

Regional Dialogue Rate Design BPA Draft Staff Proposal

Topic: Discuss BPA's staff proposal for a rate design that accommodates tiering and the commensurate issues.

Summary: In the Regional Dialogue Proposal the concept of tiered rates was brought forward as one component of the way to promote infrastructure development and preserve the value of the FBS over time. Since different tiered rates designs will have significant cost allocation impacts across BPA's 125+ customers due to their different load profiles, BPA is using the following principals as it designs tiered rates.

1. Lowest cost and Tier 1 rates
2. Durability/Stability/Contract Enforceability
3. Customer/regional support and equity
4. Promote infrastructure development consistent with the Northwest Power Act
5. Consistency with BPA stewardship obligations
6. Simplicity

Using the principals as a guide, each rate design alternative idea will have different trade off's that need to be considered in the overall context of Regional Dialogue. The rate design adopted in the Tired Rates Methodology 7(i) must balance the mitigation of perceived rate inequities without significantly increasing any customer's power bills.

Overall Rate Design:

BPA is proposing to continue to use Demand, HLH/LLH energy rates, and Load Variance rates for Tier 1 service. BPA recognizes that for load following customers going forward in the future the Demand price signal will be seen in Tier 1 because the peaks of each load will be met out of Tier 1 resources. BPA is also cognizant that energy and new resource price signals will be inherent in Tier 2 energy price.

Energy Rates:

If energy rates were set at forecast market prices, those prices would over recover BPA's revenue requirement; therefore they need to be scaled down. Historically, BPA has scaled energy on an equal percentage basis across the monthly diurnal periods. For future rate periods, in a Tiered environment, we propose that a better way to scale energy rates down is by using a constant scalar. This method would mean that each energy rate would be equally distant from the forecast market price. For example, if the constant scalar is calculated to be \$10 then \$10 will be subtracted from the market rate for every diurnal period (HLH/LLH for 12 months) to yield the applicable PF energy rates. The implication of this scalar method and resulting rates is that each MWh of Tier 1 power has an equal value as measured against the market.

Energy Rate Billing Determinants:

HLH/LLH (keeping the same)

Date: 5-18-2007

Purpose/Subject: Regional Dialogue Rate Design Workshop

Legal Disclaimer: Predecisional – For Discussion Purpose

Demand Rates:

We are considering using the cost of a simple cycle combustion turbine as a proxy for the marginal cost for demand. Our thinking is that assigning this cost to the demand rate would be appropriate. A possible way to mitigate impacts would be to deflate the full cost. Another possible way to mitigate rate impacts would be to determine a historic usage of demand and apply the charge to amount above historic.

Demand Billing Determinants:

Since 1996 BPA has been billing customers for peak usage on the hour of BPA's Generation System Peak (GSP). Since then, new issues have developed. BPA's capacity team has identified 6 hours of peak demand each day that are of concern – as opposed to one hour implied with GSP billing. We are therefore proposing to change the Tier 1 Demand billing determinate to be associated with the Tier 1 load the customers places on BPA on the hour of the Customers System Peak (CSP). This diversity of peak loads will help capture the 6 hours that BPA identified as peak demand on the system. We view this as an important step because as customer loads grow and customers acquire resource in flat annual blocks, the load following service in Tier 1 becomes increasingly valuable. We are proposing a demand billing determinate to be a fraction of the actual peak load. This will allow BPA to send a marginal cost price signal in Tier 1 service with minimal impact on customer bills. We propose changing the way the demand charge is applied to customer's loads. Instead of applying the demand rate to the entire amount of energy Demand placed on Tier 1 resources, we propose to just apply it to the difference between the average monthly load and the monthly peak CSL met with Tier 1 resources. We are considering other possible demand billing determinants such as the difference between CSL and average HLH Tier 1 monthly energy. There is internal discussion regarding implementation issues that this billing determinate creates.

Load Variance:

BPA is proposing to offer a change in the Load Variance rate from the current insurance-type charge to an after-the-fact marginal cost rate. This means those customers causing those costs pay those costs and fits well with tiered rates. BPA is also considering that it may be appropriate for an additional Load Variance insurance rate.

Load Variance Billing Determinant:

This would be implemented by measuring customer energy load placed on BPA each month and each diurnal period and comparing that quantity to a forecast Tier 1 energy right. If the quantity is above the energy right the incremental amount would be billed at a market price. If the quantity is below the Tier 1 energy right, that amount would be credited at a market price. If the Load Variance insurance is needed the billing determinate will remain total retail load.