

Tier 2 Vintage Rate Customer Workshop
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911 bldg, Conference Room C

Statements of Intent

John Wellschlager, Annick Chalier

Outline

- What is a Statement of Intent ?
- How does the SOI relate to the Regional Dialogue Contract ?
- Basic structure of the SOI
- Unknowns moving forward
- Internal review & approval
- Purchasing decision process
- Notification of purchase
- Review & comment period
- Questions?

What is a Statement of Intent?

- The SOI defines the parameters of any resource or market purchase used to establish the customer rate commitment for a specific Tier 2 rate pool.
- Once executed, it creates a binding commitment by the customer to purchase PF power at a Tier 2 Vintage Rate, if such a rate is established.
- As noted above, signing the SOI does not guarantee that BPA will establish such a rate.

What is a Statement of Intent? (cont'd)

- Basic elements include:
 - Term of energy purchase
 - A not-to-exceed energy cost cap
 - The total yearly minimum amount required to establish a rate pool.
 - Non-power attributes (such as RECs, resource type etc).
 - Other pricing elements required to establish the rate (risk adjustments, resource support services, overhead adders, odd lot charges)
 - Customer deadline to sign SOI
 - BPA deadline to notify customer on the amount of their request which can be accommodated.
 - Criteria for relief of the election by the customer once they have signed the SOI.

How is the SOI tied to my Regional Dialogue Contract?

- The concept of the SOI was first established in the Regional Dialogue Contract. It was designed to address BPA's need for customer commitment prior to buying energy, while also giving customers a not-to-exceed guarantee on energy costs (but not a final rate).
- Should BPA successfully establish a rate around the SOI, section 2.3.2 in Exhibit C of the customer's Regional Dialogue contract will be modified to reflect the Vintage Rate purchase amount committed to in the SOI in lieu of that portion of their Short-Term purchase.
- If BPA is unable to establish a Vintage Rate or cannot meet the conditions set forth in the SOI, then the customer is relieved from any obligations under that SOI and maintains service under the Short-Term rate.

Basic structure of the SOI

The SOI is broken into two parts:

Part 1 -The basic agreement (details specific to this commitment and the proposed rate)

- Conditions for service
- Process for establishing the Vintage Rate & the associated costs.
- Contract administration
- Relief from the election
- Signature block

Basic structure of the SOI (cont'd)

Part 2 - Exhibit A (boiler plate details relevant to all Vintage rates)

- Cost elements of a Vintage Rate
- Availability Criteria
- Supplier Default/Dry Hole Risk
- Notification and execution of Contract Revision
- What happens if BPA is not able to offer a Vintage Rate.
- Remarketing of Tier 2-priced energy
- Conversion Costs

Unknowns moving forward

- While the basic structure of the SOI probably isn't going to change much, specifics around the proposed acquisition may change depending upon customer interest or unknown market factors. For example:

Customer Interest:

- As shared at our last meeting, many customers expressed a desire for the Vintage Rate period to begin in 2015 rather than 2014.
- Reduced or increased customer interest may impact proposed purchasing amounts. For example, less than 10 aMW or greater than 50 aMW.
- Allowable shape of the purchase could change. For example, open issues include the allowable shape across purchasing years and the rounding rule used for purchasing amounts.

Market Factors:

- Pricing could change dramatically (both up or down) moving forward.
- Credit worthy suppliers may not be available for the entire purchase period.
- Liquidity of the market could expand or contract either limiting or expanding buying opportunities for the out years moving forward.

Internal review & approval process

- This process, which occurs for all BPA transactions, will be occurring concurrently with the external work to educate customers & their boards prior to signing SOIs.
 - Review the obligation with respect to consistency with the Regional Dialogue Contract.
 - Review the proposed action with respect to other purchasing strategies within Power Services.
 - Preliminary assessment of the potential risks assumed by BPA and our customers with respect to counterparties, market & load.

Purchasing Decision Process

- Once the SOIs are signed & internal reviews & approvals are completed, the Trading Floor purchasing process will proceed as follows:
 - Establish trigger prices for each year covered under the SOI.
 - Monitor the market with regard to where prices are relative to trigger prices.
 - Do periodic indicative pricing exercises with selected counterparties.
 - Should the pricing team expect a permanent shift in market price fundamentals, trigger prices may be reset, subject to price caps in the SOI.
 - Procure energy when the purchasing team is satisfied that prices are at or under the trigger price and that the value of purchasing now outweighs the risk of waiting for prices to decline further.



Notification of Purchase

- Once a purchase is made (either all of it or only part), customers will be notified as follows:
 - Email notification to all parties who signed the SOI
 - Post generic data on the rate case website describing when and how much was purchased.
 - As with the Tier 2 purchases to date, counterparty names will not be released.
 - Consistent with FERC requirements while also honoring Western Systems Power Pool (WSPP) confidentiality requirements with counterparties, the exact purchase price amounts will not be released until 30 days after the end of each quarter.



Review and comment period for draft SOI

- A copy will be posted on BPA's website to allow review and comment by customers at a single location. the web link is provided below.
 - <http://www.bpa.gov/applications/publiccomments/OpenCommentListing.aspx>
- Customers may also elect to edit and comment on an electronic copy emailed directly to them.
- BPA would like to propose that customer's provide written comments back to us on the draft SOI no later than April 29th.
- During the month of May, BPA will provide one last review and comment period to customers prior to finalizing the SOI.



Questions?