BONNEVILLE POWER ADMINISTRATION

POWER SUBSCRIPTION STRATEGY PROPOSAL

Sept. 18, 1998

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I. Introduction – Sharing the Benefits

With this document, the Bonneville Power Administration (BPA) lays out a strategy for retaining the benefits of the Federal Columbia River Power System for the people of the Pacific Northwest after 2001 through a Subscription process that describes how BPA will sell power and how much. It also addresses how those who receive the benefits of the region's low-cost federal power should share a corresponding measure of the risks.

BPA's clean hydropower is increasingly valuable and promises to be even more so in the future as BPA follows a stringent cost-cutting program aimed at keeping its cost-based power rates significantly below market. BPA has provided five years of stable rates starting in 1996 and aims to provide another five years of rate stability and predictability starting with new power sales contracts that would go into effect in October 2001.

This proposal aims to implement the Subscription concept created by the Comprehensive Review in 1996. While some of the specific details of this proposal are different, BPA heavily relied on the Comprehensive Review guidance. The success of this Subscription process is fundamental to BPA's overall business purpose to provide public benefits to the Northwest through commercially successful businesses (power, energy services and transmission). This proposal focuses on the power side of the business.

We at BPA are proud of our power products and believe that this Subscription proposal does its best to reflect the Northwest's varied and complex interests and still deliver something for everyone. In it, we are presenting our customers with access to cost-based power and flexibility through a variety of choices. We are acknowledging our responsibilities to fish and wildlife in the region. We are working to promote energy conservation and renewable energy development alive and well in the region. We are committed to fulfilling our obligations to the nation's taxpayers by meeting our U.S. Treasury payments on time and in full. And, ultimately, we are mindful of our partnership with the people of the Northwest. We are dedicated to reflecting their values, to providing them benefits and to expanding and spreading the value of the Columbia River throughout the region.

In this respect, the Subscription proposal has four principal goals:

- 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;

- Avoid rate increases through a creative and businesslike response to markets and additional aggressive cost reduction;

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

- Provide market incentives for the development of conservation and renewables.

This package is BPA's attempt at best meeting all segments of our historic customers' needs — public power, investor-owned utilities (IOUs) and direct service industries (DSIs) — primarily aluminum companies that buy electricity directly from BPA — while also achieving important regional environmental objectives. It retains not only public power preference but also regional preference. We also are committed to passing on the benefits of the federal system to the residential and small farm customers of the region's IOUs. This proposal enables us to serve these customers more directly by providing power for sale to the IOUs and other suppliers serving those customers so that the benefits of the Federal Columbia River Power System flow throughout the region, whether currently served by public or private power. With this proposal, BPA is reflecting its very roots. In addition to givng preference and priority to public bodies and cooperatives, the Bonneville Project Act of 1937 calls for serving rural and domestic consumers throughout the Northwest.

Despite a shrinking inventory, we also have done our best to serve our DSI customers as well. Many of them have been loyal customers and there is no question that they have provided benefits to the region.

This Subscription proposal also recognizes that our customers have unique needs, needs we have worked hard to address. For those in rural areas, we are committed to continuing the low-density discount. Where such customers are severely affected by rate designs and market shifts, we've included a proposal to moderate these impacts.

For our larger generating customers, we have responded to their call for a new product called Slice of the System. A Slice proposal designed to meet their needs is included in this package.

We've also acknowledged a customer concern that came up frequently in the months of comment preceding this proposal about who would pay for General Transfer Agreements (GTAs) to deliver federal power to customers not directly linked to the federal transmission system. We believe we can keep our costs down sufficiently to carry a transmission cost in power rates that will ensure that customers who are not directly connected to the network transmission system will still get the benefits of low-cost federal power.

To accommodate concerns about the need for flexibility in an unpredictable market, we've proposed staggered contract terms. We are offering a five-year fixed rate, with the first three years at one rate and the final two years stepped up at a higher rate. Customers who don't want to buy for five years can buy the three-year package. It's their choice. Staggering contract length will give both BPA and its customers greater flexibility to address market changes and changes that could occur in BPA's fish and wildlife responsibilities.

