

Tier 2 Vintage Rate (VR1-2016) Offering For FY 2016-FY 2019

July 2011

Pre-decisional.



Vintage Rate Background

- **VR1-2014 Process**
 - Process to develop VR1-2014 March-May 2011
 - Offer made to eligible customers in June.
 - There was 140 aMW of eligible load, split between load following and Slice/Block customers. Of this total the Load Following customers comprised up to 73 aMW of potential VR1-2014 load.
 - Of 23 eligible customers, 12 signed their VR1-2014 SOI. Of 140 aMW of eligible load, customers subscribed to 46 aMW.
- **VR1-2014 Statement of Intent (SOI) Enhancements**
 - Confidentiality agreement required of all interested, eligible parties to participate in final SOI negotiations.
 - Default structure should BPA be unsuccessful at establishing the VR1-2014: Tier 2 Short-Term rate service or Unspecified Resource Amounts. (See SOI section 1.2)
 - Default should BPA be unsuccessful at purchasing for FY 2019: Vintage rate purchase period of FY 2015-FY 2018 as a fallback. (See SOI section 2.4)
 - Five weeks to sign the SOI. 11 months (from signing deadline) for BPA to make the purchases. Roughly 12 months (from signing deadline) for BPA to notice signatories of how much of their request they will be getting. (See SOI sections 1.3, 4.1, and 3)
 - Minimum guarantee (floor) resulting from pro rata reductions for any requested amounts of 2 aMW or greater if BPA cannot purchase full amount requested by customers. (See SOI, Exhibit section 2)
 - Specific treatment in the event replacement power is necessary due to supplier default.
 - (See SOI, Exhibit section 3)

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Proposed Eligibility to Purchase at Market-based Vintage Rate (VR1-2016), if SOI Signing Date is Prior to September 30, 2011

- **Load Following or Slice/Block customer with <1 aMW of forecast Above-RHWM load (net of Load Growth customers, VR1-2014 requested amounts, and Specified resource amounts) in all years FY 2015-FY 2019: Not eligible.**
- **Load Following or Slice/Block customer with ≥ 1 aMW of forecast Above-RHWM load (net of Load Growth customers, VR1-2014 requested amounts, and Specified resource amounts) in all years FY 2015-FY 2019: Up to annual amount of forecast Above-RHWM load (net of Load Growth customers, VR1-2014 requested amounts, and Specified resource amounts) in all years FY 2016-FY 2019 rounded down to the nearest whole average megawatts.**

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Market-Based Vintage Rate, VR1-2016 Development Process

Date/Time	Activity	Lead	Status
July 26 (AM)	Meeting to go over proposed VR1-2016 framework/next steps	Chalier/Wellschlager/Kaseweter	
August 5	<i>Tentative</i> deadline to provide comments on eligibility and timing	Interested parties	
August 10	<i>Tentative</i> meeting to discuss final framework	Chalier/Wellschlager/Kaseweter	
August 10	<i>Tentative</i> release date for pricing cap Confidentiality Agreement for interested and eligible parties	AE's	
August 17, COB	<i>Tentative</i> deadline to sign Confidentiality Agreement	Eligible parties	
August 18	<i>Tentative</i> meeting with confidentiality agreement signers to work through weighted average price included in final SOI and to go over revised SOI	Wellschlager/Chalier	
August 25	<i>Tentative</i> conference call/meeting with eligible customers to review final SOI	Wellschlager/Chalier	
August 29	<i>Tentative</i> offer SOI	Chalier and AE's	
August 30-September 26	<i>Tentative</i> assist customers' board presentations, deliberations, etc. as necessary	Chalier, Wellschlager, AE's	
September 26	<i>Tentative</i> deadline to sign VR1-2016	Customers	
September 30, 2011	Deadline for customers to make their above-RHWM load elections for the FY 15-19 period	Customers	

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Customers Eligible for VR1-2016

- See attached spreadsheet for details
- Summary:

Contract Type	First Purchase Period Election	FY 2016		FY 2017		FY 2018		FY 2019	
		AHWML	eligible load	AHWML	eligible load	AHWML	eligible load	AHWML	eligible load
32 LF customers	Sub-Total	59.462	44	88.303	73	115.297	101	142.625	126
14 SB customers	Sub-Total	95.058	90	134.614	128	174.747	167	220.156	214
46 total customers	Total	154.52	134	222.917	201	290.044	268	362.781	340

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Potential Issues with Proposed Vintage Rate Alternative

Process

- **Confidentiality agreement:**
 - Possible issue for WA state public bodies in the event of FOIA
 - Need for language covering potential BPA purchasing strategy discussion
- **Timeline for SOI development**

Eligibility Criteria

- **Potential Provisional CHWM non-retention**
- **Access to creditworthy counter-parties**
- **Use of creditworthy counter-parties for single load service purpose on a forward basis**
- **Complexities of single year forward purchases**

