2012 BPA Rate Case
Customer Workshop

Tiered Rate Methodology (TRM)
Change Process and
Potential Revisions

June 16, 2010

Objectives of the Presentation

- Review Tiered Rate Methodology (TRM) Sections 12 and 13 change processes, including the criteria, conditions, and process requirements to revise the TRM
- Review the applicable TRM revision processes that BPA will use in the next few months
- Discuss potential revisions to add clarification and address issues identified during TRM implementation:
    1. Low Density Discount formula – Update language
    2. Irrigation Rate Discount – Uncertain language
    3. Contract Demand Quantity – Clarify language re Provisional HWM
    4. Slice True-Up – when the sum of Tier 1 Cost Allocators (TOCAs) is less than 100%
    5. Slice True-Up method – Annual vs. average expenses
    6. Calculation of Unused RHWM Credit
- Obtain customer feedback on potential TRM revisions and logistics for voting process

Useful Definitions from TRM Section 13

- **Customer** means a Public that purchases power from BPA at a Tier 1 Rate under a CHWM contract.

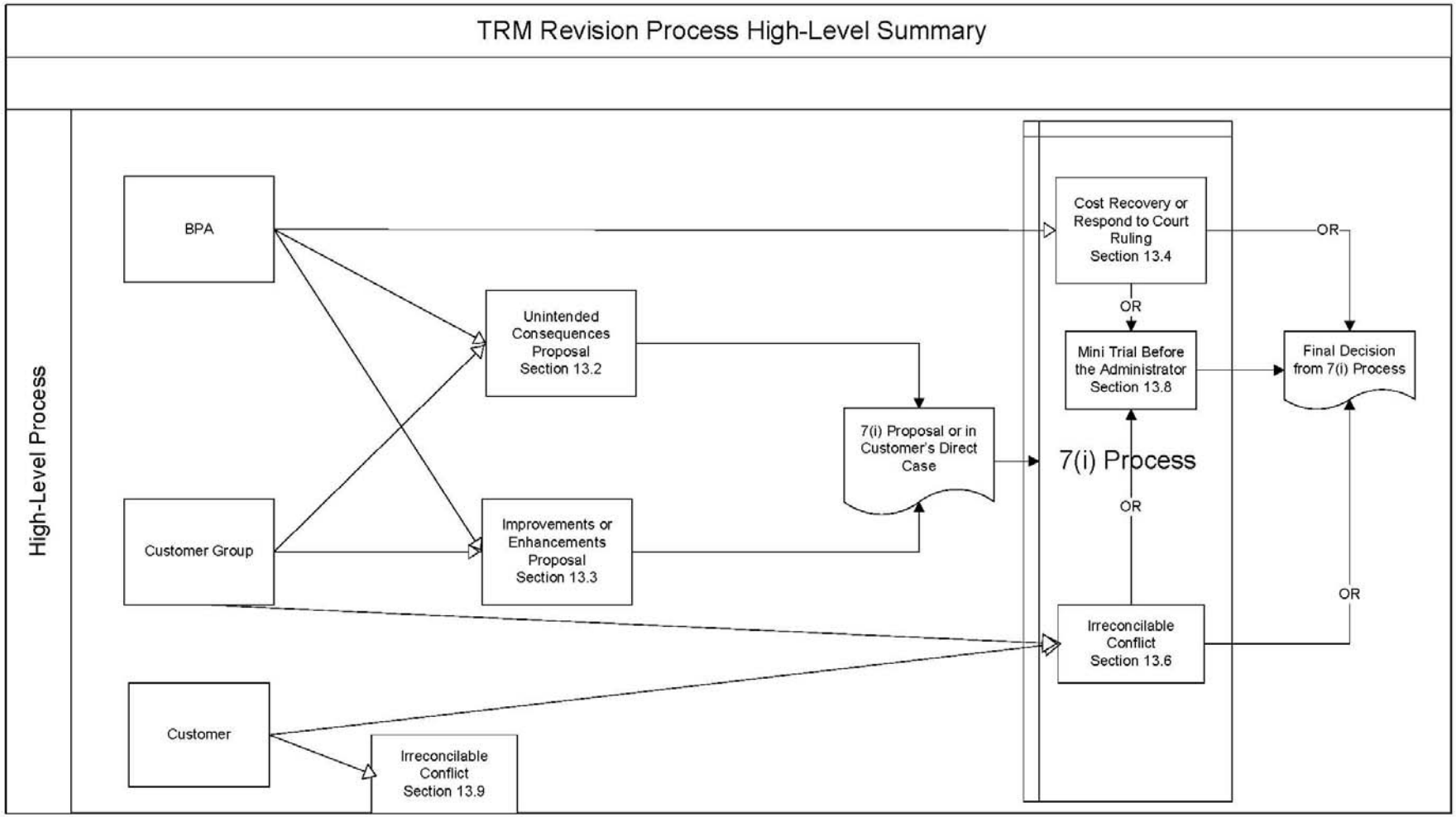
- **Customer Group** means a group comprised of not less than 45 percent of the Customers (by utility count).