Over the past year, BPA has worked intensively with interest groups, other agencies and customers to achieve a common understanding of how BPA will address the uncertainty of future fish and wildlife costs in its post-2001 power rates and contracts. This discussion has resulted in a set of eight principles for fish funding that are described in a separate document.

BPA is fully committed to meeting these principles in the subscription process and rate case. Based on the analysis BPA has done to date, the rate and contract proposals made in this document do in fact carry out the fish funding principles. However, this conclusion is subject to further testing in the rate case. If the proposals contained here prove not to meet the fish funding principles upon further analysis in the rate case, then adjustments will be made to conform to the principles.

This document marks a milestone in a collaborative process among BPA, its customers and its constituents that began about 18 months ago. This process better defined BPA's relationship with its constituents and customers and allowed BPA and the region to identify and discuss contractual issues that are important in the context of the deregulated market. BPA believes that the Subscription process, in general, and the Subscription proposal, specifically, constitute the framework that will be the context for BPA's upcoming power rate case that will begin early in 1999.

As noted in the introduction, our bottom line is that we are going to sell our products in a way that will reassure the region that we are committed to fulfilling our responsibility for fish and wildlife and at the same time present a package that preserves the region's historic low-cost power. It acknowledges BPA's trust responsibility to Northwest tribes, and it provides a foundation for leadership in regional energy conservation and renewables. We believe this Subscription proposal offers something for everybody, from the rural customer to our largest customer, from the public power customer to residential consumers in the IOU service areas. BPA believes the proposal is being responsive to and balances the concerns and interests of its customers and constituents.

BPA will accept formal comment on this proposal through Oct. 23, 1998. If you would like to talk to someone about this proposal, contact a BPA account executive or call BPA at 1-800-622-4519. Send written comments to: Bonneville Power Administration, P.O. Box 12999, Portland, OR 97212. Or E-mail your comments to: comment@bpa.gov.

II. Subscribing to Federal Power

BPA proposes to open the Subscription window from Nov. 15, 1998, through Nov. 30, 1999. The window may be extended, if needed due to unforeseen delays in the rate case. Rates for post-2001 service will be set in the Wholesale Power Rate Case scheduled to begin in early 1999. BPA and its customers can bilaterally negotiate and execute power sales contracts at any time during this period. Most Subscription contracts signed prior to the end of the rate case will be subject to the final rate(s) established in the rate case.

Approximately 6300 annual average megawatts (aMW – the unit of energy output of one megawatt of generation capability for one year) of firm power are available for Subscription (on an average annual basis over the post-2001 five-year rate period). All customers serving regional firm consumer load are eligible to purchase firm power within the constraints of existing statutes.

BPA intends to assure that the benefits of the Federal Columbia River Power System (FCRPS) are distributed as widely as possible throughout the region. BPA estimates that public agency customers could subscribe up to approximately 5500 aMW of firm power at BPA's lowest cost firm power rate. In addition, IOUs or their successors may subscribe on behalf of residential and small farm customers to the equivalent of 1500 aMW of firm power.

After meeting the power requests of public agency customers and IOUs, DSIs may execute firm power contracts for remaining firm power. BPA expects approximately 1000 aMW of firm power to be available for the DSIs, but the amount will depend on Subscription choices made by public entities and investor-owned utilities. In addition, BPA intends to offer 1000 aMW of interruptible power sales to DSIs. If sales occur at a pace that meets BPA's business interests, all the firm inventory will be sold through Subscription.

A. Serving Public Agency Loads

BPA proposes that public agencies be able to subscribe at the lowest cost-based Priority Firm rate (PF(1)) for all load not currently being served by customers' generating resources as of the release date of the final Subscription strategy. Public agency customers will be able to continue Residential Exchange transactions under section 5(c) of the Northwest Power Act at the Priority Firm Exchange (PF Exchange) rate, subject to in lieu transactions.

