

# factsheet

August 2008

## A roadmap to the provisions of Regional Dialogue contracts and tiered rates

BPA's current power sales contracts expire Sept. 30, 2011. After years of collaborative discussions with customers and other parties and much hard work on all sides, BPA is offering new contracts to its customers. These contracts will work in tandem with a new Tiered Rate Methodology BPA has proposed for the Priority Firm Power (PF) rate. These Regional Dialogue contracts and the tiered PF rate form the foundation of the business relationship BPA is offering for the next 20 years.

This fact sheet summarizes the provisions of the new Regional Dialogue power contracts and Tiered Rate Methodology. As a summary, it provides a guide for basic understanding of the new contracts and Tiered Rate Methodology and should not be relied on as an authoritative interpretation of those documents.

### New long-term contracts

The new power sales contracts will cover fiscal years 2012-2028. Customers will have until Dec. 1, 2008, to consider and sign their new contracts. BPA is offering contracts ahead of when the current contracts expire so that BPA and its customers will know well in advance who has the responsibility to develop new resources to meet load growth starting in FY 2012. Having this certainty in advance will help ensure that new resources are in place when they are needed. Also, by signing these contracts, customers will secure the benefits of a defined amount of low cost-based power from the federal system for another 20 years.

Another reason to sign the new contracts this year is that BPA has spent considerable time helping the current administration in Washington, D.C., understand the need for new long-term contracts. If the contracts are not signed by the Dec. 1 deadline, the region faces the risk of delay as a new administration is brought up to speed. There also is the possibility of significant and unpredictable changes to the contracts or rates.

In many important respects, the new power sales contracts will be similar to the current Subscription

### Key dates

#### Contracts:

Aug. 18, 2008 – Final Regional Dialogue Load Following and Block contract templates provided to customers

Aug. 29, 2008 – Final Regional Dialogue Slice contract template provided to customers

Dec. 1, 2008 – Deadline for signing Regional Dialogue contracts

#### Tiered Rate Methodology:

Oct. 6, 2008 – Final TRM Record of Decision and Final TRM filed with FERC



contracts. For example, customers will have a choice of power products much like in the current contracts – Load Following, Block and Slice/Block.

In general, the new Load Following product is similar to the Load Following products sold under the current Subscription contracts where BPA is responsible for serving the customer’s entire load, minus what is served by the customer’s own resources. However, the new Regional Dialogue Load Following product gives customers more opportunities for applying new non-federal resources to serve their own load over time than was allowed under the Subscription contracts.

The new Block products also are similar to those provided under the Subscription contracts. Each customer is responsible for serving its own load except that which is served by its defined BPA Block purchase amounts. The Flat Block product (which provides equal amounts in all hours of the year) is the same as the product under the Subscription contracts. Under the Shaped Block product, the allowable shape for the Tier 1 portion (see the next section for an explanation of Tier 1 and Tier 2) is based on the shape of the customer’s monthly net requirement. The portion of Block served at Tier 2 rates is flat across

the year. As is the case with the Subscription contracts, Shaping Capacity can be added to the Block product.

The Slice portion of the Slice/Block product is generally similar to the Slice product under the Subscription contracts. However, the new Slice product is required to come initially with an amount of Block product. The Block portion of the Slice/Block product can be flat or shaped.

### **“High Water Marks” and tiered rates**

By far the biggest change the new contracts will bring is that each customer will have a contract-defined right to purchase an amount of power at “Tier 1” rates, which represents the cost of BPA’s existing system. That amount of power is called the High Water Mark, or HWM. Utilities will still have the right to have BPA meet their net requirement load (the utility’s load minus its own resources), but BPA will meet net requirement load above the HWM at “Tier 2” rates. Tier 2 rates will be set to cover the full cost of the additional power BPA buys to meet those additional loads.

Giving each customer an HWM and tiering the Priority Firm Power rate has significant benefits to customers and to the region as a whole:

- HWMs define the portion of load that will be served at Tier 1 rates; this will be the bulk of most customers’ load for the foreseeable future. Limiting the resources to the existing federal system and a minimum amount of augmentation purchases whose costs will be recovered through Tier 1 rates keeps those rates lower and more stable.
- Many utilities want a choice between buying from BPA or developing their own resources to meet load growth. BPA’s current practice of meeting all net requirements at one melded rate makes choosing to develop non-BPA resources uneconomical because the melded rate blends the costs of existing federal resources with market

### **Renewable Energy Credits**

Renewable Energy Credits (RECs) come with the power purchased under the High Water Mark contracts, and there is no extra charge for them. Each utility’s power purchases at Tier 1 rates will include RECs in an amount proportional to the amount of power purchased compared with the total amount of Tier 1 system resources. Power purchased at Tier 2 rates may include RECs, depending on the resource(s) whose costs are the basis for the Tier 2 rate(s). If customers wish to have RECs included with their Tier 2 purchases, BPA will seek to acquire Tier 2 resources that provide RECs.

purchases, resulting in lower rates than new resource costs. HWMs and tiered rates give utilities a real choice about how to meet their load growth.

