POWER SUBSCRIPTION

GUIDE

BONNEVILLE POWER ADMINISTRATION

June 2000

TABLE OF CONTENTS

1. Introduction – Sharing the Benefits

Welcome to the Power Subscription Guide. This document discusses the Bonneville Power Administration's (BPA's) strategy for selling power to its customers in a process known as Subscription. Subscription provides a mechanism to equitably market the electric power generated by the Federal Columbia River Power System (FCRPS) within the framework of existing law. Subscription addresses the availability of power; describes power products; lays out strategies for pricing; and discusses contract elements.

This Guide presents an informal discussion of some of the basic matters defined and described in the following BPA documents:
- Power Subscription Strategy, and Administrator's Record of Decision (ROD), both released in December 1998;
- Final Policy and ROD on Standards for Service, released in December 1999;
- Subscription Supplemental ROD, released in April 2000;
- Policy on Determining Net Requirements of Pacific Northwest Utility Customers Under Sections 5(b)(1) and 9(c) of the Northwest Power Act, and ROD, released in May 2000; and
- 2002 Final Power Rate Proposal and ROD, released in May 2000 (for rates to be in effect from October 1, 2001, through September 30, 2006).

The documents listed above are available from BPA's Power Business Line (PBL) Account Executives, from BPA's Public Information Office, and on BPA's PBL website. BPA has designed and priced Subscription power products as undelivered products, so transmission issues are not covered in this Guide.

The clean, low-cost hydropower produced in the Pacific Northwest is increasingly valuable and promises to be even more so in the future. For several years BPA has followed a stringent cost-cutting program aimed at maintaining the benefits of its cost-based power rates. The power rates set in 1996 have provided stability throughout their five-year term, and BPA is providing customers another five years of stability and predictability in the rates that are scheduled to take effect in October 2001.

The Subscription Strategy and 2002 power rates were developed through extensive public processes and thus reflect BPA's consideration of the varied and complex interests of its customers and constituents. BPA's four principal Subscription goals have remained constant throughout these development processes:

- To spread the benefits of the Federal Columbia River Power System as broadly as possible, with special attention given to the residential and rural customers of the region;

- To avoid rate increases through creative and business-like responses to markets and additional aggressive cost reductions;

- To allow BPA to fulfill its fish and wildlife obligations while assuring a high probability of Treasury payment; and

- To provide market incentives for the development of conservation and renewables as part of a broader BPA leadership role in the regional effort to capture the value of these and other emerging technologies.

The Subscription matters discussed in this Guide comply with BPA's responsibilities under the National Environmental Policy Act. The decision documents referenced above were evaluated for the potential environmental impacts of BPA's Subscription strategy. Subscription is a direct application of BPA's earlier decision to adopt a Market-Driven approach for participating in the increasingly competitive electric power market and is consistent with BPA's Business Plan, the Business Plan Environmental Impact Statement (June 1995), and the Business Plan ROD (August 1995).

For more information about Subscription, contact your BPA PBL Account Executive, call BPA at 1-800-622-4519, or visit the BPA PBL website, www.bpa.gov/power.

2. Subscribing to Federal Power

The Subscription Supplemental ROD was signed on April 26, 2000. *The Subscription "window" during which Subscription contracts may be executed opened on April 27 and will be open until September 30, 2000.*

The 1998 Subscription Strategy set the policy under which standardized contracts and specific cost-based power products and services will be designed and offered. The Subscription policy also established a framework within which BPA and its customers can create tailored business relationships based on the specialized needs of each customer, through market-based customized products that complement or partially replace the standard cost-based product offerings.

BPA's move toward standardization of contract language and power product offerings is a modification of the individual contract negotiation approach of just a few years ago. The benefits of BPA's attractive cost-based power rates compared with west coast market prices have created a strong demand for Pacific Northwest federally generated power. Subscription's strong base of standard product and contract offerings, coupled with complementary tailored business relationships where needed, are intended to assure that all customers and customer classes have equitable opportunities to benefit from the cost-based power generated by the FCRPS. The standardized contract language and product offerings also will help minimize the administrative and "overhead" costs required of BPA and its customers to negotiate, implement, and administer power sales contracts.

All customers currently serving regional firm load or who become qualified BPA customers serving regional firm load will be eligible to negotiate and execute firm power Subscription contracts consistent with the policies described in this Guide. See later sections of this Guide for details.

Serving Public Body and Cooperative Loads

BPA will meet all requested regional net firm load requirements of publicly owned, cooperative, and tribal utility customers under contracts of up to 10 years in duration. Contracts signed within the Subscription window (i.e., before September 30, 2000) will be served at the Priority Firm Power (PF-02) rate during the 2002-2006 rate period. Contracts signed within the Subscription window with a term longer than five years will be contractually guaranteed the lowest PF rate applicable for the remainder of the contract term beyond 2006. BPA also will offer the Slice of the System product, under which a public body or cooperative customer may choose to buy a specified portion of the output of the FCRPS consistent with the utility's net firm load requirement at a cost that reflects that portion of BPA's revenue requirement associated with the contracted-for portion of output.

Public body and cooperative customers will continue to be eligible to participate in the Residential Exchange Program under section 5(c) of the Northwest Power Act at the Priority Firm Power Exchange Program (PF Exchange) rate.

