

Network Open Season Reform: Financial Commitment Proposal

December 14, 2012 Customer Meeting
(revised slides posted 12/20/12)



Overview

- **Multi-staged Financial Commitment**
 - Aligned with strategic points in the NOS reform process (risk mitigation for BPA and customers)
 - Increasing customer commitment over multiple stages allows for customers to make strategic business decisions that can inform BPA's transmission planning assumptions
- **Study Phase Financial Commitment**
 - Would cover all aspects of the Study Phase – queue restack, cluster study, preliminary engineering, pre-NEPA work, and all NEPA work
- **Construction Phase Financial Commitment**
 - Would cover NOS Participants' inclusion in the construction of any NOS build

Study Phase

Initial Financial Commitment (Submission of NOS Study Agreement)	Secondary Financial Commitment (Immediately Prior to NEPA, Concurrent with Execution of PTSA)
<p>(1) 6 Months of Contract Revenue as security; or,</p> <p>(2) Customer funds (pays in cash) its pro rata share of Cluster Study costs (if BPA conducts the cluster study through the use of a non-NOS cluster study)</p>	<p>(1) 25% of Customer’s estimated pro rata share of project construction costs as security, per project;</p> <p>or,</p> <p>(2) Customer provides its pro rata share of all NEPA-related study costs as security;</p> <p>or,</p> <p>(3) Additional 6 Months of Contract Revenue as security</p>

- Initial Financial Commitment will cover the TSR restack, cluster study, and preliminary business evaluation of all identified plans of service
- Secondary Financial Commitment will cover the pre-engineering work, pre-NEPA work and all NEPA work concluding with a NEPA decision

Study Phase Considerations – If a NOS Cluster Study is performed (Alts. 3 or 4)*

- Under alternatives 3 or 4, Customers that can confirm that they have an executed PPA or that have attested to a Designated Network Resource (DNR) will be exempted from posting security during the Study Phase
 - These Customers will remain liable for paying for all pro rata study costs incurred to-date, plus any necessary re-study costs, in the event that the Customer does not take service in accordance with its PTSA
 - A PPA confirmation would include signatures from the buyer and the seller to the PPA
 - The term of the PPA must cover the full term of the underlying TSR
- If a customer does not ultimately take the requested service, its security will be returned to it less its pro rata share of the study phase costs BPA has incurred to-date, plus any necessary re-study costs
 - If a customer does take the requested service in accordance with the terms of the PTSA, all its security will be returned to it
- To the extent that a Customer's provided security is insufficient to cover its pro rata share of Study Phase costs, BPA will reserve the right to require additional security to reflect the Customer's pro rata responsibility

- * For clarification, see presentation titled "NOS Reform Structure and Alternatives", presented 12/14/12, located [here](#)

Study Phase Considerations – If a non-NOS Cluster Study is performed (Alt. 5)*

- Customers would be required to provide in advance their pro rata share of the estimated costs of the cluster study (pursuant to section 19.10 (ii) of BPA's tariff)
 - Each customer's share would be equal to the percentage of the MW of the customer's service request(s) divided by the total number of MW of all service requests included in the Cluster Study (pro rata)
 - After the study is completed, BPA would determine the actual costs of the study. If the actual amount differs from the estimated amount, BPA will request additional funds from, or refund the excess amounts to, customers that had provided the advance funding for the study
 - If a customer withdraws its TSR after signing a cluster study agreement, it remains liable for its share of the study costs and any costs of re-study resulting from it withdrawing its TSR
- *For clarification, see presentation titled "NOS Reform Structure and Alternatives", presented 12/14/12, located [here](#)

Construction Phase

- Financial commitment goals:
 - Mitigate and limit risk of cost shifts or under-utilized assets
 - Provide benefits to customers participating in NOS, relative to the non-NOS path (shared BPA/customer risk)
 - Risk-based financial commitment assessment

- Financial commitment would be required following an embedded rate determination

- Financial commitment provided for the Study Phase would be applied toward meeting the customer's Construction Phase obligation

Construction Phase Considerations

- Risk-weighted financial commitment (tiered)
 - Customers would have the ability to decrease financial commitments from 100% of pro-rata share of construction costs by meeting a number of objective criteria
- Minimum Floor – Staff has considered implementing a minimum floor of financial commitment (50%)
 - A minimum floor would ensure that NOS Participants are financially committed to the project's completion
- Construction Phase commitment is subject to periodic reassessment, as needed (e.g., changes to Customer risk-profile or changes in project costs)

Construction Phase Considerations (cont.)

