

Rights to Follow-On Contract

What does BPA require to secure future purchase rights?

Background

The Regional Review proposed that customers pay an option fee to secure the long-term benefits of purchasing BPA's power at cost. The Business Relationship Principles agreed to by the Subscription Workgroup addressed the concept of option fees and noted that the pricing terms and conditions would be determined in bilateral negotiations. This paper establishes the framework that BPA will use in the bilateral negotiations on option fees .

Basic Follow-on Right

Definition: The right to continue to purchase BPA power at the then-available posted lowest-cost rate. This right would expire if the future power purchase is not committed to one year before deliveries under the contract end, giving BPA one year to seek alternative markets.

Key Feature: Available only for the amount of the customer's commitment to purchase power in their contract that begins in 2001.

Price in Most Contracts: Pricing will be decided in bilateral contract discussions.

Price of Contract Length of at Least 10 Years: Basic Follow-on Rights are included for free in contracts with terms of at least 10 years, with no off-ramps to reduce or stop the BPA purchase.

Follow-on Rights with Fixed Price Offer After Purchase Commitment

Background: The Subscription Business Principles require that BPA offer a contract provision to "secure a rate at which power may be purchased from BPA in the future."

Definition: The right to purchase BPA power at a specific price when a customer's purchase commitment expires. This right is only available through BPA for purchases that would occur after September 30, 2006.

Price in All Contracts: In order to avoid creating risk for other customers BPA will charge utilities that choose this approach whatever it cost's BPA to secure the option in the financial market. If the customer also wants basic follow-on rights they would need to purchase that right separately.

Money Flow for Option with Fixed Strike Price

