

2013 Network Open Season: Preliminary Business Evaluation

November 18, 2013

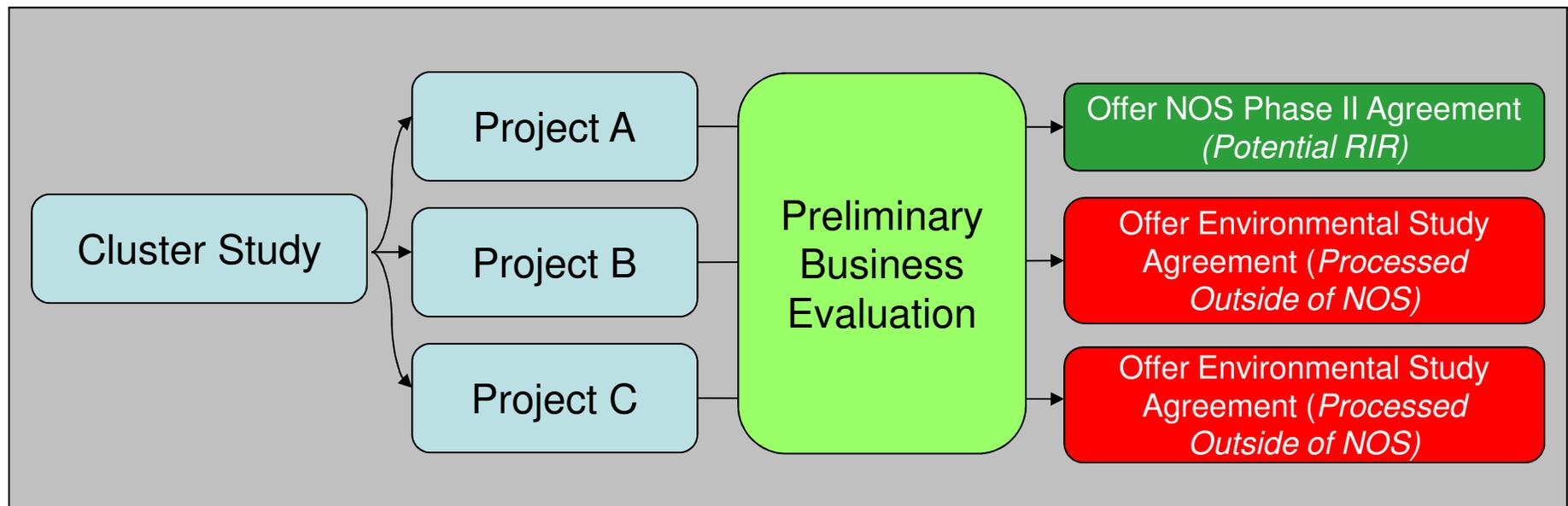


Preliminary Business Evaluation

- BPA will assess the economic impacts of all plans of service resulting from the Cluster Study
- The procedure will be similar to the processes found in the Network Open Season (NOS) 2008-2010
 - Incorporates financial analyses using the Commercial Infrastructure Financial Policy (**CIFP**) and Analysis (**CIFA**)
 - Information resulting from the Regional Economic Benefit Analysis (**REBA**) may be considered
 - Non-quantitative measures may be included
- Timeline
 - The procedure is anticipated to last 1-3 months
 - It will immediately follow the completion Cluster Study

Preliminary Business Evaluation

- This diagram demonstrates the relationship between:
 - Resulting plans of service (projects) from the Cluster Study
 - Business Evaluation
 - The offering of NOS Phase II Agreement or non-NOS Environmental Study Agreement (**ESA**)



Acronym Key:

- RIR – Rolled In Rate treatment, also referred to as Embedded Rate treatment

NOS 2013 CIFP and CIFA Discussion



Objectives

- Review and discuss scope of CIFP
- Review and discuss inputs and assumptions for the Preliminary Financial Analysis (PFA)/CIFA