B. Serving Residential and Small Farm Customers of the IOUs

Under the Residential Exchange Program established in section 5(c) of the Northwest Power Act, a Pacific Northwest utility (either a public agency or an investor-owned utility) may offer to sell power to BPA at the utility's Average System Cost. 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 exchange equals the utility's residential and small farm load. In practice in the past, no actual power sales have taken place, and BPA has provided monetary benefits to the utility based on the difference between the utility's ASC and the applicable PF rate multiplied by the utility's residential load. These monetary benefits must be passed through directly to the utility's residential consumers. The amount of Residential Exchange benefits depends in large part on the level of the PF Exchange Rate. Generally speaking, the higher the PF Exchange rate, the lower the exchange benefits. If the PF Exchange rate is above market, utilities are unlikely to purchase the power offered by BPA under in-lieu transactions, and residential consumers would receive no benefits from the Residential Exchange Program.

In BPA's upcoming rate case, the current Average System Cost methodology will be used for any Residential Exchange forecasts. Because the Residential Purchase and Sale Agreements (RPSA) that implement the Residential Exchange Program have been terminated or will terminate in 2001, new RPSAs must be negotiated for any utilities choosing to participate in the Residential Exchange Program after 2001. Utilities with negative account balances under the previous RPSAs must pay BPA the full amount of their negative account balances before being eligible to receive any benefits from the Residential Exchange Program after 2001.

BPA is proposing that instead of participating in the Residential Exchange Program, IOUs be able to purchase a specified amount of power under Subscription for their residential and small farm consumers at the New Resource NR(1) rate, a rate approximately equivalent to the lowest cost PF Preference rate PF(1). Therefore, residential and small farm loads of the IOUs may receive benefits from the federal system through one of two ways. An IOU may participate in the established Residential Exchange Program as described above or it may participate in Subscription, which allows the benefits of the FCRPS to flow more directly to consumers.

In Subscription, BPA proposes that residential and small farm loads of the IOUs be assured access to the equivalent of 1500 aMW of federal power for the 2001–2006 period. At least 1000 aMW of the 1500 aMW will be served with actual BPA power deliveries. The remainder may be provided through either a financial arrangement or additional power deliveries depending on which approach is most cost-effective for BPA. The actual power deliveries for these loads will be in equal hourly amounts over the period.

Expiration of existing long-term extra-regional power sales contracts will make approximately another 1000 aMW available for Subscription after 2006. Subject to meeting its public agency service obligations, this should make it possible to reach the state public utility commissions' goal of 2200 aMW available for IOU residential consumers, absent significant reductions in BPA system capability.

To the extent permitted by law, the state public utility commissions will jointly determine the share of power that goes to the residential and small farm customers of each IOU that chooses to participate in Subscription. The state commissions also will determine how the benefits of the Subscription sales will be passed on to residential and small farm consumers. In addition, the commissions will determine whether utilities with negative account balances under the previous Residential Purchase and Sale Agreements (RPSAs) must pay BPA the full amount of their negative balances before they are eligible to participate in Subscription. The consumer bills of participating IOUs should designate "Benefits of the Federal Columbia River Power System" to describe the amount of benefits each consumer receives. Further, Subscription power (both the physical and financial components) will be transferable to any other eligible entity that serves the residential and small farm load (for example, new public agencies, aggregators, etc.) under the same terms and conditions as the Subscription purchase by the original IOU.

BPA intends to ensure that the benefits of low-cost federal power are widely enjoyed by residential and small farm customers throughout the Pacific Northwest. The region needs to clarify how the benefits of low-cost, in-region, nonfederal resources are preserved to benefit regional residential and small farm ratepayers., 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 nonfederal resources currently serving regional loads and be used to serve loads outside the region.

C. Serving the DSIs

Assuming public agency customers continue to purchase power from BPA at current levels, BPA should be able to serve 2000 aMW of DSI load under this proposal through a combination of 1000 aMW of firm power left after public agency and IOU residential and small farm purchases plus 1000 aMW of interruptible sales. Unlike the amounts for the public agencies and IOU customers, however, the full expected 2000 aMW is not guaranteed to be available to the DSIs.

