

# 2010 Network Open Season: Deferral Pricing

March 18, 2010



# History

- In 2009, BPA put two constraints on the ability of NOS participants related to deferral of TSRs
  - If the capacity is won through a deferral competition, it cannot be deferred a second time
  - If a competitor is identified for a deferred TSR, the deferring party must move up their start date to match the start date of the competitor that would otherwise be able to begin taking service
- BPA remains open to exploring other ways of appropriately adjusting for the risks of deferral rights in a NOS financial model



## Background

- BPA has set up Network Open Season, which is a process that will be performed every year to determine which requests can be offered service with or without a build.
- If a build is determined to be needed to offer service to a request, BPA will analyze if the request can be offered service at rolled-in rates.
- Through this Network Open Season process, BPA takes on the risks of building projects for which it makes a decision to build.
  - Allowing customers to defer service requested during NOS creates additional revenue risk and uncertainty, particularly when BPA is building to accommodate the request.
  - BPA is exploring pricing options for deferrals to better mitigate this risk.



## Possible Alternate Deferral Constructs

- Additional charge v. change in security deposit
- Additional charge with standard tariff rights v. additional charge with trade off of assurance of not being competed
- Possible limitations to the number of years of deferral rights (although not a really appealing option from the BPA perspective)



## Caveats

- We have not yet determined whether we can pursue creating a different charge construct outside of a rate case.
- If we have to fall back to the 2009 PTSA, there will be no option to pursue creating an alternate approach to deferral this year.



## Possible Pricing Methodologies for Deferrals

- There are four pricing methodologies that BPA is exploring for deferrals:
  - Present Value (PV) of the lost revenues per year
  - Average capital cost per MW for all NOS per year
  - Pro rata share of specific project per year
  - Three to six months' revenues per year
- Present Value of lost revenues
  - Make assumptions of how many deferrals a customer would take and calculate the present value of the lost revenue stream.
  - Discount rate would be determined by the Treasury borrowing rate
- Average capital cost per MW for all NOS per year
  - On a yearly basis review all approved projects that were determined to be at rolled-in rates.
  - Determine the direct capital project costs for all the projects and divide that by total MW that will support the capital projects.
  - Assumptions would be the same as CIFA for all loadings and inflation.



## Deferral Possible Pricing Methodologies Options

- Pro rata share of specific project per year
  - On a yearly basis review all approved projects that were determined to be at rolled-in rates.
  - Determine costs for those projects and the amount of demand for each project.
  - Allocate costs based on demand of each project.
  - Assumptions would be the same as CIFA for all loadings and inflation.
- Three to six months revenues per year
  - Charge three to six month's revenues based on the demand requested year of deferral.
  - The numbers of months charged are based on the amount of time that will take to possibly do competitions and offer contracts.
- Note that our research suggests that there is no evidence that the deferred capacity is being sold in the short-term market.



## Proposed Deferral Pricing Option Calculations

|    |   | Pro-rata Share of<br>I-5 Cooridor<br>Project Per Year | 2008 NOS Cost<br>per MW<br>Deferral per<br>Year | PV Revenue<br>Difference<br>of Deferral | Six months<br>Revenues based<br>on demand |
|----|---|---|---|---|---|
| 1  | Total Carrying Costs                            | 33,900,000  | 152,051,500                                     |   |   |
| 2  | O & M   | 2,300,000   | 7,602,575                                       |   |   |
| 3  | Total Capital Carrying<br>Costs Plus O & M      | 36,200,000  | 159,654,075                                     |   |   |
| 4  | Total Annual MWs<br>Subscription <sup>1</sup>   | 1,600   | 76,801  |   |   |
| 5  | Annual MWs deferred <sup>2</sup>                | 100   | 100   | 100                                     |   |
| 6  | Total Capital Carrying<br>Costs Plus O & M      | 36,200,000  | 159,654,075                                     |   |   |
| 7  | Pro-rata share of total<br>Subscription         | 6.3%  |   |   |   |
| 8  | Cost per MW                                     |   | 2,079   | 6,295                                   |   |
| 9  | Total Financial Costs<br>loss of deferred MWs   | 2,262,500   | 207,880   | 629,466                                 | 778,800                                   |
| 10 | Total Deferral Fee                              | <b>129,800</b>  | <b>129,800</b>                                  | <b>129,800</b>                          | <b>129,800</b>                            |
| 11 | Total Financial Costs<br>loss less deferral fee | \$ 2,132,700  | \$ 78,080                                       | \$ 499,666                              | 649,000                                   |



## Next Steps

- BPA would like to discuss the possible pricing options with customers and would like to receive any other suggestions of pricing options/constructs from customers.
- After discussion, we hope to understand opinions regarding the various pricing options/constructs.
- If no pricing option agreement can be reached that customers are willing to actively support, this issue clearly belongs as a Rate Case issue.