- Exemption – TSRs associated with Designated Network Resources (DNRs)
 - Consistent with previous exemption in prior NOS processes
 - NT Customers must meet the attestation requirements:
 - Section 30.2 attestation statement (included in Appendix)
 - Attesting to a DNR provides an assurance that customers have obtained rights to the generation for which the transmission service has been requested
 - Higher likelihood that the transmission facilities will be used

Construction Phase Options

- Option A – Tiered financial commitment for all customers, with no minimum floor
 - Would potentially allow customers meeting multiple risk-weighted criteria to provide minimal construction phase security
 - Would generally correlate the financial commitment to the general risk of the Customer/request
- Option B – Tiered financial commitment with 50% minimum floor, and NT DNR exemption
 - Generally, would ensure that a significant portion of each NOS project would be collateralized
 - Reduces concerns around strategic default
 - Would allow for a significant reduction (up to 50%) in financial obligation to the least-risk customers
 - Continues to provide an exemption for TSRs that are associated with DNRs that meet the Tariff attestation requirements

Construction Phase – Option A

Based on evaluation of underlying customer/request using objective, risk-weighted criteria:

Criteria	Description	Risk Mitigation or Value Provided
Credit Rating	The customer/guarantor is rated investment grade (BBB-/Baa3 or higher)	A credit rating helps address the customers ability to pay, and an investment grade company is statistically more likely to pay
Rate Base with Rate-setting Ability	Whether the customer has an existing rate base and rate-setting ability	A customer that has an existing rate base and an ability to set its own rates demonstrates a revenue base from which it can pay costs associated with NOS-based transmission service
Power Purchase Agreement (PPA) or Designated Network Resource Attestation (DNR)	Whether the customer has an executed PPA or met the attestation requirements for DNR	A customer with a PPA/DNR helps demonstrate the need for the transmission request being submitted in NOS
TSR Term Length	Whether the customer has executed a longer TSR term length than the required minimum 5-year term	This criteria does not reduce the uncertainty with need or the customer’s ability to pay, but it reduces the rollover assumptions and increases the forecasted revenue stream of the TSR
Demonstrable GI Progress	Is the TSR associated with a generator interconnection request? If so, has it met its site-permitting milestone?	This applies to generators to ensure there is alignment with when their project is going to be energized to when their transmission service commences. Decoupling of this increases risk of deferral, nonpayment, and even default
Limitations on Deferral Rights	Is the customer willing to waive some/all of its TSR deferral rights?	Does not reduce the uncertainty of the need of service, but does increase certainty to the date the customer becomes responsible to pay for service
Commitment to Advance Fund	Is the customer willing to advance funding part/all of their pro rata share of the capital costs?	Directly minimizes BPA’s use of capital and provides significant demonstration of commitment by customers

Construction Phase – Option A

- All customers will start at 100% of their pro rata share of financial commitment for the commercial construction costs
- The table below presents the weighted discounts that can be deducted from a customer’s share of financial commitment for commercial construction under a PTSA
- Total the applicable discounts from Groups I, II, III and IV and subtract from 100% (pro rata) to determine the final financial commitment percentage

	Credit Rating	Weighted Discount
Group I (One Only, if Applicable)	AA- to AAA (includes AA-, AA, AA+ and AAA)	40%
	A-, A, A+	30%
	BBB-, BBB, BBB+	20%
	If not already rated by third-party rating agency, then the customer can submit financial information and BPA will assign an internal rating	20-40%
Rate Base with Rate Setting Ability that is:		
Group II (One Only, if Applicable)	Not Subject to Regulatory Approval	30%
	Subject to Regulatory Approval	20%
Status of Generation Resource		
Group III (As Many As Applicable)	Attested to a Designated Network Resource	20%
	Demonstrable GI Progress (met site permit milestone)	10%
	Executed PPA (written confirmation)	5%
Additional Considerations		
Group IV (As Many As Applicable)	TSR Term Length: ≥ 10 years or ≥ 20 years*	5-10% (or 10-20%*)
	Commitment to Advance Fund Entire Financial Obligation	5%
	Number of Deferrals Waived (up to 5)	1%/Yr

*** TSR Term Length has a special application in that if the eligible customer also meets a criterion in Group I or Group II, then the applicable discount is doubled (≥ 10 years = 10%, ≥ 20 years = 20%)**

