SUMMARY OF
LONG-TERM CONCEPT PAPER

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- **Loads and Resources**
    - Forecasted to be approximately equivalent in 2012, with some power in excess of regional firm loads in first few years likely, but then disappearing
- **Service to Publics**
    - General adoption of PPC allocation proposal
    - Dedicate all of existing system to public customers, with each customer having a "High Water Mark" (HWM) up to which the customer can buy at "Tier 1" rate, based on costs of existing federal system
        - Sum of all HWMs given to public customers adds up to the firm energy output of the existing federal system
        - HWM based on level of purchases that each customer was entitled to make for FY 2002
        - Each utility's HWM proportionally increased if total of rights in FY 2002 is less than firm energy output of system
        - Each customer's HWM included in power sales contracts with no ability to change for the duration of the contract, except for changes in service territory created by annexation or similar actions
        - HWM expressed in aMW, instead of a percentage of the system
    - Purchases above HWM are at incremental cost ("Tier 2")
    - Long-term tiered rate methodology put in place through a separate 7(i) process
    - No "subsidization" of "Tier 2" rate by "Tier 1" rate
    - Tier 2 rate reflects costs of resources such as new renewable resources, short-term market purchases, long-term market purchases, and melded market purchases
    - No adoption of PPC's proposal to allow customers to pool their unused HWM amounts among customer groups
        - Would cause regional conflict
    - BPA open to possibility of a "one-time" update of HWMs before the new contracts go into effect
    - **Net Requirements Determinations**
        - Annual Net Requirement calculations conducted
            - Customers' initial purchase rights determined by new net requirement calculation in FY 2012
            - Prior to 2012, BPA will conduct a regional process to establish a transparent and consistent methodology for determining new net requirements

        - Utility's have right to temporarily remove resources that were developed to meet Tier 2 loads in order avoid a BPA purchase at Tier 2 when they lose load
        - Departure from PPC proposal in that other non-Federal resources will continue to be applied to load for purposes of net requirement determinations unless the resources are "lost" under the statutory definition
            - Otherwise, customers could capture value of difference between existing Federal system and market, creating equity concerns that could threaten the stability and durability of the construct
        - BPA will sell excess Tier 1 power if not needed to meet BPA's other regional load obligations, and will use proceeds to hold down rates of all Tier 1 purchasers
        - BPA will first reduce Slicers' block purchases if they have an excess of Tier 1, and if the Block is not large enough, BPA would then reduce the Slice product sale and credit the sale of the excess Tier 1 power to the Slice customer if Slice product is continued
        - Customers have rights to add non-Federal resources to serve net requirements load in excess of HWM, but not to reduce their Tier 1 purchases (except under an off-ramp)
    - **Billing Credits**
        - Customers must forego billing credits if they elect to supply resources to serve their Tier 2 load growth
    - **Public Exchange**
        - Two alternatives to preventing public exchange from diluting Tier 1 power
            - Public exchangers could settle exchange rights as condition to entering long-term contract under HWM construct; or
            - Customers could continue to access the existing Federal system through either a melded tiered rate pool of all preference customers that elect not to settle exchange rights, or a rate structure accompanied by a new tiered-ASC methodology that would apply to its exchange resources and loads
    - **New Publics**
        - New publics would be offered a HWM contract if existing customers with HWMs are not purchasing all of the Tier 1 power available, and they would have same rights to exchange as existing publics
        - Substantial notice would be required of new publics before they could take deliveries of Tier 1 power
        - If a new public forms from an existing public, the new public would be offered the HWM amount relinquished by the former public
    - **When Requests at Tier 1 Exceed Existing Federal System**