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Proposed Treatments for VR1-2016 Issues

Process

- The proposed schedule does meet the target of getting a signed SOI prior to the September 30 above-RHWM load service election deadline, however it is very aggressive.
- It does not provide time for additional modifications to the confidentiality agreement.
- It does not provide a lot of time to work out eligibility criteria if BPA cannot meet all the requested amounts.
- It does not provide for the additional internal BPA review and customer review of what will be a more complicated SOI structure.
- It falls at a time (August) when there will be a significant number of contract actions on which BPA and customers will need to take action... and when there are many staff members on vacation.
- **Proposed treatment: Table VR1-2016 negotiations until October 1, 2011.**
- **Implication for September 30, 2011 notice deadline: Customers interested in the potential VR1-2016 (or any other vintage rate) should elect Tier 2 Short-Term rate so that you have guaranteed access a vintage rate when and if BPA offers one.**

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Proposed Treatments for VR1-2016 Issues

Eligibility Criteria

- Make no assumption about Provisional CHWM non-retention
- Include floor/ceiling approach in exhibit of SOI if BPA is 1) unable to try to fulfill requested amounts or 2) actually unable to purchase for tentatively committed amounts
 - At least two identified approaches to address this:
 - 1) use forecasted FY 2016 above-RWHM load as the base year and then agree to an escalation factor (or multiple ones for a slow, medium, and fast growing utilities; or
 - 2) use a minimum guaranteed access floor (for example, up to 1 aMW of forecasted above-RHWM load guaranteed for all who have it) and a maximum guaranteed access ceiling (for example, no more than 50% of forecasted above-RHWM load in any one year, rounded down to the next whole average megawatt, and subject to the floor).
- Due to the difference in eligible above-RHWM load between Slice/Block and Load Following customers, should there be different degrees of treatment by customer class?

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Appendix

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General Vintage Rate Structure

- Rate offered to eligible customers, driven by customer interest. Within a purchase period, only Tier 2 Short-Term customers with an amount of Tier 2-priced load are automatically eligible. Existing Load Growth rate customers will not have access to the Vintage offered until well into the RD contract term.
- Cost based directly on market purchase or resource type acquired with adders for administrative cost, shaping etc. Specific resource cost levels and resource attributes agreed to between customers and BPA.
- Can be offered periodically during contract term depending on customer interest.
- Terms outlined in a Statement of Intent (SOI).
- BPA intention: offer a market-based Vintage if sufficient interest (at least 10 aMW per year) and possibly a renewable resource-based Vintage if sufficient interest (minimum threshold to be determined)

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What is the Benefit of Taking Service at a Vintage Rate?

- Lock in market prices beyond first purchase period
- Flexible time horizon for purchase compared to the Short-Term rate
- Lock in future cost levels for energy used to meet obligation
- Targeted types of energy attributes... i.e., market purchase, renewable purchase, etc.
- Term, energy types, amounts, and start/end dates are driven by customer interest
- Prices could go up after purchases made

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What is the Risk of Taking Service at a Vintage Rate?

- Supplier default (posting a letter of credit to cover the full financial risk in out-years may not be financially feasible for purchases farther out in time)—Vintage rate customers are financially responsible for replacement power costs
- Amounts are take or pay, so if your above-RHWM load falls, you face risk of remarketing credits not covering full value of the Vintage rate purchase amount—and remarketing credit methodology will not be known until future rate case
- Getting consensus across a diverse group of utilities will be difficult and time consuming
- Actual rate will not be known until future rate case
- No off ramps
- For resource-specific Vintage, there may be dry hole risk
- Any purchase greater than 50 aMW and five years would have to go through a 6(c) process. May take longer than expected and may prove unsuccessful
- Prices could go down after purchase is made

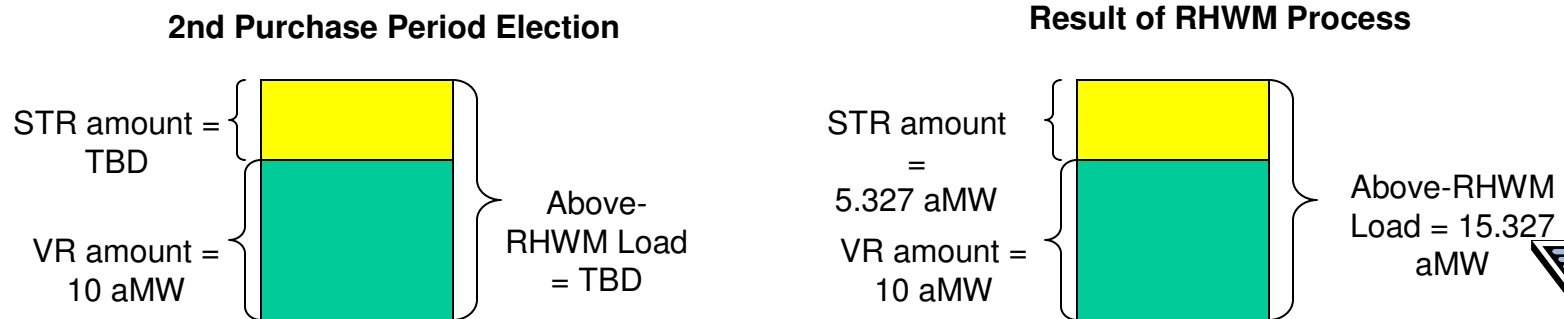
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Adding in a Vintage Rate to an Election