If DSI purchase requests exceed BPA's power availability, BPA proposes to give priority within the DSI class to DSIs who made larger purchase commitments to BPA in 1995.

D. Serving Other Remaining Regional Loads

Other regional loads not addressed above may be served with federal power sales according to existing law.

E. Scenarios for Distributing the FCRPS Firm Power Resource

The following table provides three scenarios to illustrate how BPA proposes to distribute the available firm power resource of the FCRPS under different customer purchase patterns. The scenarios are for purposes of illustration and should not be taken as literal elements of this proposal.

- Scenario 1 – The public agency customers have elected to purchase 4700 aMW, leaving a remaining inventory of 1600 aMW. BPA makes available 1000 aMW for the residential consumers of IOUs. These consumers receive financial benefits equivalent to 500 aMW or an additional 500 aMW of BPA purchased power, whichever is most cost effective to BPA. In this scenario, the DSIs may purchase 600 aMW of firm power and 1000 aMW of interruptible power.

- Scenario 2 – The public agency customers have elected to purchase 5500 aMW of firm power. This leaves 800 aMW of firm power, all of which goes to the residential consumers of the IOUs along with an additional 200 aMW of firm BPA purchased power and financial benefits equivalent to 500 aMW of firm power delivery. In this scenario, the DSIs do not receive any firm power. They may purchase 1000 aMW of interruptible power.

- Scenario 3 – The public agency customers have elected to purchase 4200 aMW of firm power (slightly more than their average 1996-2001 purchases), leaving 2100 aMW. Of this, as in scenario 1, the residential consumers of the IOUs have available 1000 aMW of firm power for purchase and the financial equivalent of 500 aMW of firm power or an additional 500 aMW of BPA purchased power, whichever is most cost effective. The DSIs may purchase 1100 aMW of firm power deliveries. They may also purchase 1000 aMW of interruptible power.

Examples of How FCRPS Firm Power Could Be Distributed

	Scenario 1	**Scenario 2**	**Scenario 3**
Total inventory available for subscription (average annual basis over five-year rate period)	6300 aMW	6300 aMW	6300 aMW
Public Agency Subscription	**4700 aMW**	**5500 aMW**	**4200 aMW**
Remaining Inventory	1600 aMW	800 aMW	2100 aMW
Power to IOU (flat sale)	1000 aMW	800 aMW	1000 aMW
Power augmentation for residential consumers of IOUs (flat sale)		200 aMW	

$$ to IOU (financial firming or power purchases)	500 aMW	500 aMW	500 aMW
Firm power to DSIs*	600 aMW	0 aMV	1100 aMV
Interruptible power**	1000 aMW	1000 aMW	1000 aMW

*Amount of firm power to DSIs will be determined by amount of public agency Subscription and by whether IOUs purchase full amount available to them for residential and rural consumers.

**DSIs offered access to some amount of interruptible power, when it is available, at a market-minus-index rate, in a manner that allows the DSIs to take other steps (for example, operational planning, call options with other suppliers) to fit this secondary energy into their operational needs.

III. Power Products and Services

This section addresses what power products BPA will offer, the approach to pricing these services, what contract parameters will be contained in the actual contract terms of Subscription contracts, and the approach to managing power business risk. Below is a proposed framework. After it is finalized following public comment, it will form the basis of the upcoming initial power rate proposal.

A. Risk Management Strategy

BPA faces a number of uncertainties in the 2002-2006 period that could significantly affect how it operates and successfully meets all of its public responsibilities. The most significant uncertainties are:

- **Hydro conditions –** The amount of power BPA has to sell directly depends on the available water supply and generation;

- **Market prices –** No one can predict with certainty whether market prices will trend downward, remain about the same or go up. Market prices define the revenues BPA receives from surplus power sales and its costs for short-term power purchases.

- **Operating costs –** There are significant uncertainties in many of BPA's operating costs.

