

# **BPA Tier 2 Workshop**

*June 22, 2009*

# Objectives

- Provide an explanation of each alternative as described in the TRM and Regional Dialogue Contract
- Review the November 1<sup>st</sup> election requirements and exhibit updates for above-RHWM load service
- Discuss BPA's Indicative Pricing methodology and assumptions
- Review the Tier 2 Vintage rate development timeline
- Discuss interest in Tier 2 Vintage alternatives between now and October of 2011
- Determine if additional Tier 2 discussions are required to prepare for the November 1<sup>st</sup> Notice Deadline

# Tier 2 Rate Alternatives

Provide an explanation of each alternative as described in the TRM and Regional Dialogue Contract

# Overview

- Customers have received their Transition-period HWM. From that information customers can determine what their Above-Rate Period High Water Mark (RHWM) loads will be for FY 2012, 2013 and estimated to be in 2014.
- By November 1, 2009, customers must elect whether they intend to have BPA supply all or a portion of their above-RHWM power needs for FY 2012, 2013 and 2014, and, if so, how much for the applicable years and through what rate alternative.
- Depending on the alternative or alternatives chosen, the commitment is for a minimum of three years (FY 2012-2014), or for the entire contract period (FY 2012-2028).
- By September 30, 2011, customers must elect how their above-RHWM load will be served for the second purchase period, FY 2015-2019. This election deadline will also be the final opportunity for Load Following customers to choose the Tier 2 Load Growth rate, and if interested, the Shared Rate Plan assuming availability under the 700 MW cap for FY 2015-2028.

# Tier 2 Rate Alternatives

- Beginning in Nov. 2009, BPA will offer the following Tier 2 alternatives:
  - a Load Growth Rate
  - a Short-Term Rate; and
  - as customer needs and interest warrant, a Vintage rate or set of Vintage rates
- BPA Tier 2 rate alternatives will be based on the cost of providing a flat annual block of power
- BPA Tier 2 rates will be established in applicable 7(i) processes (Rate Cases) which are set to occur every 2 years. The first rate case will be the FY 2012-2013 rate case scheduled to begin in FY 2010.
- Applicable cost components that may be included in Tier 2 rates:
  - Resource Acquisition and Power Purchase Costs
  - BPA Overhead Costs – overhead costs associated with power provided at Tier 2 Rates
  - Resource Support Services (RSS) – for the cost of RSS products needed to deliver a flat block of energy
  - Other Costs, including risk-related costs, if appropriate. In addition, these may include such costs as transmission costs, Balancing Authority costs for within hour balancing, fuel adjustment adders, etc.

# Tier 2 Rate Alternatives

## Load Growth

- BPA commits to meet customers' load growth placed on BPA for the term of the commitment period – although when giving notice to purchase at the Load Growth rate the customer may establish set amounts of above-RHWM load to be served by non-federal resources or other Tier 2 rate alternatives for the contract term.
- Election Opportunities: Nov. 1, 2009 for the period FY2012 through 2028 and Sept. 30, 2011 for the period FY2015 through 2028.
- Customers have a diversification right to limit the amount of power they purchase at the Load Growth rate in future years with notice and possible liquidated damages.
- Customers choosing to purchase 100% of their above–RHWM load service at the Load Growth Rate may elect the Shared Rate Plan.

# Tier 2 Rate Alternatives

## Short Term (Default Product)

- Shorter commitment with terms of 3, 5, 5 & 4 years with pricing based on market opportunities.
- Service at this rate may be converted to service at a Vintage rate.
- Customer has right to reduce purchase amounts with notice and possible liquidated damages.

## Vintage

- Term of commitment dependent on term of intended BPA resource acquisition or power purchase.
- A Vintage may be available as early as November 2009, or any time thereafter based on customer need and interest and BPA's need to acquire a resource(s).
- To ensure that Tier 2 costs do not affect Tier 1 rates, customers will have to give BPA a binding commitment (with a Statement of Intent) to take service at a Tier 2 rate that recovers such costs before BPA will finalize the purchase commitment for a resource or for power.
- BPA will work with customers to understand their needs and interests for Vintage rate alternatives.

