

BPA in an Allocated World

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Principles

Overriding Principles

- PPC Allocation Principles
 - Treat all public power utilities in a fair and equitable manner
 - Be broadly acceptable to public power utilities
 - Be transparent and understandable

Overriding Principles (cont)

- Additional Principles embodied in Allocation proposal
 - 100% of the FBS power (less system obligations and pre-existing contracts) goes to public power
 - Benefits to the IOU's would be via financial payments only.
 - The FBS allocation will be a percentage share of the ACTUAL output of the FBS
 - The allocation % would be fixed for at least 20 years in long term contracts starting in FY 2012
 - Budget control, actual spending control, and contract dispute resolution will be implemented

Overriding Principles (cont)

- Product and Cost Principles embodied in Allocation proposal
 - Public's can choose slice, full or partial requirements, or block
 - Individual Slice/JOE customers would pay their allocation % of BPA costs
 - Requirements and block customers would pay their allocation % of BPA costs, plus the costs to convert to requirements or block service
 - Customers requesting BPA augmentation would pay the cost of such augmentation

PPC Methodology

- Percentage share of actual output of FBS
- Numerator based on FY 2002 Contracted or Forecasted Net Requirement
- Special case adjustments added 129 aMW
- Denominator is the sum of all preference customers allocated share or 6789 aMW
- PPC unanimously agreed with process



Summary of PPC Proposal

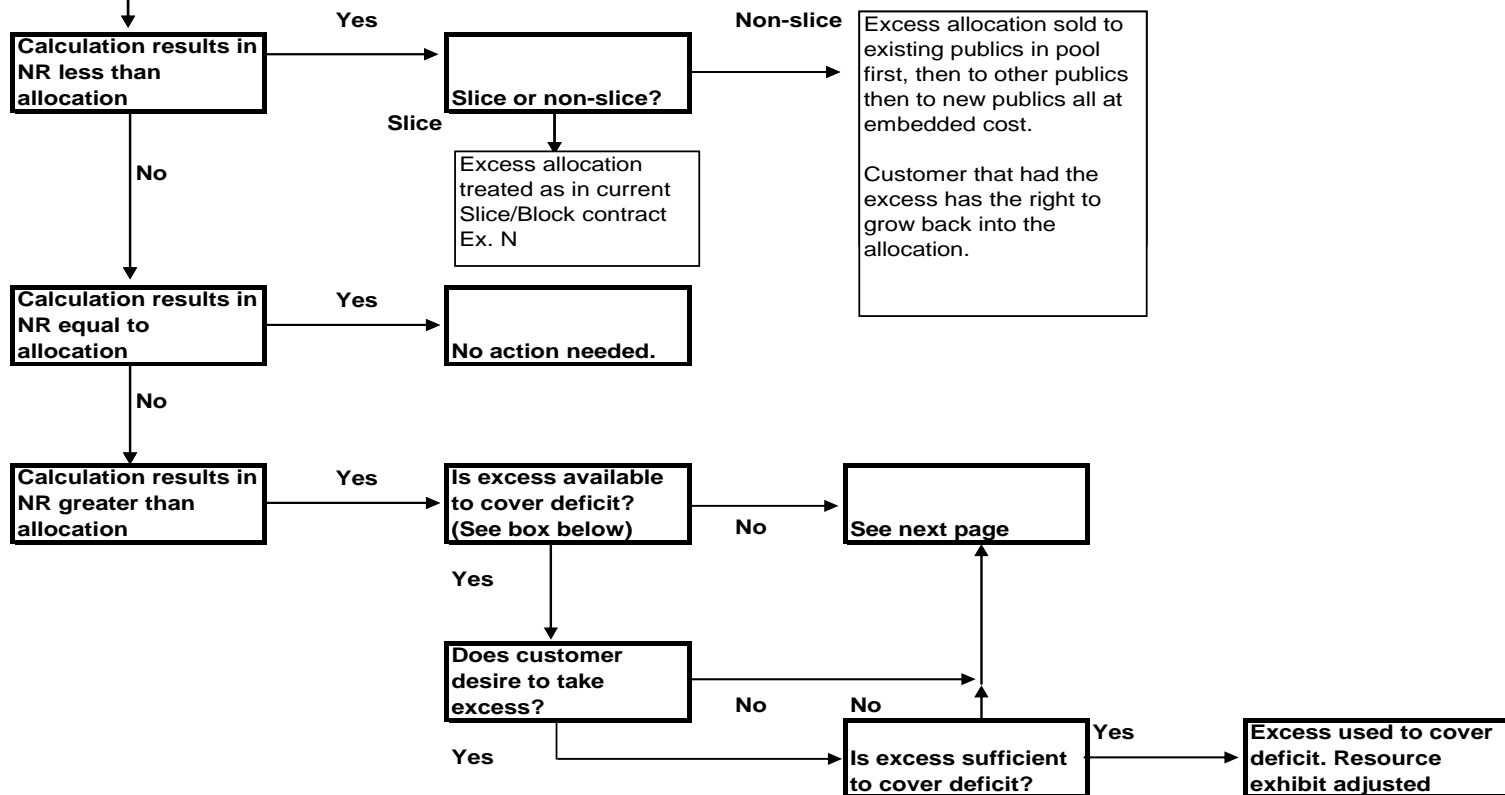
Customer Class	FY 2002 Load (aMW)	Adjustment by Class (aMW)	Adjusted FY 2002 Load (aMW)	Percent Allocation of FBS
Full Requirements	2,120	add 43	2,163	31.9%
Partial Loads	1,024	add 16	1,040	15.3%
Block	845	add 60	905	13.3%
Slice Block	1,054	add 10	1,064	15.7%
Slice	1,617	add 0	1,617	23.8%
Total	6,660	add 129	6,789	100.0%