- The tiered rate design will give customers the full economic value of their decisions to conserve, manage their load shapes and add new resources in beneficial shapes without imposing costs on other customers.
- BPA's continued funding for fish recovery and other public purposes will clearly be a Tier 1 obligation and will provide stable funding for these purposes.

There are several types of High Water Marks that BPA will calculate at different times and for different purposes.

Most important is the Contract HWM or CHWM. BPA will calculate Contract HWMs in FY 2011 based on each customer's FY 2010 measured load, adjusted for unusual occurrences in that year, such as abnormal weather, minus customers' existing resource amounts in FY 2010 as those resource amounts were defined on Sept. 30, 2006 (with some limited exceptions). BPA also will adjust each utility's HWM to provide credit for conservation savings achieved by that utility. (The conservation adjustment redistributes the Contract HWM amounts among customers but does not change the total Contract HWM amount for all utilities as a group.)

The total HWMs will be limited to the expected FY 2012-2013 firm output of the federal generation system, plus up to 300 aMW of "augmentation" purchases. Current forecasts suggest that most customers' HWMs will be slightly higher than needed to cover the difference between their FY 2010 loads and their FY 2010 resources. But this is not certain, since there is uncertainty about both load growth and the output of the federal system.

BPA will calculate the Rate Period High Water Mark (or RHWM) for each customer prior to each rate case.

The RHWM is the same as the CHWM except for some adjustments for changes in the output of the existing BPA generation system. Because the output of BPA resources does not stay constant from year to year, BPA will calculate the RHWM before each rate case to reflect the latest forecast of firm resource output. To calculate RHWM, BPA will divide each utility's Contract HWM by the sum of all customers' Contract HWMs, and then multiply by the forecast output of BPA's resources averaged for that rate period. The Rate Period HWM defines the maximum planned amount of power a customer is eligible to purchase at Tier 1 rates for a particular rate period.

In FY 2009, BPA will calculate the Transition Period High Water Mark. It has a limited purpose, which is to define how much power (if any) each customer will need to either buy from BPA at the Tier 2 rate or acquire from other sources for at least FY 2012-2013.

### **History leading up to contract offers**

The Regional Dialogue process began in April 2002 when a group of BPA's customers submitted a "joint customer proposal" to BPA that addressed near- and long-term contract and rate issues. Since then, BPA and customers and other interested parties have worked to resolve the numerous issues necessary to put new 20-year contracts into place. BPA laid out its policy guidance on these issues in its Long-Term Regional Dialogue Final Policy in July 2007. Intensive collaborative regional effort continued, and in October 2007 BPA released the draft of the master contract template for the first time. After more months of dialogue, on April 7, 2008, BPA again released the contract templates to the region for review and comment. More drafts and detailed negotiations ensued, leading to the final templates in August 2008.

---

The RHWM, not the Transition Period HWM, will define actual rights to buy power at the Tier 1 rate for those transitional years. But since the RHWM will not be determined until 2011, the Transition Period HWM is needed so that responsibilities for meeting above-HWM load can be defined far enough in advance to allow BPA and utilities to line up the necessary power sources.

That's a lot of High Water Marks. Customers will have a chance to review and comment on BPA's calculations of CHWMs and RHWMs before they become final.

It bears repeating: the CHWM and the RHWM do not limit the amount of power customers can buy from BPA. The HWMs set maximum planned amounts of power customers can purchase at Tier 1 rates. Under the new contracts, as now, customers will continue to have the right to buy enough power to meet their full net requirements from BPA. The change is that some of the net requirement purchase will be at Tier 1 rates, and some will be at Tier 2 rates.

## **The 20-year Tiered Rate Methodology**

Rates under these new contracts will be very different from current and previous rates. Our customers said, and BPA agreed, that BPA should establish a long-term rate method that will provide certainty about how those rates will be constructed during the term of the contracts. The Tiered Rate Methodology (TRM) provides this certainty. After much collaborative work with customers, BPA has proposed a long-term tiered PF rate methodology in a rate case that is scheduled to conclude in the fall of 2008, in time to be useful for the decision to sign the new contracts.