Clarifications to Option A

- Customers may qualify for discounts from each of the four groups.
 - Customers may qualify for only one discount from Groups I and II (for example, an 'A' rated customer would qualify for a 30% discount from Group I, but would receive no other discount from Group I).
 - Groups III and IV would allow for multiple discounts from each group, as applicable
- The NOS team proposes that the TSR Term Length criterion provides higher value when combined with criteria from Groups I or II
 - The discount for TSR term length is doubled if the customer meets the criteria in Groups I or II
- “Subject to Regulatory Approval” is defined as a requirement to submit rates for approval from a state-level regulatory agency

Option A – Examples

- Example 1 – Customer with (1) an A- rating, (2) an existing rate base with rate-setting ability not subject to regulatory approval, and (3) a 20-year TSR

	Credit Rating	Weighted Discount
Group I (One Only, if Applicable)	Customer has A- rating	30%
Rate Base with Rate Setting Ability that is:		
Group II (One Only, if Applicable)	Is NOT Subject to Regulatory Approval	30%
Status of Generation Resource		
Group III (As Many As Applicable)	Not Applicable	0%
Additional Considerations		
Group IV (As Many As Applicable)	Customer submits a 20-year TSR*	20%
Weighted Discount Sub-Total		80%
Total Financial Commitment for Construction Phase		20%

Option A – Examples (cont.)

- Example 2 – Customer has (1) executed a 20-year TSR and (2) waives all of its deferral rights

	Credit Rating	Weighted Discount
Group I (One Only, if Applicable)	Customer is below investment grade	0%
	Rate Base with Rate Setting Ability that is:	
Group II (One Only, if Applicable)	Not Applicable	0%
	Status of Generation Resource	
Group III (As Many As Applicable)	Not Applicable	0%
	Additional Considerations	
Group IV (As Many As Applicable)	Customer submits a 20-year term	10%
	Customer waives five years of deferrals	5%
Weighted Discount Sub-Total		15%
Total Financial Commitment for Construction Phase		85%

Option A – Examples (cont.)

- Example 3 – Customer has (1) A rating, (2) a rate base and rate-setting ability NOT subject to regulatory approval, (3) attested to a DNR, and (4) submitted a 10-year TSR

	Credit Rating	Weighted Discount
Group I (One Only, if Applicable)	Customer has A rating	30%
	Rate Base with Rate Setting Ability that is:	
Group II (One Only, if Applicable)	Is NOT subject to Regulatory Approval	30%
	Status of Generation Resource	
Group III (As Many As Applicable)	Attested to DNR	20%
	Additional Considerations	
Group IV (As Many As Applicable)	Customer submits a 10-year term	10%
Weighted Discount Sub-Total		90%
Total Financial Commitment for Construction Phase		10%

Construction Phase – Option B

- All customers/requests that are not associated with a DNR would be evaluated using the table below
- No customer would be allowed to post less than 50% of its pro rata share of construction costs (except customers that can attest to a DNR)

Credit Rating		Weighted Discount
Group I (One Only, if Applicable)	AA- to AAA (includes AA-, AA, AA+ and AAA)	25%
	A-, A, A+	20%
	BBB-, BBB, BBB+	15%
	If not already rated by third-party rating agency, then the customer can submit financial information and BPA will assign an internal rating	15-25%
Rate Base with Rate Setting Ability that is:		
Group II (One Only, if Applicable)	Not Subject to Regulatory Approval	20%
	Subject to Regulatory Approval	15%
Status of Generation Resource		
Group III (As Many As Applicable)	Demonstrable GI Progress (met site permit milestone)	10%
	Executed PPA (written confirmation)	5%
Additional Considerations		
Group IV (As Many As Applicable)	TSR Term Length: ≥ 10 years or ≥ 20 years*	5-10% (or 10-20%*)
	Commitment to Advance Fund Entire Financial Obligation	5%
	Number of Deferrals Waived (up to 5)	1%/Yr

* TSR Term Length has a special application in that if the eligible customer also meets a criterion in Group I or Group II, then the applicable discount is doubled (≥ 10 years = 10%, ≥ 20 years = 20%)

Clarifications to Option B

- The Customer's ultimate financial requirement will be determined by starting with 100% of their share of construction costs, then subtracting the sum of the percentage discount they qualify for from Groups I – IV, down to a maximum discount of 50%
 - If the sum of the discounts from Groups I – IV exceeds 50%, the Customer's ultimate financial requirement will be 50%
- Customers may qualify for discounts from each of the groups.
 - Customers may qualify for only one discount from Groups I and II (for example, an 'A' rated customer would qualify for a 30% discount from Group I, but would not get another discount from Group I).
 - Groups III and IV would allow for multiple discounts from each group, as applicable
- The NOS team proposes that the TSR Term Length criterion provides higher value when combined with criteria from Groups I or II
 - The discount for TSR term length is doubled if the customer meets the criteria in Groups I or II
- "Subject to Regulatory Approval" is defined as a requirement to submit rates for approval from a state-level regulatory agency