BPA Issues/Answers

- Issues raised by BPA over allocation
 - Treatment of allocation entitlements that exceed the preference customer's net requirement
 - Undeclaring resources
 - Incremental cost service
 - New resource services
- The following two slides attempt to address these issues in a flow chart manner

Comparison of Individual Customer's Net Requirement to its FBS Allocation

Annual (or rate period) net requirements (NR) determination. BPA will perform periodic NR determinations similar to today's Ex. C process. Customers will have the option of undeclaring non-federal resources. The NR will be compared to the firm allocation (High Water Mark) and differences will be determined.



Excess from a pool goes to other pools based on: 1) Prorate to deficit POOLS based on amount of forecasted incremental cost rate power needed 2) Prorate to deficit CUSTOMERS based on amount of forecasted incremental cost power needed

Net Requirement Greater Than Allocation

Calculation results
in NR greater than
allocation

yes

long term
resource
purchase
commitment
with BPA

Resource
Decision

Incremental cost service
(No long term commitment)

Load following customer ?

No

Yes

customer
responsibility

Box B

Customer provided
resource

Customers electing this option will be responsible for providing monthly blocks based on the net requirement determination. Unauthorized increase charges will be levied for hours the resource is not provided.

Box A

Portfolio of renewable
resources, or long or short-
term resources

The customer will commit in an exhibit to take the product for a specified term.

Green/Renewable Products are rates based on the forecast costs of the resource type provided as established in the BPA rate case. Customer pays the applicable rate.

Named Resource Product provides power from a specific resource. Customer pays the actual costs of the resource.

In both Green/Renewable and Named Resource Product, BPA's acquisition commitment is limited to the duration of the customer's purchase commitment.

Box C

Standard incremental
cost rate product for
block or slice/block.

The customer selecting this option will commit in an exhibit to take the product in monthly block quantities. The duration will also be established in the exhibit.

Note: For those customers in the TBL control area, standard imbalance charges will be assessed for loads in excesses of total resources (allocation, customer and standard incremental)

Box D

Standard incremental cost rate
product for load following customers
(full and partial)

BPA will provide and charge/credit load following customers for this service based on the following monthly calculation:

$(\text{Actual load} - \text{Resources} - \text{Allocation} \pm \text{Shaping Resources}) \times (\text{Rate})$

Notes:

Resources would be determined by a process included in Ex. C.

