

BPA Response

*To Publics October “Strawman” Proposal on Products and Rate Design
October 19, 2007*

Background: *This paper proposes responses to the customer recommendations in their Strawman proposal that proposed that BPA adjust its Regional Dialogue framework to allow more product flexibility. At the October 12 meeting, BPA said that:*

- 1. BPA appreciates and values the effort customers put in to the Strawman proposal.*
- 2. BPA will accept the general principle that public customers wish to have product flexibilities that are similar to what they have under current contracts, and that they view intercustomer equity as being relative to current contracts. (Customers were not proposing to apply this principle to the Alternative 2 approach to Slice design)*
- 3. BPA would come back with a limited set of revisions to its Framework proposals that give customers similar flexibilities to what they have now. Those revisions are described in this Response.*
- 4. Keeping to schedule for the new contracts is of paramount importance, so conclusions on these changes need to be reached promptly. There is not time for wholesale “do-overs” or protracted further negotiation on product design.*

Caveat: *BPA is making the proposals in this response in good faith, but they are subject to two caveats. First, as with virtually all issues now under discussion, decisions are not final until made through contract signature, rate cases, and/or formal policy decisions. Second, the new proposals in this response have not been through a full internal due diligence analysis, particularly the analysis of how much the changes in product design could change BPA’s need to acquire capacity. BPA will complete this analysis within three weeks, and though we do not expect it to change these proposals, that possibility exists.*

Grandfathered Determinants for Demand: BPA is willing to actively explore with customers the grandfathered monthly demand rates generally as suggested by the customers. We think customers would agree that it is premature to settle this issue now, as the rate design analysis is ongoing. We propose a few key principles in connection with this exploration:

Ensure there are incentives to limit peak demand: BPA is likely to have to acquire significant amounts of capacity resources and include their costs in Tier 1 rates in order to meet Tier 1 demands. These acquisitions could be costly, so BPA believes a principle should be that most or all customers should have a small amount of their demand at the higher demand rate, so that all parties – BPA and customers – have economic incentive to reduce peak demands. Likewise, if customers choose future product that increase their peak demands relative to their current product, this demand increment should also be at the higher rate. One means to accomplish this without upsetting the customers’ desired equity balance could be to give each customer 90% of its monthly grandfathered demand (based

on what the customers get today) amounts at the embedded cost rate, and any Tier 1 demand amounts beyond that at the marginal cost based Tier 1 rate.

Adjustments of Grandfathered Demand Amounts in Future Rate Periods: Under the HWM approach, in the event of a major FBS resource loss BPA would not be obligated to replace that energy in Tier 1. We believe that a parallel approach needs to be taken to capacity. That is, there should be a principle that reductions in FBS capacity should reduce the amount of demand that is met at the lower demand rate. Otherwise in the event of major FBS resource loss BPA would be required to replace the capacity of a lost FBS resource in Tier 1, but not the lost energy – probably not an efficient outcome. A simple means of accomplishing this without creating a complex new FBS capacity determination process would be to reduce the grandfathered demand amounts for each customer in rate periods when the Rate Period HWMs are lower than the Contract HWMs. The monthly reduction could be equal to the ratio of the Rate Period HWM over the Contract HWM.

Grandfathered Slice Demand: For customers changing the amount of their Slice purchases, it would be necessary to define a reasonable method for determining demand amounts for Slice purchases comparable to those determined for non-Slice purchases.

Changes to the BPA Framework

BPA is proposing the following specific changes to the Regional Dialogue Framework.

1. Provide Resource Flexibility for Load Following Customers with dispatchable resources

BPA intends to provide the following approaches that when added to the products in the current Regional Dialogue framework will allow customers have a business relationship like what is currently provided to Cowlitz PUD as a dedicated resource partial for its hydro resources and like what Clark PUD is provided for its combustion turbine. The basic customer rights and obligations that now exist for resources in BPA's control area, and which BPA proposes to continue in the new contracts, are the following:

- Customers commit to meet predefined amounts of their own monthly or hourly HLH and LLH energy load and monthly Customer System Peak loads with their own dispatchable resources. The total amount and shape of these commitments are based on the expected actual firm output of the resource(s), not counting the effects of customer decisions to market part of the output. These are multiyear commitments, not subject to change year-to-year.
- As an additional RSS service BPA will follow the natural fluctuations in resource output within those HLH and LLH periods (i.e. those driven by stream flows, ambient temperatures, gas quality), but not fluctuation caused by economic dispatch decisions.