    - Under two scenarios, the Tier 1 requests could exceed the amount of lowest-cost-based power available
        - Where there is load growth <u>and</u> additional HWMs were established for new public customers that waived their exchange rights in order to get the HWM contract; and
        - Where the capabilities of the existing Federal system is reduced
- **Products Available to Customers**
    - BPA will provide transmission management at cost to those load-following customers that do not have in-house expertise
    - BPA will provide load-following products such as full and partial service
        - The rules for establishing the annual predefined shape of the Tier 2 purchases for load-following products will be the subject of additional discussions, but may be as a flat annual block
    - BPA will continue to offer block and slice (subject to the product review)
        - Slice product is necessarily only available to serve Tier 1 purchase rights
    - Customers will have a number of alternatives for Tier 2 pricing, including at least a "new renewables" price, "short-term market" price, "long-term market" price, and "melded market" price
- **Pricing and Rates for PF Service**
    - **Long-term Tiered Rates Methodology**
        - 7(i) process completed by October 2008
    - **Tiered PF Preference Rate**
        - Tier 1 rates would continue to be adjusted for changes such as increases in the cost of the Residential Exchange benefits, fish and wildlife costs, and conservation and renewables programs
        - Level of Tier 1 rate would be recalculated every rate period based on the costs of the Federal Base System output and all non-Tier 2 costs.
        - Theoretical possibility that Tier 1 rates could someday be higher than Tier 2 rates
        - Value of excess Tier 1 power would be retained to benefit Tier 1 prices
        - Tier 2 rates would be set to fully recover Tier 2 costs
        - To the extent that FBS power is provided to serve Tier 2 loads, it would be priced at BPA's marginal cost, with the value above the average FBS cost being credited back to Tier 1
    - **Melded PF Preference Rate**

            - For publics who chose not to settle their exchange rights, and do not get an HWM contract, there are two options for providing access to the federal system
                - The customer would be offered the same HWM amount it would have been provided, but the power provided up to that amount would be based on a melded PF rate, based on the FBS resources associated with the power and additional resources needed to provide the power; or
                - The customer would be treated the same as all other public customers that did not settle (less preferred)
        - **PF Exchange Rate**
            - BPA will limit REP access to low-cost Federal resources to the FY 2002 REP loads of each customer that chooses to participate
            - PF exchange rates would be based on the melded costs of the FBS resources they have access to plus, to serve the remainder of the loads, the cost of resources REP customers exchange with BPA
            - Alternatively, BPA could establish a tiered ASC methodology
        - **Other Issues**
            - Transfer service issues will be decided in separate process
            - Low Density Discount will be subject of future 7(i) proceedings
            - BPA will continue irrigation rate mitigation, and beginning in FY 2012 will offer it in the form of a fixed mills/kWh discount in the PF rate schedule
            - BPA will continue its current New Large Single Load policy, with two slight modifications, concerning renewable resources and on-site cogeneration
- **<u>Benefits to Small Farm Customers of Investor-Owned Utilities and Public Agencies</u>**
    - BPA has developed estimated ranges for what the IOU and public agency exchange benefits could be under the residential exchange, if the program were implemented under statutory and administrative constraints under the Northwest Power Act
    - Based on a variety of assumptions on ASC levels, BPA costs, and outcomes of legal interpretations, IOU benefits range from $94 million to $491 million per year, and public agency benefits range from $46 to $117 million per year
    - BPA proposes a settlement, and absent a settlement will return to implementing the REP under the Act
    - Before implementing the REP under the Act, BPA would revise the ASC methodology, develop an in-lieu policy, and update and simplify the 7(b)(2) methodology

    - BPA proposes a settlement for IOU benefits between $100 and $300 million
    - **Settlement Options**
        - Option A would be similar to existing settlements agreements, and would be based on the difference between market price and BPA's lowest cost PF rate for 2200 aMW of flat block power, with a floor of $100 million and a cap of $300 million; State utility commissions would assist in determining how to allocate benefits
        - Option B would be a fixed settlement amount of $250 million per year, with an associated formula for allocation to individual utilities, including publics
- **<u>Service to Direct Service Industries</u>**
    - BPA's view is that post-2011 service to the DSIs should be provided in order to provide ongoing opportunity to operate and provide employment
    - BPA benefits will not guarantee operation of the DSIs
    - The construct for 2007-11 benefits would be extended
- **<u>Conservation</u>**
    - BPA proposes that it should not include IOU residential loads or DSI loads in calculating its share of conservation, since those loads are benefited through financial rather than power transactions
    - BPA proposes a conservation program with four components
        - Rate credit for local programs
        - Bilateral contracts for acquiring cost-effective conservation
        - Third-party contracts and market transformation activities
        - Regional infrastructure support by BPA
    - BPA proposes recovering conservation costs under its Tier 1 rates
    - BPA proposes not reducing a customers HWM for any conservation done after 2002
    - However, since customers are entitled to BPA power only up to their net requirement, if their net requirement is below their HWM, a utility's conservation may result in a reduction in the amount of Tier 1 power they are entitled to
- **<u>Renewable Resources</u>**
    - BPA proposes a renewable resource strategy focused on two main activities
        - The development of Tier 2 renewables products; and
        - Continued spending on facilitation of renewable resource development by customers and others in the region (funded by Tier 1 rates)
    - BPA will move away from its $15 million management target and will correlate its renewables facilitation spending with the region's success in meeting the Council's renewables target
        - Each rate period, BPA will identify Council goals and progress towards those goals
        - BPA would then adjust its Tier 1 facilitation spending with an aim of meeting Council's goals