# Tier 2 Election Deadlines and Diversification Rights

- Above-RHWM Deadlines:

<u>Notice Deadline</u>		<u>Purchase Period</u>
November 1, 2009	for	FY 2012 – FY 2014
September 30, 2011	for	FY 2015 – FY 2019
September 30, 2016	for	FY 2020 – FY 2024
September 30, 2021	for	FY 2025 – FY 2028

- Customers have a diversification right to limit the amount of power they purchase at the Load Growth and Short Term rates in future years with notice and possible charges for liquidated damages.

# What decisions need to be made by November 1<sup>st</sup> of this year?

Review the November 1<sup>st</sup> election  
requirements and exhibit updates for above-  
RHWM load service

# First Purchase Period Notification Process (FY 2012-2014)

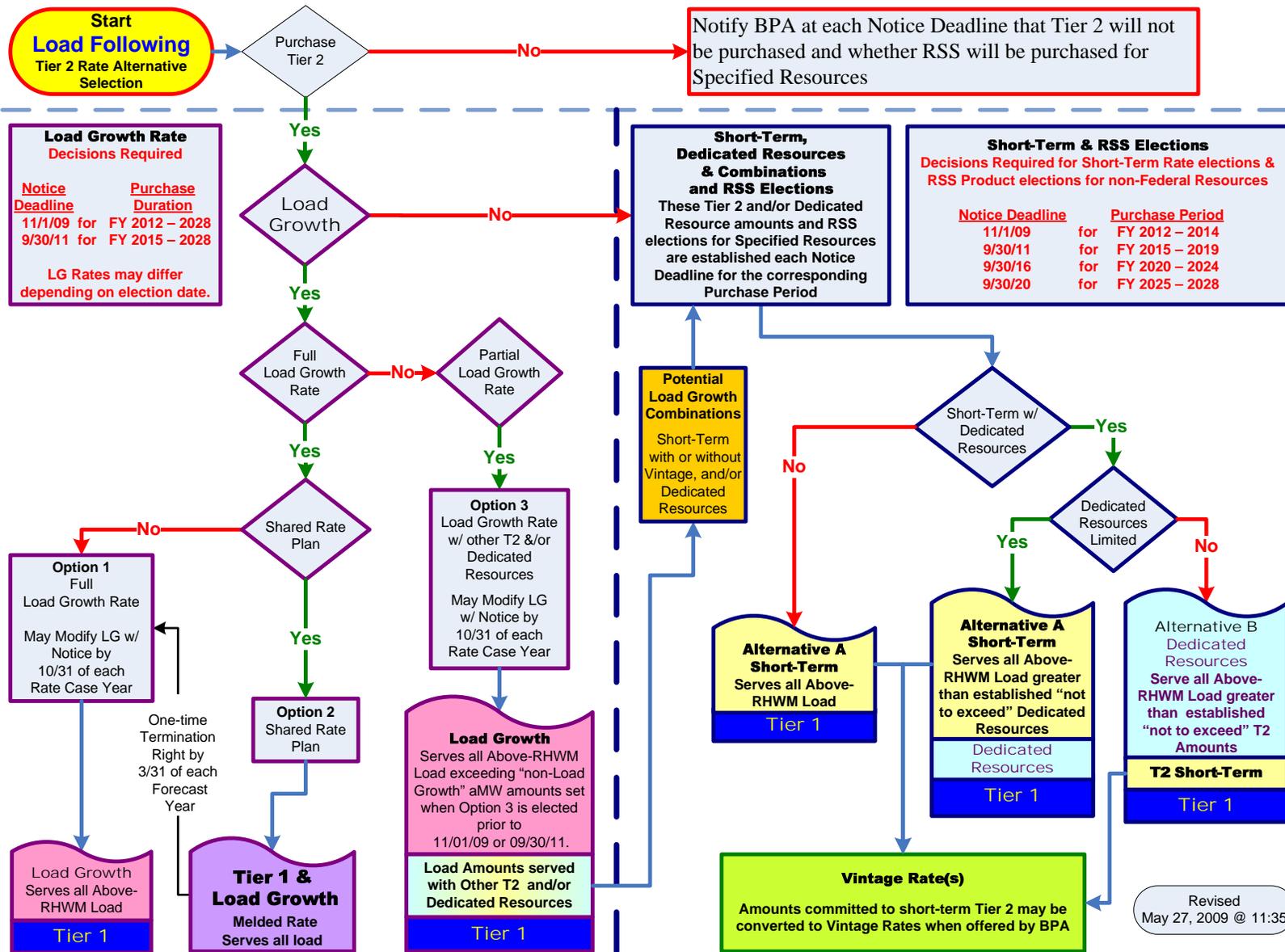
- Between now and November 1<sup>st</sup>, continue to work with AE's to understand customers' options.
- Early this fall each customer will receive a letter reminding customers to notify BPA about the manner in which above-RHWM load greater than 8,760 MWhs is to be served for each year of the Transition Period (FY 2012-2014), as provided by the Regional Dialogue contracts.
- Prior to November 1<sup>st</sup>, each utility must elect how their above-RHWM load will be served for the first Purchase Period (October 2011 through September 2014). For Load Following customers, if no election is made, the default Tier 2 alternative is the Tier 2 Short-Term rate. For Slice/Block customers, if no election is made customers are deemed to have elected not to serve above-RHWM load with power purchased from BPA at Tier 2 rates.
- BPA will update each customer's Exhibit C by March 31, 2010 to reflect how above-RHWM load will be served.

