

PUBLIC POWER STRAWMAN PROPOSAL FOR PRODUCTS AND RATE DESIGN

The following is a comprehensive proposal that addresses the products, the non-federal resource shapes and the rate design that need to be implemented for the tiered rate construct to operate successfully and address the interests of both BPA and its customers. This proposal is supported by the PPC Executive Committee, the Northwest Requirements Utilities, the Public Generating Pool and the Western Public Agencies Group, based on the expectation that the proposal will not result in any material cost shifts. The components of this proposal (products, resource shapes and rate design) are interdependent and interrelated, and are a package that must be considered and accepted as a whole.

1. Partial Requirement Service to Public

Tier-1 Shaped Block and Complex Partial Requirements Products

BPA has not developed sufficient products to meet the existing Tier-1 loads under many customers' High Water Marks (HWM). Products similar to the complex partial requirements and Block products offered in conjunction with the Subscription agreements need to be developed for customers both with or without resources whether operating their own Control Areas or not. This includes a Block product that can be shaped to a customer's monthly net requirement in conjunction with the Slice product. The details of the Tier 1 rate design proposal are intended to operate with and apply to these products. Exhibit A is an example of a product that should be available to customers. The foregoing Block products should be made available to all Block purchasers, including Block/Slice customers.

Allowable Non-Federal Resource Shapes

I. Existing Resources

Existing capacity and energy resources used to meet a customer's load may be used in load and in a manner that is consistent with the way that BPA has historically included such resources in the customer's net requirements determination, and in a manner consistent with the exceptions for existing resources included in the BPA Regional Dialogue ROD, when applicable.

II. New Resources

A. New "metered" and "variable" (i.e. non-dispatchable "run of the resource" resources) may be used in load consistent with BPA's current proposal. (Resource support services will be required and differences between forecasted and actual resource output will be treated as variations in load).

B. A customer may add new resources (other than metered and variable resources) to its non-federal resource exhibit for use in service to the customer's retail load above its high water mark (HWM) in equal amounts in all hours of the year; or in the shape of one of the customer's forecasted net requirements (including monthly

diurnal and/or daily shapes); or in any other shape that does not violate the limits enumerated below.

1. A resource shape is acceptable that does not, when compared with what the customer's net load on BPA would be if the sum of the customer's new resources (other than metered and variable) were used to serve its load in equal amounts in all hours of the year:
 - 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 four designated winter months (Nov – Feb);
 - d) Increase the customer's forecasted net load on BPA during the four designated summer months (Jun – Sept); and
2. A resource shape is acceptable that does not, when compared with what the customer's load factor on BPA would be if the sum of the customer's new resources (other than metered and variable) were used to serve its load in equal amounts in all hours of the month, decrease the forecasted HLH or LLH load factor on BPA.

New resource shapes must be committed to for the full commitment period, and actual hourly resource amounts must be specified in advance for the entire rate period. Implementation of paragraphs B1 and B2 will require an agreed upon load shape for the duration of each commitment period.

BPA may amend the designated surplus and deficit periods (spring, summer, winter, and minimum generation periods) one year in advance of the notice date for each commitment period if its operational constraints change in a material way.

2. Intermittent Resource Integration

Pricing of shaping and integration services supplied to intermittent resources should reflect the marginal value of associated capacity and energy.

3. Tier-1 Rate Design Proposal

The rate design for Tier 1 should be structured as follows:

1. Each customer's Tier 1 (T1) *annual* firm energy right will be determined as proposed in BPA's HWM methodology.
2. Each customer's T1 *monthly* energy rights will be based on each customer's *annual* share of the firm energy (i.e., critical energy) from the T1 system. For example, if a customer's annual T1 energy right is 2.5% of the total, that customer would have the right to 2.5% of the projected T1 firm energy capability in each diurnal period in each month of the year.
3. For those customers purchasing Block or Load Following services, each customer's contracted for or measured monthly diurnal energy load on BPA (net of any Tier 2 purchases) will be compared with that customer's monthly diurnal T1 energy right.
 - a) If the customer's monthly load in each monthly diurnal period is *greater* than its monthly T1 right for the diurnal period, the customer will be charged "load shaping" for the difference.
 - b) If the customer's monthly load in each monthly diurnal period is *less* than its monthly T1 right for the diurnal period, the customer will be credited "load shaping" for the revenues from the sale of the customer's "extra" T1 right.
 - c) Load shaping charges and credits will be priced at BPA's forecasted monthly diurnal market prices for firm energy for the relevant rate period.
4. The total demand billing determinant (or billing demand) for each customer will be its contracted or measured monthly customer system peak demand times a demand adjuster. The demand adjuster will be equal to (a) the sum of all preference customers' demands on BPA at the time of the generation system peak divided by (b) the sum of all preference customers' customer system peak demands on BPA ("CSP"). The demand adjuster will change each rate period based on the observed demands in the prior three-year period.
5. The demand charge will have two components: historic demands and incremental demands. Therefore, the total demand billing determinant will also be split into two components. The billing determinant for historic demands in each month will be the lesser of (a) the customer's CSP demand on BPA for the month as adjusted in paragraph 4 above or (b) the average of such customer's billing demands under the

