

OPTIONS PAPER

On August 1, 2000, the Bonneville Power Administration (BPA) announced a temporary delay in signing power sales contracts for the FY 2002-2006 period due to recent developments that have increased the risk of BPA's Treasury Payment Probability falling below acceptable levels. The purpose of this paper is to explain alternatives that BPA is considering to add flexibility needed to ensure it can meet all of its obligations and maintain an adequate Treasury Payment Probability.

BPA has identified two basic alternatives to give BPA the flexibility it needs. Discussions with interested parties may identify additional options. One option BPA has identified would make changes in the Subscription contracts to allow BPA to revise power rates sooner than 5 years, if necessary. A second option would make a limited modification to BPA's proposed rates currently before the Federal Energy Regulatory Commission (FERC).

BPA believes the alternative ultimately chosen should meet the following criteria:

- It should be as simple as possible;
- It should allow Subscription contract signing to proceed to completion as soon as possible—preferably by September 1;
- It should not require review or revision of the overall Subscription Strategy;
- It should not require reallocation of Subscription power among customer groups, or a change in the basic balance of interests in Subscription;
- It should require limited revisions, if any, to the 2002 rate proposal currently before FERC, and limited revisions, if any, to the Subscription contract, and;
- It should leave TPP in the 80 to 88 percent range called for in the Fish and Wildlife Funding Principles.

BPA is currently leaning toward the first option. This option would allow the execution of Subscription contracts after only a short delay, perhaps not more than 30 days. This option also provides the flexibility to change rates in the future, but only if it becomes necessary to do so. Both options identified will require that BPA request FERC to issue a stay of its current review of BPA's 2002 power rates for approximately 30 days while BPA engages in discussions with the region about appropriate responses. Neither option will result in a change to pre-Subscription contracts already executed.

OPTION 1: Contract Change

BPA's contract prototypes currently guarantee that the 5-year rates established in BPA's 2002 Wholesale Power Rate Case will not be changed until they expire in September 2006. BPA is considering a change in the Subscription contracts to permit it to revise rates within the rate period. BPA would continue to strive for a 5-year period of rate stability, but given that

predicted sales are well above rate case forecasts and that market prices are high and volatile, this option provides BPA the flexibility to respond to these changes sooner than 2006.

Under this option, BPA would amend the prototype contracts to permit it to conduct a rate case to modify rates that would be effective as early as October 1, 2003. All the prototype contracts that are signed after August 1, 2000, will reflect the new language and all customers signing these contracts would be subject to that provision. Those interested in Slice would also be subject to a change in their contracts and would have their contracts changed to allow for new rates sooner than 5 years. Those customers that have currently executed Subscription contracts for the post-2001 rate period, which represent about 300 aMW, would not see a change in their contract unless they were willing to mutually agree to the modification. These customers are primarily small, full service customers.

Process:

BPA would ask FERC to stay its current review of BPA's 2002 power rates for approximately 30 days while BPA engages in discussions with the region about appropriate responses. If this option were selected, BPA would notify FERC that it will be adding a clause in the current contracts that would permit BPA to replace the 2002 rates as early as October 1, 2003, if financial circumstances warrant such a move. Changes in the contract prototypes for non-Slice customers would be a fairly simple change to make. The change in the contract prototypes could be a sentence allowing BPA to modify rates effective as early as October 1, 2003. BPA would add specific language in all contract prototypes that are signed after August 1, 2000. Modification of Slice contracts may or may not require revision of the Slice methodology now before FERC. Therefore, BPA may or may not need to conduct an expedited section 7(i) hearing in order to modify the methodology so that these contracts would be consistent with potentially shorter rate periods.

As mentioned above, BPA is leaning toward this option for two reasons. First, BPA believes that any delay in execution of Subscription contracts would be short, perhaps not more than 30 days. Second, this option would provide flexibility to change rates in the future, but only if it were necessary to do so.

OPTION 2: Revise Proposed 2002 Wholesale Power Rates

The second option, which may be more problematic to implement, is to revise BPA's rate proposal for the FY 2002-2006 rate period before those rates are reviewed by FERC. BPA believes a limited modification to its proposed 2002 Wholesale Power Rates may provide needed flexibility. The intent would be to limit the scope of the modifications so that the process could proceed quickly and the basic balance of Subscription benefits among customer and constituent groups would remain essentially the same. This revision of BPA's 2002 rates would modify rates for all Subscription contracts even those that have already been signed, except for pre-Subscription contracts which would not be affected.

With these goals in mind, BPA is anticipating that this option may involve making modifications in at least two sections of the filed rate proposal. First, would be to revise the existing, limited Cost Recovery Adjustment Clause (CRAC) so that additional revenues could be collected if needed. Second, would be to make corresponding changes to the Slice methodology and the Slice contract (if necessary).

Under the current proposal, the CRAC can be implemented if actual accumulated net revenues fall to certain levels. The CRAC, if implemented, modifies rates to collect additional revenues up to capped amounts of \$125M in 2001, \$135M in 2002, \$150M in 2003 and 2004 and \$87.5M in 2005. The revised proposal would modify or redesign the CRAC in order to create a CRAC that would provide more robust protection against missing a Treasury payment. Modifying CRAC could potentially take one of two forms: modifying the existing CRAC parameters (annual caps, thresholds, or both) with a different set of fixed limits or, alternatively, modifying the design itself to cap CRAC at a more realistic rate for augmentation to serve firm load.

Under the current rate proposal, Slice customers pay for their share of the augmentation costs; however, while the amount of average megawatts will be subject to adjustments after the Subscription window closes, the costs are fixed at 28.1 mills/kWh. This was done in large part for administrative ease. BPA would propose that this cap be raised or removed and that the Slice customers would pay for a more realistic price of augmentation to serve firm load.

Process:

BPA would ask FERC to stay its current review of BPA's 2002 power rates for approximately 30 days, as in the first option, while BPA engages in a discussion with the region about appropriate responses. If BPA elected a rate adjustment option, BPA would advise FERC that BPA would be conducting an expedited section 7(i) hearing wherein it would be supplementing the record and proposing limited adjustments to CRAC and any other necessary changes.

BPA would not withdraw its current filing from FERC, but would request an additional stay for a period of time in order to conduct the expedited section 7(i) hearing. BPA would publish notice in the Federal Register of BPA's new limited rate revision and comply with its procedures for expedited rate hearings. After the section 7(i) hearing, BPA would file the supplemental record with FERC as well as the proposed revisions to BPA's rates and General Rate Schedule Provisions. In the filing, BPA would request new dates for interim and final approval of its rates, as revised.