Categories of TRM Revisions

- ***Before*** February 1, 2009:
  - TRM, Section 12, expressly provided for revisions to correct fatal flaws and align with Regional Dialogue contracts through a 7(i) Process and without the procedural requirements of Section 13.
  - As a result of the 7(i) Process under this provision, the Supplemental TRM was issued in September 2009.

- ***After*** February 1, 2009:
  - Any revisions to the TRM must comply with the criteria and conditions specified in Section 12 and the process in Section 13.
  - TRM revisions must fit in one of the following categories:
    - Unintended Consequences
    - Improvements and Enhancements
    - Ensure Cost Recovery or Comply with a Court Ruling
    - Irreconcilable Conflict (inside or outside the 7(i) Process)

High-Level Map of TRM Revision Processes



June 10, 2010

TRM Revisions: Unintended Consequences

- Unintended Consequences (TRM 13.2.1):
  - Address or rectify unintended consequences that "put at risk the policy goals underlying the TRM as set forth at pages 5-7 of the RD Policy."
  - Applies only to proposals "that affect only Customers with CHWM contracts, or that do not affect or affect only in a *de minimis* manner the IOU or DSI customers of BPA or BPA customers that are not eligible for or do not take service under CHWM Contracts"
  - Before a 7(i) Process:
    - BPA or a Customer Group may propose a change.
    - BPA notifies all Customers of a proposal.
    - Customers vote on the proposal.
    - BPA tallies the votes – the proposal may move forward into 7(i) Process **unless** 70% of Customers **and** 50% of CHWMs **object**.
    - BPA intends to use THWMs at this time because the CHWMs will not be available until late FY2011.

TRM Revisions: Improvements and Enhancements

- Improvements and Enhancements (TRM 13.3):
  - Revisions to the TRM not covered by sections 12.1 and 12.2 (ensure cost recovery or comply with court ruling), or section 12.3 (unintended consequences)

- Before a 7(i) Process:
  - BPA or a Customer Group may propose a change.
  - BPA or the Customer Group notifies all Customers of a proposal.
  - Customers vote on the proposal.
  - BPA tallies the votes – the proposal may move forward into the 7(i) Process **only if** 70% of the Customers **and** 50% of CHWMs **support** (i.e., a higher "bar" than Unintended Consequences).
  - BPA intends to use THWMs at this time because the CHWMs will not be available until late FY2011.

TRM Revisions in 7(i) Process

- If a potential revision "passes" the voting requirements, BPA or a Customer Group may propose a potential Unintended Consequences revision or Improvement or Enhancement revision in the 7(i) Process.

- All rate case parties have full procedural rights to discuss the proposed TRM revision.

- The Administrator decides on the proposed TRM revision based on the rate case record.

TRM Revision Process Walk-Through

- BPA has produced TRM process maps related to current potential revisions:
  - Unintended Consequences process map
  - Improvements and Enhancements process map
- BPA is providing customers with these process maps and is planning to review them at the end of this presentation.
- Other TRM revision processes will not be presented at this time.

