Record of Decision
Revision of 1984 Billing Credit Policy
January 29, 1993

BACKGROUND
Billing credits encourage customers of the Bonneville Power Administration (BPA) to conserve or generate power that offsets firm loads BPA would otherwise serve. By agreement with participating customers, BPA gives customers credit on their power bills or makes payments for energy saved or generated by the customers, to the extent BPA's firm loads are reduced. The credit or payment is based on the costs BPA would have otherwise incurred to develop a similar resource, less the wholesale power rate the customer pays BPA for firm power under its power sales contract with BPA.

This document traces the decision making process used by BPA to revise the 1984 Billing Credit Policy ("Former Policy"). The decision process involved the consideration of policy alternatives identified in public comments and by BPA staff. This record provides a summary of the policy changes, the issues involved, the alternatives considered and the arguments supporting them, BPA's decision and the reasons for the decision. This document traces the process that was used to revise the Former Policy, gives BPA's justification for resolution on key issues and discusses important changes. The revised policy (Final Policy) became effective on January 29, 1993. Unless otherwise defined in this document, capitalized terms shall have the meaning ascribed to such terms in the Final Billing Credits Policy.

THE REVISION PROCESS
The Billing Credit Policy was published in 1983. BPA published an amended version (the Former Policy) in 1984. BPA tested the billing credit mechanism and the Former Billing Credit Policy in 1990. BPA initiated a review of the test in April 1992. Due to the large regional workload, public involvement on the review was conducted mostly through informal means (chiefly staff-to-staff discussion and limited workgroup activity).

In April, May and June of 1992, BPA scoped the interests and issues through informal internal and external discussions with individuals and interest groups. BPA discussed the lessons learned during the test round and focused on what billing credits should be in the future. The Area Offices set up informal meetings with utilities from around the region that had experience with the test round. We also met with several individuals, the Northwest Conservation Act Coalition(NCAC), the Pacific Northwest Power Planning Council (Council), two customer organizations(the Direct Service Industries(DSIs), and the Public

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Power Council(PPC) and over 30 BPA staff. Those interviewed made it clear that the Former Billing Credit Policy needed to be revised to streamline the process. The decision to revise the Billing Credit Policy was announced in the July 1992 "BPA Journal".

In July 1992, BPA developed a Working Draft Billing Credit Policy. This version represented BPA's first attempt to act on what had been heard during the scoping phase. In August 1992, BPA distributed the Working Draft to five targeted public groups (the DSIs, the PPC, the NCAC, the Council and the InterCompany Pool) to get additional input before publishing a Draft Billing Credit Policy for formal comment.

After making certain changes to the Working Draft, on September 28, 1992 BPA sent a Draft Billing Credit Policy to customers, public interest groups, and other interested parties for public comment. The availability of the Draft was also announced in the October 1992 "BPA Journal". BPA accepted comment on the Draft through November 17, 1992. During the open comment period BPA held customer workshops to discuss billing credits in Spokane WA, Idaho Falls ID, and Shelton WA. Ten letters were submitted in response to the Draft. The respondents included Public Utility Districts, the DSIs, the NCAC, the PPC, the Council and other interested parties.

BPA decided not to publish the Draft in the Federal Register. The Administrative Procedure Act provides that "general notice of proposed rule making shall be published in the Federal Register, unless persons subject thereto are named and either personally served or otherwise have actual notice thereof....". This exception gave BPA the option of not publishing the Draft Billing Credit Policy in the Federal Register since the policy applied to a limited group, the BPA customers, who had received actual notice of the proposed change. Moreover, the Billing Credit Policy is an interpretive policy and not a "rule" regulating conduct.

The Final Policy was also distributed by mail to BPA's customer groups at the end of January, pending publication in the Federal Register. BPA intends to publish the Final Policy in the Federal Register in accordance with past practice on the Billing Credits Policy. BPA does not expect to enter into any Billing Credits agreements under the Final Policy until approximately July 1993 at the earliest. The Final Policy is expected to be published in the Federal Register within two months.

ENVIRONMENTAL CONCERNS

Potential environmental impacts of the original Billing Credits Policy were evaluated in an environmental assessment, concluding in 1983 with a finding of no significant impact. Proposed changes to the Billing Credit Policy are essentially administrative, with no foreseeable changes to the environmental status quo. The procedural provisions of the National Environmental Policy Act(NEPA) therefore do not apply to the proposed changes, and neither an environmental impact statement nor a categorical exclusion determination is required.

