

Tier 2 Vintage Rate Offering For FY 2014

March 2011

Pre-decisional.



Vintage Rate Background

- *From the Regional Dialogue Final Policy*
 - *“Vintaged Alternative.* For customers who commit to pay a Tier 2 rate equal to the costs of a specific resource or group of resources for a term sufficient to support the long-term acquisition of specific resources, BPA will explore the development of a “vintaged” Tier 2 alternative based on the costs of those specific resources. It currently appears that “vintaging” would most likely be used for a renewable-based Tier 2 alternative, but could also be used for other resource types. BPA will develop the details of this “vintaged” alternative in the TRM, but expects the term to be at least 10 years. The number of separate “vintages” would have to be limited, to keep administrative complexity manageable.”

- *From the Product Guidebook*
 - “BPA may periodically offer Tier 2 Vintage Rates. These are intended to be based on specific resource costs for customers that need power to be based on specific resource types (e.g., renewable) or that want to know more about resource costs before they make a long-term commitment to BPA.”

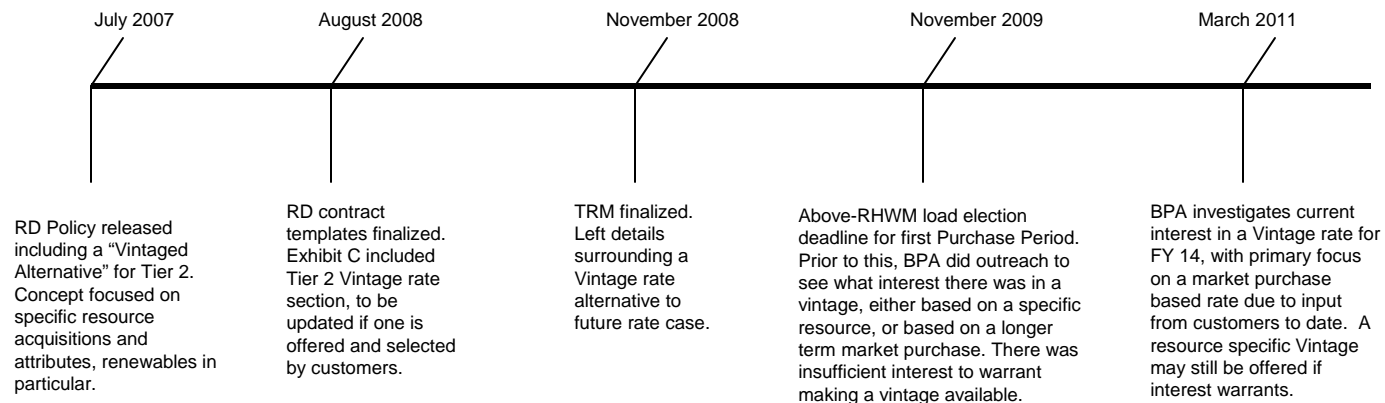
- *The Tiered Rate Methodology and Regional Dialogue Contract*
 - These documents leave the specific details of the Vintage rate construct to future Statements of Intent and future negotiations. As such, our thinking about how to structure a Vintage rate has been given the freedom to expand.

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Vintage Rate Background

Evolution Timeline



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Vintage Rate Structure

- Rate offered to Tier 2 Short-Term rate purchasers, driven by customer interest. Existing Load Growth rate customers will not have access to the Vintage offered in FY 2014.
- 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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Statement of Intent Outline

- **Conditions of service:** must have at least 10 aMW per year in aggregate interest submitted by the specified deadline
- **Setting the rate and level of costs:** rate will be set in a future rate case, based on costs necessary to convert the base purchase into a flat block of power plus administrative costs. The base purchase cost will not exceed a preset level agreed to by all SOI signatories.
- **Setting amounts of load service to convert from Short-Term to Vintage**
- **Contract administration:** by a specified deadline, BPA will notify the customers whether or not BPA met the obligations outlined in the SOI and then by September 15 following the first rate case to set the Vintage rate in question, BPA will update the applicable customers' Exhibit C's. Amounts the customers elected to purchase at the Short-Term rate will be converted to the Vintage rate.
- **Conditions for relief from election in SOI:** if BPA is either unable to make the purchase in accordance with the SOI, or for some reason is unable to set the rate, then the interested parties' service will revert to the Short-Term rate.
- **Damages:** depending on when the SOI is executed we may need to have an additional reference to how we intend to apply or not apply the damages clause of Exhibit C if we make the purchase for the Vintage before we purchase for the STR.