        - A floor and a cap would be established
    - BPA will include all renewable energy projects acquired before FY 2005 as components of the FBA with costs recovered in Tier 1 rates
    - All incremental projects (post FY 2005)
    - will be funded by Tier 2 rates
- **<u>Resource Adequacy</u>**
    - BPA prefers a regional consensus on how to handle resource adequacy
    - BPA proposes to include in power sales contracts a provision that requires customers to provide data for regional resource adequacy assessments to a neutral third party, such as the Council or Power Pool
    - BPA proposes to link required notice provisions from planning timelines in the resource adequacy process to notice provisions for receiving Tier 2 power from BPA (i.e. the advance time in which a utility must demonstrate how it will meet its resource needs will be equal to the notice period for receiving Tier 2 power)
    - BPA proposes to include two options in the January 2006 Regional Dialogue proposal for resource adequacy provisions in power sales contracts:
        - If the Regional Resource Adequacy Forum is able to achieve consensus-based adequacy metrics and targets, a workable resource adequacy tracking mechanism, and an accepted implementation approach, then the contracts will only reference the need to adhere to those objectives;
        - If the Regional Resource Adequacy Forum is unable to achieve those things, then contractual provisions will include provisions that require or incentivize measurements of resource adequacy, reporting requirements, and an implementation mechanism
- **<u>Long-Term Cost Control</u>**
    - A Cost-Management Group (CMG) would be formed and managed by customers, and would exist throughout the contract term
        - The CMG would provide input on BPA cost levels, review financial performance, and give input to Corps, Bureau, Energy Northwest and other entities affecting BPA costs
    - The CMG would require long-term membership, and would be a general manager level organization, providing its own technical staff support
    - BPA would commit to incorporating the following components into long-term cost control:
        - Transparency, including customer collaborative and PPC meetings
        - Incorporating into an official policy its commitment to the CMG
        - Contractual off-ramps tied to effective cost-management
            - Rates for FY 2012-13 would become a "benchmark," and if rates increased above a certain percentage increase per year over the benchmark, customers would have a one-time right to remove up to a certain percentage of load from BPA, without incurring stranded cost charges

            - BPA proposes a cap of 15% load removal during the contract term
            - Customers could only return load to BPA at Tier 2 rate
- **<u>Dispute Resolution</u>**
    - o BPA intends to use arbitration in the future
    - o However, there are limits to what disputes BPA can or should delegate to an arbitrator or third party
    - o BPA will not turn over to a third party important policy judgments necessary to interpret and administer Federal statutes and regulations
    - o BPA cannot turn over to arbitration BPA final actions and decisions subject to the exclusive jurisdiction of the Ninth Circuit under the Northwest Power Act
        - ▪ This includes establishment and implementation of rates
    - o BPA proposes the following construct for dispute resolution
        - ▪ BPA and customers should carefully delineate in contract what contract matters will be subject to arbitration
        - ▪ While BPA cannot engage in binding arbitration over matters concerning the establishment or implementation of rates, it will establish a pricing construct for 20 years, and obtain FERC approval for that time period
            - BPA will then provide in the rate for a contractual provision whereby an independent third party would determine whether conditions for changing the pricing methodology have been met, with the Administrator able to reject the third party's findings only under specified grounds
        - ▪ As to other matters of rate implementation, BPA and customers should explore the use of non-binding arbitration, third-party fact finders, or other alternatives
- **<u>New Long-Term Contracts</u>**
    - o BPA will consider having customers sign long-term contracts as early as August 2007, with power deliveries and supporting rates not being implemented until 2011, when all subscription contracts expire
        - ▪ The contract would run for 20 years, starting at the time of execution, not receipt of deliveries
    - o BPA will create standardized regional dialogue power sales contracts, with limited bilateral negotiations
    - o The contracts will be subject to public review before finalization