CIFP and CIFA Review

- BPA's **CIFP** establishes the *policy framework* for which it performs financial analyses related to commercial transmission infrastructure
- **CIFA** establishes the *modeling assumptions* used by BPA in performing these financial analyses
 - CIFA informs decisions to include or remove transmission projects as potential Rolled-in Rates or Incremental Rates
 - These financial analyses are conducted for all plans of service identified through the NOS Cluster Studies

Scope of CIFP

2008, 2009 and 2010 CIFP Assumptions

- Included Reliability Benefits
- Included Future Uses such as rollovers and deferrals and defaults
- The metric for the “Higher of Test” was that the NPV was zero or lower *and/or* had regional benefits associated with the build
- The rate impact was a supplemental analysis that was determined on NOS Process by NOS Process basis
- Assumption of an annual NT load growth of 1% in the Cluster Study
- Rate impact was for information only
- REBA was used to help inform and form the plan of service for the Cluster Study

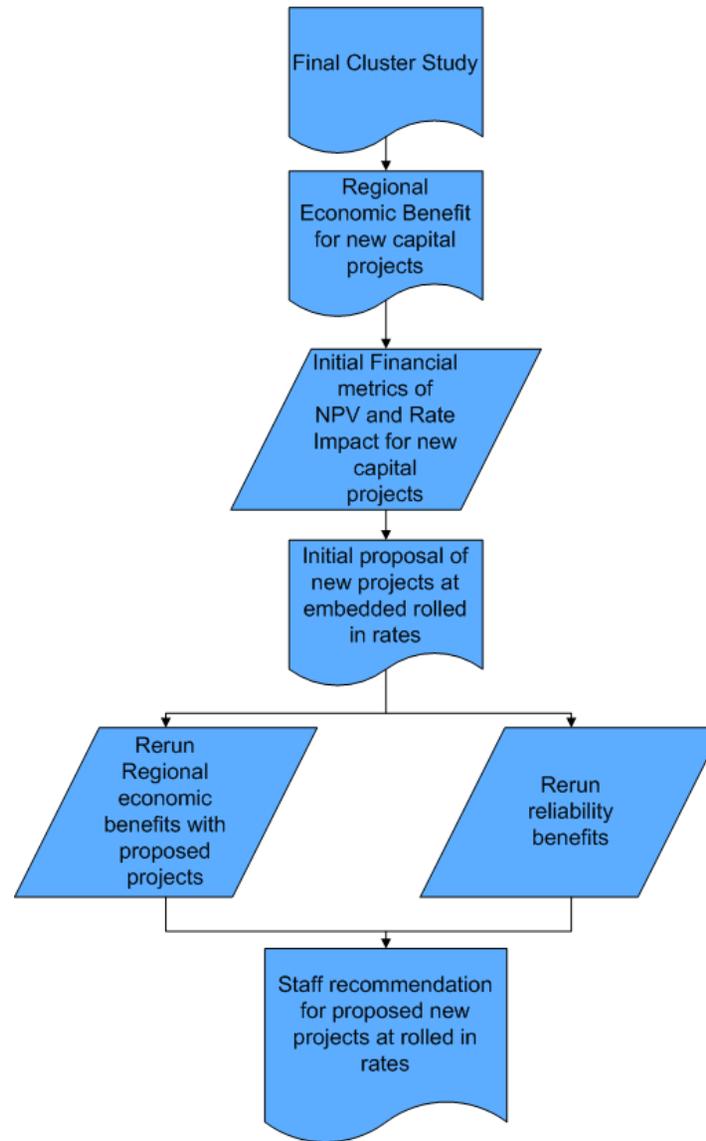
Future CIFP Assumptions

- Assumes the CIFP is the same as what was used in 2008, 2009 and 2010

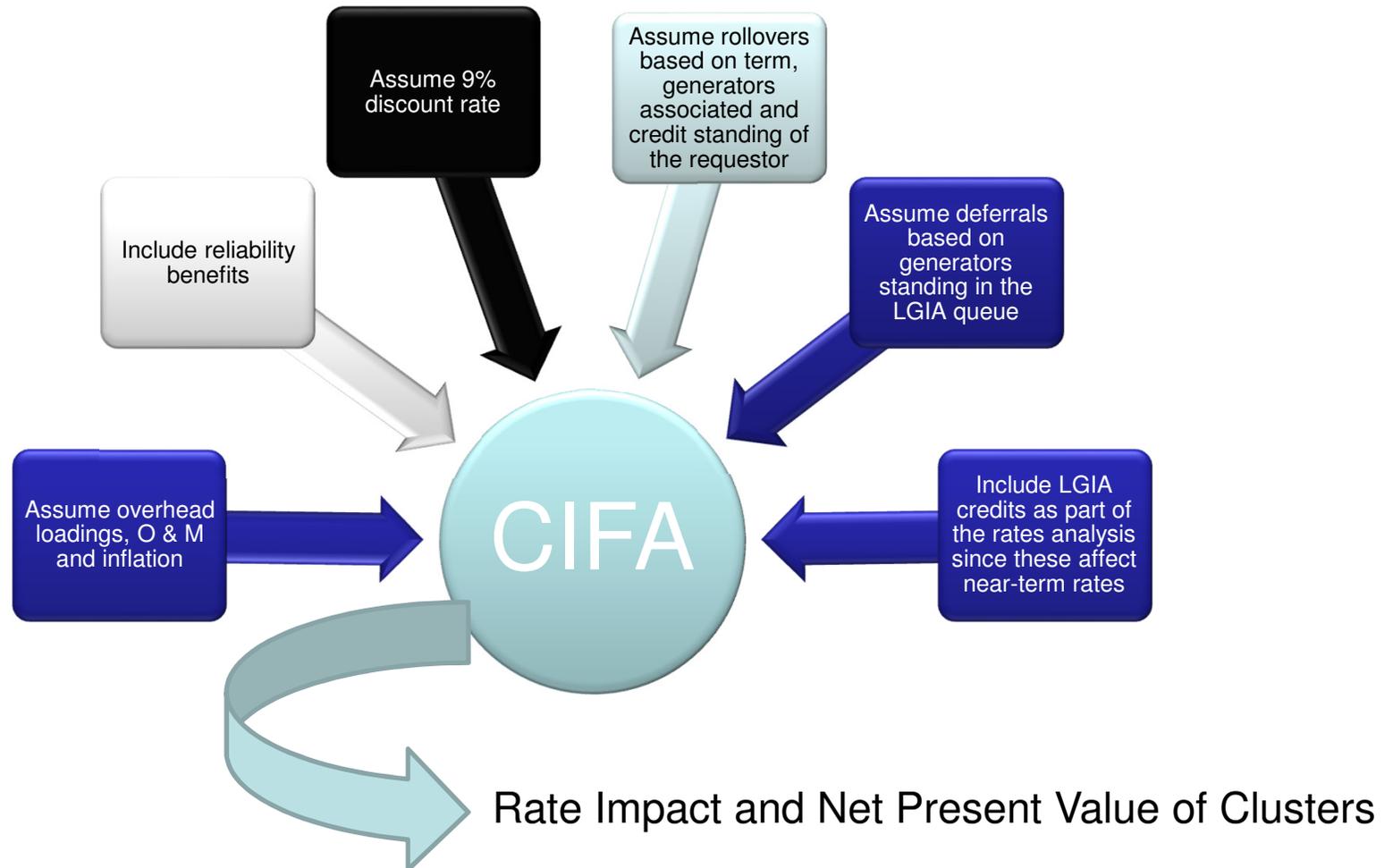
Questions on Assumptions:

- Should we continue to assume a 1% rate increase in the CIFA?
- Should we assume REBA will help inform the plan of service for the Cluster Study?
- Should we perform and present an NPV with and without REBA and REBA losses?

