

**Allocation Proposal
Public Power Council
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Proposal Background

The Public Power Council (PPC) has been working for several months on a mechanism for allocating the Federal Base System (FBS) to BPA's preference customers. Though this has been a difficult process, the Executive Committee voted unanimously to support this proposal.

BPA, its customers and other interested parties have noted that one of the significant sources of cost escalation that has plagued BPA over the last several years is the open-ended nature of BPA's obligations to provide power to its customers. Constraining BPA's obligation to provide additional power at a melded rate is an important first step in getting this component of BPA's costs under control.

PPC members agree that the only way to assure the success of cost control associated with BPA's obligation to serve is to allocate the FBS to BPA's preference customers. Preference customers would receive their allocations in the form of products that BPA now offers. Preference customers selecting designated products that allow for load growth would continue to be free to place their load growth on BPA, and would be charged BPA's incremental cost to serve that additional load, either individually or as a member of a class of such purchasers. Preference customers that do not have their load growth met by BPA would be free to use other power providers.

As noted, a key aspect of any long-term allocation proposal is meaningful cost controls. Allocation is not a panacea; allocating the system is only the first step on the way to control costs. Long-term mechanisms for controlling all of BPA's costs must be developed and implemented in tandem with an allocation method.

It is essential that the allocation under new contracts in FY 2012 be determined and fixed as soon as possible. The fixed allocation would be agreed upon and memorialized in contracts well before FY 2012 with implementation starting in FY 2012 for all preference customers. An objective of allocating the FBS is to reduce BPA's exposure to future augmentation costs. Determining the allocation in advance of FY 2012 allows preference customers ample time to plan and meet their future load obligations. It also allows BPA to focus on cost control and to develop a load growth service, as a self-supporting product, for those interested in having BPA provide that service.

Determining the allocation before FY 2012 sets a clear and sensible framework for establishing what is essentially a fixed and un-augmented FBS for the new contracts. Our vision of the allocation available in FY 2012 to preference customers is a percentage of the FBS charged at the lowest possible preference rate. Key to this approach is establishing a long-term right to a share of the FBS for preference customers. Short-term rate measures that can be altered with every rate case, such as tiered rates for the sale of FBS power, are not an acceptable substitute for a long-term allocation.

Reasons For Allocation Approach Selected

The following principles were adopted by the Executive Committee in its endorsement of pursuing an allocation of the FBS. The allocation approach must

1. Treat all publics in a fair and equitable manner;
2. Be broadly acceptable to public power utilities; and
3. Be transparent and understandable.

After looking at many different allocation proposals, an approach that relied to the greatest extent possible on existing net requirements data was adopted. The data allowed calculation of the impacts of allocation on subgroups of customers and individual utilities, thus eliminating the need to guess what would be the impact of a future allocation determination.

Basis of Proposed Allocation Approach

PPC relied on the forecasted FY 2002 net requirements (load on BPA from preference customers) from the last BPA power rate case, and used to establish 5- or 10-year contracts for Slice and Block customers. As an historical, known and documented data set, the FY 2002 forecasts of net requirements excluded the post-FY 2002 load growth and resource losses of preference customers. This left the publics at a fair starting point. Furthermore, the fact that the allocation would be based upon FY 2002 net requirements lessened concerns over unmitigated near-term load loss because loads are recovering.

PPC realized that no historical method could adequately capture the special circumstances or hardships that some utilities would face under this allocation method. We addressed these hardships by making specific adjustments to the FY 2002 net requirements for several “special case” utilities, based on changes in their circumstances since FY 2002. An example is the Port of Seattle load not being contained in 2002 forecasts.

In addition, we propose that the amount of FBS capability allocated to the Full Requirements customers be converted into an individual utility allocation based on a net requirements determination performed by BPA after the initial allocation calculation is made. Using a new net requirements calculation to allocate power to individual utilities within the Full Requirements class allows adjustment for individual Full Requirements utilities without changing the allocation percentages assigned to other classes of utilities (such as the Slice and Block product utilities).

Description of Proposed Allocation Approach

PPC proposes that the FBS allocation be a percentage share of the actual output of the FBS for each preference customer. That percentage share will remain fixed for the term of the contract. The percentage allocation approach relies either on the BPA rate case net requirement forecast for FY 2002 utility load to be served by BPA (for Full and Partial Requirements customer classes), or on FY 2002 contract net requirement quantities (for Block and Slice customer classes).

“Special case” adjustments have been made for specific utilities, adding 129 net MW to the net requirement forecast (about 2% of the net requirement forecast amount).

The total FY 2002 net requirements for all preference customers, including adjustments, is used as the denominator for calculating the decimal fraction (or percentage share) for each customer’s allocation. The numerator is the individual customer’s net requirement as specified in FY 2002, adjusted for any applicable “special cases”.