The integrity of BPA's cost-based rates depends upon maintaining a balance between the resource costs used to develop the power rates and the loads upon which the resource requirements were based. An expansion of load-serving obligation beyond what was planned for in the rate case, without a means to cover the costs of needed additional resources to meet this load expansion, would hazard the continuing delivery of benefits from the FCRPS. Therefore, loads annexed by a customer after its Subscription contract is signed, or loads covered by new contracts signed after the Subscription window closes, will be served, generally, at the PF-02 rate plus a Targeted Adjustment Charge (TAC), as described in the Pricing section of this Guide. Annexed loads are those loads that are added to a public body or cooperative customer utility's load through mergers, consolidations, and annexations among or between utilities. However, if the added load was previously served at the PF-02 rate, it may be served at the PF-02 rate during the 2002-2006 period and at the comparable rate during the following rate period if it does not increase BPA's obligation to serve. Also, if an annexed load was previously an IOU residential or small farm load that was receiving benefits under the Residential Exchange settlement, BPA will supply power to the annexed load at the PF-02 rate during the 2002-2006 period for the load's prorated share of the power or financial benefits provided for an IOU's residential and small farm load.

Further details regarding service to annexed load are described in the Pricing section of this Guide.

Public Utility Load Growth

BPA will serve a public body or cooperative customer's load growth under the Full Service and Actual Partial Service products. Load growth coverage is not provided under the firm power Block product or the Slice product. Full and Actual Partial customers will pay for the cost of load growth through the Load Variance charge, which is part of the PF-02 rate schedule. Customers purchasing a block of power that steps up over time during the contract period will pay the Stepped-Up Multi-Year block charge.

During the Subscription window, there may be new loads being evaluated as possible New Large Single Loads (NLSLs). Generally, an NLSL is any load increase equal to or greater than 10 average megawatts (aMW)/year associated with a new facility, an existing facility, or an expansion of an existing facility. Any such load will be identified in the customer's Subscription contract. After the Subscription window closes, BPA will begin a public process to review its NLSL policy and how it will apply during the duration of the Subscription contracts. This is important, because NLSL loads will be served at the New Resources Firm Power (NR-02) rate, which is considerably higher than the PF-02 rate. BPA will allow customers to remove identified NLSLs from their service under Subscription contracts after the revised NLSL policy is in place.

Contingent Sales to New, Small Public Utilities

The Power Subscription Strategy released in December 1998 identified an approach to be used in making priority firm power sales at the PF-02 rate to a limited amount of load of new public utilities and new tribal utilities. The Subscription Supplemental ROD made the approach more flexible for new, small utilities who cannot meet BPA's Standards for Service during the Subscription window.

To receive power at the lowest cost-based PF rate, a potential new, small utility customer must submit a Letter of Intent to BPA for approval. BPA will accept letters of intent during the early weeks of the Subscription window from parties who have taken important first steps to establish a new publicly owned utility. Such letters of intent will be valid only through July 31, 2000. If its Letter of Intent is approved, the new utility must sign a contingent take-or-pay Subscription contract by July 31, 2000. Before the contingent contract is signed, the potential new utility must be legally formed and have an authorized board of directors or governing body, identify the utility's goals, describe its intended service area, develop retail load data, designate an acting manager, develop a community outreach program, and prepare a detailed economic feasibility study. BPA will provide power products and services to the new utility only when BPA determines that the utility is eligible to receive service (in accordance with BPA's Standards for Service). Deliveries under the contract will commence no later than one year after it is determined that the utility is eligible to receive service. The contract will be limited to a term of 10 years (ending no later than September 30, 2011). BPA will have the right to terminate the contingent contract after September 30, 2005, if the utility is not actually taking power from BPA by that date. The amount of contingent power sales made available to new, small preference utilities is limited to a total of 75 aMW, and only utilities with a total retail load of 75 aMW or less will be eligible to sign such contracts. Letters of intent and contingent contracts will be treated on a first-come first-served basis.

New utilities that sign contracts after the Subscription window closes will be served until the next rate period at the PF-02 rate plus a TAC.

Rate Mitigation for Irrigation Loads

Some public customers with heavy irrigation load are inordinately affected by rate design changes in the 2002 power rate schedules. BPA has established an approach for such customers to purchase Firm Power Products and Services (FPS-96R) power under their Subscription contract to mitigate the impact of these rate design changes.

Returned Retail Load

If a public utility has a retail load that initially is served with power under a Subscription contract, then is served by another supplier, and finally is returned to BPA service during the contract term, the rate for power to serve the returned load will include a Targeted Adjustment Charge. The TAC will apply until 2006 when the new rates for that load and for the utility's entire load will be determined.

Benefits to Residential and Small Farm Consumers of Investor-Owned Utilities

For the residential and small farm loads of IOUs that have requested participation in the Residential Exchange Program for the post-2001 period, BPA is offering new Residential Purchase and Sale Agreements (RPSAs) or alternatively, settlement agreements for each IOU's Residential Exchange Program rights. Under the settlement, BPA plans to offer the IOUs in total, for the period FY 2002-2006, the equivalent of 1,900 aMW in benefits for their residential and small farm consumers. Service of power, as opposed to monetary benefits as discussed in greater detail below, will be in a flat annual shape at 100 percent load factor. For the period FY 2007-2011, BPA will offer the equivalent of 2,200 aMW in benefits.

Under the traditional Residential Exchange Program established in section 5(c) of the Northwest Power Act, a Pacific Northwest utility may offer to sell power to BPA at the utility's Average System Cost (ASC). BPA purchases such power and, in exchange, sells the same amount of power to the utility at BPA's PF Exchange rate. The amount of the power exchanged can be no greater than the utility's qualifying residential and small farm load. In past practice, no actual power sales have taken place, and BPA provided monetary benefits to the utility based on the difference between the utility's ASC and the applicable PF Exchange Rate, multiplied by the utility's eligible residential and small farm load. These monetary benefits must be passed through directly to the utility's residential and small farm consumers. The amount of Residential Exchange benefits actually provided depends in large part on the level of the PF Exchange rate. Generally speaking, all else being equal, the higher the PF Exchange rate, the lower the exchange benefits.