During the scoping phase of the Billing Credit Policy revision process, a number of individuals and groups expressed frustration with the slow environmental review of test-round projects. Staff recommendations for more efficient environmental review of billing credits and other BPA actions are under management consideration.

Further analysis of test round projects concluded that NEPA did not necessarily apply to all billing credit actions. Explicit reference to NEPA review was therefore removed from the policy. Staff will review future proposed billing credits to determine specific applicability of NEPA, but expects few instances where an exemption would be appropriate. The revised policy emphasizes that billing credits must satisfy all applicable local, State and Federal environmental requirements.

POLICY STREAMLINING

The revised billing credit policy greatly streamlines the billing credit process and makes billing credits a more effective tool to meet regional resource needs. Many of the changes in the policy focused on increasing the administrative efficiency of billing credits. Comment on the Draft Policy generally agreed that the proposed changes would make billing credits work more efficiently for both BPA and the customers. Some key streamlining accomplishments are listed below:

1. Made the policy more readable and over 30 percent shorter.
2. Combined policy sections on specific generating resources.
3. Eliminated public notices (only a single Federal Register Notice will be required prior to BPA's execution of a Billing Credits Agreement.)
4. Allows BPA to deem Net Cost equal to Alternative Cost for Billing Credits resources of up to 30 aMW.
5. Eliminated the requirement of a customer's annual report.
6. Increased flexibility for customers(made displacement optional and added a rate-lock option)

RESOLUTION OF KEY ISSUES

The Draft Policy identified six key issues for public comment: Negative Billing Credits/Rate Lock, Displacement, Deeming Net Cost, application of the Average System Cost(ASC) Methodology with billing credits, Retail Rate Design and the process by which billing credits are made available. The resolution of these issues are discussed below. In addition there is discussion on two issues raised by public comment: the role of billing credits in conservation acquisition and the niche for billing credits in the scheme of all of BPA's resource acquisition programs.

Negative Billing Credits/Rate Lock
BPA evaluated the issue of negative Billing Credits during the review process. BPA interprets the rate impact test of Section 6h of the Northwest Power Act (the Rate Impact Test) to require negative Billing Credits when the BPA wholesale rate exceeds the Alternative Cost. Without negative Billing Credits customers who do not participate in Billing Credits (Non-Participant Customers) would face a higher rate than if BPA had acquired an alternative resource.

With resource acquisition mechanisms, other than Billing Credits, BPA purchases a resource and in a separate transaction, sells the output at the wholesale power rate. This principle is true in billing credits, in every year of a billing credit contract BPA is paying its Alternative Cost and the customer is paying its wholesale power rate. However unlike other acquisition mechanisms, Billing Credits focuses attention on the difference between the Alternative Cost and the wholesale rate in each year. This usually results in BPA providing credits or payments in the early years, but it can also result in the customer being obligated to provide credits (negative billing credits) back to BPA in later years. In the years where there is a negative credit the customer pays the same amount it would have if it had not developed the resource and BPA pays what it would have if the alternative resource had been developed. If the negative credit were eliminated the developing customer would receive a windfall at the expense of the other rate-payers.

An issue related to negative billing credits is the predictability of the wholesale rate faced by the customer. Many customers asked that BPA consider locking in a forecast of the wholesale rate in the billing credit contract to provide greater financial certainty. By allowing a "lock" BPA would need to meet the Rate Impact Test prospectively. Providing certainty to billing credit customers would increase the non-participant's risk, leaving them to absorb any increase in actual costs seen by Bonneville. In order to meet the Rate Impact Test, BPA would need to compensate the non-participants for the additional risks caused by the lock. The Draft Policy identified three rate lock options:

No Lock - Billing credit customers face the same rate risk as all other customers in their rate pool.

Full Lock - BPA would lock in a rate forecast with a premium to compensate non-participants for the additional risk caused by the lock.

Partial Lock - BPA would lock in a rate with the exception of adjustments for BPA-identified risks such as repayment reform and fish and wildlife program cost-escalation. The locked rate would compensate non-participants for additional risk caused by the lock.