# Above-RHWM Customer Checklist

The following information will be required in the notification:

1. Notice that above-RHWM load will be served by BPA or self-supplied (non-Federal) for the FY 2012-2014 Purchase Period.
- 2.a. **For Load Following customers:** If Tier 2 service is elected, select which Tier 2 Rate Alternative will serve the above-RHWM load:
  - \* **For the Load Growth Rate :**
    - Option 1: Full Tier 2 Load Growth Rate
    - Option 2: Shared Rate Plan
    - Option 3: Partial Tier 2 Load Growth Rate
  - \* **For the Short-Term Rate**
    - Alternative A: Short-Term takes the rate period to rate period swings, while the other load service treatment is set (which includes zeroes as an option to accomplish full above-RHWM load service at the Short-Term Rate)
    - Alternative B: Short-Term limits are set, while other load service treatment takes the rate period to rate period swings

Specify the amount (in average megawatts), by each applicable fiscal year for the alternative(s) elected and the amount to be self-supplied, if any, for the applicable period(s).
- 2.b. **For Slice/Block customers:** If Tier 2 service is elected, select how much of the Tier 2 Short-Term Rate will serve the above-RHWM load in each year of the purchase period.
3. If non-Federal resources are elected, Unspecified Resource Amounts is the default. Must request to Specify a resource if concurrently electing RSS for that resource. For Load Following customers, non-Federal resource reshaping requests must also be made if desired.
4. Other ?



## Tier 2 Scenario

- November 1, 2009: Customer commits all Above RHWM Load to BPA, half at Tier 2 Load Growth Rate and half at Tier 2 Short-Term Rate.
- Go to attached document: **Exhibit C example**