The original Residential Purchase and Sale Agreements that implemented the Residential Exchange Program have been terminated or will terminate in 2001, so new RPSAs must be negotiated for utilities choosing to participate in the traditional Residential Exchange Program after 2001. For IOUs that have requested participation in the Residential Exchange Program for the post-2001 period, the Subscription Strategy offers a settlement of the Residential Exchange Program as an alternative to continuing the traditional exchange.

The Residential Exchange Program settlement would assure residential and small farm loads of the IOUs access to the equivalent of 1,900 aMW of Federal power for the FY 2002-2006 period. At least 1,000 aMW would be actual take-or-pay power deliveries, with the remainder being provided through either a financial arrangement or additional power deliveries, depending on which approach is most cost-effective for BPA. Power delivered would be 100 percent load factor, flat annual energy.

The regional state public utility commissions collaborated to recommend to BPA the amounts of settlement benefits available to each IOU. BPA issued a proposal for public comment that reflected the commissions' recommendations. In the Subscription Supplemental ROD, specific amounts of settlement benefits have been designated for each participating IOU. BPA proposes to reflect that allocation in the IOU Exchange Settlement Agreements, which were subject to a public comment process that was open from May 8, 2000, through June 9, 2000. If an IOU chooses to request benefits under the traditional Residential Exchange Program, then the Subscription settlement benefits for the IOUs as a group will be reduced by the amount that would have gone to the exchanging utility, with the settlement amounts allocated to the other IOUs remaining unchanged.

BPA and each IOU will set the power delivery and financial components of the settlement benefits in each IOU's negotiated Subscription settlement contract. Under the settlement contracts, IOUs will be able to purchase a specified amount of power under Subscription at the Residential Load Firm Power (RL-02) rate, a rate equal to the PF-02 Preference rate (pending Federal Energy Regulatory Commission (FERC) confirmation and approval). The actual power deliveries for these loads will be in equal hourly amounts over the period. Cash payments made under the financial component of the settlement will reflect the difference between the market price of power forecast in the rate case and the rate used to make such Subscription sales (e.g., the RL-02 rate). The benefits of the Subscription settlements must be passed on to the utility's residential and small farm consumers.

BPA will offer five- and ten-year settlement contracts for Subscription sales to the IOUs. Each IOU's settlement of its rights to request Residential Exchange benefits under section 5(c) of the Northwest Power Act will be in effect until the end of the term of its contract. BPA will offer and guarantee a total of 1,900 aMW of power and/or financial benefits for the FY 2002-2006 period and 2,200 aMW for the FY 2007-2011 period. BPA intends for the 2,200 aMW in the 2007-2011 period to be entirely power deliveries. If BPA cannot deliver all power for the 2007-2011 period, a mechanism similar to that described above will be used for determining the financial component payment. In the event of reduction(s) in Federal system capability or the recall of power to serve BPA's public preference customers during the terms of the five-year and ten-year settlement contracts, BPA will either provide financial benefits or purchase power to guarantee power deliveries.

Both the power delivery and the financial components of the Residential Exchange settlement benefits will be transferable to any eligible entity that serves an IOU's residential and small farm load under the same general terms and conditions as the Subscription settlement agreement with the original IOU. BPA intends that a provision for assignment in the Subscription settlement agreements will provide BPA and the IOUs with sufficient flexibility to accomplish this goal.

BPA has an obligation to ensure that the benefits of Federal power are provided to the intended recipients, the region's residential and small farm consumers. For this reason, the Subscription settlement contracts with IOUs will include a provision permitting BPA to review the manner in which the benefits of the Federal system are being provided to the intended beneficiaries. In addition, an important consideration in BPA's proposal to sell power for service to residential and small farm customers of IOUs is that these sales not displace low-cost non-Federal resources that currently serve regional loads but which could then be used to serve loads outside the region. This issue is addressed in BPA's Policy on Determining Net Requirements of Pacific Northwest Utility Customers Under Sections 5(b)(1) and 9(c) of the Northwest Power Act, attached to the ROD of May 23, 2000.

Considerations in Providing Requirements Service

Since publication of the Subscription Strategy, a great deal of discussion has taken place on the subject of net requirements. BPA published a net requirements policy (the "5(b)9(c) policy"), which discusses the amount of Federal power a public body, cooperative, or IOU customer may purchase under a power sales contract and other related issues, including how customers' resources affect their net requirements eligibility. The net requirements policy will guide the implementation of sections 5(b), 9(c) and (d) of the Northwest Power Act and section 3(d) of the Regional Preference Act. The ROD on the policy is dated May 23, 2000.

Significant considerations in determining a utility customer's firm resource requirements are whether or not the customer is exporting power or generation out of the region, and whether the export previously was used to meet part of the customer's regional load. Section 9(c) of the Northwest Power Act requires BPA to determine the amount of power sold to a regional customer if the customer exports any of its resources out of the region. This determination has become very complex in an era of electric utility deregulation, where a utility may choose to sell its power resources in order to focus on the distribution part of its business. BPA's Policy on Determining Net Requirements of Pacific Northwest Utility Customers Under Sections 5(b)(1) and 9(c) of the Northwest Power Act discusses this issue. The policy is attached to the ROD identified in the preceding paragraph.

