2010 BPA Rate Case

TR-10 Transmission & Ancillary Services

Customer Workshop

October 23, 2008

Agenda

- Failure to Comply Penalty Charge
- Unauthorized Increase Charge
- Incremental Rate Design
- Revenue Forecast
- Open for customer discussion

Key Messages

- The material we are sharing today is a work in progress and intended to provide a preliminary look at revenues at current rates, assumptions, and variables.
- We are very open to input and willing to make changes based on that input, if warranted.
- Please feel free to ask questions as we move through workshop materials.

Failure to Comply Penalty Charge

(Attachments 1 & 2)

Unauthorized Increase Charge

(Attachments 3 & 4)

Unauthorized Increase Charge

- Background for Today's Presentation
  - BPA is considering four separate modifications to the Unauthorized Increase Charge (UIC):
    - The criteria for requesting a waiver
    - Deleting the last paragraph of section 3 of the UIC rate
    - The transmission rate to be used if a UIC waiver is granted
    - Proposing a new UIC rate design

Unauthorized Increase Charge

- Criteria for Requesting a Waiver
  - The current criteria for the Customer to request a reduction or a waiver is listed in section 3 of the UIC rate schedule.
  - It consists of two events; one for equipment failure or outage on the Customer's system and the other for an inadvertent operation.
  - Both events described in the rate schedule contain the same language regarding harm to either BPA's transmission system or any of BPA's Customers (see Attachment 3 "UIC Section 3 Language").
  - BPA is proposing to combine both events into one (See Attachment 4 "Modified UIC Section 3 Language"). This is not final language since the transmission rate to be used if the UIC is reduced or waived still needs to be developed.
  - Please see separate handout (Attachment 4)

Unauthorized Increase Charge

- Deleting the Last Paragraph of Section 3 of the UIC Rate
  - The last paragraph of section 3 of the UIC rate allows the Customer to only pay for one UIC penalty if other UIC events occurred prior to the Customer being informed about the UIC.
  - BPA Billing does not start the billing process until the month is over.
  - If BPA Billing sees a potential UIC event, considerable time is spent determining if the potential UIC event is in fact a UIC or a result of erroneous data. The Customer will receive notice only when this determination is complete.
  - This paragraph is vague, would waive an event if the event occurred on the last day of the month and the first day of the following month, and would waive events that have unrelated causes (i.e. new staff, outage, etc).
  - BPA-TS is committed to notifying the Customer when it determines that an valid UIC event took place.

Unauthorized Increase Charge

- Transmission Rate to be used if a UIC is Waived or Reduced
  - The current UIC rate does not specify a transmission rate to be used when a UIC is waived or reduced.
  - This rate is necessary since BPA-TS provided transmission service and should be reimbursed for it.
  - BPA-TS is proposing to apply a transmission rate based on the highest capacity exceedance and the length of time the exceedance occurred.

Unauthorized Increase Charge

- Transmission Rate to be used if a UIC is Waived or Reduced
  - If the exceedance occurred in one or more hours on only one calendar day of the month, the Daily PTP Rate times the highest exceedance will be charged.
  - If the exceedance occurred on one or more days in only one calendar week of the month, seven days of service at the Daily PTP Rate times the highest exceedance will be charged.
  - If the exceedance occurred on one or more days in more than one calendar week of the month, the days in the month of service at the Daily PTP Rate times the highest exceedance will be charged.

Unauthorized Increase Charge

- Proposing a New UIC Rate Design
  - BPA-TS's objective is to apply a consistent rate for all UIC's.
  - Currently, the UIC is based on the reservation that the Customer has with BPA-TS at the time of the exceedance. If the Customer has more than one reservation, the UIC is based on the shortest term reservation.
  - This can result in a long-term firm rate for one UIC while a daily rate applies to another.

Unauthorized Increase Charge

- Proposing a New UIC Rate Design
  - BPA-TS is proposing a $1000/MW per hour charge be applied to each UIC occurrence within a calendar month.
  - The current UIC for a 1 MW exceedance would have been $120 at a daily rate, $784 for a weekly rate and $2900 for a monthly rate so the $1000/MW per hour was designed to be less punitive than a monthly rate but still large enough to be a deterrent.

Formula Incremental Rate

Formula Incremental Rate

- Background
  Under our current (FY08-09) Rate Schedules, incremental cost rates must be established in a 7(i) rate case. As part of the FY10-11 rate case, we are considering a formula approach to establishing incremental rates. The current Rate Schedule language for PTP and NT incremental rates are shown below:

  H. INCREMENTAL COST RATES (from PTP)
  The rates specified in section II. are applicable to service over available transmission capacity. Customers requesting new or increased firm service that would require BPA-TS to construct new facilities or upgrades to alleviate a capacity constraint may be subject to incremental cost rates for such service if incremental cost is higher than embedded cost. Incremental cost rates would be developed pursuant to section 7(i) of the Northwest Power Act.