Public comment on the rate lock was mixed. Port Angeles commented that it is disappointed that negative billing credits was continued in the Draft Policy. The DSIs called for no rate lock and no change in negative billing credits treatment from the existing policy since any kind of a lock would undercut the protection of the Rate Impact Test of the Regional Act. The Council expressed support for the compromise option of the partial rate lock. However, no customers wanted the partial rate lock, and many cited the possibility of increased administrative burden in tracking fish and wildlife costs. The PPC, and most utility commenters, urged that BPA adopt the concept of the full rate lock and a risk adjustment in the final policy.

BPA rejected the partial rate lock because it did not meet the customer's desire for certainty and would add an administrative burden to track the effects of the risk factors. BPA also rejected the "no lock" option because it did not give billing credit participants any protection against wholesale rate uncertainty and BPA wanted the policy to be flexible to meet the interests identified by most of our utility customers. BPA also saw merit in the DSI comment about the risks associated with a lock. In theory, BPA could develop a risk premium that would compensate Non-Participants for the risk of the full lock. However, the premium to compensate Non-Participants for the risks of long-term billing credit contracts with guaranteed wholesale rate streams could be high enough that there might not be much of a billing credit left. In light of the risks and the size of the risk premium, the full lock seems unlikely to improve billing credits.

BPA developed a fourth alternative, the limited-term lock for the Final Policy. This attempts to balance the interests expressed by the commenters. This compromise position allows a rate lock of up to ten years, as long as the locked-in rate compensates non-participants for their additional risk. After the 10-year period billing credit participants could choose either to lock in another 10-year stream determined by BPA or to use the actual wholesale rate. BPA chose the limited-term lock because it represented a middle ground position that provides more rate-certainty for participants but limits the risk for the non-participants. The policy language on the lock appears in §9(d) of the Final Policy.

Displacement

The former Billing Credit Policy made displacement an absolute Bonneville right, meaning BPA could, in effect halt operation of a Billing Credit Resource on a real time basis. During the revision process customers indicated that this requirement was unreasonable since billing credit resources belong to them. Bonneville agreed. The new policy makes displacement an economic decision by the customer with BPA providing a premium for resources that customers give BPA the right to displace. When the Alternative Cost is published BPA will also publish values for displacement. Commenters were supportive of this resolution in the Draft and it was adopted for the Final Policy. The policy language on the lock appears in Section 8(f).

Deeming Net Cost

The Northwest Power Act says that Billing Credits for generation resources will be calculated using the lower of Net Cost or Alternative Cost. The Former Policy allowed BPA to Deem Net Cost equal to Alternative Cost for resources of less than 5 aMW. By tracking Net Cost BPA can incur significant administrative costs. Experience in the test round showed that the risk premium that customers added to their financial costs left little difference between Net Cost and Alternative Costs. For administrative simplicity the Draft Policy proposed that BPA have the discretion to Deem the Net Cost equal to Alternative Cost for non-conservation resources of up to 50 aMW.

All commenters agreed that BPA should increase the size of resources for which Net Cost can be deemed equal to Alternative Cost, above the 5 aMW standard in the former policy. Tacoma, WPAG, and Lower Valley all concurred with the 50 aMW limit. The PPC and Seattle suggested that deeming should be limited to resources of up to 30 aMW and the DSIs suggested a limit of 10 aMW. WPAG suggested that all deeming should be at the customer's discretion and Tacoma and the PPC suggested that for resources smaller than 15 aMW customers should have the discretion to deem.

After considering comments, BPA reduced the deeming size from 50 aMW to 30 aMW in the Final Policy. This was accomplished by changing the policy definition for small resource to 30 aMW. 30 aMW was chosen because it struck a balance among the comments on the issue. BPA feels that it must retain the discretion to deem since deeming is meant to increase administrative efficiency and should not be used if it would result in an excessive risk premium being provided to participating customers. The Final Policy concludes that deeming will not be automatic. To meet the billing credit Rate Impact Test, BPA must ensure that it is not paying substantially more for a billing credit than it would have paid to acquire the resource in arms' length negotiations. The expected generating resource costs will be analyzed before billing credits contracts are signed to make sure that participants do not receive an excessive risk premium at the expense of the non-participants.