# BPA Indicative Pricing and Tier 2 Vintage Alternatives

Discuss BPA's Indicative Pricing methodology and assumptions

Review the Tier 2 Vintage timeline for a November 1<sup>st</sup> Offer

Discuss interest in Tier 2 Vintage alternatives

## Indicative Pricing / Renewable RFI Results

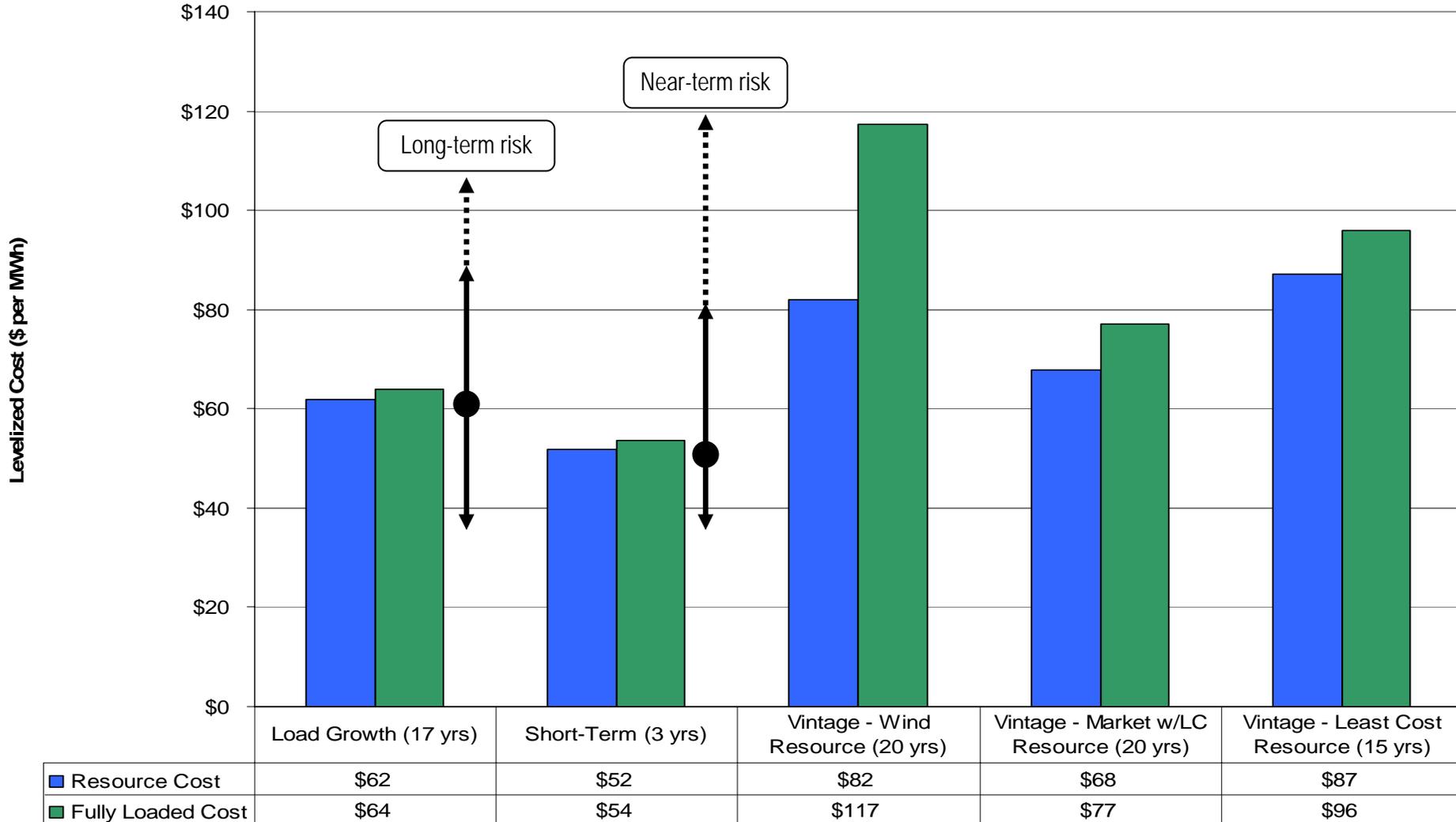
- BPA is releasing indicative pricing to inform customers of the potential costs that may be included for different Tier 2 rate alternatives. The prices and resource combinations should not be relied on for determining what future prices or what combinations will be available at that time. These numbers represent a snapshot of the current market conditions. Actual PF Tier 2 rate alternatives and their costs will be set in a 7(i) rate proceeding prior to each rate period.
- The renewable price estimates are based on information suppliers provided earlier this year in response to BPA's renewable RFI.
- BPA is providing the estimated resource cost as well as the Fully Loaded Cost. The Resource Cost includes only the cost of the resource. The Fully Loaded Cost includes estimated adjustments necessary to convert a resource's output to a flat block of power including risk, overhead and RSS. Estimated carbon costs are included in the vintage least-cost resource only. None of the fully loaded costs include transmission. Much uncertainty remains around the fully loaded costs.