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Proposed Access to Market-based Vintage Rate in FY 2014

- **Guaranteed:**
 - **Load Following customer with <1 aMW of forecast Short-Term service in FY 2014: N/A**
 - **Load Following customer with ≥ 1 aMW of forecast Short-Term service in FY 2014: up to forecast Short-Term service amount in FY 2014 in whole average megawatts**
 - **Slice/Block customer: up to Short-Term purchase amount committed to in November 2009**
- **Updated above-RHWM load forecasts for FY 2014 in February 2011**
- **Amounts for four out-years of this Vintage rate offering are proposed to be capped at the level of the FY 2014 Tier 2 forecast amount, rounded down to the nearest whole average megawatt**

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Proposed Access to Market-based Vintage Rate in FY 2014, continued

- **Alternatives considered:**
 - **Allowing level of service in something other than whole average megawatt amounts**—will prove too challenging to get agreement so that the total is a whole average megawatt
 - **FY 2015 start date for the Vintage rate**—All customers, except for the first round of Load Growth customers, will be eligible, as second purchase period elections have not yet occurred. A group this large could prove too difficult to negotiate such a time-sensitive arrangement.
 - **Allowing level of service to increase over the period based on out-year load forecasts**—out-year load forecasts are not as reliable as near-term forecasts
 - **A purchase period of less than five years**—we are interested in locking in as much value as we can and we have not found counter parties for more than five years
 - **Explore a renewable-based vintage in addition to a market-based vintage**—there has not been sufficient interest expressed to date, but we are open to exploring if there is interest
 - **Make additional, discretionary amounts of Vintage rate service available**—current priority is to work with Short-Term rate customers. If successful, we may consider making additional amounts available.
- **These alternatives are within the art of the possible but were not chosen for our first Vintage rate offering to keep this first attempt simple.**

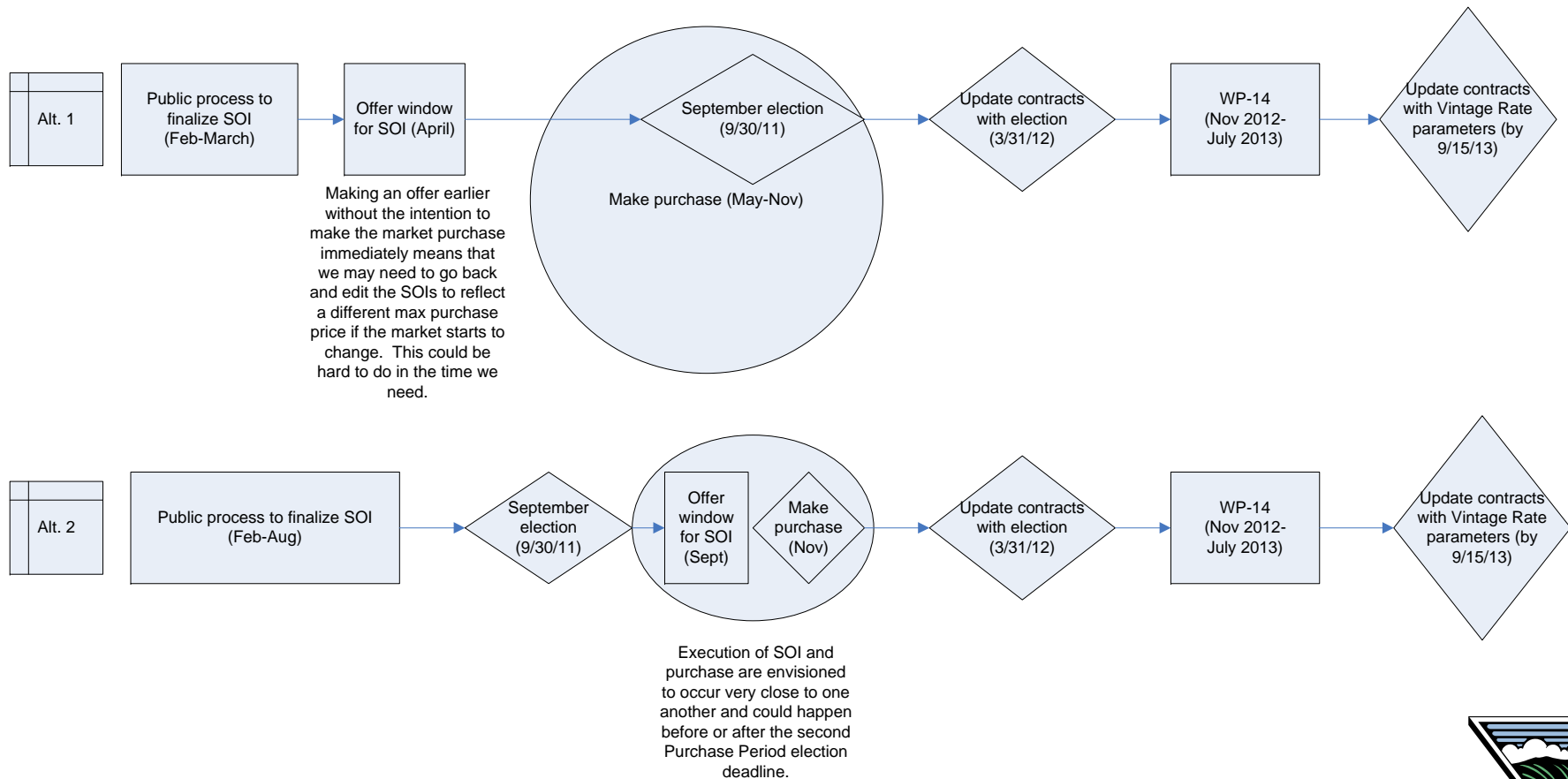
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Market-Based Vintage Rate Development Process