Serving the Direct-Service Industries

Although BPA has no statutory obligation to offer its direct-service industrial (DSI) customers new power sales contracts, BPA is concerned about the economic health of the DSI customers and has developed various service and rate features to enhance the likelihood of their survival (although BPA cannot guarantee their survival). While BPA cannot serve all the load the DSIs might want to place on it, BPA worked with the DSIs to come up with a Compromise Approach for power sales and rates for these customers. The particulars to implement the Compromise Approach, including how much power to make available to each company and the price for that power, were decided in the 2002 power rate case. BPA will use a power allocation methodology based on each DSI's average annual purchases in the current rate period (FY 1996-2001) at the Industrial Firm Power (IP-96) rate.

The Compromise Approach that BPA and the DSIs developed in June 1999 guided the proposal for the 2002 power rate case. As noted in the 2002 power rate case ROD, DSIs signing the Compromise Agreement will be offered 75 percent of their FY 1997-2001 purchases from BPA; those not signing are being offered 60 percent of their 1997-2001 purchases. The total power for the DSIs (slightly less than 1,500 aMW) is priced as flat, undelivered power. The DSI contracts are expected to be ready in June 2000.

DSI contracts will be take-or-pay. If a DSI reduces load to the extent that it cannot accept deliveries of the amount of power it is obligated to purchase under its Subscription contract, BPA will remarket the power for the DSI. The DSI will continue to pay for the contracted amount of power, but BPA will provide a credit to the DSI for the amount and price of energy remarketed. The amount of the credit will be capped at the rate paid under the Subscription contract. There is only one exception to this take-or-pay obligation. DSIs that, at the time they sign a contract, elect to take service under the cost-based indexed IP rate can simultaneously elect a take-or-pay waiver option. For any DSI making this dual election, if the company reduces load at the time aluminum prices are such that the electric price is at the lower rate limit, that DSI's take-or-pay obligation on BPA will be reduced and BPA's obligation to serve that amount of load for the remainder of the Subscription contract will be reduced by an equivalent amount.

The United Steelworkers of America submitted a proposal to BPA asking that a Good Corporate Citizenship (GCC) clause be part of BPA's Subscription power sales contracts. As the Subscription Supplemental ROD states, BPA has decided that it will not include a GCC clause in Subscription contracts with utilities, but BPA took comment on a clause that it has proposed including in DSI contracts. If adopted, this proposal would result in BPA adopting a new standard that would require DSIs to observe standards of conduct as embodied in Federal, state, and local laws and regulations as a condition for receiving BPA power. BPA accepted public comment through May 31, 2000, on whether such a clause should be in the DSI contracts and, if so, what the provisions of such a clause would be. The final decision on this question will be reflected in the Subscription contracts offered to the DSIs.

Serving Other Loads

Other regional loads not addressed above may be served with Federal power sales according to existing law. BPA will attempt to market extraregionally any power remaining after all requests from regional loads are met, consistent with public preference and regional preference in existing law. The current demand within the region for BPA's power makes the need to find extraregional markets an unlikely situation, however.

3. Power Products and Services

Power products are being offered as described below and in BPA's rate schedules. The BPA Power Products Catalog is available to help customers as they work with their Account Executives to determine the power products and services that will best meet their needs. The latest edition of the Products Catalog is available at BPA's Power Business website. All products listed in the Power Products Catalog are priced on an undelivered basis. This means that the customer is responsible for acquiring transmission and associated ancillary services to deliver purchased power to load. Under certain limited circumstances, if requested, BPA will act as the customer's "designated agent" on behalf of the transmission contract holder. For more details, customers should contact their PBL Account Executive.

Product Categories

There are three product categories: core Subscription products, customized Subscription products, and non-Subscription products. Some customers require additional flexibility beyond that embedded in the core products. Customized products provide this additional flexibility. Because they pose more cost and risk for BPA, they are priced accordingly. The primary reason for a distinction between the core and customized Subscription products described briefly below is to ensure that only those customers who stand to benefit from the additional risks BPA assumes on their behalf are required to pay the related costs. The list of non-Subscription products is offered to show examples of the types of service BPA can provide. These products may be bilaterally negotiated, and the price will be set under BPA's FPS-96R rate schedule.

Core Subscription Products

Core Subscription products were designed for customers that request net firm requirements load service to serve regional consumer load. A customer that is interested in the standard version of a core product or service (described in the Power Products Catalog) may purchase the undelivered product or service at the applicable posted rate. Customers buying core Subscription products will accept constraints on their ability to shape their purchases from BPA for any reason other than following variations in consumer load.

Customized Subscription Products

Customized Subscription products are available for customers that request net firm requirements load service for regional consumer load (core products) and that want additional flexibility to reshape their purchases from BPA in order to optimize their own resource operations. These products will have bilaterally negotiated market-based pricing for all modifications to core products and for any additional products and services customers wish to purchase. The price for customized products that differ from the core products will be negotiated under the FPS-96R rate schedule.

Non-Subscription Products

Non-Subscription products generally include power products and services that BPA might sell to a customer in the wholesale power marketplace. These and other commodity-type products marketed by BPA's trading floor are likely to have limited availability. These products and services will have prices negotiated under BPA's FPS-96R rate schedule.

The products in each category are listed in the following table. For detailed product descriptions, please refer to the BPA Power Products Catalog, which is available from BPA's PBL Account Executives or on the PBL Subscription website.