Shaping Resources are customers % share of purchases/sales BPA included in the most recent rate case to shape the critical FBS to serve its firm load.

Operational Model and Cost Control

The following slides are Benton PUD concepts and are not part of the PPC Allocation Proposal

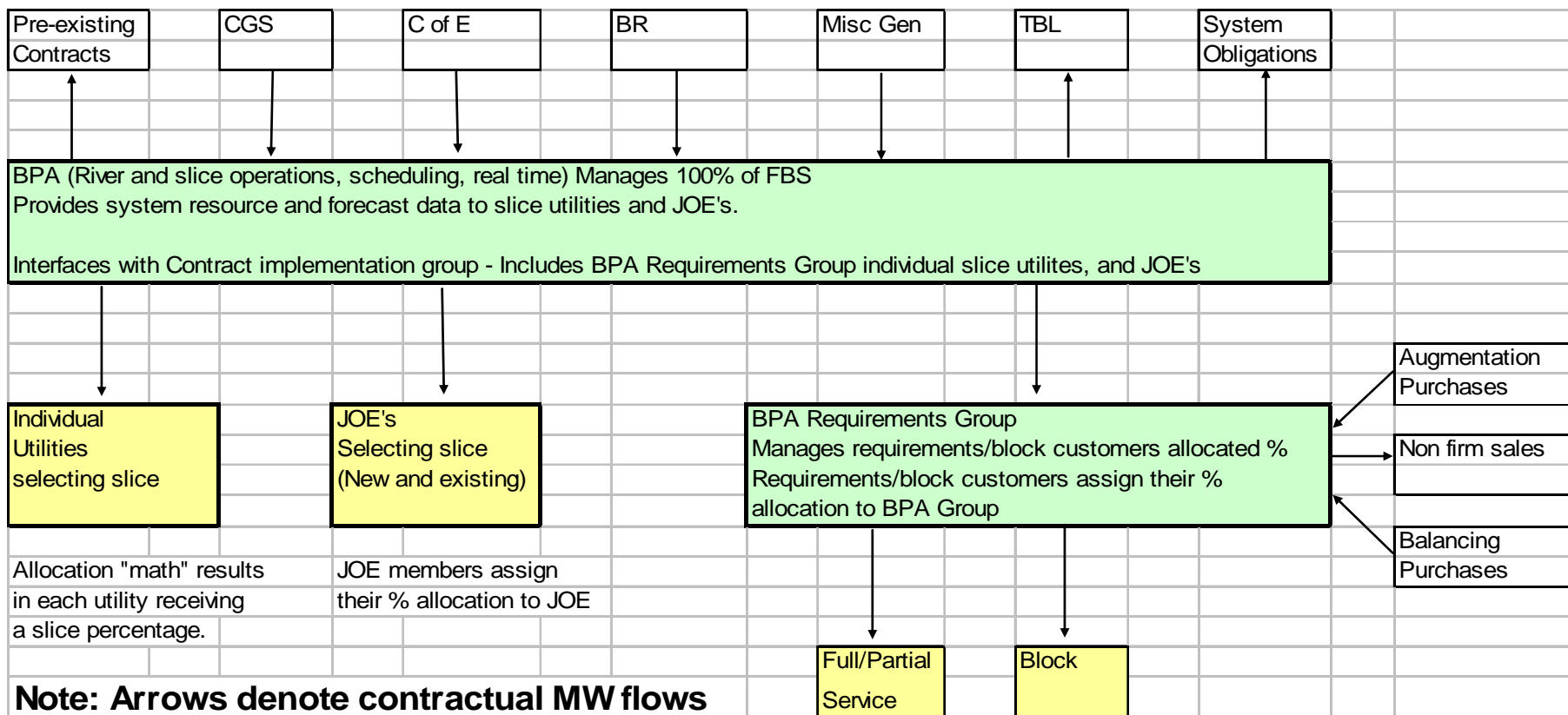
Operational Model

- BPA operates 100% of system
- Customers select service(s) of their choice such as:
 - Full/Partial requirements
 - Block
 - Slice, individual utility manages allocation %
 - Group of customers can select existing or new Joint Operating Entities (a JOE must have been in existence as of 1998) to manage their allocation %