Possible Vintage Rate Development Timelines

February 2011



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Process for Finalizing SOI

- **Once eligible customers demonstrate interest, we propose to approach development of the SOI on two levels:**
 - **Meetings in Portland to finalize details around the Vintage rate**
 - **Meetings around the region to vet direction with utility boards and managers**
 - Solicit input from managers on their needs for educating boards on the decision

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Customers Eligible for a Vintage Rate in FY 2014

Customer Name	FY 2014 ARHWM load forecast served at Short-Term rate, based on forecast from 2/11/11	Vintage Potential (if Tier 2 amounts are rounded down)
CANBY	1.001	1
KOOTENAI	1.013	1
HEYBURN	1.814	1
SALEM ELEC	1.882	1
ENW	2.697	2
Jefferson	3.624	3
BURLEY	6.219	6
PNGC	31.656	31
IDAHO FALLS	1.000	1
UNITED	2.323	2
FRANKLIN PUD	1.000	1
CLALLAM PUD	1.918	1
Total	56.146	51.0
MASON PUD3 1/	0.931	1
PENINSULA 1/	0.998	1
Total	58.076	53.0

1/ Technically, these customers would not be eligible, but their Tier 2 amount is so close to 1 aMW, they are included in case we choose to make a special accommodation.

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Second Purchase Period Election

- **By September 30, 2011, customers must elect how they will have their above-RHWM load served during FY 2015 - FY 2019 period.**
- **If we execute a SOI before that deadline, customers will need to craft their elections to include both the amount of Vintage service they committed to in the SOI and at least the same aMW amount at the Short-Term rate as both something to convert to the Vintage and as a default in the event we are unable to establish the Vintage rate.**
- **If we do not execute a SOI before that deadline, customers will need to craft their elections to include one of the options for service at the Short-Term rate.**

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Once a Vintage Rate is Established

- If a customer elects the Vintage rate for an amount of load service and BPA establishes the rate, then this service is layered into its load service and combined with either non-federal resources and/or Tier 2 rate service.
- BPA will update the contracts with the applicable Vintage rate parameters after the Vintage rate is established.

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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



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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Example 1: load growth scenario

- Customer A takes 10 aMW of Tier 2 Vintage rate service for FY 2014-2016.
- Customer A combines with Tier 2 Short-Term service
- BPA calculates their above-RHWM load for FY 2014-15 at 15.327 aMW
- 5.327 aMW of load is served at the Short-Term rate and 10 aMW is served at the Vintage rate



Example 2: load loss scenario

- Customer B takes 10 aMW of Tier 2 Vintage rate service for FY 2014-2016.
- Customer B combines with Tier 2 Short-Term service
- BPA calculates their above-RHWM load for FY 2014-15 at 5.327 aMW
- 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



Example 3: combine with Load Growth rate scenario

- Customer C takes 10 aMW of Tier 2 Vintage rate service for FY 2014-2016.
- With the second election opportunity Customer C combines the Load Growth rate service and up to the first 12 aMW of above-RHWM load served by something other than that rate. The customer elects the Tier 2 Short-Term rate service as the default.
- BPA calculates their above-RHWM load for FY 2014-15 at 15.678 aMW
- 10 aMW of load is served at the Vintage rate, 2 aMW is served at the Short-Term rate, and 3.678 aMW is served at the Load Growth rate.

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Example 4: Provisional CHWM amount is not retained

- Customer D takes 10 aMW of Tier 2 Vintage rate service for FY 2014-2016 and has 5 aMW of Provisional CHWM.
- Customer D combines their Vintage rate service with Tier 2 Short-Term service.
- In 2012, BPA calculates their above-RHWM load for FY 2014-15 at 15.678 aMW.
- 10 aMW of load is served at the Vintage rate, 5.678 aMW is served at the Short-Term rate. If there is any additional load in FY 2015 beyond their CHWM and Tier 2 amounts is served at the Load Shaping rate.
- In FY 2014, BPA determines that Customer D will not retain their 5 aMW of Provisional CHWM. Their CHWM is reduced by 5 aMW effective October 1, 2013, but the above-RHWM amount remains the same. In the RHWM Process for BP-16, in September of FY 2014, BPA calculates Customer D's above-RHWM load and associated Tier 2 amounts for FY 2016-17 using the lower CHWM value (reflecting the removal their provisional CHWM).