

BP-14 Power Rates Workshop

August 9, 2012



AGENDA

August 9, 2012
9:00 a.m. – 12:00 p.m.

- Introduction
- Tier 2 Rate Issues
- Rate Schedules and General Rate Schedule Provisions Issues
(separate hand-out)
- New Large Single Load Issues
- Power Rates Risk Overview



Tier 2 Rate-Related Issues for BP-14

Issue List for “ Relatively Easily Resolved” Matters

- **Issue:** Remarketing credit for customers who oversubscribed to a Vintage rate amount or Specified Resource taking DFS.
- **Proposed Resolution:** Base remarketing credit on a market price forecast using the same rates as the Load/Resource Shaping Rates, less a remarketing fee.
- **Issue:** Remarketing credit for the one Slice/Block customer taking 1 aMW of Tier 2 Short-Term service in FY 2014, in the even it exercises its PSC section 10 Tier 2 remarketing right next summer.
- **Proposed Resolution:** Base remarketing credit on a market price forecast using the same rates as the Load/Resource Shaping Rates, less a remarketing fee. In the future we may propose to formula-adjust the market price forecast to better match the remarketing notification timing in the Slice/Block PSC.



Issue List for “Relatively Easily Resolved” Matters, Continued

- **Issue:** Conversion/Modification cost calculation for Short-Term rate customers who either converted to a Vintage rate amount or Dedicated Resources.
- **Proposed Resolution:** As of right now there are no costs assigned to the Short-Term rate pool so there are no damages resulting from the changes to elections that customers have elected thus far. So we propose no change to what is in the PRS at this time.

If a customer requests to change their elections by October 31, 2012, and BPA has procured power for the Short-Term rate pool before receiving its request, then this proposal needs to be re-evaluated. We have a proposed approach that we developed prior to the last rate case and can use that as the basis of our future evaluation should the need arise.



“Less Easy to Resolve Issue”: Remarketing Credits within a Cost Pool

- **Issue:** In December 2011, BPA purchased an addition 5 aMW five-year block of power when purchasing for the VR1-2014 Vintage rate, based on the then current forecast of the Load Growth rate need (four customers with ~5 aMW of load forecast in FY 2015).
- Since then the load forecast for the pool has come down to 1.6 aMW. This load is associated with one single customer.
- The TRM section 3.4 , states that once a purchase is made for an intended cost pool the costs remain with that pool.
- If the purchased amount then exceeds the load, the excess power can be reallocated to another Tier 2 cost pool, if there is a need. The reallocation or marketing will be forecast to occur at the market price of power during the period when the reallocation occurs, as forecast in the 7(i) process.
- In the event there is no load associated with the cost pool then the difference in value between the cost of the power and remarketing credit gets assigned first to another Tier 2 cost pool (without specification of which pool), if one exists, and if not, to Tier 1.



Remarketing Credits within a Cost Pool

- The applicable Tier 2 power purchase cost in FY 2015 is will be shared as part of the Initial Proposal.
- Current forecasts from Aurora for FY 2015 (i.e., the basis for the Load Shaping Rates) are well below the purchase price we got for the power (~\$10/MWh).
- Flat blocks of power traded forward on ICE on 7/27/2012 at ~\$2.40 less than the purchase price we got for the power.
- Flat blocks of power using an average of prices traded by parties that were surveyed by one of our external consultants would be valued at a rate ~\$1.50 less than the purchase price we got for the power.
- It must be noted that our purchase for FY 2015 also includes the cost of a \$10 million letter of credit provided by the seller.



Illustration of Remarketing Credit Rate Impact

- Our current thinking is to propose to use a month's average of forward ICE price when the Tier 2 amounts are locked down in August as the basis of the mark-to-market for this remarketing because we could go out at that point and remarket. Aurora is more a forecast of what market prices would be once we got to FY 2015.
- Assume a remarketing fee that equals a Tier 2 rate overhead fee, at \$1/MWh.
- The rate impact to the one remaining customer is a higher rate by ~\$7/MWh. One could argue that if we were just reallocating to the Short-Term rate pool, there should not be a remarketing fee assigned. Without the \$1/MWh remarketing fee, the rate impact to the one remaining customer is a higher rate by ~\$5/MWh.
- It could be argued that this outcome, while consistent with the TRM, causes undo harm to one single customer that did not subscribe to a specific amount of service (unlike the Vintage rate customers) but signed up to have BPA manage meeting the LGR customers combining longer and shorter term purchases.



Possible Mitigation of Price Impact

- The Tier 2 team has been brainstorming possible mitigation proposals to offset the impact borne by this one customer:
- Alt. 1: Surcharge future LGR customers for the cost of the power incurred in FY 2015 but not needed by that pool until later. In this alternative, in the event the actual remarketed power proceeds (from remarketing/reallocating the power to the Short-Term rate pool) are not sufficient to recover the remaining costs of the LGR cost pool, BPA would track the costs in excess of proceeds and customer assignable costs, allowing for rate mechanisms to provide for future recovery from the rate pool.
- Alt. 2: ID the customers who's loads were the basis for the forecast amount in FY 2015 on which we originally based our purchase and charge them the difference in value for the amount they no longer need.
- Alt. 3: Propose in the IP that the base case is what is described on page 4, and have as an alternative one of the alternatives described above if certain criteria are met by the time of the Final Proposal.