## Summary of Tier 2 Rate Alternatives

Tier 2 Alternative (Customer commitment)	<u>Potential</u> Resources Allocated to Tier 2 Rate Pool <i>(Will evolve over time as we get more information about available resources and customer needs and interests)</i>	RECs Provided?
Short-Term (3-5 yrs)	Short-Term market purchases (5 years or less in duration). Purchases driven by lowest cost market opportunities	Unlikely
Load Growth (14 or 17 yrs)	A mix of short & long term purchases (examples could include, Renewables, CCCT, Waste Energy Gen, Market Purchases). Resource selection primarily driven by lowest life cycle cost	Potential that some level of RECs could be provided over the course of the contract.
Vintage (up to 17 yrs)	Based on customer interest. (Wind, Geothermal, Solar, Waste Energy Generation, CCCT) Resource selection driven by targeted resource & lowest life cycle cost	Yes, for most renewable-based Vintage rate Alternatives.

**Cost Comparison of Tier 2 Rate Alternatives  
Levelized Cost**

*Estimated as of May 2009*



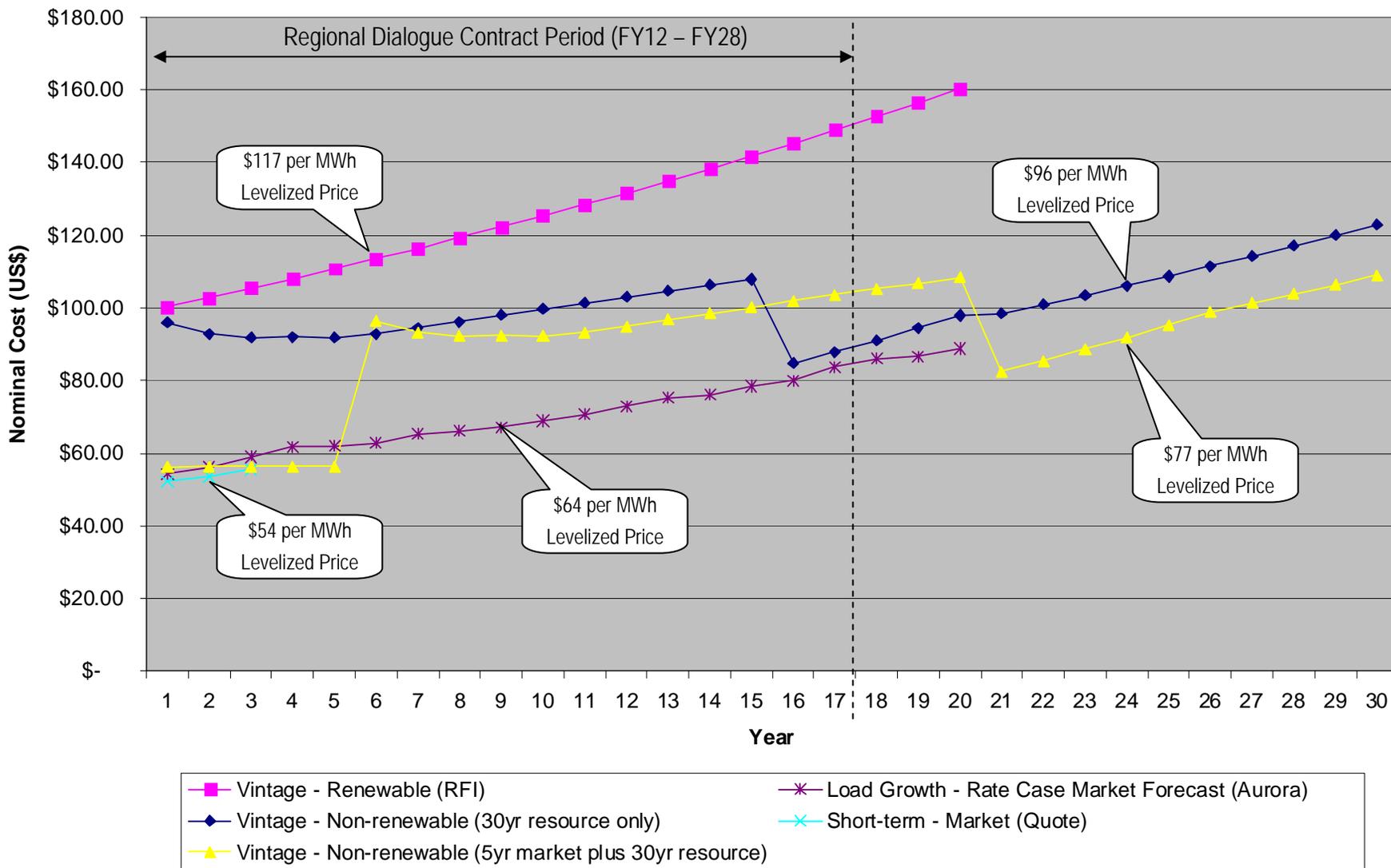
# Tier 2 Levelized Indicative Pricing

*Estimated as of May 2009*

<b>Tier 2 PF Rate Alternative</b>	<b>Resource Cost Basis</b>	<b>Resource Cost</b>	<b>Fully Loaded Cost *</b>
Load Growth (17 yrs)	Internal Forecast	\$ 62	\$64
Short-Term (3 yrs)	Market Quote	\$ 52	\$ 54
Vintage - Wind Resource (20 yrs)	20 yr. PPA	\$ 82	\$ 117
Vintage - Market w/LC Resource (20 yrs)	5 yr. Market plus 15 yr NG PPA	\$ 68	\$ 77
Vintage - Least Cost Resource (15 yrs)	15 yr. NG PPA	\$ 87	\$ 96

\* Fully Loaded Cost does not include the cost of transmission.

### Year by Year Fully Loaded Nominal Costs by Product Type



## TIMELINE – Tier 2 Vintage Rate Alternative Development

### Tier 2 Rate Decisions

**Notice Deadline**

November 01, 09  
 September 30, 11  
 September 30, 16  
 September 30, 20

**Purchase Period**

FY 2012 – 2014  
 FY 2015 – 2019  
 FY 2020 – 2024  
 FY 2025 – 2028

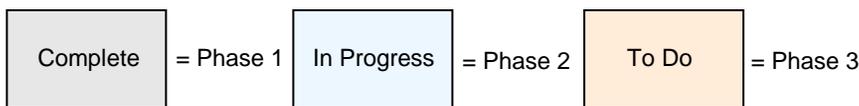
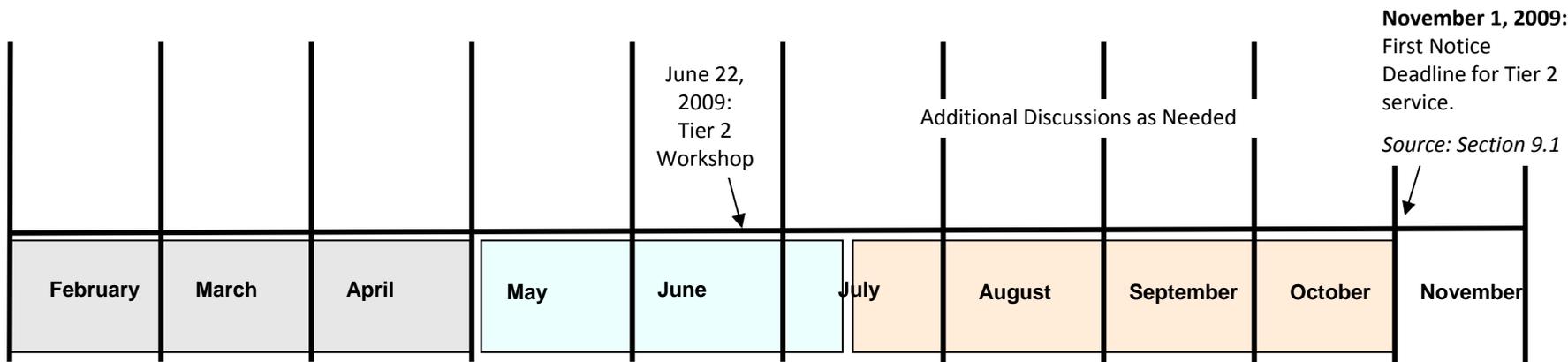
Source: Section 9.1