- Alternatively, the customer can manage resource output and purchases to smooth these fluctuations, providing resource amounts in the allowable unspecified resource shapes.
- For gas-fired resources, customers are free to operate their resources however they wish, including buying market power instead of running their resource, so long as they meet their preestablished hourly HLH and LLH, commitments.
- Customers who dedicate existing small hydro to their load can then also apply the secondary power from the resource to their loads. As long as the total amount of resources choosing to take this service is close to what BPA currently provides BPA will credit the secondary energy at 90% of the Mid-C index less PF charges.

2. More Flexibility in Resource Shapes for Load Following Customers

BPA will accommodate the customer request to establish unspecified resources in a shape that allows them to better follow their loads. BPA will accomplish this by replacing the winter and summer shapes with a right for the customer to establish a resource shape in the shape of its monthly Total Retail Load as measured for Contract HWM purposes in FY 2010. Customers will retain the option to apply their unspecified resource amounts in a flat block. In addition, customers who are declaring specific physical resources may apply those resources in the actual projected shape of the *firm power* from the resource, and that shape will not be limited to the flat or load-shape options described above.

BPA appreciates the customer attempt to respond to our concern about increasing loads at certain times through a system of limits within which customers can shape unspecified resources. BPA is not proposing to pursue this, for three reasons:

1. BPA's fundamental interest is in development of new physical generating infrastructure. BPA's proposal accommodates the shape of any actual physical resource. Accommodating multiple shapes created through market purchases does not assist infrastructure development.
2. Developing and administering the system of resource shape limits would be complex, time-consuming, and would create potential for future disputes.
3. It is not a right that exists under the current contracts, and so is not necessary to meet the current-flexibility principle.

3. Increased Flexibility in the Shape of the Block Product

- *Block Only Product:* BPA proposes to continue essentially the same block shaping flexibility that exists in the current contracts. Customers may choose between a flat block and a block shaped to their monthly net requirement. The monthly shape will be the monthly shape of the customer's load measured for HWM purposes in FY 2010, adjusted by the resources used to establish the Contract HWM (firm resource amounts for FY 2010 as of September 30, 2006). These resource amounts will be applied in the monthly shape established in the current contract. The resource adjustments from BPA's RD Policy will be applied as a flat annual block. Once the shape for the block is established it will not change during the contract. The monthly block amounts will be established either in a flat monthly amount or in flat monthly diurnal amounts with up to 60%

of the megawatt hours in the monthly HLH period, not to exceed the HLH net requirement amount.

- *Block with Shaping Capacity:* BPA proposes to offer essentially the same shaping capacity in connection with stand-alone block purchases that it currently provides to Tacoma. However, unlike today, any shaping capacity a customer has rights to will be take-or-pay because BPA must reserve capacity sufficient to meet customer rights. Also, if more customers choose this product, it may be necessary to have hour-to-hour ramping limits. BPA also believes that this right can be made much lower-cost to provide, without seriously degrading its usefulness in following load, if preschedules are submitted two days in advance of the delivery day instead of the current one day. BPA will offer customers that purchase the stand alone block product a right to add shaping capacity to their block purchase. Amounts will be limited, as they are today, to the forecast variation in their loads for the month. The amounts will be established by the time delivery begins under the contract and will remain fixed for the contract term. This product will establish a range within which a customer may reshape the HLH energy amounts established for a day. On a preschedule basis, the HLH energy amount for the day may be reshaped hourly, within the shaping capacity amount. Monthly shaping capacity amounts would be based on the variance between the customer's projected monthly HLH peak and average HLH load for the month.
- *For Block with Slice:* BPA proposes that Slice customers be able to choose between an annual flat blocks or flat monthly amounts in the shape of net requirements, calculated in the same way as the stand alone block. This essentially continues the block shaping approach that exists in the current contracts. No shaping capacity or diurnal shaping would be allowed, because those rights do not exist under current contracts and because BPA is concerned about increases in the total demands on federal system flexibility. We propose that at a minimum Slice customers will be required to purchase block for 30% of their net requirement load purchased at Tier 1 rates.

4. BPA will provide Wind Integration Services at Marginal Cost

BPA agrees to price wind integration services under the RSS product at the marginal cost of providing that service. BPA has agreed to provide this service to resources dedicated to serve requirements customer loads. Any other application of the service would be discretionary.

5. Create Contract Right for Product Switching

BPA will provide customers a one-time right to switch products. By providing notice by FY 2017 the customer may switch its product effective FY 2020. Customers that choose to make the product switch will be subject to charges to ensure that other customers are not materially harmed and are made financially whole. Contract language will need to be developed to ensure that identifiable financial risks are covered (which may differ depending on the number of customers switching). BPA will provide any such charges to

the customer prior to their final decision on whether or not to make such a switch. Such calculations will not be subject to arbitration. Customers may request a product change to any product regardless of their initial product choice. However switching to Slice will only be allowed to the extent Slice amounts are freed up by customers choosing to switch out of Slice.