Option B – Examples

- Example 1 – Customer with (1) an A- rating, (2) an existing rate base with rate-setting ability not subject to regulatory approval, and (3) a 20-year TSR

	Credit Rating	Weighted Discount
Group I (One Only, if Applicable)	Customer has A- rating	20%
Rate Base with Rate Setting Ability that is:		
Group II (One Only, if Applicable)	Not Subject to Regulatory Approval	20%
Status of Generation Resource		
Group III (As Many As Applicable)	Not Applicable	0%
Additional Considerations		
Group IV (As Many As Applicable)	20-year TSR	20%
Weighted Discount Sub-Total		60%
Total Financial Commitment for Construction Phase		50%

Option B – Examples (cont.)

- Example 2 – Customer has (1) executed a 20-year TSR and (2) waives all of its deferral rights

Credit Rating		Weighted Discount
Group I (One Only, if Applicable)	Customer is below investment grade	0%
Rate Base with Rate Setting Ability that is:		
Group II (One Only, if Applicable)	Not Applicable	0%
Status of Generation Resource		
Group III (As Many As Applicable)	Not Applicable	0%
Additional Considerations		
Group IV (As Many As Applicable)	Customer submits a 20-year term	10%
	Customer waives five years of deferrals	5%
Weighted Discount Sub-Total		15%
Total Financial Commitment for Construction Phase		85%

Option B – Examples (cont.)

- Example 3 – Customer has (1) A rating, (2) a rate base and rate-setting ability NOT subject to regulatory approval, (3) attested to a DNR, and (4) submitted a 10-year TSR
 - Would obtain full exemption due to attestation to a DNR

Example Project Costs

- Assumptions:

- Project Commercial costs total \$10M
- Accommodates 100 MW of requests
- Customers A, B and C represent 15%, 25% and 5% of the requested capacity, respectfully (based on MW requested/total MW requested)

	A	B	C	D	Option A		Option B	
	MW Requested	Total MW	Pro Rata Share	100% Financial Obligation (\$)	Discounted Obligation (%)	Discounted Financial Obligation (E x D)	Discounted Obligation (%)	Discounted Financial Obligation (G x D)
Customer 1	15	100	15%	\$1.5M	20%	\$300k	50%	\$750k
Customer 2	25	100	25%	\$2.5M	85%	\$2.125M	85%	\$2.125M
Customer 3	5	100	5%	\$500k	10%	\$50k	0%	\$0

Staff Leaning

- Initial staff leaning is to implement Construction Phase Option B
 - Ensures that customers are financially vested in a project's completion
 - Significantly reduces the risk of cost shifts or likelihood of strategic default scenarios, even by the lowest-risk customers
 - Provides financial benefits to customers, relative to the non-NOS and pro forma transmission expansion process
 - Aligns magnitude of financial requirement to the relative risk of the customer/TSR
 - Encourages customers to take risk-reducing actions (e.g., executing long-term TSRs or executing PPAs) that provide more assurance that they will take service
 - Retains the principle of risk sharing, where BPA is willing to accept some of the risk on behalf of the region for NOS participants
 - Continues exemption of DNRs meeting Tariff attestation requirements
 - Evidence that customers are committed to taking service from DNR, thus making it less likely that transmission facilities will go unused
 - BPA will receive the same load-based revenue from such NT Customers with DNR regardless of their Network Resources

Next Steps

- Specific customer feedback on the financial requirements proposal is requested by January 11, 2013
 - Study Phase commitments, especially customer comments on the NEPA/PTSA financial commitment
 - Construction Phase Option A or Option B, in addition to the criteria used for tiering and the applicable weighting
- This feedback will aid in shaping the final framework of financial requirements for NOS participants

APPENDIX - Attestation Statement (see slides 4 and 8)

- DNR Attestation (section 30.2 of Tariff):
 - (1) The Network Customer owns the resource, has committed to purchase generation pursuant to an executed contract, or has committed to purchase generation where execution of a contract is contingent upon the availability of transmission service under Part III of the Tariff;
 - (2) The Network Resources do not include any resources, or any portion thereof, that are committed for sale of one year or more to non-designated third party load or otherwise cannot be called upon to meet the Network Customer's Network Load on a non-interruptible basis, except for purposes of fulfilling obligations under a reserve sharing program.