Although the Tiered Rate Methodology will not be final for at least a few months and sales under the new contracts will not commence until FY 2012, the following summary is written as though this new business relationship is a reality, simply for ease of presentation.

Under the tiered PF rate, rates will be structured differently but will remain cost-based.

In simple terms, the Tier 1 rate will be based on the cost of the existing system, although Tier 1 costs will include the cost of a relatively small amount of power purchased by BPA as "augmentation" of the existing federal system. The Tier 1 cost pools cover all of BPA's power costs except costs of resources added to meet load beyond what existing resources plus the limited allowable augmentation can meet. As described below, portions of the rate are based on forecast market prices, but in total the rate will recover only the costs of the existing system and the small amount of augmentation.

Currently, most of each non-Slice customer's bill is made up of heavy load hour and light load hour energy charges per kilowatt-hour. After FY 2011, there will be many fewer per-kilowatt-hour charges. Instead, most of the bill will be based on percentages of "pools" of Tier 1 costs – not per-kilowatt-hour charges.

The percentage a customer pays of each pool is called the TOCA ("Tier 1 Cost Allocator"). Using a TOCA makes the calculation of charges for all customers – Slice and Non-Slice – similar and reduces the potential for any appearance of inequity between Slice and non-Slice customers.

By far the biggest pool of Tier 1 costs, which covers the bulk of BPA's power costs, is called the "composite" pool. There are some smaller cost pools – the Slice pool for costs that apply only to the Slice product and the non-Slice pool for costs that apply only to the Block or Load Following products.

The demand charge under the Tiered Rate Methodology is very different from the current demand charge. The current demand charge is a relatively low charge that applies to all demand purchased. Under tiered rates, the demand charge will be much higher, because it is based on the cost of new capacity. But it will apply to only a small percentage of total demand purchased, at least in the initial years of the new contracts, depending on peak load growth.

Another change in the demand charge is that it will be based on the utility's own peak load instead of being

measured at the time of BPA's peak load. This change gives utilities more ability to predict and control their peak loads. These changes will allow utilities that find ways to manage their peaks to reap the reward of doing so, while keeping the overall rate cost-based and avoiding cost shifts to other customers.

There is also a Load Shaping charge. This charge covers the cost of reshaping the output of the federal system to match the shape of each utility's actual load. The Load Shaping charge applies to Block and Load Following purchases. For some customers this "charge" can actually be a credit, because their load shape is relatively easy to meet.

Even though it will not be large for most customers, the Load Shaping charge plays a key role. It lets customers that invest in load management, conservation or new resources in beneficial shapes realize the full benefit of their investment through reductions in their BPA power bill. It does this without departing from the fundamental principle of cost-based rates.

The new long-term contracts and the new Tiered Rate Methodology work in tandem. Neither works without the other. The Tiered Rate Methodology defines a method for setting the tiered PF rate but not the levels

### **New publics**

A new publicly owned utility that forms after the new contracts are signed will be given a Contract High Water Mark if it signs an HWM contract. The limits for High Water Marks of new public utilities are 250 average megawatts over the term of the contracts and 50 average megawatts in any rate period, with limited exceptions. If new publics' requests for HWMs are higher than the rate period limit but below the overall limit, amounts will be phased in. Amounts above the overall limit must be purchased at Tier 2 rates or supplied from non-BPA resources.

of the Tier 1 and Tier 2 rates. The rate levels will be set in future rate cases that will occur every two years. The first rate case that will set rates under the Tiered Rate Methodology will set the rates for the first two years of the new contracts, FY 2012-2013.

### **Choices for meeting load growth**

Customers have several choices for meeting load above their High Water Marks, which generally will be load resulting from load growth but may also be due to reductions in output from the existing federal system. They have until November 2009 to make this choice for at least the Transition Period (FY 2012-2014).

Customers can meet all or part of their load growth with purchases from another supplier or develop a new power resource, either on their own or in partnership with other utilities. BPA can provide the services needed to shape the output of such resources to load, or the customer can purchase those services from other suppliers. For Load Following customers, these non-BPA resources can be added in a variety of shapes. As necessary, BPA will reshape its deliveries at the Tier 1 rate to meet the customer's remaining load.

Or the customer can ask BPA to meet all or part of its load growth. If a customer wants BPA to do this, there will be periodic deadlines to notify BPA so it can acquire the necessary power by the time it is needed. BPA will avoid passing to Tier 1 rates the costs and risks of meeting above-HWM load by keeping those costs and risks within Tier 2 to the maximum extent possible.

Power will be priced as a flat block in all Tier 2 rate alternatives. All load fluctuations and peak demands above this flat block will be covered in the Tier 1 service with the load shaping charge accounting for the differences in the cost to serve different shapes of load growth.

