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This is a "think piece" looking at one possible way of pricing Tier 1 products for discussion at the Regional Dialogue Implementation Workshops. This was developed under the auspices of PPC's rates and contracts committee, for discussion purposes – development of this proposal does not imply endorsement by any party.

A Proposal for Pricing of Tier 1 Power Products

1. Tier 1 costs would be collected through a base charge that would collect the costs of the FBS, including augmentation and other costs to be included in Tier 1.

   The Tier 1 base charge would be computed using the Tier 1 revenue requirement, without consideration of such items as the secondary revenue credit and the costs of shaping or load variance. The Tier 1 base charge would be a flat monthly charge for each utility. It would be determined by first converting the lesser of (a) each customer's high water mark (HWM) or (b) each customer's Net Requirements into (c) a percentage of the total HWMs[1] This percentage would be applied to the Tier 1 revenue requirement. The resulting individual customer Tier 1 revenue requirement allocation would be divided by 12 to produce the individual utility monthly base charge. That is, if a customer has a 25 aMW Tier 1 load then it would pay 25aMW/7,400 aMW or 0.034% of the costs of the Tier 1 revenue requirement in 12 equal monthly payments.

   This approach would provide a uniform cost basis for Tier 1 power. It would also permit (but not require) the application of a uniform cost recovery adjustment mechanism to address the risk of over or under recovery of the base Tier 1 revenue requirement. Base charges for Tier 1 service would be trued-up annually or subject to a CRAC type of adjustment.

   Tier 1 services that cannot be provided entirely by the FBS, and that would require BPA to go to the market to supplement the FBS to provide such services, would be charged separately to Tier 1 customers using such services. Unit charges for such services would be the same for all customers who benefit from such services in a given time period.[2]

2. In addition to the Tier 1 base charge, each class of service (e.g., Block, Slice, Full and Partial Service) would pay additional costs, and receive credits, appropriate

[1] If the total Tier 1 purchases do not equal the sum of the HWMs, then the denominator will need to be reduced to reflect the amount by which the total Tier 1 purchases is less than the sum of the HWMs.

[2] It is recognized that there are three services involved in serving Tier 1 load. These include "Load Shaping" which is the purchase/sale of energy that ensures sufficient monthly quantities of energy to meet BPA's obligation to deliver power to all but Slice customers; "Load Following" which is the purchase/sale of energy that ensures sufficient quantities of energy within each month to meet BPA's obligation to deliver power to meet the actual loads of Load Following customers (i.e., excluding Slice and Block); and "Load Variance" which is the purchase/sale of energy that covers the difference between forecasted and actual loads for Load Following customers. More discussion is needed to distinguish between these services and how best to allocate the costs associated with them.

for the type of service provided by BPA. For example, Slice purchasers would pay the Tier 1 base charge and in addition would continue to pay for Slice Implementation costs. Slice purchasers would not receive a revenue credit for BPA secondary sales, and would not pay Planned Net Revenues for Risk.

Block, Full and Partial service customers would pay, in addition to the FBS costs, the additional costs associated with those products, such as transmission costs incurred by BPA to market secondary energy, and would continue to receive a credit to the Tier 1 revenue requirement for the revenues from BPA's secondary sales.

3. Block, Full and Partial Service customers would also pay the incremental costs incurred by BPA to provide the services required by each of these power purchasers arrangements, to the extent that the FBS is incapable of fully providing such services. For example, Block customers would pay the costs incurred by BPA to shape Tier 1 energy to the Block loads. That is, the Block customers would pay for the service of converting their shares of the Tier 1 system into monthly blocks (perhaps differentiated by HLH and LLH) chosen by the customers.

4. Similarly, to the extent that the FBS is incapable of following the loads of Full and Partial Service purchasers within the month and between months, these customers would pay the incremental costs incurred by BPA in meeting actual loads within each month and between months.

This proposal would have the effects of (1) better aligning the Slice and non-Slice customers, (2) getting away from market pricing for demand and energy for the existing system. and (3) eliminating arguments in the rate case about "classification" (i.e., demand/energy split), seasonalization (differences in energy and demand charges across the months) and diurnalization (HLH vs. LLH energy charges). This would minimize the amount of dollars being "reallocated" by these arguments, and should make them more susceptible to settlement. Finally, this further unbundling of power services by BPA should make it easier to compare offers from third parties to provide services other than basic Tier 1 power.