

Network Open Season Reform Decision and 2013 Cluster Study

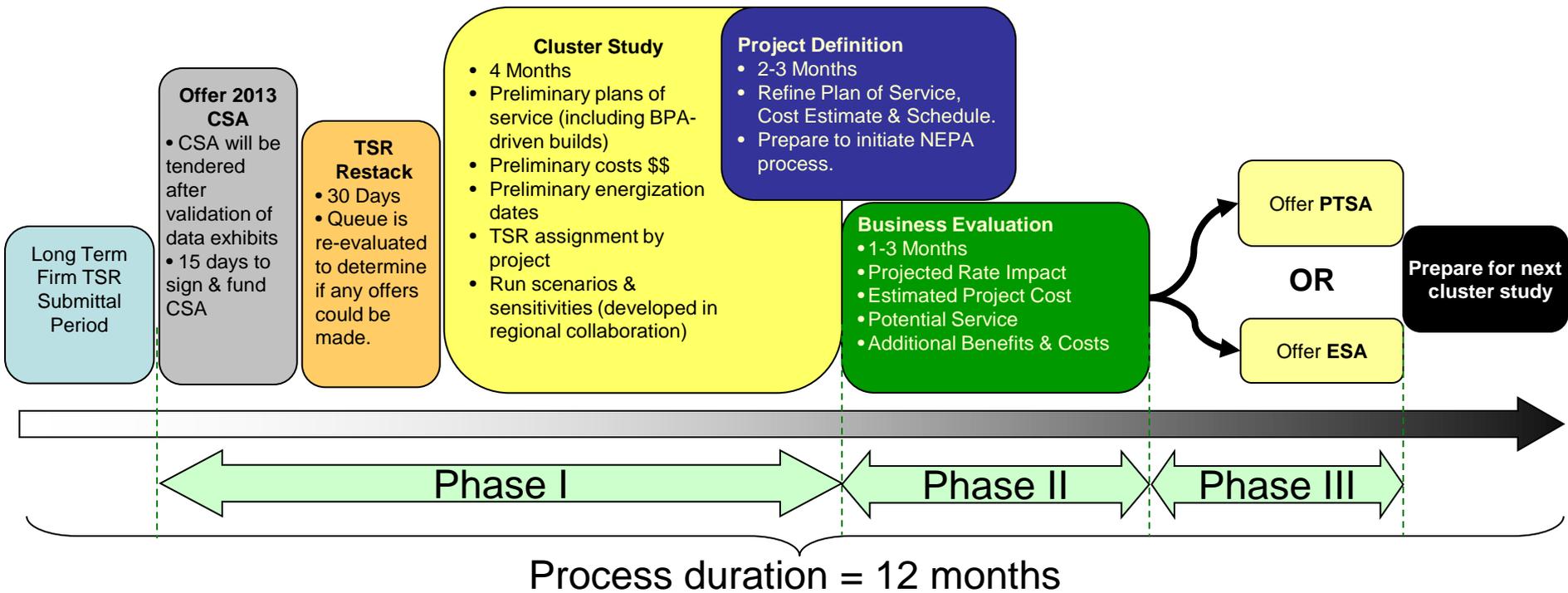
March 20, 2013



NOS Reform Decision

- Initiate Bonneville Commercial Expansion Process (formerly Network Open Season), a 12-month process, conducted annually broken down into three primary phases:
 - Phase I – Cluster Study
 - Phase II – Business Evaluation
 - Phase III – Proceed under a PTSA or ESA

Process Map and Timeline



Acronym Key:

- CSA – Cluster Study Agreement
- NEPA – National Environmental Policy Act
- PTSA – Precedent Transmission Service Agreement
- ESA – Environmental Study Agreement

Phase I – Cluster Study

- Tariff-based cluster study beginning September 2013
 - Processed under non-PTSA portion of section 19.10 (PTP) and 32.6 (NT) of BPA's current tariff.
 - Customers will be required to submit data exhibit in accordance with sections 17.2 (PTP) and 29.2 (NT) of the BPA Tariff.
 - Only TSRs with validated data exhibits will be tendered a cluster study agreement.
- Cluster Study financial requirements:
 - 2013 – Customers advance fund estimated pro rata share of cluster study costs, trued up following study completion
 - 2014 and beyond – BPA intends to migrate to requiring security amount equal to six months of contract revenue.
- Cluster study completion anticipated at the end of December 2013

TSR Eligibility Limitations

- The cluster study is intended to study only requests across the BPA network, therefore, certain TSRs will not be eligible for the cluster study:
 - Requests for service over the Montana Intertie, Northwest AC Intertie (COI) and Pacific DC Intertie (PDCI).
 - Pending requests under an existing 2008, 2009 or 2010 PTSA.

