

## **Bonneville Power Administration Product Issue Scoping Document**

### **Terms and Conditions of Service to Meet Tier 1 and Tier 2 Loads**

#### **Background**

In the Regional Dialogue Proposal, BPA outlines at a high level how it plans to tier its rates and service to meet the future requirements load placed on it by establishing a High Water Mark (HWM) for each of its preference customers. Under the proposal, a customer will choose what level of BPA service it wants in order to meet its Tier 1 load (*i.e.*, up to its HWM) and its Tier 2 load (*i.e.*, beyond its HWM). BPA will conduct a public process to develop the terms and conditions for the Tier 1 and Tier 2 service generally described in the Regional Dialogue proposal. This process will be initiated, on an informal basis prior to publishing the Final Record of Decision and Final Policy (currently anticipated in March 2007) to expedite the formal phase implementing the Final Regional Dialogue Policy. BPA's intention is to produce a product catalog by the conclusion of the product development process (including a formal comment period on a draft catalog) by summer 2007 to integrate with the Tiered Rates Methodology 7(i) and with contract drafting.

**Regional Dialogue Interests:** Lowest Costs and Tier 1 Rates, Durability/Stability/Contract Enforceability, Customer/Regional Support and Equity, Certainty of Obligations for All Parties, Promote Infrastructure Development Consistent with the Northwest Power Act, Consistency with BPA Stewardship Obligations, Legality, Simplicity, and Advance National Objectives

#### **The specific goals of the product development process:**

- To develop terms of Tier 1 and Tier 2 service that meet the customers' needs, while upholding BPA's statutory obligations.
- To develop terms of service to public customers that maintain equity across the customer groups and create conditions where customers pay for the services they take from BPA.
- To develop products for Tier 1 and 2 service that will promote infrastructure development consistent with the NW Power Act.
- To develop products for Tier 1 and 2 service that are durable and supported by the region.
- To establish a set of Tier 2 pricing options that do not advantage or disadvantage a customer's BPA purchase compared to a utility-acquired resource.

#### **What are the broadly-accepted principles to guide the product development process?**

TBD

## Issue Areas for Tier 1 and Tier 2 Service

<b><u>Requirements Service</u></b>	
<b><u>Load Following Product</u></b>	
<b>Service for Tier 1 Loads</b>	<p>What should be the rules for existing resources:</p> <ul style="list-style-type: none"> <li>* small (3MW), non-dispatchable</li> <li>* not “small” (&gt;3MW) and non-dispatchable</li> <li>* not “small” (&gt;3MW) and dispatchable</li> </ul> <p>“Existing” as of when?—Contract signing? FY11 HWM calculation? When power deliveries begin in FY12?</p> <p>How to treat wind resources?</p> <p>How should BPA treat consumer-owned resources?</p> <p>When to make initial resource declaration?</p> <p>How long will declaration last?</p> <p>What service will BPA offer to follow the load of a customer with declared dispatchable resources?</p>
	Limited resource removal rights for load loss during the rate period.
	Tier 1 power includes transmission losses.
<b>Service for Tier 2 Loads</b>	<p>At contract signing, customer must make initial election of how it wants to have its Tier 2 load met. This will provide BPA with required three-year notice regarding its obligation to serve Tier 2 loads. At a minimum, the chosen arrangement will last for the first five years of power deliveries under the new contracts. The customer will elect to have BPA provide Tier 2 load service through one of the options described below, or the customer will elect to meet its load beyond its HWM with non-federal resources, or some combination of the two. During the course of the contract period, a customer may choose to change how it is meeting its load needs above its HWM, subject to the required notice provisions and commitment periods.</p>
	<p>Need to establish rules for bringing non-federal resources to meet a customer’s load beyond its HWM:</p> <ul style="list-style-type: none"> <li>* For example, customer should not be able to schedule its non-federal resource to serve its net requirement above its HWM in just April and May.</li> </ul> <p>What are other rules regarding shape?</p> <p>How to calculate additional fee or credit for shape that differs from the benchmark shape?</p>

	<p>How to incorporate a customer supplying a portion of its T2 requirement and depending on BPA for remainder?</p> <p>How does the transmission process for integrating non-federal resources into an NT transmission contract work?</p> <p>How to treat renewable resources?</p> <p>When should the resource declaration be done? And how long should it last?</p>
<b>Other Issues</b>	Meeting energy and capacity resource adequacy standards