Potential Revisions

- BPA has identified the following areas which may require revision:
  - Unintended Consequences:
    - Low Density Discount formula – Update language
    - Irrigation Rate Discount – Uncertain language
    - Contract Demand Quantity – Clarify language re Provisional HWM
    - Slice True-Up – when the sum of Tier 1 Cost Allocators (TOCAs) is less than 100%
    - Slice True-Up method – Annual vs. average expenses
  - Improvements and Enhancements:
    - Calculation of Unused RHWM Credit

Potential Revisions (continued)

- Before making a final proposal to revise the TRM, BPA will work with Customers and Customer representatives to:
  - Agree on the type of TRM revision (Unintended Consequences or Improvement/Enhancement)
  - Develop the language of the potential revision for the issue identified
- BPA intends to use Power AEs as points of contact with Customers to facilitate the voting process.

1. Low Density Discount (TRM Section 10.2)

A. Formula Error

- The TRM specifies that a Customer's LDD will be calculated to discount its Tier 1 purchases using an LDD percentage reflective of its total load eligible for requirements service regardless of its above-HWM service election.
- The TRM specifies the formula to be used:

  - ***applicableLDD =*** *eligibleLDD* X (*adj*TRL / *RHWM*) where:
    - ***applicableLDD =*** LDD percentage to be applied to a customer's bill
    - ***eligibleLDD =*** LDD percentage indicated by the customer's eligibility factors
    - ***adj*TRL =** customer's Total Retail Load less output of Existing Resources for CHWMs and NLSLs
    - ***RHWM =*** customer's Rate Period High Water Mark

  Example given in the TRM:

  5.0% X (11 aMW / 10 aMW) = 5.5%

1. Low Density Discount (continued)

A. Formula Error (continued)

- **Problem**:
  - If the customer's ***adj*TRL** is less than its RHWM, and therefore the customer's purchases are all at a Tier 1 rate, the formula as written would reduce its applicable LDD.

  - Example:
    - When ***adj*TRL** is 9 aMW:

      5.0% X (9 aMW / 10 aMW) = 4.5%

      This Customer would now get a 4.5% LDD applied to its Tier 1 purchases. In this situation, it has no Tier 2 purchases, so it is losing 0.5% credit on its power bill, which was not the intended result.

1. Low Density Discount (continued)

A. Formula Error (continued)

- Potential revision identified by BPA:
  Include a maximum function in the equation:
  - ***applicableLDD*** = ***eligibleLDD*** X max(***adj*TRL / RHWM**, ***1***)

  Modified example:

  5.0% X max(9 aMW / 10 aMW, 1) = 5.0% X 1 = 5.0%

- Potential revision identified by NRU/PNGC:
  - Add language to the effect that the applicable LDD *will be no less than the eligibleLDD*.

1. Low Density Discount (continued)

B. Definition of "*adj*TRL" Term in Formula

- **Problem:** The definition of the variable "***adj*TRL**" in the LDD formula references "Existing Resources **for CHWM**" when it should reference "Existing Resources." Both are defined terms in the TRM, but only one fits for the purpose of the LDD calculation.
  - Current definition:
    - ***adj*TRL =** customer's Total Retail Load less output of Existing Resources for CHWMs and NLSLs
- Proposed revision – change "Existing Resources for CHWMs" to "Existing Resources"
    - ***adj*TRL =** customer's Total Retail Load less output of Existing Resources and NLSLs

1. Low Density Discount (continued)

B. Definition of "*adj*TRL" Term in Formula (continued)

- The definition of "Existing Resources for CHWM" includes the list of resources and their amounts in the TRM, Attachment C, plus certain specified adjustments that were specific to the calculation of the CHWM. The applicable LDD formula, however, needs to capture the amounts for the Existing Resources in Exhibit A of the contract -- not the amounts that were used for the CHWM calculation.

- The use of Existing Resources amounts identified in Exhibit A of the contract and not the Existing Resource amounts identified in the TRM is consistent with the calculation of Above RHWM Load, which is the sole purpose of the upward adjustment found in the applicable LDD formula.