Customers will have several choices to make by November 2009:

- The customer may want BPA to serve its load growth during just FY 2012-2014 (the transition period). If a customer makes this choice, the customer will be charged the Tier 2 Short-Term rate, and it will have another chance in FY 2011 to either continue buying from BPA or buy from another supplier from FY 2015 to 2019.
- For Load Following customers, the customer may want BPA to meet its load beyond what is available at Tier 1 rates for the duration of the new contracts. If a customer chooses BPA, it will buy such power at the Tier 2 Load Growth rate. BPA will provide power at Tier 2 rates for all customers who sign up to purchase at the Load Growth rate.
- BPA expects to offer a “vintaged” Tier 2 rate or rates in 2009. If a customer chooses a vintage Tier 2 rate, it will sign up to pay the actual costs of a particular resource or group of resources.
- If a utility is a Load Following customer and commits to meet load beyond that served at the Tier 1 rates at the Tier 2 load growth rate, it can join the Shared Rate Plan. The Shared Rate Plan adds all the participants’ Tier 2 charges and Tier 1 customer charges and spreads the total over all the participants so that all participants pay the same cost per kilowatt-hour. Participants will pay their own individual demand charges. Initial sales for the pool of purchasers in the Shared Rate Plan are limited to 700 aMW because selling too much at these melded rates would undermine the regional benefits of tiering rates. Other customers will see no cost shift due to BPA’s offer of the Shared Rate Plan.

## Low Density Discount

The low density discount (LDD) will be available, but not for above-High Water Mark purchases. The LDD will be based on total retail load (minus resources) so, if a utility has load growth, it will receive an LDD equivalent to what it would have received under the current melded rates. The LDD will be applied to all Tier 1 charges – the customer charges, the load shaping charge and the demand charge.

## Irrigation Rate Mitigation

Loads eligible for irrigation rate mitigation (IRM) will be shown in each customer’s new power sales contract and will not increase during the term of the contract. IRM will be a percentage discount on the Tier 1 rates that is determined in each rate case. A true-up process at the end of the irrigation season will ensure that each utility had the full amount of irrigation load stated in its contract.

## Stability and durability of contracts

BPA intends the new business relationship it is offering to be predictable and durable. Both BPA and its customers are seeking long-term certainty and stability. Some customers will be making long-term financial commitments to new resources and need to know that the underlying deal with BPA cannot change except under specific extraordinary circumstances and through specific processes. Similarly, BPA must meet its customers’ net requirements in a reliable and cost-effective way.

The Tiered Rate Methodology lays out the rules for making changes in the TRM. The protections laid out in the Tiered Rate Methodology will be secured by the contract, ensuring that changes can be made only under the narrowest of circumstances.

## Consequences of not signing contracts by Dec. 1

As noted earlier, BPA will be offering contracts soon and would like all customers to sign the new contracts by the Dec. 1 deadline because that would be best for each customer and for the region generally. BPA has worked with customers to resolve concerns in hopes that each customer will be comfortable signing.

Customers are not required to sign a contract that includes a High Water Mark in order for BPA to meet their net requirement load. BPA expects that customers will sign the contracts by Dec. 1. In the unlikely event a customer doesn’t, BPA will offer a different contract before the current Subscription power sales contract expires. BPA has not yet defined

---

what that alternative contract would look like and will not be able to focus on developing that alternative contract this year.

cases. BPA does not currently intend to tier the IP rate, but the TRM does not rule it out.

## **Public residential exchange and billing credits**

Most customers have said that Tier 1 rates should not include any costs or risks of any resources that BPA acquires to meet load growth. That is BPA's intent, and the Tiered Rate Methodology includes rules to ensure that the costs of such new resources will be included in the Tier 2 cost pools. Likewise, there is broad agreement that the costs of new non-BPA resources acquired by customers should not appear in the Tier 1 rate. Thus, the new contracts and TRM include provisions to ensure that costs of resources acquired by BPA or customers to meet load growth do not find their way into the Tier 1 rate through public utilities' taking part in the residential exchange or through billing credits. An exception is for resources customers already had in place in 2006, because these resources were in place before the Tiered Rate Methodology was created and because they reduce customers' High Water Marks.

## **DSI service**

BPA has not yet decided about service to the direct-service industrial customers (DSIs). BPA has been exploring various means of providing service benefits to the DSIs, including a financial mechanism similar to their current contract, which provides the region with known, capped costs. BPA also is considering actual power deliveries, which would be priced at the Industrial Firm Power (IP) rate, as developed in rate