  H. INCREMENTAL COST RATES (from NT)
  The rates specified in section II are applicable to service over available transmission capacity. Network Customers that integrate new Network Resources, new Member Systems, or new native load customers that would require BPA-TS to construct Network Upgrades shall be subject to the higher of the rates specified in section II or incremental cost rates for service over such facilities. Incremental cost rates would be developed pursuant to section 7(i) of the Northwest Power Act.

Formula Incremental Rate

- New transmission infrastructure required to meet new requests for service are subject to the “higher of” test, sometimes referred to as the “or” test. Under this test, BPA-TS may charge the higher of the embedded cost rate with the new facilities included, or an incremental cost rate that fully recovers costs over the contract term from the new requests.

- Application of the “or” test and proceeding with development of an incremental costs rate is at the Agency’s discretion. BPA-TS has never imposed an incremental cost rate, but we may be facing the possible need to make offers of transmission service at an incremental cost rate within the FY10-11 rate period as discussed with customers during Network Open Season.

Formula Incremental Rate

- **Benefits of a Formula Incremental Cost Rate**
  - May reduce the time required to offer service at incremental cost rate.
  - As additional users of specific facilities take service, the rate could be adjusted downward without going through a full 7(i) process. Eventually, the incremental cost rates may converge with the embedded cost rate and the incremental cost rates may be extinguished.
- **Challenges of Developing a Formula Rate**
  - Facility cost estimates at the time the incremental costs rate is offered (at the conclusion of NEPA process) may be different from final actual costs, yielding some cost shift risk. We believe this risk is not large. We can adjust the rate by mutual agreement, but not unilaterally.
  - We expect to address the challenge of cost allocation amongst Network customers through public process to vet the facility costs and reliability benefits, upward rate pressures to embedded costs rates, and the financial risks.

Formula Incremental Rate

Possible form of Formula Incremental Rate:

For PTP, the formula rate could be fairly straightforward, assuming we have good project costs and well-defined reliability benefits. For example:

A. Incremental Project Costs are determined by the Total Project Costs for the new facilities (including operation and maintenance), minus the project costs allocated to embedded costs rates, plus the costs associated with accelerating facilities that would otherwise be constructed within 10 years by BPA-TS for reliability purposes. Costs allocated to embedded costs rates include the total costs of reliability projects displaced by the new facilities and the value of deferring a planned reliability project to a future date.

The monthly charge per kilowatt of billing demand shall be one-twelfth of the sum of the annual cost of the FCRTS facilities used divided by the sum of Transmission demands/capacity reservations.

Formula Incremental Rate

Possible form of Formula Incremental Rate:

The annual cost per kilowatt of Transmission Demand/capacity reservation for a facility constructed or otherwise acquired by BPA-TS shall be determined in accordance with the following formula:

A/D

where:

A = The annual cost of such facility based on the Incremental Project Costs determined in accordance with A above, amortized over the term of the transmission service request.

D = The reserved Long Term Firm PTP transmission service

1. For facilities used solely by one customer, BPA-TS may charge a monthly amount equal to the annual cost of such sole-use facilities, determined in accordance with section A, divided by 12.
2. For facilities used by more than one customer, BPA-TS may charge a monthly amount equal to the annual cost of such facilities prorated based on relative use of the facilities, divided by 12.