2. Irrigation Rate Discount (TRM Section 10.3)

- The TRM specifies that a Customer's IRD will be calculated to discount its Tier 1 irrigation purchases by applying a historical percentage to "the sum of the Slice and Non-Slice customer charges …"

- **Problem:** What is meant by "the sum of the Slice and Non-Slice customer charges"?
  - The TRM defines a Slice Customer Charge, a Non-Slice Customer Charge and a Composite Customer Charge.
  - For the IRD, the TRM does not reference the Composite Customer Charge.
  - The words "customer charges" seem to indicate generic "Slice and Non-Slice customer charges."
  - Taken literally, it could be interpreted to mean the sum of the Slice Customer Charge and the Non-Slice Customer Charge. The Slice Customer Charge is expected to be zero and the Non-Slice Customer Charge in WP-10 would have been -$699,125 per one percent TOCA or about -$9.63/MWh.

2. Irrigation Rate Discount (TRM Section 10.3) (continued)

- For example, assuming a historical percentage of 30%, the resulting "discount" could be 30% X -$9.63 = -$2.89. Does this mean that the irrigation load would pay $2.89/MWh more than Tier 1 for its power?

- Alternative view: The language could be interpreted to mean to distinguish between the rates that a Slice Customer pays and the rates that a Non-Slice Customer pays. The equivalent Composite Charge for WP-10 is $1,988,772 per one percent TOCA, or about $35.94/MWh. The Non-Slice Customer will pay about $26.31/MWh. Does the Slice Customer get a discount of 30% of $35.94/MWh ($10.78/MWh) and the Non-Slice Customer get a discount of $7.89/MWh?

- Further problem: the language does not specify whether to use the annual or monthly customer charges, whether to use the "charges" or rates, or to use the costs used in calculating the "charges."

2. Irrigation Rate Discount (TRM Section 10.3) (continued)

- Potential revisions: Modify the TRM language to be more specific so that it is less open to misinterpretation. Two possible solutions are presented.

- **Solution A:** Proposed TRM language; simplified but less accurate:
  - Current language:
    - This percentage will be multiplied by the sum of the Slice and Non-Slice customer charges divided by the Tier 1 System Capability (expressed in MWh) to derive a dollars per MWh discount.
  - Potential revision:
    - This percentage will be multiplied by the sum of the *Composite and Non-Slice costs used to calculate the customer charges* divided by the Tier 1 System Capability (expressed in MWh) to derive a dollars per MWh discount.

2. Irrigation Rate Discount (TRM Section 10.3) (continued)

- **Solution B:** Include more specific language that includes the effect of the Load Shaping Charge on irrigation load; more complex and more accurate:
  - This percentage will be multiplied by the sum of the forecast revenue that irrigation loads will pay through the Composite Customer Charge, the Non-Slice Customer Charge, and the Load Shaping Charge divided by the sum of the irrigation loads (expressed in MWh) to derive a dollars per MWh discount. Forecast revenue for irrigation loads will be calculated using a synthetic TOCA equal to the sum of the irrigation loads in aMW form divided by the sum of the RHWMs. This synthetic TOCA will be applied consistent with Section 5 of the TRM for calculation of the Composite Customer Charge, the Non-Slice Customer Charge, and the Load Shaping Charge. This discount will be seasonally available to qualifying loads during May, June, July, August, and September.

3. Contract Demand Quantity

- The TRM specifies that the CDQs of each Customer with Provisional High Water Mark will be adjusted if the conversion of Provisional High Water Mark to permanent Contract High Water Mark reduces the Customer's CHWM. See section 4.1.9.

- Potential problem: The TRM language in section 5.3.5, page 69, states that "The actual CDQs determined in accordance with section 5.3.5.2 or 5.3.5.3 will be used for billing during FYs 2012-2013 and in all subsequent Rate Periods." Section 5.3.5 does not reference the potential modifications pursuant to section 4.1.9.

- Proposed revision. Modify section 5.3.5 of the TRM to read:

  "The actual CDQs determined in accordance with section 5.3.5.2 or 5.3.5.3 will be used for billing during FYs 2012-2013 and in all subsequent Rate Periods unless the CDQs are modified pursuant to section 4.1.9. If the CDQs are modified, the modified CDQs will take effect and be used for billing and billing adjustments as described in section 4.1.10."