Phase II – Initial Business Evaluation

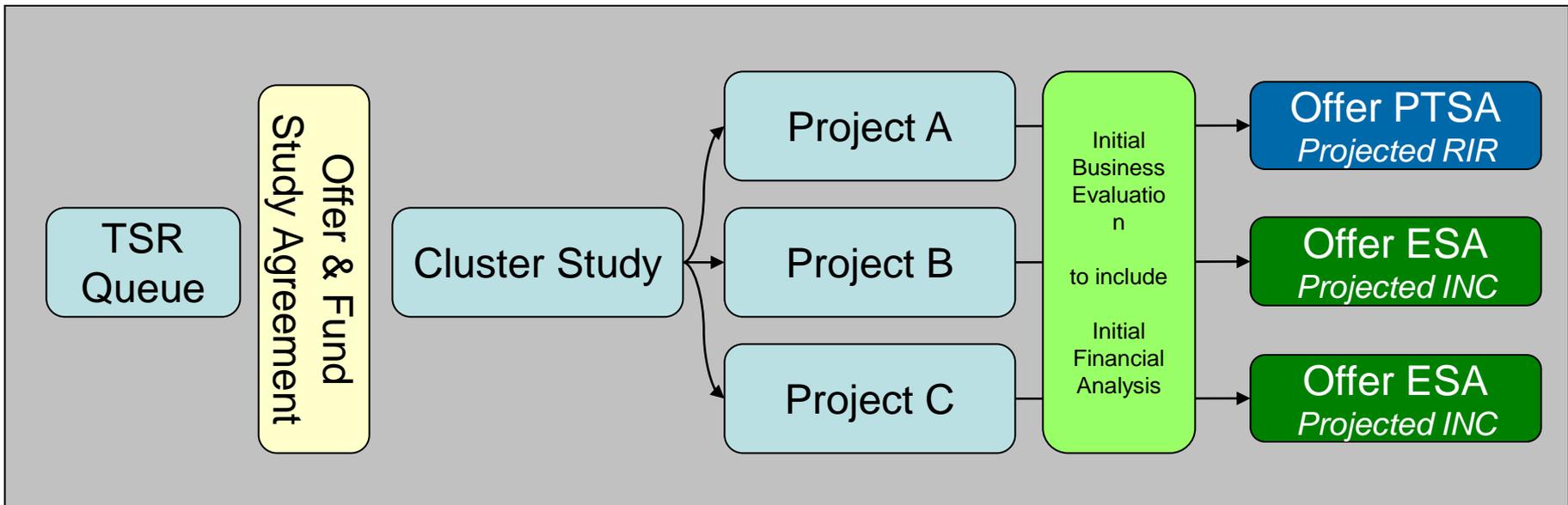
- Following the cluster study, BPA will conduct an initial business evaluation of identified plans of service (Jan – Mar 2014):
 - BPA will conduct an economic analysis of individual plans of service, based on estimated costs and projected revenue from commercial subscription.
 - Leverage aspects of Commercial Infrastructure Financial Policy to estimate preliminary rate pressure.
 - Will include any potential reliability components, as well as other regional benefits or value, to be determined.

Preliminary Consideration for Initial Business Evaluation

	Metrics	Explanation and Threshold
1)	Preliminary Rate Pressure	Financial evaluation of the project costs against projected revenues.
2)	Regional Economic Benefit Analysis (REBA)	Project delivers economic benefits to the region.
3)	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.
4)	Project Readiness	Project needs no or limited further evaluation to define scope, costs and NEPA/project schedule.
5)	Supports Regional Policies	TSR demonstrates support of a regional policy (e.g. associated with new wind resource).

Overview of the PTSA Offer

The following diagram demonstrates the relationship between the resulting plans of service (projects) from the cluster study, the business evaluation and the offering of the PTSA or Environmental Study Agreement (ESA).



Acronym Key:

- RIR – Rolled In Rate treatment, also referred to as Embedded Rate treatment
- INC – Incremental Rate treatment
- PTSA – Precedent Transmission Service Agreement
- ESA – Environmental Study Agreement

Phase III – PTSA or ESA

- Based on the initial business evaluation (Phase II), BPA will offer either a PTSA or ESA.
 - PTSA's will be offered for plans of service that are projected to be rolled in to rates.
 - TSRs with terms less than five years will not be eligible for a PTSA.
 - Financial requirement: customers not associated with an attested Designated Network Resource (DNR) secure *pro rata* share of estimated environmental review and preliminary engineering costs.
 - ESAs will be offered for plans of service that are projected to be at incremental rates.
 - Where environmental studies result in a decision to build, a Construction Agreement will be offered.

