

1 BACKGROUND AND PURPOSE

This Tiered Rate Methodology (TRM) is the methodology BPA will use to establish a two-tiered Priority Firm Power (PF) rate design applicable to firm requirements power service for public utility customers pursuant to Regional Dialogue Contracts that provide for tiered rate service (CHWM Contracts). The TRM establishes a predictable and durable means by which to tier BPA's PF rate for firm requirements power service, beginning in FY 2012. The tiered rate design set out herein differentiates between the costs of service associated with Tier 1 System Resources (Tier 1) and the cost associated with amounts of power needed to serve any portion of public utility customers' Net Requirement not served with Tier 1 System Resources (Tier 2). This TRM specifies how PF rates will be developed to ensure, to the maximum extent possible, that customers' Tier 1 Rates do not include any of the costs of serving public utility customers' load served under Tier 2 Rates.

Determinations of specific rate levels will be made in a manner consistent with the TRM in the respective 7(i) Process during the term of this TRM. BPA will set power rates for a two-year period throughout the term of the CHWM Contracts, with the following exceptions:

- 1) An unexpected financial condition threatens BPA's ability to recover costs, and requires that BPA revise rates within the two-year Rate Period;
- 2) A revision of rates resulting from the application of risk mitigation tools adopted in a 7(i) Process, such as a Cost Recovery Adjustment Clause, within the two-year Rate Period; and
- 3) The length of the last Rate Period of the CHWM Contracts may be altered in order to coincide with the expiration of the Contracts.

Any other deviation from such two-year Rate Period will require a change to this TRM pursuant to sections **Error! Reference source not found.** and 13.

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Rate Period High Water Marks (RHWMs) are determined according to this TRM (section **Error! Reference source not found.**). Each customer may purchase up to its RHWM, limited by its Net Requirement, at Tier 1 Rates. To meet its above-RHWM load, a customer may purchase power from BPA or procure non-Federal power, or both. To the extent a customer purchases power from BPA for its above-RHWM load, a Tier 2 Rate(s) will be applied to such service.

Power products are not determined in this TRM; however, a brief description of the products is included as Attachment A to facilitate understanding of the rates to be applied to the products.

Major topics covered in this TRM include:

- 1) how costs will be allocated to the Tier 1 and Tier 2 Rates (sections **Error! Reference source not found.** and **Error! Reference source not found.**)
- 2) how to determine the amount of power available at Tier 1 Rates (section **Error! Reference source not found.**)
- 3) how to determine a customer's eligibility to purchase power at Tier 1 Rates (section **Error! Reference source not found.**)
- 4) how rates for Tier 1 and Tier 2 sales will be designed (sections **Error! Reference source not found.**, **Error! Reference source not found.**, and **Error! Reference source not found.**)
- 5) how rates for Resource Support Services (RSS) will be designed (section **Error! Reference source not found.**)
- 6) how changes to the TRM will be made and disputes arising under the TRM resolved (sections **Error! Reference source not found.** and **Error! Reference source not found.**)

The provisions of the TRM are limited to the design and implementation of the PF tiered rates.

The TRM does not address issues relating to other BPA rates, including but not limited to the PF

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rate applicable to customers that do not sign CHWM Contracts;[provided, however, that BPA shall not set such other rates in a manner that conflicts with its commitments in the TRM.] In conjunction with the adoption of this TRM and the implementation of CHWM Contracts, BPA will institute periodic meetings with customers and interested parties to allow customers and interested parties to review and obtain information from BPA regarding its financial performance, compare BPA's actual costs to its forecast costs, the assignment of costs among cost categories and Cost Pools, and future financial developments. BPA will identify issues raised in this process for resolution in a future 7(i) process.