

SUGGESTED REVISIONS TO PORTIONS OF BPA'S LOAD FOLLOWING CONSTRUCT FOR SERVICE TO PUBLICS

1. INTRODUCTION

The following are some suggested revisions to the BPA construct for load following service to public utilities under the post-2011 contracts. These suggested revisions were formulated to advance a number of interests. In addition to the objectives set out on Slide 5 of the August 27, 2007 Load Following Product proposal, these include offering load following products which:

- Ameliorate (or do not worsen) system challenges in the areas of growing winter peaks, spring surpluses, minimum generation requirements and demands of wind resource integration.
- Allowing customers to deploy non-federal resources in a manner that optimizes their financial and operational benefit, so long as it is done in a manner that is beneficial (or not detrimental) to the federal system.
- Encourage non-federal resource development by customers by facilitating integration of non-federal resources with federal Tier 1 and Tier 2 power supply.
- Contains notice and commitment periods that operate well with rate case and rate period timing and with customers' needs to integrate non-federal resources.

2. SPECIFIC RECOMMENDATIONS

A. Types of Non-Federal Resource Commitments

Proposal

- 1) The post-2011 contracts should permit non-federal resources to be committed to serving the retail load of the customer in two ways:
 - a. Declaring the resource under section 5(b) of the Regional Power Act, with all of the rights and obligations accruing under the statute.
 - b. Contractually committing the resource to retail load service with a stated duration and amount of such commitment.
- 2) The nature of the non-federal resource commitment (5(b) commitment or contractual commitment) should not expand or reduce the allowable shape of the non-federal resource.

Submitted by Public Power representatives

Note: This is to be considered a "think piece" at this time.

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Rationale

Whether the non-federal resource is being declared under section 5(b) or contractually committed to retail load service, the obligation of the customer and the certainty provided to BPA arises from the contractual undertaking. The customer will be equally bound to fulfill its non-federal supply obligation whether it makes a section 5(b) declaration or a contractual non-federal resource commitment.

Since the nature and certainty of the customer supply obligation is the same regardless of the mechanism used, there appears to be no reason to restrict or expand the permissible non-federal load shapes based on the type of contractual commitment made by the customer. And permitting customers to elect the non-federal resource shape that best suits their needs (subject to the rules set out in section B below) will serve as a powerful incentive for customers to pursue development of non-federal resources.

B. Establishing Allowable Non-Federal Resource Shapes

General Proposal

A customer may include a non-federal resource to its resource exhibit to serve its retail load above its high water mark (HWM) in equal amounts in all hours of the year, or in any other shape that does not violate the following limits:

- 1) In the shape of one of BPA's allowable Block products; or
- 2) A shape that does not:
 - a. Decrease the customer's forecasted net load on BPA (i.e. the customer's total retail load minus its resource serving such load in the relevant period) during designated spring months (BPA to designate);
 - b. Decrease the customer's forecasted net load on BPA during designated minimum generation hours (BPA to identify relevant times);
 - c. Increase the customer's forecasted net load on BPA during the designated winter months (Nov – Feb);
 - d. Increase the customer's forecasted net load on BPA during the designated summer months (Jun – Sept); or

Rationale

BPA is concerned about growing system challenges in meeting its load obligations in light of increasing winter deficits and spring surpluses, growing summer loads, minimum

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generation requirements during some low load hours and increasing demands on its limited capacity resources. The above general proposal is designed to provide to customers the ability to bring its resources to load in any fashion that does not aggravate such challenges. We expect that, with proper price signals, customers will choose load shapes that actually reduce the challenges from what they would be if BPA required all new non-federal resources be used in load in equal amounts in all hours of the year.

