



Public Power Council Allocation Recommendation of April 10, 2006
Approved by the Executive Committee, April 10, 2006

Introduction

After PPC submitted to BPA its “PPC Additional Allocation Recommendations Adopted March 7, 2006,” questions and concerns were raised by both customers and BPA. In response, the Executive Committee met and developed the following proposal. In general, it attempts to simplify and clarify the steps necessary to determine High Water Marks (HWM) and address resource-removal; to bring more transparency to that process; and to maintain or improve upon the balance of equity, fairness, practicality, and durability of the proposal.

Notably, instead of looking backward to 2002, this proposal provides for a forward-looking estimate of HWM *for planning purposes*, and then *locks in* an HWM for each utility *based on actual load in 2010*. The proposal provides for BPA supplementing the FBS capability up to a cap of 300 aMW.

Step 1: Establish a preliminary allocation %/HWM for each preference customer in FY2007 for planning purposes.

- The basis for this preliminary allocation %/HWM is a net requirement determination performed in FY2007 using forecast FY2012 loads and resources.
- BPA and the customers will develop load forecasts, as well as the rules for determining non-federal resource capability, including resource additions and losses, to be used in this net requirement determination. Such net requirement determination will use the firm capability of non-federal resources that the utility has dedicated to retail load service and which is actually available to such utility in FY2012. Such non-federal resource firm capability shall not include a utility’s prior ownership share of a generating resource no longer owned by the utility, or resources stipulated to replace such ownership share.
- All individual net requirement determinations performed in FY2007 for FY2012 will be made publicly available.

Step 2: Adjust (determine) individual allocation %/HWMs in FY2011.

- During FY2011, BPA will determine for each preference customer its FY2010 actual loads minus its non-federal resource firm capability for FY2012, as determined under Step 1. The actual FY2010 loads used for this determination will be weather normalized, and may be adjusted on a case by case basis to compensate for one-time, *force majeure*-type events affecting actual FY2010 loads, such as strikes or temporary extraordinary

load reduction. This value that results from this determination will be called the “Adjusted FY 2010 Load.”

- In FY2011 BPA will also forecast the FBS capability for FY2012. If the forecast FBS capability is equal or greater than the sum of the Adjusted FY2010 Loads, there will be no augmentation of the FBS. To the extent the forecast FBS capability is less than the sum of these Adjusted FY2010 Loads, BPA will supplement the FBS capability as necessary in an amount equal to the difference between the FY2012 forecast FBS capability and the sum of the Adjusted FY2010 Loads, and such augmentation may include use of system secondary energy from the FBS. In no event, however, shall the augmentation amount exceed a total of 300 aMW. This augmentation obligation will continue for the contract term, and the costs of such augmentation will be included as an FBS cost collected from tier 1 purchases.
- The Adjusted FY2010 Loads will then be increased to include utility self-funded conservation from 2002-2010. These adjusted load values will be used to calculate final %/HWMs for each preference utility to be used in the new, long-term contracts.

What is required for this approach to work?

- Prior to performing the preliminary net requirement determination in FY2007:
 - The rules for determining non-federal resource capability for net requirement determinations must be jointly-developed by BPA and the customers and adopted by BPA.
 - The rate methodology for defining tier 1 and tier 2 costs must be jointly-developed by BPA and the customers, and adopted by BPA.
- Net requirement determinations under the new, long-term contract must be done once for each rate period, rather than annually, in order to provide resource and rate planning certainty for BPA and the preference customers.
- The March 7, 2006, PPC document provided for annual non-federal resource removal rights. In light of the treatment of non-federal resources in Step 1 here, the March 7 amount (*i.e.*, 12%) of the annual non-federal resource removal right must be revisited.

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