them on a minimum bill and so what you can do is compress the time into a four or five year period. Yea, we may build it but you fellas are going to have to pay for it and if your life extends beyond five years, great. I think the mine would be the one venture that, they're objection is to get in quick and mine it at the best price." Dalton - "Of course, you're contract indicates that an industrial load and you qualify the industrial load as mining being one of the more..." McRae - "Risky" Wagenhoffer - "It's risky but it's lucrative too, if the gold doesn't strive out, sure." Dalton - "But you could take another look at the, any industrial load is a (?). I see what's in the contract and say Bonneville could look at it and say this is a fairly risky industry." McRae - "But that is the approach we would take. We would want to protect our interest just like you to your investment." Dalton - "I understand. I'm not quibbling, I'm trying to get an explanation in where we are. I think that is what the Board is looking for." Wagenhoffer - "The companies understand that too you know if there is a potential of billions of dollars in income, a \$22 million may look like peanuts to them. Say all right, fine, we'll pay for it upfront. Of course, they are going to look for the best deal they can." Laffel - "But face it, Sierra Pacific is not going to come in either and bet on the income of a mine and put in a major transmission project to bring a mine in. Hopefully they are smarter than that." Kessler - "That's what their guarantee is." Laffel - "Without guarantees, it's similar whether it be minimum bills, upfront money, whatever way they want to do it, but it would be the same thing. They're not coming in to do that either. It's just a normal business practice. But our contract says that we will provide power." Dalton - "There's no question that they will make the best deal they can. There is no question that they have the capacity to serve this load without the sale of this line but they are holding us in hostage and that is what really gripes the hell out of us. I mean whether they get that line or whether they don't, has no bearing whatsoever on their ability to serve our load. Then what's the lever." McRae - "It had an effect on one thing and that was their commitment to get in there and serve the mine by the date they said they would. And the reason it was of value is them to come down from Humboldt to that pit and they had some environmental problems and some construction problems that they could avoid by building, other than that cost-wise was the same. They don't save a penny on it. Buying the line and building around that way but it enabled them to live up to..." Dalton - "It saved them some time and they get the line, which is fine. Maybe they're justified to have, I'm not really arguing that. I think what upsets the Board and the people here was the fact that they wouldn't serve the load, our increased load, unless we sell them the line. That was not a proper way to do business in my mind, but we're going that way and we are trapped and so we will go on from there." Kessler - "It did revolve, she said, around similar time tables to meet ambitious schedules to provide service." McRae - "Frankly, Sierra got really burned in that Gold Field's thing with Harney. In that whole thing Sierra looked really bad. They were not responsive to customers and they were embarrassed, I think a couple of their VP's got called onto the carpet for the way they treated those guys and by basically saying we'll serve you maybe and we aren't going to do anything to go after your load and be business like with you and they decided after that their two vice-presidents who deal with that kind of stuff they're were going to be responsive and they committed to almost impossible commitment with Newmont and they're now trying to live up to it and that's why they needed the line."

Section 11 review was continued. Bob Vaughan addressed the wording of Section 11 , subsection (d), the Company shall not oppose the completion of construction by Bonneville and/or Bonneville's Customer of the facilities required to provide service to the new points of delivery or service to the existing Points of Delivery associated with such New Load or load growth. Mr. Vaughan asked if that means if Bonneville decides we are going to build, we are going to pick up all the old loads also and that Sierra would object to that. Vaughan asked why didn't the wording state, if they aren't going to give us the new points, we can build into the area and serve all our loads. McRae stated that whether or not BPA did something to serve their and WREC's existing loads wasn't an issue on the table. Sierra's concern was what kind of things WREC would have the capability to do in the uncertified territory. Bonneville could fight them if they had any grounds to stop them from building,

at least they could not collect damages from not serving you after two years.

A discussion was heard regarding Section 11, Subsection (c). This section states that if Sierra plans to upgrade or build on, Sierra has to let Bonneville know. At that time there could be further negotiations if necessary.

Section 12 Termination of Points of Delivery was reviewed and discussed.

McRae stated that the rest of the contract was basically boiler plate.

Sierra will seek FERC approval but will make deliveries under this contract as soon as both parties sign. McRae suggested that the 120kV line sale contract contain provisions stating the Transfer Agreement contract is null and void if approval (FERC) has not been granted by March 1, 1988. McRae stated he felt there would be no problems in this area.

At the time this contract becomes effective, the points of delivery will be moved to Carlin and Quarry instead of Eightmile Creek and will be coincidental billed by BPA . Also WREC's points of delivery will be closer to our load.

The Exhibits were reviewed and discussed.

McRae noted that some of our names for substations, if we sell the line, conflicts with Sierra's and an agreement will need to be reached between WREC and Sierra for appropriated names to be used in this contract. Problems are not foreseen.

Gold Quarry Metering Point was discussed. Sierra and WREC are in agreement.

A lunch recess was called at 12:00 P.M. The meeting was called back to order 1:00 P.M.

The BPA representatives did not attend the afternoon session.

A Waiver of Notice was passed around for each Board member's signature due to change of place of the meeting was held.

A discussion ensued in regard to Bonneville's presentation and the fact that Mr. Laffel had stated clearly that Bonneville's responsibility under the Power Sales Contract was not limited by the Transfer Agreement and Mr. McRae had made assurances of BPA's ability to obtain additional capacity if WREC needed it. Further discussion ensued. IT WAS ON MOTION BY JERRY PARKIN TO AGREE WITH BONNEVILLE'S NEGOTIATIONS WITH SIERRA PACIFIC POWER COMPANY IN REGARD TO THIS TRANSFER AGREEMENT. THE MOTION WAS SECONDED BY LARRY BRADSHAW. Further discussion ensued. THE MOTION PASSED UNANIMOUSLY.

A thorough discussion ensued regarding the sale of the 120kV line. A preliminary contract 1st draft is to be drawn up Bob Vaughan as soon as possible. The key points of the sale are as follows: 1) transmission neutrality - exclusive rights to tap anything we sell on the 120kV system 2) placement of breakers, the electronics necessary to expedite transference service, substation components that would be for sale, etc.. 3) closing of the loop involving quality of service 4) terms of the sale - Newmont has agreed verbally to 4-5 year installment sale would be o.k. with them. Staff has completed a financial analysis. Revenue from the sale cannot exceed 15% of non-member income per year. Further research is needed to complete total picture before a decision can be made on the price.

The pros and cons of the 120kV line sale were addressed. Staff recommends that it is in the

Company's best interest at this time to sell the line to Sierra. A discussion ensued. Mr. Vaughan concurred that it was the best alternative legally. Mr. Vaughan also addressed that Bonneville cannot throw the extra costs (in regard to the 8 mills discussed earlier) to WREC because Newmont is a "fat cat" and they cannot differentiate between us and their other customers with regard to their postage stamp rate.

Staff was instructed to explore the possibilities with Sierra of WREC purchasing the 69kV line between Wells and Elko as a part of the 120kV line sale.

IT WAS ON MOTION BY VERNON SCOTT TO APPROVE THE DRAWING UP OF THE 120KV LINE SALE CONTRACT FOR BOARD APPROVAL AND NEGOTIATE WITH SIERRA PACIFIC POWER COMPANY. THE MOTION WAS SECONDED BY LESLIE SHARP. THE MOTION PASSED UNANIMOUSLY.

A Policy Committee Meeting was set for Friday, January 15, 1988, at 3:00 a.m..

As there was no further business to come before the Board, the meeting adjourned at 2:30 a.m..

D. Vernon Dalton, President

Mary A. Wright, Acting Secretary