LIST OF BPA POWER PRODUCTS

CORE SUBSCRIPTION PRODUCTS

- Full Service
- Actual Partial Service (Simple/Complex)
- Factoring
- Block Partial Service
- Block with Shaping Capacity
- Block with Factoring

CUSTOMIZED SUBSCRIPTION PRODUCTS

- Slice of the System
- Environmentally Preferred Power

NON-SUBSCRIPTION PRODUCTS

- Bilateral Products & Services
  - *Power - Firm, Secondary, Commodity (including loss compensation)*
  - *Capacity without Energy*
  - *Storage*
  - *Resource Factoring*
  - *Preschedule Change Rights*
  - *Displacement*
  - *Scheduling Services*
- Reserves, Resource Support
  - *Supplemental AGC*
  - *Contingency (Operating) Reserves*
  - *Forced Outage Reserves*
- Complements to Core Products
  - *Generation Management Service*

Slice of the System Product

BPA is offering a new product, the Slice of the System product, in Subscription. The Slice product has proven particularly complex to design. Expected demand for the product has ranged from a very few generating utilities to a wide range of both generating and non-generating utilities.

The Slice product has been developed to avoid a cost shift to or from other customers. The uncertainty associated with this product, because it is new and untried, has caused BPA to limit the total amount of Federal power available to be purchased under Slice to between 1,150 and 2,000 MW. BPA plans to decide in early July the amount of Slice to offer and whether an allocation methodology is necessary, and if so what type. BPA will continue working with customers interested in Slice to assist in achieving Slice sales levels at or below the limit, hoping to avoid the need to develop an allocation method. If an allocation method is needed, BPA would present an approach or adopt a Slice customer consensus approach if one is available.

Resolution of the remaining Slice issues must ensure that the Slice product and price meet the five Slice principles:

- No risk or cost shifts to other customers.
- No risk or cost shifts to taxpayers.
- No avoidance of BPA's fish and wildlife funding costs.
- No interference with operations.
- No changes in law required.

Details regarding the Slice product and the methodology for providing it are included in the 2002 power rates ROD.

4. Pricing

BPA's core Subscription products were developed based on the principle that core products will be billed from a "common table of rates" to assure equitable comparability of charges among purchasers of different types of core products. In the 2002 power rate schedules, the "common table of rates" includes tables with charges for (1) demand; (2) heavy load hour (HLH) and light load hour (LLH) energy; and (3) load variance, where applicable. The common table of rates is referenced in the sections of the rate schedules that specify billing factors for each product. For example, a publicly owned or cooperative utility customer that wants to purchase a particular product would look in section IV of the PF-02 rate schedule to find the desired product and its billing factors, and then be referred forward in the rate schedule to the applicable table of rates. A second public or cooperative customer wanting to purchase a different product also would look in section IV of the PF-02 rate schedule to find its desired product and associated billing factors, and then likely would be referred to the same applicable table of rates as the first customer.

Flexible rate options are defined in the PF-02, NR-02, and IP-02 rate schedules. These Flexible rate options are available under contract. The revenues to be received from a purchaser under the Flexible rate option must be equivalent, on a net present value basis, to the revenues to be received if the purchaser had bought under the fixed PF, NR, or IP rate schedule.

Cost-based indexed rates are available under the PF-02 and IP-02 rate schedules. The basis of the cost-based indexed rates is market-indexed prices adjusted for BPA's risk.

For more information on pricing and rates, please see BPA's 2002 power rate schedules, released May 15, 2000.

Public Body and Cooperative Customers

BPA's public body and cooperative customers, also known as preference customers, are entitled to first call on Federal power. Subscription power sales (contracts signed before the close of the Subscription window) to these public body and cooperative customers will be at the PF-02 rate during the FY 2002-2006 rate period. Public body and cooperative customers that execute contracts during the Subscription window are provided a guarantee of BPA's lowest cost-based PF rate through the term of their contract for load they placed on BPA during the window. The PF rate for the FY 2007-2011 period will be set in a future rate case. New customers that both meet BPA Standards for Service and sign take-or-pay Subscription contracts before the close of the Subscription window also will receive this guarantee. See the New, Small Utilities section of Part 2 of this Guide for further details.

Public body and cooperative customers may provide BPA notice of additional load they desire to place on BPA, and BPA will serve those new loads as requested. (Block contracts with amounts that grow to exceed the amount of Block product purchased in the first year of the Block contract will be assessed the Stepped-Up Multi-Year block charge.) Loads in excess of contract commitments will be served, during the FY 2002-2006 rate period, at the PF-02 rate plus a Targeted Adjustment Charge if BPA must acquire additional power to serve the new load. Exceptions will be made for loads served during part of the rate period by eligible renewable resources. Customers may request requirements firm power service during the FY 2002-2006 rate period for such load at the end of the renewable resource contract period and, if their request can be accommodated within the 200 aMW annual total, will be charged the PF-02 rate without being subject to a TAC.

Another situation in which the TAC may not be applied is load annexed after the Subscription window closes by one of BPA's public utility customers from another (or other transfer of obligation to serve from one public utility customer of BPA to another). If the increase in the requesting utility customer's load is the same as the other public utility customer's reduction in load, and if the load was previously served at the PF-02 rate, BPA will exempt the newly acquired load from the TAC and serve the load at the PF-02 rate.

Customers who annex loads and sign a contract within the Subscription window that includes those loads will receive the PF-02 rate without a TAC if both of the following conditions are met:

- The utility must complete the purchase of distribution facilities by September 30, 2000. To be considered "complete," the purchase of distribution facilities must not include any contingencies and must have regulatory approval of the annexation, if applicable.
- The utility must begin serving such annexed loads with BPA power prior to October 1, 2001.

Also, if an annexed load was previously an IOU residential or small farm load that was receiving benefits under the Residential Exchange settlement, BPA will supply power to the annexed load at the PF-02 rate during the next rate period for the load's prorated share of the power or financial benefits provided for an IOU's residential and small farm load.

