

Mark to Market Discussions

Bonneville Power Administration PBL Customer Workshop

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Issue: Due to possible large augmentation deficits, BPA may have to “mark to market” large quantities of energy. Market quotes are readily available for small quantities of power, typically 25 aMW up to around 200 aMW. Beyond 200 aMW, there are very few parties, if any, willing to give quotes. Also, as the size of the quote increases the corresponding price typically increases as well. Thus, the issue is what to do for market quotes if Bonneville must mark to market large quantities of power.

Current: For the last two LB-CRAC look forward calculations, BPA has had a relatively small augmentation deficit to be marked to market. For the last LB-CRAC look forward, BPA used an internally derived mark to market. The internal mark to market is derived from broker quotes as well as other market information. BPA is currently documenting quotes as well as other market information used to derive the mark to market each day for the last 5 days of the month.

Some possible options for deriving the mark to market are:

Option 1: Use a large marketer, or broker, to acquire pricing for large quantities of power. A large entity may be able to secure large quantities of power through various transactions for a fee. BPA would pay the entity to “find” the large quantity of power and corresponding price to meet the large augmentation deficit. The fee would be included in the LB-CRAC calculation as a cost.

Option 2: BPA acquires quotes for as much power as possible. Some agreed-to form of escalation would then be applied to the largest quote both in terms of prices and quantity until the augmentation deficit was fulfilled.

Option 3: Pay a third party such as PIRA to do an analysis on the effects on the market when a single entity purchases large quantities of power. The analysis could then be applied to the augmentation deficit and market prices to derive a price to be used in the LB-CRAC calculation. The associated costs would be included in the LB-CRAC calculation.

Option 4: Use one of the above mentioned options (or another option) for Fiscal Year 2003. Then, at the June 2004 LB-CRAC workshop, BPA and the customers, revisit the option used for Fiscal Year 2003 to determine if modifications need to be made.

Others ?