4. Slice True-Up when the sum of Tier 1 Cost Allocators (TOCAs) is less than 100%

- **Problem:**
  - In the Slice True-Up, Slice customers would be allocated less than their share of the changes in costs or credits in the Slice True-up when the sum of all TOCAs is less than 100%.

- An inequity occurs because the Composite Customer Charge is adjusted upward when the sum of TOCAs is less than 100%. In the Slice True-Up, the changes in costs/credits recovered through the Composite Customer Charge likewise need to be adjusted upward to ensure full recovery of Power Services' costs/credits and to prevent this potential recovery/benefit being shifted to Non-Slice customers.

4. Slice True-Up when the sum of Tier 1 Cost Allocators (TOCAs) is less than 100% (continued)

- **Solution A:**
  - Revise the Slice True-Up Adjustment Charge using the sum of the TOCAs used in the final rate studies. The Slice True-Up Adjustment Charge would be adjusted by a factor of 100% divided by the sum of the rate case TOCAs (e.g., 100% ÷ 95% = 1.053).
  - The Slice True-Up Adjustment would then be multiplied by each customer's Slice Percentage to calculate its Slice True-Up Adjustment Charge. Solution A would be equitable on a forecast basis because it would allocate the Slice True-Up Adjustment Charge (actual costs and credits difference from forecast costs and credits) to Slice customers in the same manner as they paid for the forecast costs and credits.

4. Slice True-Up when the sum of Tier 1 Cost Allocators (TOCAs) is less than 100% (continued)

- **Solution B:**
  - In the Slice True-Up, correct not only for cost/credit forecast error, but also for allocation error (forecast TOCA deviation from actual TOCA). Solution B would adjust the Slice True-Up Adjustment based on the actual effective sum of TOCAs known at the end of each year, just prior to the Slice True-Up. Solution B logically leads to a second TRM change: to make the Unused RHWM line item applicable to true-up in all situations (the TRM contemplated it would apply only when a customer's Slice percentage changed).

- See attached paper for more detail.

5. Slice True-Up Method – Annual vs. Average Expenses

- Averaging method for the Slice True-Up -- The TRM, section 2.7.1, specifies that, for each year of the Rate Period, the Slice True-Up calculates the difference between the forecast of the average annual expenses and revenue credits for the 2-year Rate Period to the actual one-year expenses and revenue credits.
  - The annual Slice True-Up will subtract "(i) the average of the forecast annual expenses and revenue credits allocated to the Composite Cost Pool for the Fiscal Years of the applicable Rate Period from (ii) the actual expenses and revenue credits in the applicable Fiscal Year of the Rate Period . . .."

- **Problem*:***
  - As was discovered in WP-10, using the averaging method for the Slice True-Up has the potential to increase the need for Planned Net Revenues for Risk (PNRR) to be included in the Non-Slice Customer Charge.

5. Slice True-Up Method – Annual vs. Average Expenses (continued)

- The averaging method ensures that there will be a forecast true-up adjustment in both years of a two-year Rate Period, even if actual expenses and revenue credits come in exactly as forecast for the Rate Period as a whole. *See* tables below. If the second year true-up adjustment results in Slice customers having to pay BPA, this payment is received outside of the Rate Period and could cause an increase in PNRR.

	Table 1			
	Slice True-Up Adjustment Forecast using 'Averaging Approach'			
		FY 2012		**FY 2013**
1	Composite Cost Pool	$ 100		200
2	Audited Actual Financial Data (assume same as forecast)	$ 100		200
3	Average Slice Revenue Requirement for FY 2012 - 2013	$ 150		150
4	Forecast difference between actual and Composite Cost Pool			
	(line 2 minus line 3)	$ (50)		$ 50
5	Slice True-Up Adjustment Forecast using 'Averaging Approach'			
	(line 4 * Slice percentage (27 percent))	$ (13.5)		$ 13.5
6	Forecast True-Up Adjustment for FY 2012 - 2013 rate period	$ -		