**Path 1:** Interest in vintage is <50 aMW and is for least cost resource/market purchase

- > Development of Statement of Intent (SOI) necessary
- > RFP not used for purchases less than 5 years
- > Negotiate power purchase

**Path 2:** Interest in vintage is <50 aMW and is for renewable resource

- > Development of Statement of Intent (SOI) necessary
- > If bilateral must justify with draft Power Plan; could work out faster than if an RFP is used. An RFP is pursued, it will push this phase past the November 1 election deadline.
- > Negotiate power purchase



**Phase 1:** Staff and AE outreach to customers educating them on Tier 2 rate alternatives

**Phase 2:** Assessment of customer interest in developing Tier 2 Vintage rate alternative for November 1, 2009 election deadline

**Phase 3:** Develop SOI with interested customers, complete RFP as necessary, and negotiate power purchase (could do simultaneously with SOI development)—See Path 1 and 2 above

# Important Considerations for Any Customer's Long-term Acquisition

- Fuel cost & supply uncertainty (and volatility)
- Construction cost cycles (currently on the downturn)
- Financing costs & capital structure
- Expected utilization & operating profile
- Overall portfolio structure & diversity (how a resource will fit in a customer's existing supply mix)
- Creditworthiness & counterparty risks
- Acquisition Management overhead costs
- Experience & Supplier relationships
- Purchase Contract Construct (efficient risk allocation, flexible dispatch, future growth)

# Initial Customer Discussions

- BPA is Gathering Information
  - Define customer's needs and preferences with respect to a Vintage rate (if any)
  - Obtain customer preferences for potential power types & attributes (renewable, fossil fuel, hydro)
  - Discuss the desired purchase period for the Vintage rate, including the desired fiscal year start of delivery

# Customer Commitment

- Customer must be willing to commit to a specific rate pool with a specific group of other customers.
- Customers must be willing to make a long-term Tier 2 rate commitment based on a specific resource type or set of resources the costs of which will be used to help establish a rate.
- Customers should understand that as with all other Federal Power deliveries of the actual power provided are from the system and are not guaranteed from any specific federal resource.
- Once obligated in Exhibit C of their Regional Dialogue Contracts, customers will be committed to pay costs included in the Vintage rate costs for the purchase period of the Vintage rate with no off-ramps (unlike the Short-Term and Load Growth Rates).
- During the negotiation period, all customers interested in a specific Tier 2 Vintage rate would be required to sign a nondisclosure confidentiality agreement with BPA.

## If sufficient interest & load is expressed by customers to BPA for pursuing a Vintage rate

- BPA will issue an RFP for the type of resource customers are interested in. Such an RFP will be guided by:
  - Level of customer Tier 2 commitment
  - Customer preference on resource types
  - Timeframe of customer commitment
  - Northwest Power Act

OR

- BPA may enter into bilateral negotiations with specific suppliers.

OR

- BPA could create a Tier 2 Vintage rate based on purchased power if Short-Term Rate structure do not meet customers' needs.

# Statement of Intent

- BPA will review the results of the RFP or bilateral negotiations. If the results are deemed to contain one or more resources which potentially will meet our rate pool objectives, BPA will issue a Statement of Intent (SOI) to each utility interested in participating in the vintage rate pool. The SOI will define the parameters of any resource(s) costs BPA will propose to use to establish the customer rate commitment. Details will include at a minimum:
  - Parameters of acquisition (timeframe, amount, etc.)
  - Price risk (projected variability around final price)
  - Price cap
  - Type of purchase (market, renewable, CCCT, etc.)
  - Attributes of the of the Purchase Power Agreement ( REC's, zero emissions, etc.)