BPA's PF-02 rate schedule includes monthly demand charges, monthly HLH and LLH energy charges, and the Load Variance charge. Energy rates are specified for the first three years of the rate period, 2002-2004; for the last two years of the rate period, 2005-2006; and for the entire five-year rate period. If a customer signs a Subscription contract for three years or less, it would pay the 2002-2004 PF-02 rate for the term of the contract. If that customer then decided to continue to purchase from BPA, it would purchase at a rate to be determined in a future rate case. Customers that choose to purchase for the entire five-year rate period may choose to purchase at the "stepped" (2002-2004 and 2005-2006) rates or at the five-year fixed rate. The Load Variance charge is 0.8 mills per kilowatthour (kWh), charged on the customer's Total Retail Load.

The PF-02 rate schedule also includes the charge for the Slice product. The Slice rate is a dollar amount per percentage of the Slice System. Public body and cooperative purchasers also may choose from other options under the PF-02 rate schedule, including the cost-based indexed PF rate and the flexible PF rate option. Both are described in the General Rate Schedule Provisions (GRSPs). Other adjustments, charges, and special rate provisions are specified in the rate schedule and include the Conservation and Renewables (C&R) Discount; the Green Energy Premium for Environmentally Preferred Power; risk mitigation tools such as the Cost Recovery Adjustment Clause and the Dividend Distribution Clause; the Low Density Discount; and the Unauthorized Increase Charges.

Residential Exchange

PF Exchange Program Rate

IOUs and public bodies with residential and small farm loads will have an option to continue participating in the Residential Exchange Program under section 5(c) of the Northwest Power Act, subject to in-lieu transactions. Sales under the Residential Exchange Program will be made at the PF-02 Exchange Program rate. This rate also applies to BPA's actual power sales to exchanging utilities under traditional in-lieu transactions. The PF Exchange Program rate is set at an average level for the five-year rate period. The PF-02 Exchange Program rate monthly demand charges are the same as the PF-02 Preference rate monthly demand charges. The PF-02 Exchange Program rate energy charges are monthly charges established in the same manner as the PF-02 Preference rate energy charges except that they are not differentiated by HLH and LLH. The PF-02 Exchange Program rate includes a charge for load variance to make it comparable to utility Average System Costs. The PF-02 Exchange Program energy rates are considerably higher than those under the PF Preference, RL-02, and PF-02 Exchange Subscription rates because of the reallocation of costs resulting from the section 7(b)(2) rate test.

BPA's current ASC methodology will be used to determine the ASCs of participating utilities for the purpose of calculating each participating utility's benefits. Because the Residential Purchase and Sale Agreements that implement the Residential Exchange program have been terminated or will terminate in 2001, new RPSAs must be negotiated if any utility chooses to participate in the Residential Exchange Program after 2001.

Investor-Owned Utilities

Exchange Settlement

Instead of participating in the traditional Residential Exchange Program, IOUs may enter into a "settlement" under which the utility would waive its right to participate in the Residential Exchange Program. Under the settlement, residential and small farm loads of the IOUs would be assured access to benefits equivalent to 1,900 aMW of Federal power for the FY 2002-2006 period and 2,200 aMW of Federal power for the FY 2007-2011 period. These benefits may be provided in the form of a power sale at the RL-02 rate, a rate equal to the PF-02 Preference rate (pending FERC approval), or by providing monetary benefits based on the difference between BPA's five-year flat-block market price forecast ($28.10 for flat annual energy) and the RL rate ($19.26 for flat annual energy, after the C&R Discount).

The successor to the RL-02 rate for the 2007-2011 period, to be established in a future rate case pursuant to the Northwest Power Act and BPA's procedures, is expected to be approximately equal to the PF rate established for that period. The Oregon, Washington, Idaho, and Montana public utility commissions jointly recommended an allocation of settlement benefits among the IOUs, and BPA used this recommendation as a basis for taking public comment. BPA proposes to reflect that allocation in the IOU Exchange Settlement Agreements, which were subject to a public comment process open from May 8, 2000, through June 9, 2000.

Under the settlement, the rate for requirements sales is the RL-02 rate, and the rate for in-lieu power sales is the PF-02 Exchange Subscription rate. Both the RL-02 rate and the PF-02 Exchange Subscription rate are set at an average level for the five-year rate period, and neither includes a charge for load variance. The RL-02 and PF-02 Exchange Subscription rate monthly demand charges are the same as the PF Preference rate monthly demand charges. The RL-02 and PF-02 Exchange Subscription rate energy charges are seasonally (monthly) and diurnally differentiated the same as the PF-02 Preference rate energy charges.

Net Requirements Sales

Net requirements sales to IOUs other than settlement sales, including requirements sales above the amounts purchased under the Residential Exchange settlement at the RL-02 rate, are made under the NR-02 rate.

Direct-Service Industries

DSIs will purchase Subscription power under the IP-02 rate, which is subject to the Industrial Firm Power Targeted Adjustment Clause (IPTAC). The IPTAC rate for the DSIs signing the Compromise Agreement (IPTAC(A)) is 23.5 mills/kWh (for flat annual energy), which includes half a mill for the Conservation and Renewables Discount. The IPTAC rate for the DSIs not signing the Compromise Agreement (IPTAC(B)) is 25.0 mills/kWh (for flat annual energy), which also includes half a mill for the C&R Discount. The power being offered at the IPTAC rates includes a mixture of cost-based power (approximately two-thirds) and market-based power (approximately one-third). Because BPA must purchase power to serve the promised level of DSI load, BPA intends to recover the full cost (as estimated in the rate case) of the market-priced power to serve the DSIs through the IPTAC(A) and (B) rates paid by the DSIs.

