



Simplifying the Start-up of Tiered Rates

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Background: The cornerstone of the Regional Dialogue contracts is tiered rates. Through tiered rates BPA will establish each customer's rights to power at the cost of the existing FBS and provide choices for how their load beyond this amount will be served.

Problem: The Region is diligently working with BPA to sign new contracts by December 2008. As currently proposed customers will have to wait over two years after they sign their contracts to know their Contract High Water Mark. However BPA requires that they commit to how their load will be served from 2012-2016 when they sign the contract. In the limited time between now and then a plethora of issues need to be worked out on rates, contracts and policy. BPA is currently proposing a number of Tier 2 rate alternatives but getting them fully developed (introduced, understood, and vetted with customer alternatives considered), added to the complexity of tiered rates, creates a risk of not meeting the schedule. Customers have pushed back on the complexity and the long-term notice requirements BPA is currently proposing.

Solution: Reduce initial commitment term and simplify the tiering construct for the first three years of the deliveries under the RD contracts.

Initial Commitment

- Each customer signs its contract in December 2008
- Prior to November 2009 the customer commits to how its load above its HWM will be served during the three years of FY 2012-14, either: a) All BPA Tier 2, b) All Customer Resource or c) a combination
- During the transition period BPA would only offer one Tier 2 rate.
- Rates for this Tier 2 would be based on the marginal cost of acquiring the power for the transition period, presumably mostly short-term market purchases.

Subsequent Commitment

- By June 2011, after Contract HWMs are calculated, customers would make a minimum 5 year commitment to purchase Tier 2 or apply resources starting in FY 2015.
- BPA would offer fully developed Tier 2 rate alternatives.
- Rates for each Tier 2 alternative would be based on the costs and commitment terms established for the resource mix specified for the Tier 2 rate alternative.

Additional questions:

How would this work with RPS standards?

BPA is unlikely to make long-term acquisitions of New Renewables for service at Tier 2 rates due to the short-term nature of purchases under this construct. Customers needing the green attribute would need to purchase them elsewhere or from what little would be available from existing inventory and Renewable Energy Credits from augmentation purchases, if any, for Tier 1 rates.



Would BPA consider a shorter transition period than three years?

Yes. However BPA wants a minimum 3-year notice to allow time to acquire the output of resources for service to Tier 2 loads after the transition period. Consequently if the transition period was changed from three years to two BPA would require notice by October 2010 for the five years, FY14-18, several months before the calculation of the Contract HWM.