- **Fish and wildlife costs –** For planning purposes, BPA will use the full range of potential fish and wildlife costs and financial impacts currently under discussion for the 2002-2006 rate period. The range is currently estimated at $438 million to $721 million annually.

A key principle of BPA's risk management framework is managing the total risks of the agency through a comprehensive plan that involves a set of risk management tools. The ability of these tools to manage risk is measured by the Treasury Payment Probability. Statutes defining BPA's priority of payments dictate that the Treasury is the last creditor in line to be paid by BPA. Therefore, the probability that BPA can pay Treasury is an important indicator of the agency's financial health and captures all of the major sources of uncertainty BPA faces in meeting its obligations. To ensure recovery of all of its planned net revenues, BPA will use a combination of the following tools to manage risk. The specific mix and design of these tools will be determined in the rate case and the Subscription process, as appropriate:

- Implement the principles for fish and wildlife funding, which are described in a separate document, and address BPA risk management. Final decisions on rates and contracts will be in conformance with those principles;

- Implementing additional cost-reduction efforts to reduce internally manageable costs that are not fish and wildlife costs before exercising any contingent cost recovery mechanism;

- Encouraging staggered contract terms – some shorter than five years and some longer than five years;

- Offering greater price predictability after the initial contract period to customers who pay option fees;

- Using cost-based indexed pricing for some products;

- Using reserve balances carried into the 2002-2006 rate period from the prior period;

- Using 4(h)(10)(C) credits allowed by the Northwest Power Act against BPA's Treasury payment. (The credit is for about 27 percent of certain fish and wildlife expenditures BPA makes each year that are not related to the hydropower system. The assumption is that ratepayers should not be responsible for fish mitigation costs not attributable to electricity production.);

- Accessing the Fish Cost Contingency Fund (currently $325 million) under certain narrowly defined circumstances. This fund represents past money BPA had paid for fish and wildlife costs associated with the non-power uses of the region's federal dams but for which the agency has not taken 4(h)(10)(C) credits;

- Subject to the upcoming rate case, BPA proposes using an adjustment to posted prices, known as a cost recovery adjustment clause (CRAC), in its firm requirements rate schedules that would be offered as an option for all Subscription contracts. Customers would choose between a higher fixed rate without a CRAC or a lower starting rate with a CRAC. The amount of revenue that could be gained by using a CRAC would be up to $100 million annually.

  CRAC would trigger based on BPA's projected financial reserves at the end of the second quarter of each fiscal year. If Power Business Line financial reserves appeared likely to fall below a certain threshold, BPA would conduct a public review process. After public review of the financial reserve projections, BPA would make any necessary revisions and, if the revised projections were below the threshold, the cost recovery adjustment would trigger. Posted prices would increase effective the first day of the next operating year. The adjustment would terminate after one year if projected financial reserves rise above the threshold;

- As a last resort, using existing authorities, BPA would implement a cost recovery mechanism on the transmission system. BPA intends to preserve all of its existing rights to temporarily reassign power costs to transmission should all the other tools mentioned above not be sufficient to cover PBL costs. It is BPA's intent to develop the upcoming power rate case so that there is no need to rely on the Transmission Business Line for a loan to bring the Treasury payment probability to target levels. In the unlikely event that a loan is needed from the Transmission Business Line to Power Business Line, BPA intends that the amount be limited to $25 million annually. This is due to concerns over the expected increase transmission customers may see due to cost shifts resulting from eventual Federal Power Act compliance. The limit on the loan is also driven by BPA's policy to functionally and financially separate the two business lines.

From a risk management standpoint, BPA's proposed approach to Subscription pricing described in the next section is intended to:

- Reflect BPA's business risks and costs, and
- Ensure that the cost of additional risks incurred by BPA are paid by those customers for whom such risks are undertaken.

Some customers are looking for flexibility beyond that embedded in the core products. BPA will include in the posted rates only those risks that apply to all customers purchasing those power products. Some risks are assumed to be so minimal that they will be rolled into the rates, such as the risk of fluctuations in small generating resources. Other risks, although small in quantity, may be of a larger nature, such as the risk of retail access load loss for even the smallest customers or the risk of excessive load growth for customers. The primary reason for a distinction between the core and customized subscription products is to ensure that only those customers who stand to benefit from additional risks assumed by BPA on their behalf are required to pay the related costs.