The following table shows how the FBS would be divided by customer class:

Customer Class	FY 2002 Load (aMW)	Adjustment by Class (aMW)	Adjusted FY 2002 Load (aMW)	Percent Allocation of FBS
Full Requirements	2,120	add 43	2,163	31.9%
Partial Loads	1,024	add 16	1,040	15.3%
Block	845	add 60	905	13.3%
Slice Block	1,054	add 10	1,064	15.7%
Slice	1,617	add 0	1,617	23.8%
Total	6,660	add 129	6,789	100.0%

The following examples show how the allocation would be calculated for an individual utility:

Example 1: An individual utility with 100 MW of load in FY 2002 would receive an allocation of $100 \text{ MW} \div 6789 \text{ MW} = 1.47\%$ of the FBS. If the size of the FBS is 7,000 MW in FY 2012, the utility would receive a maximum of 103.1 MW of the FBS in that year.

Example 2: An individual utility with 100 MW of load in FY 2002 and a special circumstance of 10 MW would receive an allocation of $110 \text{ MW} \div 6789 \text{ MW} = 1.62\%$ of the FBS. If the size of the FBS is 7,000 MW in FY 2012, the utility would receive a maximum of 113.4 MW of the FBS in that year.

Implementation of Allocation

If required, BPA would perform an annual net requirements determination for all customers to establish the amount of firm energy that could be taken from BPA in a given year to serve requirements load, up to a maximum based upon the utility's allocation percentage. The annual net requirements calculation method for Slice and Block customers will be identical to the method used in the existing 10-year BPA contracts.

The allocation percentage would be fixed for a long period of time (*i.e.*, the 20-year life of new contracts). Inasmuch as public loads are forecast to exceed the FBS firm capability in 2007, a percentage allocation provides a method to ensure the allocated amount is equal to the FBS. Even though the allocation percentage of each utility would be fixed, the actual energy available would fluctuate with increases or decreases in the capability of the FBS. Recalculation of net requirements by BPA over the 20-year contract period would not change the allocation amounts, only the amounts of firm energy actually delivered to the customer in that year to serve its requirement load. Any allocated power in excess of the utility's net requirement would be treated as surplus power is treated in the Slice contracts.

Existing contract holders could keep their contracts for the life of the contracts. Preference customers with contracts expiring at the end of FY 2006 would receive extension contracts through FY 2011. This would not preclude customers from signing new contracts now that would go into effect before current contracts expire, so long as any contract switching before FY 2012 does not cause cost impacts to the customers who stay with their existing contracts.

The allocation percentage derived for each utility, when applied to the annual energy output of the FBS, would produce the maximum annual FBS share for that utility. This share could be purchased in a number of ways.

- It could be purchased as a Slice product, in which case the allocation percentage would be applied to the actual output of the FBS as it is under the existing contracts. Such customer would pay the same percentage of the BPA costs of the Slice product.
- The allocation share could be purchased as a Full Requirements product, in which case BPA would take the utility's share (both firm and non-firm) and provide whatever additional services would be needed to serve the total load of the customer, less any dedicated resources. The customer would pay both the costs of the FBS, and the additional costs needed to convert its allocation into a full service product, either as the individual customer or as a member of the Full Requirements customer class.
- The share could be purchased as a Block product. The customer would pay its allocation percentage of the FBS costs, plus the additional costs, if any, incurred by BPA to convert its allocation into a block product.
- The share could be a Partial Requirements product, which would allow the utility to declare additional non-federal resources, but would obligate BPA to provide load growth, load shaping and regulation. The customer would pay its allocation percentage of the FBS costs, plus the additional costs incurred by BPA to provide the additional services needed to serve the customer's residual load.

Treatment of IOUs and DSIs

We support BPA's suggested approach of providing benefits to the IOUs via financial payments rather than through power sales. This is an appropriate way of providing benefits to the residential and small farm customers of private utilities. PPC does not believe that it is appropriate for BPA to provide either power or money to the DSIs after 2011.

Summary and Conclusions

The support within public power for this allocation method is based upon equity, fairness and compromise. No one customer or customer class will receive

its “ideal” allocation under this proposal, but we have agreed to support the proposal as an important and necessary first step to deal with the serious issue of controlling costs associated with the FBS. We do not believe that cost control will be fully achievable without a contractual mechanism that clearly eliminates the cost pressure of augmentation to the FBS. As we have said, allocation is only the first step. And as the first step, it should not be delayed.

PPC’s proposal is consistent with existing BPA policy and with the Northwest Power Act. This first step does not require new legislation, or a change in BPA policy, because it simply extends what is already in place. The allocation methodology may be thought of as a continuation of the current BPA power contracts.