Next steps

- BPA has not settled on one methodology to propose in the rate case initial proposal.
- We want to hear from customers regarding their opinions of these alternatives or if they have others for us to consider.
- Questions? Comments?



New Large Single Load Issues for the BP-14 Rate Case

Overview

- BPA's NLSL policy, Regional Dialogue policy and power sales contracts and Tiered Rate Methodology (TRM) provide guidance on load service for New Large Single Loads (NLSLs.)
- Recently, BPA published a set of NLSL FAQs to address customer questions. The development of the FAQ answers raised certain product- and rates-related issues that have not been fully resolved.
- Specifically for NLSL-related load service scenarios, certain questions remain:
 - will BPA provide load shaping service where non-federal resources are serving NLSL loads?
 - if so, what will be the rate treatment?



Issue (from NLSL FAQs)

Load Shaping

Can a utility elect to serve an NLSL with a combination of non-federal resources and power purchased from BPA at the NR rate?

No, in accordance with the RD power sales contracts, a Load Following customer must elect to use non-federal resources *or* power purchased from BPA at the NR rate. Slice/Block customers already agreed to use non-federal resources.

However, since BPA offers a load shaping service to Load Following customers, **BPA will discuss and consider developing a proposal for an NR-priced load shaping product. Conceptually, this would allow a load following customer to dedicate and deliver an amount of non-federal resource to an NLSL to meet the load on a *planned* basis, with BPA following the load at an NR load shaping rate.**



Load Shaping (cont.)

Will a load following utility receive a credit for any non-federal resource amount that is delivered in excess of the metered load at the NLSL?

Consistent with the take-or-pay provisions of the Agreement, if in any hour the resource amount delivered is greater than the metered load at the NLSL, then for billing purposes the utility does not receive any credit for that excess resource amount. However, **BPA will discuss in the upcoming rate case the potential to develop an NR-priced load shaping product that could potentially provide load shaping charges/credits for Load Following customers.**



Staff's Current Thinking

- **Rate Treatments:**
 - BPA may propose credits and charges applied to the net NLSL load [NLSL Load less Resource]. This can be set up in one of two ways, both approaches would net to the same total amount paid to BPA.
 - **Approach 1: Charge or credit at the NR rates with an end of year true-up.** At the end of the year, BPA would sum the MWh billing determinants used to calculate the charges and credits throughout the year. If this sum of these billing determinants was a positive amount, no true-up would apply. A positive amount means BPA served a portion of the NLSL and the NR rate should apply. If the sum was a negative amount, a true-up would apply. A negative amount means BPA credited the customer for excess generation at the NR rate. The true-up would be equal to the sum of MWh billing determinants (multiplied by -1) times a \$/MWh value as posted in the GRSPs. The posted value would be equal to the difference between the NR rates and the forecast market price of power.



Staff's Current Thinking (cont.)

- **Approach 2: Charge or credit at the forecast market price of power (equivalent to the load shaping rates in the PF rate schedule) with an end of year true-up.** At the end of the year, BPA would sum the MWh billing determinants used to calculate the charges and credits throughout the year. If this sum of these billing determinants was a positive amount, a true-up would apply. A positive amount means BPA served a portion of the NLSL at the forecast market price of power and not at the posted NR rate. The true-up would be equal to the sum of MWh billing determinants times a \$/MWh value as posted in the GRSPs. The posted value would be equal to the difference between the NR rates and the forecast market price of power. If the sum was a negative amount, a true-up would not apply. A negative amount means BPA credited the customer for excess generation at the forecast market price of power.



Staff's Current Thinking (cont.)

- The NR demand charge would not apply to any NLSL load if the planned load is entirely served with non-federal resources.
- If the NLSL is planned to be served by BPA, the NR rate schedule would apply, including both NR energy charges and NR demand charges.
- **Risks to BPA and/or other customers (both alternatives):**
 - Decrease in market price. If actual market price is less than that forecast for rates, then credits to customer would be more than observed market conditions.
- **Contract/products actions needed:**
 - Contract terms for load shaping service not covered by the NR rate GSRPs would be developed and stated in Exhibit D to the RD contracts.



Power Rates Risk Overview

- Current view of revenue and reserves risks
 - 2013 Start of year reserves
 - Market price risk
 - TPP implications
 - CRAC implications
- PS TPP Reliance on Reserves Attributed to TS
- Net Secondary Revenue crediting methodology
- Risk topics in upcoming workshops
 - Need for a new NFB-like mechanism
 - Application of Risk Mitigation to Reserves-Based ACS Rates