C. Notice Periods for Contract Execution

Proposal

For the initial contract offer, new non-federal resource notice requirements and commitment periods will be as follows:

A. Transition 1

- 1) BPA will offer signed contracts to customers by contracts on July 31, 2008
- 2) Customer will have until August, 2009 to sign its contract
- 3) By no later than December 31, 2009, customer must contractually commit that for 2012 to 2016 period:
 - a. BPA will serve all the customer's load in excess of its HWM
 - b. Customer will serve all of its load above its HWM with non- federal resources
 - c. Customer will serve up to fixed amount of its load above its HWM and BPA will serve remainder. *Note that a customer may specify different amounts of tier 2 in each year (e.g. zero in years 1 and 2 and 2 aMW in years 3 and 4).*
 - d. BPA will serve up to a fixed amount of customer's load above its HWM and customer will serve remainder
- 4) The shape and hourly amounts of the customer obligation (if any) will not be contractually committed to at this time.
- 5) Six (6) months before the first rate period under the new contract begins (or April 1, 2011) customer must contractually commit to the actual shape for the four year commitment period and hourly amounts of its non-federal supply obligation for the first two year rate period.
- 6) All subsequent contractual commitments regarding who will have service responsibility, shape and hourly amounts will be made consistent with the notice periods set out in section D below.

B. Transition 2

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The first commitment period would be for two years – 2012 to 2014. Notice for this period would be given as outlined above. Notice for the first longer commitment period would occur 1 year after determination of HWMs. This will allow customers time to transition into the longer commitment period with the benefit of their HWMs.

Rationale

This is a transition proposal that deals with the problems that arise from the contract being executed well before the customers knows its HWM, Tier 2 loads, and Tier 2 rates., and represents a compromise between planning certainty and requiring long term decisions before adequate information is available. It provides the flexibility for customers to adjust their Tier 2 resource portfolio over time as information regarding the price of Tier 2 rates and their actual Tier 2 loads become available.

The fact that BPA will not have total certainty about these obligation at the earliest date is ameliorated by the fact that total loads above HWMs are now projected to be 250 aMW or 3% of its total 7,200 aMW Tier 1 obligation and that many customers can be expected to sign up for BPA Tier 2 service on either December 31, 2008 or September 30, 2009.

D. Notice and Commitment Periods Subsequent to Initial Contract Execution

Subsequent to the initial contract offer and after the transition period, new non-federal resource notice requirements and commitment periods will be as follows:

- E. Three (3) years prior to the start of the next rate period, contractual commitment regarding who will be the supplier for load above the HWM for the next two rate periods (four year commitment).
- BPA will serve all the customer's Tier 2 needs
 - Customer will serve all of Tier 2 with non- federal resources
 - Customer will serve up to fixed amount of tier 2, BPA will serve remainder. *Note that a customer may specify different amounts of tier 2 in each year (e.g. zero in years 1 and 2 and 2 aMW in years 3 and 4).*
 - BPA will serve up to a fixed amount of Tier 2, customer will serve remainder
- F. The shape, quantity and source of the customer obligation (if any) will not be contractually committed to at this time.
- G. After Rate Case HWM is known but prior to initial rate case proposal (probably 18 months prior to the start of the rate period), customers will contractually commit to the shape for the four year commitment period, and the hourly amounts of their nonfederal supply for the first two year rate period.

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- H. This process is repeated prior to each rate case. There is a need for further discussion about how we deal with changes in Rate Period HWM and to the forecast amounts of load in excess of HWM for the second rate period.

This proposal is based on the assumption that there will be a process to determine Rate Period HWMs prior to the commencement of the rate process. It is designed to give BPA sufficient advanced notice of the intentions of customers regarding service to load in excess of their HWM so it can begin its resource planning and acquisition activities, while at the same time preserving for the customer the ability to withhold making irrevocable resource commitments until the size and nature of its Tier 2 obligation is better understood. This will permit customers to seek and obtain non-federal resources that best suit their individual utility needs. At the same time, it assures BPA of complete customer commitment regarding service to load in excess of HWMs before the start of the rate process.

Because of the better information as to quantities over HWM and shape that will be available closer to the actual operation period, BPA's rates will better reflect the reality it faces during the rate period. This should allow BPA to make more efficient balancing energy purchases, as they have better information and customers are more able to respond to any demand charge that BPA establishes.

If BPA needs has an opportunity to acquire output from an actual generating project that does not fit these time frames, it can run a subscription or open season type process separate from these notice provisions, just as any resource developer might. This proposal does not preclude BPA from offering various Tier 2 rates with longer or different subscription periods – just as a customer might commit to a non-federal resource in durations different from the BPA notice and commitment periods.