# What about the Resource Cliff?

If a PPA is desired for longer than the remaining Regional Dialogue contract and sufficient customer commitment exists, BPA and the customers could negotiate two separate power purchase agreements:

- 1) An agreement between BPA and the resource owner for the remaining RD term or RD purchase period requested by the customer.
- 2) A second agreement between customers participating in the vintage rate pool and the resource owner for the requested balance of the purchase period.

A few provisos on the above:

- BPA's obligation to serve this portion of the customers' load beyond the RD contract should not be increased due to the customer's purchase.
- If a lack of customer commitment exists for a longer purchase period, BPA may elect to purchase the output of the vintage resource for a period beyond the Regional Dialogue term if deemed justified by future loads.

# Finalize Offering and Agreements

- Seek final customer commitment on Statement of Intent (yes/no)
  - Statement of Intent defines among other things, the parameters of the costs for the rate schedule, price cap of resource used to establish a rate, term of commitment, and the allocation of risks. The actual vintage rate level and costs will be set in each section 7(i) rate proceeding.
- BPA negotiates its power purchase or acquisition agreements
  - This can be done in parallel with the SOI for an expedited process, as necessary
- BPA assists customer representatives in the negotiation of any customer acquisition agreement for later years of the resource.
- Assuming SOI and Regional Dialogue contract conditions are met and the Tier 2 Vintage rate is established, customers will be required to amend Exhibit C of the Vintage rate participants' Regional Dialogue Contracts to reflect their Tier 2 Vintage selection.

## Expedited SOI / Standard SOI Process

- **Path A: Expedited SOI.** Accelerated process to establish a Tier 2 Vintage rate pool around November 1<sup>st</sup> or other established deadline
  - Existing resource, renewable resource or power purchase
    - Stage 1: 30 days (est.)
      - BPA and customers negotiate terms of a SOI
      - BPA and customer commence to scan market for opportunities
      - Customer signs non-disclosure agreement
      - BPA provides indicative pricing based on information gathered
      - BPA negotiates a bilateral agreement or establishes a market price
    - Stage 2: 60 days (est.)
      - Customer Board/Council approves terms of SOI
      - BPA approves a power purchase agreement shortly after SOI is approved
      - The cost of the resource/market purchase is established per the terms of the SOI and Power Purchase Agreement
    - Stage 3: Determination of Vintage rate
      - As part of the rate case leading up to each rate period, BPA would propose the Vintage rate for each rate pool using the costs in the PPA, cost categories, and any additional cost adders noted in the SOI still to be determined.
- **Path B: Standard SOI.** BPA and customer market scanning opportunities to establish a rate pool at a future date
  - Might be by purchase period or other established deadline, for example, Washington State RPS deadline in 2015
  - Also applicable to developing a new resource or acquisition of a larger block of power to meet future load growth
  - May be similar to the process above with more time allowed to develop the SOI, a formal RFP, allow for NEPA and 6(c) processes and negotiation of the PPA.

# November 1<sup>st</sup> Vintage Opportunity

- Based on customer interest, BPA staff will work with individual and groups of customers to determine the interest in a Vintage purchase prior to November 1<sup>st</sup> (See Path A on Slide 30).
- Those interested customers must define the basic nature of the Vintage rate they are interested in. BPA will then work closely with the interested parties to further refine the Vintage rate description.
- BPA will finalize the agreement with the resource owner as long as BPA can meet the conditions outlined and agreed to in the SOI. If needed, and agreed to by customers and BPA, this can largely be done in parallel to expedite the process.
- BPA will provide participants of the Vintage rate pool, the resource cost, and/or the formula for setting the cost of the resource as quickly as possible. Though the resource cost will not represent the entire cost, it should make up the bulk of the cost for that Vintage rate pool.
- Using the resource cost as the foundation for the vintage rate, the final rate for each rate pool will be set in each rate case, starting with the FY 2012-2013 rate period. Resource Support Services and other related costs will be determined at that time.
- The timing and availability of the Vintage resource cost will greatly depend on customer's ability to commit to the SOI, and BPA's ability to locate resources that meet the criteria defined in the SOI.

# Future Tier 2 Workshops

Decide: The need for future Tier 2 rate discussions?

Questions and Concerns.