NOS CIFA



CIFA and PFA (Preliminary Financial Analysis) Assumptions



Next Steps

- **Comments due Dec. 5, 2013**
 - Submit comments to techforum@bpa.gov by Dec. 5 and identify whether or not you agree with the proposals
 - Identify areas of scope for the **CIFP** that need more discussion
 - Identify areas of **CIFA** assumptions that need more discussion
- **Future Meeting**
 - BPA will host a follow-up customer meeting around **Dec 19** to discuss conclusions (likely via conference call)

Appendix



Definitions

- CIFP (Commercial Infrastructure Financial Policy)
 - Purpose: establish the financial policy for financial analysis.
 - The policy is documented at:
[http://www.bpa.gov/transmission/CustomerInvolvement/NOS/NOS2008/Documents/Commercial_Infrastructure_Financing_Proposal_\(Summary\).pdf](http://www.bpa.gov/transmission/CustomerInvolvement/NOS/NOS2008/Documents/Commercial_Infrastructure_Financing_Proposal_(Summary).pdf)

- CIFA (Commercial Infrastructure Financial Analysis)
 - Purpose: Financial model that includes the projected revenue, deferrals, capital and O & M of the projects and any deferred project savings. Used to analyze project incremental rate effects and Net Present Value

- PFA (Preliminary Financial Analysis)
 - New addition to NOS
 - Purpose: Provide early look at potential rate pressure and cost per MW based on cluster study results
 - Provide an early “reality check” for NOS participants.

- REBA (Regional Economic Benefits Analysis)
 - Purpose: Complete an analysis using WECC base case that reviews the WECC region to determine the production cost benefits that may or may not be realized due to projects included in the region.
 - A copy of the 2008 analysis is located at:
<http://www.bpa.gov/transmission/CustomerInvolvement/NOS/NOS2008/Documents/BPA2008-network-open-season-CPS-report-final.pdf>

Summary of NOS Financial Analyses

Decription	Purpose	Where in the Process in the Past	Where in the Process Currently Proposed
CIFP	Financial Policy for Financial Analysis	Regional collaboration prior to the start of the 2008 NOS	Develop prior to start of NOS
CIFA	Financial Analysis for Rolled in Rates	Informed the Rolled in Rates determination after the cluster study and prior to NEPA. 7 to 8 months into NOS process.	Informs the Rolled in Rates determination after the cluster study and after NEPA. 3 to 5 years into NOS process.
REBA	Regional Economic Benefits	Informed the Rolled in Rates determination after the cluster study and prior to NEPA. 7 to 8 months into NOS process.	Informs several parts of NOS pre-NOS assumption development to Cluster Study to final Rolled in Rates determination.
Preliminary Financial Analysis	Preliminary Financial Analysis to give indication of rate pressure	N/A	Conducted after Cluster Study but prior to NEPA. 9 months into NOS process.

Anticipated Criteria for Preliminary Business Evaluation

	Metrics	Explanation and Threshold
1)	Net Present Value (NPV)	Financial evaluation of the project results in a positive NPV.
2)	Customer & MW Diversity	Types of customers requiring project represent as broad a cross-section as possible and the involved MW aren't for a single customer.
3)	Access to Capital	Impact of Project does not significantly jeopardize BPA's access to capital.
4)	Regional Economic Benefit Analysis (REBA)	Project delivers economic benefits to the region.
5)	Reliability and/or Load Service Benefits	Project delivers reliability benefits or is necessary to meet future load obligations. Where possible, convert into financials that can be incorporated into CIFA. TSRs are backed by a signed PPA, DNR attestation and/or demonstration of delivery to NW load.
6)	Project Readiness	Project needs no or limited further evaluation to define scope, costs and NEPA/project schedule (i.e. M2W required results of SSR study before project capacity could be clearly defined).
7)	Supports Regional Policies	TSR demonstrates support of a regional policy (e.g. associated with new wind resource).