FY2010-11 Transmission Rate Case Revenues and Sales Forecast

FY 2010-11 Rate Case Revenue Forecast at Current Rates

	($ in millions)	(A)	(B)	(C)	(D)	(E)	(F)
		Actuals Based on FY 2006/2007 Rates		Forecast Based on FY 2008/2009 Rates			
		FY 2006 Actuals	**FY 2007 Actuals**	**FY 2008 Q3 Forecast**	**FY 2009 SOY Forecast**	**10 Rate Case FY 2010 Forecast**	**10 Rate Case FY 2011 Forecast**
	Network						
1	Formula Power Transmission (FPT)	36.4	33.7	30.3	28.6	24.5	24.2
2	Integration of Resources (IR)	81.5	78.0	72.6	72.4	39.0	26.2
3	Network Integration (NT)	107.6	118.6	121.6	122.3	128.9	131.5
4	Long-Term Point-to-Point (PTP)	209.0	241.7	275.2	289.3	337.9	351.9
5	**Sub-total Long-Term Network**	**434.5**	**472.0**	**499.8**	**512.6**	**530.3**	**533.8**
6	Short-Term Point-to-Point (PTP ST)	41.2	23.5	19.3	21.2	21.2	21.2
7	**Total Network**	**475.6**	**495.5**	**519.0**	**533.8**	**551.5**	**554.9**
	Intertie						
8	Long-Term Intertie South (IS)	80.2	78.4	84.4	82.4	84.0	83.5
9	Short-Term Intertie South (IS ST)	6.1	6.2	3.9	4.4	4.4	4.4
10	Montana Intertie	0.1	0.2	0.3	0.3	0.3	0.3
11	**Total Intertie**	**86.4**	**84.9**	**88.6**	**87.1**	**88.6**	**88.2**
12	Utility Delivery Segment	2.7	2.9	2.8	2.7	2.8	2.5
20	**Adjustable Transmission Rates**	**564.7**	**583.2**	**610.4**	**623.6**	**642.9**	**645.6**
21	Revenue Credits	55.3	53.7	51.4	50.6	51.1	50.5
22	**Rate Case Revenues**	**620.0**	**636.9**	**661.8**	**674.3**	**694.0**	**696.1**

1 Contingency energy is not forecasted (FY09-11), but is accounted for in actuals (FY06-FY08).
2 Energy & Generation Imbalance is not forecasted (FY09-11), but is accounted for in actuals (FY06-08).
3 Forecasts do not reflect current market conditions.

FY 2010-11 Rate Case Sales Forecast (MWs)

	Rate	(A) FY07 Actuals 1/	(B) FY08 Actuals 2/	(C) FY09 SOY	(D) 10 Rate Case 2010 Forecast	(E) 10 Rate Case 2011 Forecast
	Network					
1	Formula Power Transmission (FPT)............	2,371	1,893	1,814	1,524	1,497
2	Integration of Resources (IR)...............	4,334	4,015	4,009	2,163	1,456
3	PTP Executed.............................	16,584	17,666	17,689	17,899	16,059
4	PTP Expectation..........................	-	-	870	3,780	6,519
5	Long-term Point to Point (PTP LT)...........	16,584	17,666	18,559	21,679	22,577
6	Network Transmission (BASE), 12CP...........	6,183	6,038	6,158	6,453	6,584
7	Network Load Shaping (NT_LS), 12CP..........	6,441	6,275	6,574	6,710	6,841
8	PTP Short Term (PTP ST).....................	971	1,528	893	891	891
9	**Network Sub-total 3/......................**	**30,443**	**31,140**	**31,433**	**32,710**	**33,005**
	Southern Intertie					
10	IS Executed..............................	5,388	5,470	4,054	3,596	3,344
11	IS Expectation...........................	-	-	1,257	1,815	2,036
12	Long-term Southern Intertie (IS LT).........	5,388	5,470	5,311	5,411	5,380
13	IS Short Term (IS ST)......................	137	219	210	209	209
14	**Southern Intertie Sub-total..............**	**5,525**	**5,689**	**5,521**	**5,620**	**5,589**
15	**Montana Intertie..........................**	**16**	**16**	**16**	**16**	**16**
16	**Utility Delivery Charge...................**	**213**	**198**	**204**	**207**	**185**

1/ Some demands from 2007 SOY Forecast

2/ Some demands from 2008 Q3 forecast

3/ Network Average Annual growth (2007 to 2011) = 1.7%

4/ WI-09 Analysis, projected forward pending WIT studies

FY 2010-11 Rate Case Sales Forecast Assumptions

NETWORK

Line #	Category	Description	Assumption
1	Formula Power Transmission (FPT)	Legacy long-term agreements (executed prior to October 1, 1996) used to move non-federal power across the Federal Columbia River Transmission System (FCRTS) to regional Investor Owned Utility (IOU) loads. When these contracts expire or terminate the customer may rollover (continue to take service) to Open Access Tariff Transmission (OATT) sevice, most likely to Point-to-Point (PTP) service. The FPT rate which has a distance-based component is applied to the contract demand.	Executed agreements. Any contracts that expire rollover to PTP
2	Integration of Resource (IR)	Legacy long-term agreements (executed prior to October 1, 1996) used to move non-federal power across the FCRTS to regional IOU loads. When these contracts expire or terminate the customer may rollover to OATT service, most likely to PTP service. The IR rate is set at the PTP rate, including the two required ancillary services, and applied to the contract demand.	Executed agreements. Any contracts that expire rollover to PTP
3	Network (NT)	This OATT service is used to move federal and non-federal power across the FCRTS to load. Transmission must plan the transmission system to serve NT load growth. These agreements are normally of a twenty or more years duration. NT customers are charged for service based on their load on the hour of their monthly transmission peak.	Total retail load MWH average growth of 2.3%. Please see the Load Forecasting assumptions.