Operational Model

- BPA manages Requirements, Block Allocation %
 - Requirements/Block customers assign their allocation % to BPA group
 - BPA group manages the aggregate allocation % assigned to them on behalf of the customers to deliver full requirements type service(s)
 - BPA group, JOE, and individual slice utilities coordinate technical requirements with BPA through a Contract Implementation Group.

Operational Model



Cost Control

Cost Control Principles

- BPA customers' interests (Publics, IOUs and others) are aligned and focused on BPA's revenue requirement (RR) and spending.
- Customers have made it clear that they cannot sign long-term contracts without meaningful cost control provisions.
- The following model is one of several being discussed by the Joint Customers. It may require legislation.
- Under this model, cost control would be contained in the long term contracts and these contracts would be ratified and approved by Congress, "notwithstanding other laws to the contrary" .

Revenue Req. Control

- BPA staff develops an initial RR that is submitted to a Purchaser Committee (PC) and other interested parties
- The PC reviews the RR submittal and determines if negotiations with BPA on appropriate RR levels are necessary
- If negotiations are unsuccessful, certain areas may be submitted to binding arbitration based on a super majority of PC
- Legal obligations (i.e. fish costs) would not be subject to arbitration, except for implementation of BPA discretionary funding

Revenue Req. Control

- Existing BPA Contracts allow certain areas to be submitted to binding arbitration. The PC could vote to ask BPA to submit a disputed issue to binding arbitration.
 - CGS O&M
 - Bureau of Reclamation O&M
 - Corps of Engineers O&M
 - Long Term Generating Projects
- Additional unique areas may need to be submitted to binding arbitration
 - BPA (and generation partners) capital spending. However, RR for federal and non-federal debt service, consistent with repayment study, not subject to arbitration.
 - IOU benefits. Only to extent that BPA has discretion in providing benefits.

Revenue Req. Control

- The following categories would be subject to binding arbitration if disputed.
 - Operating Generation Settlement Payments
 - Non-Operating Generation
 - Power Non-Generation Operations (PBL Internal Costs)
 - Transmission
 - Renewable Generation
 - Conservation Generation
 - G&A/Shared Services

Revenue Req. Control

- The following items may need arbitration provisions, but are the responsibility of the requirements/block customers and typically resolved in rate cases.
 - Contracted power purchases
 - Augmentation Power Purchases
 - PBL Transmission Acquisition (for secondary revenues)
 - Ancillary Services
 - BPA staff and G&A costs associated with these functions
 - Planned net revenue for risk (i.e. reserves)

Spending Control

- The PC would monitor actual spending on a monthly basis (similar to current reporting but include CEO level in the customer group)
- The monthly/quarterly reports would include a projection of annual spending and the difference from the RR.
- This difference (positive or negative) would be monitored closely by the PC
- PC could determine if BPA Staff and administrator would receive incentives for negative differences
- If the difference becomes positive:
 - On an ongoing basis (monthly or quarterly), if BPA projects actual spending exceeding final budget, BPA provides revisions to final budget as amendment and any disputes are resolved through above arbitration process.

Cost Segregation

- Cost segregation will be an important element in an allocated world
- Customers will need cost separation principles set out in contracts with clear dispute resolution provisions
- There will need to be a clear process for determining which BPA power purchases and sales belong to
 - Embedded cost purchases (paid by all allocation customers)
 - Balancing, shaping purchases and non firm sales (paid by full, partial and block customers)
 - Incremental purchases (paid by those choosing this service)
 - New resource purchases (paid by those choosing this service)
 - The following slide shows how cost should be separated

Assignment of Embedded Costs Under an Allocation (Arrows denote the flow of Costs)

(Note: These major categories of costs map to the major categories in the Power Function Review (PFR))