ASC and Billing Credits

During the review of the test round of billing credits several individuals raised the issue of how to handle the interaction of Billing Credits and on the Average System Cost calculations used in the Residential Exchange Program. A billing credit resource also affects the average system cost of a participating utility and the amount of payments a utility receives under the Residential Exchange. BPA needs to ensure that the billing credit Rate Impact Test is met when billing credit customers also participate in the Residential Exchange. The Draft Policy requested comment on this issue but only one customer group made any comment. This group felt that the methodology proposed in the Draft Policy would add unnecessary complexity and wanted to see billing credits silent in regards to the ASC, as are other contracts.

The Final Policy says that BPA will account for the effects of the ASC and the effects on the Residential Exchange Subsidy in determining the billing credit payment. Although BPA agrees that it would probably be simpler to address this in the ASC methodology, this cannot happen unless the ASC methodology is revised. The billing credit policy has been written so that this requirement will cease when and if the ASC is changed so that the interaction does not need to be accounted for in billing credits. Until this happens the language is flexible to allow BPA to meet the rate impact test for billing credit customers that are also in the Residential Exchange on a case by case basis. The policy language to this effect is in Section 9(c) of the Final Policy.

Retail Rate Design:
The Northwest Power Act makes billing credits available for utility Retail Rate Designs that induce consumer investment in conservation and/or renewable resources. Rate design proposals were not encouraged during the test round of billing credits due to the complexity of evaluating the energy savings attendant to such action. With the test completed BPA used the billing credit review process to gather input on how to make billing credits work for rate design proposals. The Draft Policy called for BPA to gather information from utility experience and to conduct a pilot program to establish the basis for future billing credits for rate design.

The PPC commented that the pilot seemed like a reasonable approach and The Council "strongly supported" the proposal to carry on a pilot program. Seattle was very supportive of our efforts and asked a number of questions that BPA expects to resolve in the pilot and information gathering phases. The NCAC commented that the policy must offer a straightforward, "cookbook" approach for compensating retail rate designs that encourage conservation. The DSIs provided a somewhat dissenting view, opposing the pilot program in the next year due to a need to focus on higher priority regional activities.

The Final Billing Credit Policy outlines the Northwest Power Act provision that makes billing credits available for some savings from retail rate design changes. BPA does not feel that it currently has the information to effectively prescribe implementation procedures in the policy. BPA plans to develop an implementation plan by gathering rate design information from utility experience. Actual implementation will be based on a prudent assessment of the information gathered and an understanding of how proceeding with retail rate design projects fits into regional priorities.

How Billing Credits Are Made Available
The Draft discussed three options on how to make billing credits available. These are outlined below:

> Solicitation: Billing credits would only be available when solicitations are issued by BPA. Billing credits are made available by periodically sending out a document describing the Alternative Cost and other requirements for billing credits.
>
> Open Door: Billing credits would always be available but would be governed by the Alternative Cost. If a proposal meets basic qualifying criteria a billing credit agreement would be offered by BPA. A customer could then sign the agreement. Proposals would be evaluated in the order that they are submitted.
>
> Managed Open Door: Billing credits would always be available but would be governed by the Alternative Cost. If a proposal meets basic qualifying criteria a billing credit agreement would be offered by BPA. A customer could then sign the agreement. Proposals would be evaluated in a batching process.

Most utility commenters recommended that BPA use the "open door" approach for billing credits. Several cited the language of the Northwest Power Act that "if a customer so requests, the Administrator shall grant billing credits to such customer." These commenters felt that BPA's ability to reset the Alternative Cost would act as an effective control on the "open door". One utility and The Council recommended that BPA adopt the concept of a "managed open door". The utility noted that the managed approach would meet their needs by making billing credits available on an ongoing basis and the Council felt that the "other alternatives do not appear to offer the proper mix of opportunity for project sponsor and fiscal management capability for the agency."

Customers prefer that billing credits be a predictable mechanism that allows them to take advantage of resource development opportunities as they arise. BPA does not plan to use solicitations to make billing credits available because it agrees with comments that solicitations do not meet the need of the customers to respond to opportunities. (Commenters noted that the time between the test solicitation and the next expected billing credits evaluation will exceed two and one half years.)

It is the view of BPA that both open door options meet the guidance of the Act that "whenever a customer requests Bonneville shall offer a billing credit."