Aluminum smelters may choose to purchase under a cost-based indexed IP rate. The cost-based indexed IP rate is tied to the price of aluminum. This will reduce smelters' costs of production when the market price of aluminum is low. When aluminum prices are higher, BPA will receive a higher price for power sold to make up for the periods in which BPA recovers less revenue. The cost-based indexed IP rate is designed to recover the costs allocated to the IP rate on average over the rate period.

General Transfer Agreements (GTAs)

BPA built the Federal transmission system to deliver Federal power to BPA's preference and DSI customers, to sell surplus power, and to provide wheeling service. In some cases, BPA provided General Transfer Agreement (GTA) service to customers over existing non-Federal transmission facilities to deliver requirements power to the customer in lieu of building transmission facilities.

BPA will continue existing GTA service to customers who sign Subscription contracts for the delivery of Federal requirements power through FY 2011, except that BPA will terminate GTA service prior to that time if a Regional Transmission Organization (RTO) is operating. The costs for this GTA service (for Federal power deliveries only) will be spread over all PBL power sales. Service under the GTAs or open access tariffs will be available to new preference customers who qualify as New, Small Utilities as described in that section of Part 2 of this Guide, up to a limit of 75 aMW total increase. The service will not be available to existing GTA customers for annexations that occur after the customer has signed a Subscription contract unless the annexed load was served by a transfer arrangement that the PBL paid for at the time of the annexation. For preference customers served under an existing GTA, if the GTA expires BPA will obtain comparable transfer service under an open access tariff.

The customer is responsible for obtaining required ancillary services except services bundled into their GTA. PBL will pay for the included ancillary services until the charges are unbundled. At that time the customer must obtain all necessary ancillary services, but PBL will cover the difference between what the cost would be under TBL's posted rate schedule and the non-Federal transmission provider's rate schedule.

The customer pays for low-voltage delivery charges, even if these charges are bundled into an existing GTA. The costs of these non-Federal low voltage delivery facilities used by GTA customers are not included in the power revenue requirement. The PBL will conduct a separate rate proceeding to develop a rate to collect these costs from the GTA customers that utilize these facilities, unless a TBL rate case settlement makes this separate process unnecessary. The PBL does not intend to mitigate cost shifts resulting from formation of an RTO.

Conservation and Renewables

The fourth Subscription Strategy goal states, in part, that BPA will "provide market incentives for the development of conservation and renewables . . . ." BPA will send pricing signals to encourage conservation and renewable resource development by including in its 2002 power rates a Conservation and Renewables Discount (C&R Discount). The C&R Discount will help create incremental efficiency gains and renewable energy supplies and will provide incentives to continue the region's progress in low-income weatherization programs. The C&R Discount will allow power customers to design conservation and renewable resource programs that best meet their needs.

Customers purchasing under the PF-02, NR-02, and RL-02 rate schedules, and certain purchasers under the IP-02 rate schedule, are eligible for the C&R Discount. The C&R Discount will be given to the customer as a line item reduction in the customer's monthly power bill. The monthly discount amount will be set prior to the rate period based on the customer's Subscription power purchases. The discount will be deducted as a dollar amount and will not affect calculation of other billing factors. The credit will equal the customer's forecasted average monthly Subscription purchases (in kWh) multiplied by the unit discount of half a mill per kWh.

BPA believes the C&R Discount will have the following benefits:

- Create a catalyst in furthering the region's public purposes goals;
- Support state legislatures and regional power planning organizations as they establish direction for the region's development of conservation and renewable resources;
- Produce energy efficiency gains and increased renewable energy supplies; and
- Support and maintain BPA's competitive rate position in the power market.

In addition to the C&R Discount, BPA has three other incentives that encourage conservation and renewable resources. First, the Subscription Strategy stated that BPA would make an aggressive effort to create and market "environmentally preferred power" (EPP) products from BPA's system and new renewable resources. As a part of this strategy, BPA will market green power products during the Subscription window. The Green Energy Premium (GEP) is a premium ranging from zero to $40/MWh that a customer may elect to pay BPA to purchase EPP. The GEP is the difference between the customer's applicable average annual energy charge under the PF-02, RL-02, NR-02, or IP-02 rate and the total cost of the EPP resource selected by the customer. The GEP is applied to the number of EPP MWh that the customer has elected to purchase. BPA guarantees the customer paying the premium that BPA will produce an amount of EPP equal to the amount of energy subject to this adjustment. The GEP will be charged in a line item on the monthly power bill of each participating customer.

Second, BPA is proposing to augment the approximately $30 million available through the C&R Discount in two ways. BPA will designate the first $15 million of any dividend resulting from greater than expected revenues (the Dividend Distribution Clause) toward additional conservation and renewable resource development. In addition, BPA has made the policy decision to review regional C&R Discount annual spending levels for renewable resource development. BPA expects regional spending to amount to $6 million for renewable resource development. If this level is not reached, BPA will make direct investments in renewable resources to make up the shortfall. These investments will be made after consultation with regional interests.

Third, as mentioned earlier, BPA will reduce the risks assumed by customers purchasing renewable resources from third parties. BPA will accomplish this by allowing customers making contract purchases of eligible types of renewable purchases to return that load to requirements service at the PF-02 rate without a TAC, up to a total of 200 aMW. This approach permits BPA to support customer renewable market purchases consistent with the overall Subscription Strategy goals without additional direct investment.