<b>Block</b>	
<b>Service for Tier 1 Loads</b>	<p>Rules for shaping T1 block purchase: Hour by hour amounts equal for all LLHs or HLHs within a month? Equal for all months of the year or proportional to the monthly HLH/LLH distribution of the customer's Net Requirement?</p> <p>No change to T1 block shape once established? Annual amount based on comparison between HWM and net requirement determination for each year of the commitment. May be reduced if annual net requirement determination shows that such a reduction is warranted.</p>
	Rules for resource declarations
	Transmission losses are included
	Factoring Service? Shaping Capacity?
<b>Service for Tier 2 Loads</b>	Customer must declare at contract signing what Tier 2 arrangement customer wishes: BPA takes care of Tier 2 load service through one of the pricing mechanisms described below, or the customer will take care of serving its load beyond its HWM, or some combination of the two in which the customer must declare what resource it will apply to meet its load beyond its HWM.
	<p>Need to establish rules for bringing non-federal resources to meet a customer's load beyond its HWM: * For example, customer should not be able to schedule its non-federal resource to serve its net requirement above its HWM in just April and May.</p> <p>What are other rules regarding shape? How to calculate additional fee or credit for shape that is not in form of a flat block?</p> <p>How to incorporate a customer supplying a portion of its T2 requirement and depending on BPA for</p>

	remainder? How to treat renewable resources? How long will resource declaration last?
<b>Other Issues</b>	Meeting energy and capacity resource adequacy standards

<b>Environmentally-Preferred Power (EPP)</b>	EPP will be offered and available to customers purchasing firm power under the PF, RL, NR, and IP rates, but the amount offered will be limited by the availability of EPP resources.
<b>Bundled Product</b>	Will BPA offer a bundled power and transmission product? Is there a limit on the size of utility to which this might be available?

<b>Requirements Service Plus Surplus Power</b>	
<b><u>Slice</u></b>	
<b>Service for Tier 1 Loads</b>	Implementing proposed changes to Slice product. What are the rules for resource declarations? Combine with a Block purchase?
<b>Service for Tier 2 Loads</b>	Tier 2 service from BPA an option for Slice customers?
<b>Other Issues</b>	Meeting energy and capacity resource adequacy standards

<b><u>Additional Detail on BPA Tier 2 Service</u></b>	
<b>General Tier 2 Provisions</b>	<p>Take-or-pay, with potential for BPA to remarket amount of Tier 2 deemed above your net requirement between rate case calculations. Liquidated damages (cost or credit) would be assessed—How to calculate and assign/collect?</p> <p>Should all Tier 2 products have a 3-year notice provision, or should some after power deliveries have begun, have a longer notice provision?</p> <p>Allow product switching?</p> <p>Should we start the contract with just one, generic T2 option (in addition to a renewables option) and then phase in other options?</p>
<b>Default/Short-term</b>	<p>What should be the composition of resources to serve this load?</p> <p>Commitment length is 5 years, with 3-year advance notice to purchase or withdraw. This means that if a customer neither specifies one of the other Tier 2 options nor specifies diversification away from BPA service, it will be assumed that BPA will meet that customer's Tier 2 needs for at least the first five years of power deliveries—and that customer must give notice after the first two years of power deliveries if it wishes something other than this option after the subsequent 3 years.</p>
<b>Long-term</b>	<p>How long should the commitment length be? What can it be legally (i.e., complications with §6(c) of the Act)? What should be the composition of resources to serve this load?</p>
<b>Full Load Growth Coverage</b>	<p>What should the composition of resources be to serve this load? Length of commitment is length of contract.</p>
<b>New Renewable Resources</b>	<p>What composition of resources? Only wind? What should the commitment period be? What can the commitment length be legally?</p>
<b>Conservation</b>	<p>How to make this work as a service to meet Tier 2 load?</p>
<b>Other Alternatives?</b>	

### **Notice to Customers and Participants Concerning Regional Dialogue Workshops and Public Involvement Efforts**

BPA staff will conduct informal discussions with interested parties regarding future implementing actions for certain Regional Dialogue issues, which stem from topics that will be addressed in the Record of Decision BPA plans to issue in February 2007. It is necessary to initiate these preliminary discussions prior to issuing a final ROD and Policy due to the time constraints in our schedule for signing new power sales contracts. Comments received by BPA during the preliminary discussions will be considered as part of the current public comment period ending October 31, 2006. Comment received by BPA after the October 31, 2006 deadline may not be considered by BPA for purposes of evaluating public comment for the Final ROD. However, such comment may be considered in the future if BPA finds it to be relevant in a subsequent public process to implement the Regional Dialogue. For purposes of these preliminary discussions on implementing actions only, BPA will use a working assumption that the July 2006 Regional Dialogue Policy Proposal as BPA proposed will be adopted. BPA assures parties that no decision has been made regarding the Policy at this time by the Administrator but a working assumption is needed to allow a context for the discussion on next steps and implementing actions.