Billing credits would always be available under these options and would be governed by the Alternative Cost. The difference in these options is in evaluation and administration. With the "open door", proposals are evaluated in the order received. With the "managed open door", proposals are evaluated during specific evaluation windows. Any proposals that come in after a particular evaluation window starts would be considered in the next evaluation window.

With the "open door", billing credits would be granted in a first-come-first-served process with BPA granting billing credits to sponsors until the resource need at a particular Alternative Cost is met. If there are more proposals than the need at a given Alternative Cost, BPA would select resources that came through the door first, without regard to considerations such as economic or environmental benefits. BPA is concerned that customers could be forced into a "land rush" approach to get their proposals to BPA, because of the first-come-first-served nature of the "open door" approach. The "open door" also would be difficult to administer because staff would always have to be ready to evaluate a billing credit proposal but BPA would not know when proposals would arrive.

BPA plans to pursue the "managed open door" because it creates a more orderly and predictable process, both for customers and for BPA. Before making the decision to adopt the "managed open door" BPA discussed and clarified the options with staff and management from the PPC. After that meeting, PPC staff informally discussed the options with some of their membership including many of the utilities that had called for the "open door". The majority of those polled felt the "managed open door" would meet their needs.

The managed open door meets the customers' need to have ongoing access to billing credits. This process allows for decisions based on merit, if there are more proposals than BPA's resource need at a particular Alternative Cost. The managed process would have evaluation windows every six months. This would allow BPA to focus its attention during the evaluation, using staff efficiently and giving BPA the predictability needed to integrate billing credits with overall resource planning.

The Final Policy is flexible and does not tie BPA to a particular method. Although BPA plans to pursue a "managed open door" in the near term, the approach could be changed if there is evidence that the open door or some other mechanism would improve the implementation of billing credits.

The Role of Billing Credits in Conservation Acquisition

Billing credits are available for conservation by BPA customers, undertaken independently of BPA conservation programs. This was true with the Former Policy and will continue with the Final Billing Credit Policy. The Northwest Power Act says that billing credit payments for conservation will be the full

Alternative Cost for the resource deferred, less the customer's applicable wholesale rate. The incentive that this provides is usually less than the incentive BPA currently provides in its direct conservation programs. The NCAC raised this issue in its comment on the Draft Policy.

Conservation in billing credits was discussed in the informal scoping meetings prior to opening the Former Policy for revision. Most groups and individuals interviewed did not advocate changing conservation in billing credits and felt that focusing conservation efforts outside of billing credits would be more valuable.

BPA's Resource Program calls for the aggressive acquisition of all cost-effective conservation. BPA is actively pursuing conservation through its programs and is encouraging the BPA customer initiative through local conservation plans, utility conservation power plants and/or utility hook-up standards. Billing Credits for enforcement of energy codes (as suggested by the Council) were rejected because enforcement is typically a local government - not a utility responsibility. Since conservation is being aggressively pursued in other arenas BPA did not feel that the provisions relating to billing credits for conservation needed to be changed. Increasing the size of the billing credit for conservation, if such an increase were possible, would create a redundant mechanism that would in effect compete for the same potential energy savings that are being pursued by BPA through other BPA conservation approaches. Doing so would likely not result in additional conservation savings and would increase the administrative burden of obtaining available cost-effective conservation savings.

Integrating Billing Credits in Resource Planning
This issue is closely tied to the discussion of the open door and conservation in billing credits. PPC commented that BPA needs to "articulate a clear vision of how billing credits and other resource acquisition mechanisms are integrated." One utility mentioned that BPA has appeared more open to competitive solicitations for the direct acquisition of resources than to billing credit applications.

BPA agrees that the niche for billing credits in meeting BPA's resource needs should be clearly articulated. Billing credits has a high priority to meet BPA's resource needs but the highest priority identified in the Northwest Power Act is conservation. Since most conservation will be achieved outside of billing credits, BPA's direct acquisition conservation programs will have the highest priority in meeting BPA's resource needs.

The Northwest Power Act prescribes the niche for billing credits. If BPA is acquiring resources, billing credits should be available. Making billing credits available through some sort of open door process will help accomplish this. Customers receive billing credits if they can meet BPA's resource needs at or below the cost of BPA's alternatives: competitive solicitations, the contingency plan, unsolicited proposals or inter/intraregional transactions. If customers cannot develop billing credit resources at or below the cost of the alternatives, BPA and the non-participant customers are best served by buying the alternative resource(s).