Example: Scenario 1

- Customer A requests 10 aMW of Tier 2 Vintage Rate service (at the VR1-2016 rate) in FY 2016
- In its 2nd Purchase Period election, Customer A combines this with STR service under Alternative A
- BPA calculates its Above-RHWM Load for FY 2016 at 15.327 aMW
- For FY 2016: 5.327 aMW of load is served at the STR and 10 aMW is served at the Vintage Rate



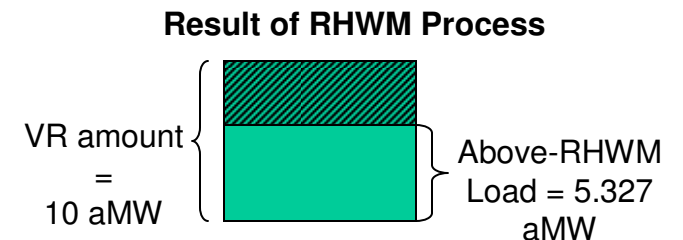
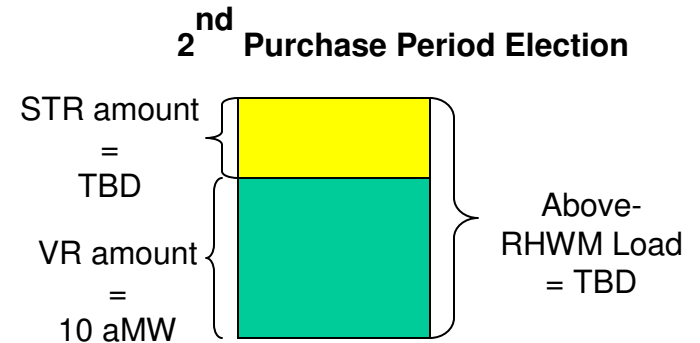
Predecisional For Discussion Purposes Only




Adding in a Vintage Rate to an Election

Example: Scenario 2

- Customer B takes 10 aMW of Tier 2 Vintage Rate service (at the VR1-2016 rate) in FY 2016
- In its 2nd Purchase Period election, Customer B combines this with Tier 2 STR service under Alternative A
- BPA calculates its Above-RHWM Load for FY 2016 at 5.327 aMW
- For FY 2016: 5.327 aMW of load is served at the Vintage Rate, but the full 10 aMW is paid for by the customer
- 4.673 aMW of Tier 2 Vintage is remarketed for the customer based on a methodology determined in a future rate case



STR amount = 0 aMW

 = remarketed VR amount = 4.673 aMW

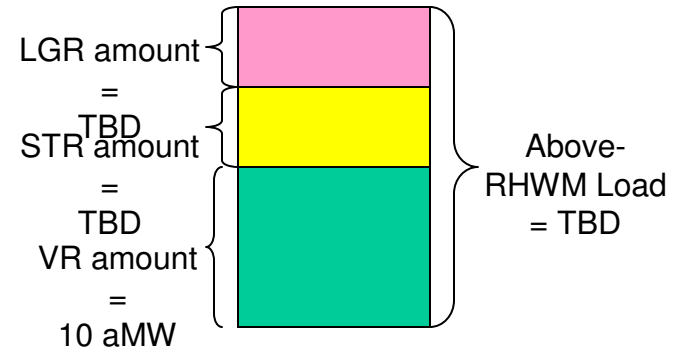


Adding in a Vintage Rate to an Election

2nd Purchase Period Election

Scenario: Example 3

- Customer C takes 10 aMW of Tier 2 Vintage Rate service (at the VR1-2016 rate) in FY 2016
- In its 2nd Purchase Period election, Customer C combines the LGR service and elects to serve up to the first 12 aMW of Above-RHWM Load by something other than the LGR. The customer elects the STR under Alternative A for service for those 12 aMW.
- BPA calculates its Above-RHWM Load for FY 2016 at 15.678 aMW
- For FY 2016: 10 aMW of load is served at the Vintage Rate, 2 aMW is served at the STR, and 3.678 aMW is served at the LGR.



Result of RHWM Process