	Table 2			
	Slice True-Up Adjustment Forecast using Annual FY Slice Revenue Requirement			
		FY 2012		**FY 2013**
1	Composite Cost Pool	$ 100		200
2	Audited Actual Financial Data (assume same as forecast)	$ 100		200
3	Forecast difference between actual and Composite Cost Pool			
	(line 2 minus line 1)	$ -		$ -
4	Slice True-Up Adjustment Forecast using Annual FY Composite Cost Pool			
	(line 4 * Slice percentage (27 percent))	$ -		$ -
5	Forecast True-Up Adjustment for FY 2012 - 2013 rate period	$ -		

5. Slice True-Up Method – Annual vs. Average Expenses (continued)

- Current Language, sections 2.7.1 and 2.7.2:
  - "For each Slice customer, the annual Slice True-Up Adjustment . . .will be calculated by 1) subtracting (i) *the average of* the forecast annual expenses and revenue credits allocated to the Composite [or, Slice] Cost Pool for the Fiscal Year*s* of the *applicable* Rate Period . . . "
- Proposed Solution. Modify sections 2.7.1 and 2.7.2:
  - "For each Slice customer, the annual Slice True-Up Adjustment . . .will be calculated by 1) subtracting (i) the forecast annual expenses and revenue credits allocated to the Composite [or, Slice] Cost Pool for the applicable Fiscal Year of the Rate Period . . . "

6. Calculation of Unused RHWM Credit

- **Problem:** The use of RP Augmentation in the accounting of Unused RHWM introduces unnecessary complications. The calculation of the Unused RHWM Credit can be simplified without altering the amount of the total credit.

- The TRM captures the value of Unused RHWM through two separate line items on the TRM costing table (Table 2 - Allocated Tiered Cost Table):

  - Reduced RHWM augmentation (Line 27), and/or

  - Increased firm power available for sale into the market (Line 116).

  The reduced RHWM augmentation component complicates the calculation of the value of the Unused RHWM due to the possible differences in the value of augmentation compared to firm power from the market.

6. Calculation of Unused RHWM Credit (continued)

- **Proposed Solution:**
  - Use line 27 to reflect the full cost of RHWM Augmentation and reflect the full value of Unused RHWM through line 116.

- See attached paper for more detail.

TRM Revision Timeline

- The timeline for TRM revisions for the WP-12 rate case begins with this workshop.
- Customers and BPA can work together to specify the issues and the precise wording of revisions to the TRM.
- A formal proposal will support progress toward a decision; it must include content required by the TRM, in particular, the proponent's reasons
  (1) why the proposal will rectify or improve the situation, and
  (2) that its value exceeds any detriment.
- Customers may vote on proposed revisions once an official proposal is published but may choose to delay voting to participate in discussions to resolve issues.

TRM Revision Timeline (continued)

- Customers and BPA can schedule work sessions to continue to clarify issues as needed and determine who will submit the proposed solution.
- Timing is flexible. Participants in the process may choose to spend more time in informal discussions before concentrating on crafting the revision proposal.
- If some revisions are still in discussion after others are settled, potential revisions may be separated into different groups that can move through the process at different speeds.
- The target date for completion of TRM revision proposals (to be included in the initial proposal for the WP-12 power rate case) is September 1, 2010.

Draft TRM Revision Implementation Timeline Proposal

Event/activity	Duration	Start date	End date
Communicate issues identified during TRM Implementation at RC Workshop.	1 day	June 16	June 16
Collaborate with customers on the wording for each proposed issue. Determine number of BPA/Customer work sessions necessary to clarify issues.	2-3 weeks	June 17	July 1 or July 8
BPA or Customer submits official Proposal for each Unintended Consequence and each Improvement or Enhancement which includes wording.	1 day	July 1 or July 8	July 1 or July 8
BPA/Customer internal preparation days including holiday	4-6 days	July	July
BPA or Customer sends official notice of upcoming **(UC & IE)** vote to customers – 30 day voting period.	2 days	July 12	July 14
BPA Internal Communications	2 days	July 12	July 14
Voting window. Customers register Vote by Objection or Support as appropriate by no later than 3:00 p.m. August 11.	30 days	July 12	August 11
BPA tallies results.	2-3 days	August	August 17

Process Maps

- For those who are interested, we will spend time walking through the process maps for Unintended Consequences and Improvements and Enhancements

QUESTIONS?