OTHER CHANGES IN THE POLICY

Comment in early drafts of the 1992 Resource Program called on Bonneville to "make billing credits work". Policy changes are intended to streamline the billing credit process and to make billing credits a more effective tool to meet regional resource needs. A number of changes in the Final Policy are editorial and simply attempt to make the document more concise and readable. Most of these changes are not specifically discussed here. This part of the document highlights certain noneditorial changes that were not discussed in the above explanation of key issues.

Notice Provisions

The Former Policy had five separate notice provisions during the billing credit process:

1. Federal Register Notice to Deem Small Resources Equal to Alternative Cost,
2. Federal Register Notice of Alternative Costs,
3. Public Notice of all Proposals received,
4. Federal Register Notice before billing credit agreements are signed, and
5. Federal Register Notice before credits are granted.

The scoping discussions brought up the administrative burden and lack of value in having so many notices in the Former Policy. The notice requirements tended to slow the process down due to the administrative and time burden of publishing and waiting for comment. The Final Policy retains only the obligation to publish Federal Register Notice before proposals are signed. This allows for notice and comment by interested parties but does not unnecessarily burden the process.

SECTION TWO - Changes in Definitions

The following definitions were deleted because the terms are no longer used in the Policy: "budget submittal", "charges", "conditional approval", "displace a billing credit resource", "displaceable costs", "grant a billing credit", "NEPA", "non-major resource", "Regional Act", "resource priority scheme", and "time-differentiated".

The following definitions were added to the Policy:
"Applicable rate" - for readability to replace repeated text,
"Displacement" - replaced two related definitions,
"Environmental Costs" - to help explain cost-effectiveness definition, and
"Power Sales Contract" - Referenced in the Policy.

Definitions that were significantly changed:
"Administrator" - changed so that document could use "BPA" in lieu thereof,
"Cost-effectiveness" - Simplified for purposes of the Policy to include the Alternative Cost plus any Environmental Costs associated with the Alternative Resource and
"Operating Year" - Updated to current definition.

SECTION FIVE
Sections 5, 6 and 7 in the Former Policy were deleted in favor of a single section titled "Qualifying Resources Other Than Conservation". This is intended to improve the readability of the policy and eliminates the need for separate contracts for each type of generating resource. Section 5(d) was added to maintain the references to the priorities of the Northwest Power Act found in the Former Policy.

SECTION 7 (formerly Section 9)
There is no longer a section on the budget and billing credits since BPA already includes billing credits in its budget submittals to Congress and the language of the Former Policy built in time delays for billing credit payments.

Actual Load Reduction: The section on actual reduction in load requirements for billing credits now gives BPA discretion in applying the Contract Demand reduction from DSIs who participate in billing credits. In most cases BPA expects to exercise its right to require a contract demand reduction but the language was changed to add flexibility if BPA's policy toward contract demand changes or if for some future reason it would not be in BPA's best interest to require the reduction. In any event, DSI billing credit resources must reduce the Administrator's firm load obligation.

Section 7(c) and (g) of the Former Policy were eliminated(commitment to resource performance and BPA's right to reschedule). The new policy addresses what remains of these two issues in Section 11(e) on requirements for billing credits contracts.

Minimum Duration: The minimum duration for a billing credits contract is increased to 10 years unless BPA specifies other parameters. Under the Former Policy, the minimum term was 5 years. The change was done to reduce the administrative burden of billing credits. A contract of 5 or 50 years requires the same administrative effort to implement. Generally, BPA prefers to have the resource for a substantial amount of time given the expense and burden of concluding a billing credit contract.

Termination Charge: The method of calculating the Termination Charge is essentially the same as in the Former Policy, except that the provision allowing BPA to collect "any additional amounts" has been eliminated. The Termination

Charge allows BPA to collect overpayments it may have made because the billing credit Alternative Cost was based on a longer resource life than actually occurred. The policy was also modified to clarify the conditions under which a Termination Charge will be assessed. Questions on unilateral termination of a billing credit contract by BPA came up during the review process. Although this would be an unlikely scenario, it is worth noting that if BPA were to terminate a billing credit contract the customer would have benefited from overpayment by BPA since the Alternative Cost was based on a longer contract life than actually occurred.