FY 2010-11 Rate Case
Sales Forecast Assumptions

NETWORK

Line #	Category	Description	Assumption
	Long-term Point-to-Point (PTP)	This OATT service is used to move federal and non-federal power across the FCRTS to any point of delivery on the FCRTS (for load service or marketing purposes). Long-term contract demand agreements rate from one year to thirty years in duration. PTP customers may exercise rollover right to extend service at the agreement termination date. PTP customers are charged for service based on contract demand.	
		EXECUTED	Executed agreements.
4		EXPECTATION	FPT contracts that expire are forecasted to be rolled over to a Long-term PTP contract. There is only one FPT contract that is assumed to have converted from an FPT contract to a PTP in FY 10. The contract is with PAC for 400MWs. The average revenue increase was approximately $6.0 million per year.
			IR contracts that expire, are forecasted to be rolled over to a Long-term PTP contract. There are two contracts that are assumed to have converted from an IR contract to a PTP in FY10. The contracts are with PGE for a total of 2,218 MWs. In addition there was IR contract that expires in FY 11 that assumed to be converted to a Long-term PTP. The contract is with PSE for 23MWs. The average revenue increase for these three contracts was approximately $28.6 million.
			All eligible contracts are assumed to rollover, except for one customer that has decided not to rollover. The average rollover revenue increase for FYs 2010 and 2011 is $ 46.8 million.
			Some customers that requested deferrals for their PTP service are expected to commence service during FYs 2010 and 2011. During FY 2010, 2 customers are expected to commence service for 112 MWs, while during FY 2011, 1 customer is expected to commence service for 300 MWs. The average revenue increase for FYs 2010 and 2011 is $27.5M per year.
			During FY 2010, 3 customers with a total of 130 MWs are forecasted to start their service under Network Open Season (NOS) requirements. During FY 2011, 3 customers with a total of 230 MWs are forecasted to start their service under Network Open Season requirements. The average revenue increase is expected at $5.7M per year.
			There are 2 customers expected to purchase PTP service under Conditional Firm requirements that impact revenues during FYs 2010 and 2011. The expected average revenue increase is $1.5M per year.
	Short-term PTP	Forecast short-term PTP sales	Network sales are based on historical sales over the last 6 years.

FY 2010-11 Rate Case
Sales Forecast Assumptions

SOUTHERN INTERTIE

Line #	Category	Description	Assumption
	Long-term Intertie South (IS)	PTP service on the Southern Intertie (AC and DC). They are used to move federal and/or non-federal power across the Southern Intertie. Long-term contract demand agreements are at least one year in duration. IS customers may exercise rollover rights to extend service at the agreement termination date. IS customers are charged for service based on contract demand.	
		EXECUTED	Executed agreements
			All eligible contracts are assumed to rollover.
5		EXPECTATION	COI upgrade was assumed not to energize until the end of 2011. Therefore no COI sales were included for IS in this rate period.
6	IS Short-term	Forecast short-term IS sales	Intertie sales are based on historical sales over the last 6 years.

Revenues Risks

- PTP is the largest revenue risk with an average revenue risk of over $60 million
  - NOS revenues
  - Deferrals taking service
  - Conditional firm
  - Rollovers or conversion to PTP service
  - TSRs associated with LGIA
- Load Forecasting
- Revenue assumptions do not reflect the recent financial market downturn.

Preliminary Transmission Rate Projection for FY10-11

$ in Millions

	Average TR-08	2010	2011	Average TR-10
Revenues	$772	$850	$856	$853
Expenses	365	454	462	458
Net Operating Margin (Line 1 - line 2)	407	396	394	395
Depreciation	195	193	205	199
Net Interest	160	152	170	161
Net Revenues (Line 3 - line 4 - line 5)	53	51	19	35
MRNR	30	57	57	57
Over-run/(Under-run)	$ 23	$ (6)	$ (38)	$ (22)
Average Over-run/(Under-run) August Forecast		(22)		
Estimated Effect on Average Rates	-4%	4%		

($6.2m change = 1% change in rates)

Key Assumptions for Preliminary Rate Projection for FY10-11

- Assume no change in approach to LGIA and associated Transmission Service Requests (TSRs).
- Assumed revenues included in presentation.
- Assumed revenue requirements included in presentation.
- Average revenues during the rate period is $853 million.
- Average expenses during the rate period is $458 million.
- Using the above assumptions, the Minimal Required Net Revenues (MRNR) average during the rate period is $57 million.
- Overall general rate increase is ~4%.