

Proposed Changes to the BPA's Framework

To Publics October "Strawman" Proposal on Products and Rate Design

November 13, 2007

Background: This paper adjusts BPA's original response to customer recommendations in their Strawman proposal based on subsequent comments. BPA is pleased we have been able to make as much progress as we have on these issues but recognizes that the balance we have struck is one of mutual compromise rather than consensus. BPA intends to move forward with these changes in the framework for proposals in the Tiered Rate Methodology and contracts.

As was noted in the October 19th public meeting the following continue to be important considerations in our response:

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 inter- customer 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.

Changes to the BPA Framework

BPA will make the following specific changes to the Regional Dialogue Framework.

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

BPA will 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. More detail on the resource declarations for these types of services will be provided in refined paper on Resource Shaping Services later in November. 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 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 pre-established 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. If net amount is greater, BPA may lower the percentage. Alternatively these customers could guarantee the firm critical-water shape of the dedicated resource and remarket the secondary themselves.

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. Customers expressed concern that BPA's October 19 response did not give them enough freedom to respond to the peak load pricing signals they will get through the proposed rate design. BPA appreciates this concern and will offer the following options to allow customers to shape their unspecified resources to respond to the price signals, in place of the winter and summer shapes in the Framework Proposal. Unspecified resources can be shaped:

1. Flat. (the same amount in every hour of the year)
2. In the shape of customers TRL, flat across all hours within each month
3. Customers may reshape the flat amount from the previous alternative, moving LLH amounts to HLH and/or HLH amounts into peak hours. Monthly amounts for LLH, HLH and peak hours will need to be flat across all hours in the respective period and will apply for the full commitment period (generally 5 years with 3 year's notice). This will give customers the ability to help lower BPA's HLH and peak loads. At least two months prior to when customers are required to make their commitment BPA will establish the specific HLH hours that will be considered peak hours during each month. For billing purposes, BPA will reduce the Customer's system peak each month by the declared peak amount, regardless of the hour when its actual peak occurs.

In addition to acquiring non-BPA support services to shape their dedicated resources into the three options provided above for unspecified resources, customers who are declaring specific physical resources may apply those resources in the actual projected shape of the *firm power* from the resource.

Changes to Retail Load Shapes. For determining the shapes in options 2 and 3 above BPA will use the customer's FY 2010 Total Retail Load Shape for both the 2012-2014 transition period and the next commitment period (which customers will commit to in FY 2011). When customers provide notice for subsequent commitment periods the Total Retail Load Shape will be based the Total Retail Load Shape of the prior fiscal year. Once declared, the amounts will not be subject to change until the end of the commitment period. This applies both to unspecified resources and amounts for dedicated resources that a customer chooses to have reshaped by a non-BPA source.

3. Increased Flexibility in the Shape of the Block Product

- ***Block Only Product:*** BPA will 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 term. 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 will offer essentially the same shaping capacity product 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, BPA will establish hour-to-hour ramping limits for shaping capacity amounts exceed 200 MW. BPA also expects to require that preschedules be 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 two-day ahead 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 will allow Slice customers 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 for 2012.

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 there is unused Slice or that Slice amounts are freed up by customers choosing to switch out of Slice. While the contracts will only allow for the one-time right to switch products BPA will remain open to mutually agreeable product switching at other times.

6. Limit on the Shared Rate Plan

BPA will retain the 500 aMW limit on the Shared Rate Plan. However rather than terminate the rate pool if the amount exceeds as suggested in the issue paper, if the amount exceeds 500 aMW BPA will establish a process to reduce the number of customers that are in the pool. One approach to this would be to stack up the number of customers from smallest to largest and work down the stack until the 500 aMW limit is met. BPA is open to other approaches to meet the limit and will work out the actual approach in the Tiered Rate Methodology.