Displacement: As noted earlier Displacement is now an economic choice of the participating customer. The displacement language was moved to Section 8(f).

Refinancing: The capital costs of a resource are usually financed. If interest rates fall those costs can be refinanced for significant savings. The policy makes sure that these benefits are given to the Non-Participants. BPA reserves the right to adjust the Alternative Cost, if the billing credit is based on Alternative Cost or to adjust the Net Cost, if the billing credit is based on Net Cost, in each case, to account for the benefits of refinancing. Acquisition contracts by BPA usually include provisions that allow BPA to capture refinancing savings. These provisions meet the billing credit Rate Impact Test, ensuring that participants do not receive benefits that would have been shared by all customers if BPA had acquired the Alternative Resource. The provision is worded to avoid harming the billing credit participants because the reduction in Alternative or Net Cost is limited by the actual refinancing savings. This refinancing provision applies to all billing credit resource types.

SECTION 8(formerly Section 10)

The methodology for determining Alternative Cost was simplified in order to lessen the administrative burden on both BPA and billing credit participants. The Former Policy implied that BPA would track the cost of only one Alternative Resource. This was dropped because it was not practical to administer and it added a bond repayment risk for billing credit participants. As in the test round, the payment limit for a billing credit in the Final Policy is based on the real levelized cost of the Alternative Resource(s). The real levelized Net or Alternative Cost can then be shaped to match the billing credit resource's cost, reducing the risk that the Alternative Cost might arbitrarily change due to costs unrelated to the billing credit resource. For example, if the Alternative Resource was coal and the billing credit resource was hydro, billing credit payments for the hydro plant would be effected by the price of coal.

Section(a): Alternative Costs will now be changed as conditions warrant and at least once every two years. This flexibility avoids needlessly developing Alternative Costs and will also allow for quick updates when there are significant changes in resource needs or costs. When the Alternative Cost is published the Environmental Costs associated with the Alternative Resource will also be published. The Environmental Cost will be used to make sure that non-conservation billing credit resources are Cost-Effective.

Generating resources must be cost-effective in billing credits. To be cost-effective the Net Cost plus the Environmental Cost of the billing credit resource cannot exceed the Alternative Cost plus the Environmental Cost associated with the Alternative Resource(s). If the Environmental Cost of the billing credit resource is at or below that of the Alternative Resource(s) BPA can pay up to the full Alternative Cost. To obtain a billing credit agreement, a resource with greater Environmental Cost than BPA's Alternative Resource(s) will have to have a Net Cost low enough that when Environmental Costs are added it remains Cost-Effective.

Section(b): This section was added to clarify which Alternative Cost is applicable to a particular billing credit resource.

Section(c): The rate impacts of the alternative resources that billing credit resources would defer will be used to determine the Alternative Cost. This is done to meet the rate impact test of billing credits. For instance, if the Alternative Resource included a federal subsidy for part of the resource's cost, only those costs which would have been borne by BPA would be included in the Alternative Cost.

SECTION 9(formerly Section 11)

This section was rewritten to eliminate redundancy and make the discussion more concise and readable. This section now includes the policy on locking in a rate stream described above.

SECTION 10(formerly Section 12)

This section was rewritten to simplify process requirements and eliminate redundant language.

SECTION 11(formerly Section 13)

This section was rewritten to simplify process requirements, eliminate redundant language and reduce the administrative burden for both BPA and the customers.

Section(c): The Final Policy eliminates the absolute requirement that DSI billing credits be based on 75% of the capability of the billing credit resource. If none of the load reduction from the billing credit resource is in the top quartile then this requirement probably would not make sense. The language now states that BPA will appraise the capability of the billing credit resource to determine the amount that the billing credit reduces the customer's net requirement for supply of firm electric power or reserves. This applies to all billing credit customers.

Section(e): The oversight provisions were made less onerous than those under the former policy. This is consistent with the view that a given billing credit resource belongs to the customer and not to BPA.

SECTION 12(former policy Section 14)
Eliminated redundant language. Since BPA receives the information it needs from other sources the requirement for the customer's annual report was eliminated to reduce the administrative burden on the participating customer.

FORMER POLICY Section 17
Eliminated the section that allowed for modification of the policy. The policy may be modified with or without the modification section.

DATE DUE

4/13/07			