- rates then in effect for each such month during the 2008 to 2010 period (the “Historic Demands”). The billing determinant for incremental demands for each month will be
- (a) the customer’s CSP demand for the month as adjusted in paragraph 4 above minus
 - (b) the customer’s Historic Demand for such month.
- a) A customer’s demands used to set its Historic Demands will be adjusted to reflect any adjustments to existing resources permitted in the Regional Dialogue ROD.
 - b) A customer changing from Slice/Block or Block to Load Following shall receive a Historic Demand based upon its actual historic demands at the time of the generation system peak in each month of the 2008 - 2010 historical period minus the customer’s monthly firm peak capability listed in the customer’s firm resource exhibit.
 - c) A Block customer (including Slice/Block customer), will receive a Historic Demand equal to the average of the maximum permitted hourly demand (including shaping capacity) in their Block component in each month of the 2008 to 2010 historic period under its Subscription agreement.
 - d) If a Slice/Block customer gets less Slice and more Block relative to its total firm power purchase under its Regional Dialogue contract than it received under its Subscription contract, then its billing demand for its T1 Block will be considered to be its Historic Demand as long as its total firm power purchase in the month does not exceed its average total firm power purchase in the same months of 2008 to 2010.
6. The demand rates applicable to the billing historic demands will be based on the PF-07 monthly demand rates scaled (increased or decreased) by the ratio of the forecast of the average non-slice Tier 1 rate in each applicable rate case (total non-slice Tier 1 revenues ÷ total non-slice Tier 1 energy loads) to the WP-07 forecast of the average PF rate (total WP-07 PF revenues ÷ total WP-07 PF energy loads). A credit equal to 10.75% of the forecasted revenues to be collected from billing for incremental demands will then be applied to reduce the scaled PF-07 demand rates by an equal percentage amount in all months to calculate the demand rates applicable to historic demands.
 7. The demand charge applicable to the incremental demands will be the monthly cost of the Marginal Capacity Resource. For purposes of calculating the demand rate for incremental demands, the Marginal Capacity Resource shall be the capacity resource for the Pacific Northwest relied upon in the Northwest Power and Conservation

Council's then current power plan, or in the majority of integrated resource plans prepared in accordance with applicable state requirements of Pacific Northwest preference utilities (Marginal Capacity Resource). The rate for incremental demand shall be based on the capital costs of the Marginal Capacity Resource (expressed in dollars for the first year of the applicable rate period), the expected borrowing rates of tax exempt preference customers, the useful life of the Marginal Capacity Resource, fixed O&M costs and adjusted for the expected energy production of the Marginal Capacity Resource, all converted to a monthly value. The data used to determine the incremental demand rate shall be obtained from two (2) or more actual Marginal Capacity Resources constructed in the Pacific Northwest within five (5) years of the first year of the applicable rate period, or in the absence of such from independent, nationally recognized sources for such information such as the EPRI TAGs and EIA.

8. All forecasted revenues from the application of the final demand rates as developed pursuant to paragraphs 6 and 7 above to the respective historic and incremental forecasted billing demands will be subtracted from the T1 total revenue requirement (which does not include net load shaping costs or costs covered by sales other than Tier 1 sales {e.g. FPS}), and the remainder will be collected through customer charges.
9. The customer charge for each customer will be equal to each customer's T1 *annual* firm energy right, expressed as a percentage, applied to that portion of the revenue requirement apportioned to the customer charge. The customer charge will be recovered on a take-or-pay basis. The total annual customer charge, in dollars, will be shaped to the customer's monthly forecasted retail loads for revenue collection purposes.

Exhibit A

Block with Shaping Partial Requirements Product

This product description is modeled after the current *Block with Shaping Capacity* product. This is a summary and is not intended as a complete or final description of the product. It is an example of a partial requirements product for customers with resources, whether they operate a control area or not. The details of the Tier 1 rate design proposal are intended to operate with and apply to this product.

1) Block Amount Determination:

Each year, at a time prior to the contract year (e.g. 90 days), a customer contracting for this product would provide to BPA its forecast for firm load and firm resource capability for the contract year, designated as HLH and LLH amounts by month (twenty-four amounts per year). Firm resource declarations would be based upon the resources included in determining the customer's initial contract HWM and subject to providing for adjustment based upon demonstrable differences beyond the reasonable control of the customer. The firm loads minus firm resources would establish the HLH and LLH amounts for purchase by the customer.

2) Shaping Capacity Determination:

- a. Prior to the contract year (e.g. 90 days), customer provides its sustained peak load forecast and sustained peak resource capability to BPA for each HLH and LLH period.
 - b. The HLH/LLH load factor is determined in each period from the Load Forecast/Peak Load Forecast.
 - c. Each HLH/LLH block amount is divided by its corresponding load factor and rounded up to the nearest whole MW.
 - d. The Shaping Capacity for each HLH/LLH period is determined from the subtraction of the rounded amount and the corresponding Block Amount previously determined.
- 3) In accordance with each HLH/LLH monthly period the customer could pre-schedule day-ahead deliveries shaped up or down by the determined amount of shaping capacity for that period.
- 4) At the end of each month, actual energy quantities delivered during the month would be subject to take or pay or penalty provisions for deliveries less than or more than the designated monthly HLH and LLH amounts respectively as determined prior to the start of that contract year.
- 5) Forecast loads would be deemed equal to actual retail loads. Within-hour variations in load would be the responsibility of the customer to manage and meet any differences from the HLH and LLH scheduled amounts.

- 6) New resources added after the initial contract HWM determination do not need to be declared to serve load.