Phase III – Under a PTSA

- Following PTSA execution, BPA will conduct environmental review and preliminary engineering work.
- Upon NEPA decision to proceed with a build, BPA will conduct formal business case to determine whether to move the project forward at rolled-in rates.
 - Business case will include updated cost estimates and subscription levels.
- If the business case supports moving forward at rolled-in rates, BPA will notify PTSA signatories that their construction security is due, and BPA will proceed to construction.
- Financial requirement upon construction determination – Customers provide security for construction costs.
 - Based on *pro rata* share of commercial construction costs.
 - Varying security requirement, based on risk-weighted methodology (see Appendix for further details).
 - Customers have an ability to discount their security requirement from their full *pro rata* obligation, down to a 50% minimum floor.

Construction Stage Security Requirement Under a PTSA

- 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%)

Additional Financial Considerations Under a PTSA

- If BPA and customer proceed to construction under a PTSA, security provided at PTSA execution will be allocable toward construction.
 - This results in BPA paying for environmental review and preliminary engineering work on customers' behalf, similar to benefit from historical NOS processes.
- NT customers that have attested to a DNR would be exempt from security obligations.
- Customers that ultimately take service will be returned all security provided.

Next Steps

- Phase I – Cluster Study
 - Customer meetings to review eligibility criteria and participation process.
 - Business practice developed and subject to public comment period.
 - Regional assessment of cluster study assumptions will be reviewed with customers.
- Phase II – Initial Business Evaluation
 - Regional review of criteria and evaluation process.
- Phase III – Offering of PTSA or ESA
 - Expect draft PTSA for customer comment mid-Summer.
 - Expect to submit to FERC in Fall 2013, along with necessary Tariff changes.
 - PTSA and ESA would be offered to customers around Spring 2014.
 - BPA tariff expansion process (individual study path) is backstop option if delays prevent timely submittal and FERC review of PTSA.

Anatomy of a Cluster Study

- Timeline
- Process & Documentation
- Data Requirements
- Additional Expectations

Cluster Study Timing

- BPA is proposing to replace the traditional “submittal window” with a “submittal deadline.”
- This change would advance the deadline to submit TSRs from June 30 (traditional process) to May 31.
- Adjusting the schedule allows additional benefits:
 - Time to work with customers on data validation
 - Time to work on drafting cluster study agreements
 - Time to prepare for the cluster study
 - Time to develop draft PTSA

Cluster Study Process & Documentation

- BPA is proposing to modify the Individual System Impact Study business practice to include the process and requirements for the upcoming cluster study.
- The consolidated business practices will inform the timing and relationship between the individual and cluster processes.

TSR Data Requirements History

- 2008 NOS: No specific requirement for information beyond OASIS Source/POR and Sink/POD
 - Load to Generation imbalance mitigated by Mid-C and FCRPS assumptions.
- 2009 NOS: Exhibit B added which required specific source (point of interconnection), but, asked minimal information on POD
 - Load to Generation imbalance mitigated by Mid-C and FCRPS assumptions.
- 2010 NOS: Maintained Exhibit B which required specific source (point of interconnection), but, asked minimal information on POD.
 - Added Merit Order Sequence as a new assumption.

Cluster Study Data Requirements

- BPA intends to apply the TSR information requirements described in the pro forma and BPA's Tariff (sections 17.2 and 29.2).
 - Customers will be required to submit a Data Exhibit for each TSR to provide the location of the generating facility (ultimate source) and the location of the load ultimately served (ultimate sink).
 - Customers can also provide “resource displaced” in lieu of ultimate sink.
 - Data Exhibit will be attached to the consolidated individual and cluster study business practices.

Cluster Study Data Validation

- BPA will assess the information provided in the data exhibit to ensure its accuracy and completeness. BPA will work with the customer to attempt to resolve any deficiencies.
 - TSRs into or out of the Mid-C Remote or NW Hub need to pair with a companion TSR to demonstrate delivery to load or from resource.
 - If no resource displaced is provided then BPA will default to merit order sequence to determine which resource to model as displaced.

Cluster Study and the PTSA

- The Cluster Study Agreement does not provide any obligations for either the customer or BPA once the cluster study results are delivered.
- The financial requirement associated with the cluster study agreement is only applicable to work associated with the cluster study.
 - Any excess funds or shortages will be dealt with on a customer-by-customer basis prior to the tendering of an ESA or PTSA.
- The PTSA will be tendered in a wholly separate process and the terms do not implicate the cluster study process.
 - BPA will endeavor to deliver a draft PTSA to the region prior to the deadline for signing the cluster study agreement.

APPENDIX



Timing of Events and Off-ramps

- As shown below, the annual 12-month cycle would consist of the Cluster Study, business evaluation and offering of Agreements
- Customer off ramps are noted in gray, and BPA off ramps are noted in red