5. Contract Elements

Bilateral Contract Negotiations

BPA intends to conduct bilateral negotiations with each of its customers to develop contracts that will establish the specific business relationship between each customer and BPA. BPA began by developing a contract "prototype," which included standardized provisions applicable across all or most customers and also options for customizing service. BPA led a public review of contract prototypes for several different classes and sub-classes of customers and used the comments to refine the prototypes so as to remove many issues from contention during bilateral contract negotiations. In all contracts, BPA and the customer will preserve their rights concerning emergency cost recovery through transmission rates.

Termination if Rates are Remanded

A termination provision is included in the contracts for all customer classes to address the potential hardship on customers if BPA is required to change rates after the final power rate proposal is presented to FERC for confirmation and approval. The provision will allow any customer to terminate its contract within a limited period of time only if, as a response to a FERC remand or court ruling, BPA establishes a rate that is higher for that particular customer than was established in the May 2000 power rates ROD. Under that circumstance, the customer will have a limited period of time within which to terminate its contract.

Contract Duration

BPA is providing several incentives for its customers to choose Subscription contracts of varying durations, to avoid having the contracts expire all at once, with the accompanying potential BPA revenue dropoff. Contracts of different durations will allow customers to purchase amounts of

BPA power under different terms and prices and thereby further their own diversification goals. Subscription contracts will be offered for most customers for durations ranging from three years to ten years. DSI contracts will be offered for five years. The 2002 power rate schedules provide rates for these various durations.

Five-Year Purchases

BPA's primary incentive to encourage customers to sign five-year contracts is the fixed five-year power rates established in the 2002 power rate case for the FY 2002-2006 rate period.

Purchases Shorter than Five Years

BPA's primary incentive to customers who choose to purchase at three-year rates is that BPA will, for these customers, take on the risk of load loss due to state-mandated retail open access.

Purchases Longer than Five Years

The Comprehensive Review recommended that BPA preserve its lowest cost-based rates for customers who make long-term purchase commitments. Purchases between five and ten years will include a contractual guarantee of power at the lowest applicable cost-based rate for the term of the commitment. (Specific rates for the FY 2007-2011 rate period will be set in a future section 7(i) rate proceeding and thus are not known now.)

In the Subscription Supplemental ROD, BPA decided to limit Subscription contracts to a maximum duration of ten years, except DSI contracts, which will be limited to five years. Limiting the majority of BPA's contracts to ten years allows the region to enter into regionalization discussions without predeciding the issues far beyond most groups' planning horizons. It is not practical to limit all contracts to five years, because that would increase BPA's revenue uncertainty by having all of its contracts expire exactly when many important financial uncertainties occur, including those arising from the Fish and Wildlife Funding Principles. Some products (specifically Slice) were designed with a minimum ten-year contract in mind.

Future Price Guarantees

BPA will not offer specific price guarantees for cost-based power purchases beyond the period covered by the FY 2002-2006 published rates. Customers who want such financial arrangements may purchase them from other providers in the market. Purchases under certain contracts that extend past the effective period of the 2002 power rates will be guaranteed to be served at BPA's lowest cost-based rate, the level of which will be set in a future rate case.

"Contract Lock"

Subscription contracts for all customers will include an Appropriations Refinancing clause, also known as the "contract lock." The contract terms will "lock in" the terms and conditions for repayment of the refinanced appropriations to BPA through September 30, 2011. The contract lock language preserves BPA's existing ratesetting discretion to allocate costs and design rates, including assuring cost recovery. It also constrains the amount that BPA can recover through rates on the refinanced investments, assuring that customers with such contracts will pay cost-based rates through the duration of their contracts.

Take-or-Pay and Retail Access Load Loss Risk

Subscription contracts will be take-or-pay to ensure that BPA continues to recover sufficient revenue to cover the costs of the FCRPS even if load loss occurs at a time when market prices are lower than BPA's cost-based rates. This will protect BPA's customers, help BPA continue to fulfill its responsibilities to the Treasury, and ensure regional benefits. Take-or-pay language is included in Subscription contracts, with exceptions for legally mandated retail access for full service, dedicated resource partials, and amounts purchased for a three-year term. The 1998 Subscription Strategy granted protection against mandated retail access load loss to public agency customers for the amount of load they place on BPA under the three-year PF rate, for that three-year term. BPA has decided also to grant protection against mandated retail access load loss to full service and dedicated resource partial service customers for all of their loads for the term of their initial Subscription contract.

Outside of these exceptions, Subscription contracts will include a "liquidated damages" clause to cover those situations where the amount of power contracted for cannot be taken to load because of retail load loss. In such a situation, "liquidated damages" payments will allow the calculated amounts for months when the market price is above the cost-based rate to offset the amounts calculated in the months when the market price is below the cost-based rate. In no case will payments be made by BPA to customers who fail to meet their take-or-pay obligations. Loads that leave for the market and return must be gone for at least a year, and if they return they will face a Targeted Adjustment Charge as a returned retail load as described in section 2 of this Guide.

Customer Pooling of Requirements Purchases

Some customers have asked about creating an entity that would allow the utilities to pool their allowable BPA purchases. Current law allows BPA to sell net requirements service only to individual customers that meet BPA's Standards for Service, not to joint operating entities as described above. BPA is not able to sell to an entity representing a group of customers who want to "pool." Thus, Subscription contracts do not specifically address joint operating entities and neither encourage nor discourage such pooling. Congress is actively considering legislation to allow such sales. BPA contracts could eventually be assigned to joint operating entities if such legislation were to pass, but legislation would need to be enacted well in advance of September 30, 2000, if it is to influence BPA's customers' product choices and resource plans during Subscription.