B. Product Categories

The three categories of products include:

1. Core Subscription Products

These products are available to customers who request requirements service to serve load and accept constraints on their ability to shape their purchases from BPA for any reason other than following variations in consumer load. All standard core Subscription products are undelivered. All core Subscription products will be offered at BPA’s posted rates.

2. Customized Subscription Products

   Customized products are available to customers who request requirements service to serve load (Core Products) and who want additional flexibility to reshape their purchases from BPA in order to optimize their resource operations. These products will have bilaterally negotiated pricing for all modifications to Core Products and any additional products and services customers wish to purchase. Examples of customized products include Slice of the System and Renewable and Environmentally Superior Products. An additional discussion of Slice appears below.

3. Non-Subscription Products

   These are products that support a customer's resource operation. It also includes products that BPA may offer when inventory exceeds that needed to meet total net load requirements service obligations. This category broadly includes power products and services that BPA might sell to any customer in the marketplace. These products will have prices negotiated under BPA's Firm Power Products and Services (FPS) rate schedule within the cost-based cap set by that rate schedule.

The table below provides a brief description of the various products within each of these three broad product categories.

PRODUCT	BRIEF DESCRIPTION
CORE PRODUCTS	
Full Service	Power to meet the customer's actual total retail load. Follows hourly load. Transmission and Ancillary Services must be acquired separately.
Partial Service - Actual	Power to meet actual hourly customer retail load net of customer resource amounts, which are declared as monthly heavy load hour (HLH) and light load hour (LLH) energy and monthly peak within the parameters specified in the product description for the commitment period.
Partial Service - Block	Energy purchases specified for HLH and LLH by month within parameters specified in the product description for the commitment period.
Factoring	A service that can be added to the block core product to factor the energy to follow customer actual retail load shape.
CUSTOMIZED PRODUCTS	
Environmentally Superior and Renewable Resource Products	Take-or-pay blocks of firm power from a deemed renewable resources portion of the federal system.
Variable Load Factor Block	Combines the core block product with one or both of the following: additional HLH capacity allowing the energy to be shaped among hours or an option regarding some portion of energy such that it could be taken or not.
Slice of System	A right to use a percent of the power output of the FCRPS. Payment would be a corresponding percent of the BPA revenue requirement. Product details are under deliberation in public meetings. See description below for best available current information.

Non-Subscription Products	
Bilateral Products & Services	
Firm Power - (Secondary, Commodity)	Short-term purchases of commodity products (also available for replacement of losses owed to a transmission provider).
Capacity w/out Energy	Heavy load hour deliveries (energy nets to zero).
Storage	BPA accepts energy during one season, returns during another.
Resource Factoring	BPA reshapes customer's resource output, generally within a day.
Preschedule Change Rights	Right to change preschedules within specified time periods.
Displacement Rights	Right to reduce firm take-or-pay amounts.
Scheduling Services	Administering the scheduling requirements of a non-federal purchase or sale agreement.
Reserves, Resource Support	
Supplemental Automatic Generation Control	Back-up products for managing load, resource and transmission disturbances.
Operating Reserve	Back-up products for managing load, resource and transmission disturbances.
Forced Outage Reserve	Back-up products for managing load, resource and transmission disturbances.
Complements to Core Products	
Block Flexibility	Right to vary a pre-defined block purchase within a specified range.
Retail Access – Mitigation	Products enabling management of retail access load loss risk.
Option for Follow-on Subscriptions Rights	Ongoing rights to purchase an amount of BPA power in the future at the then lowest applicable cost-based rate.

C. Slice of System

As a result of several months of discussion of a proposal by the Public Generating Pool, BPA is proposing to offer a Slice of the System arrangement in Subscription. BPA’s Slice proposal is based on the PGP proposal, with modifications to ensure that the proposal meets the five principles described by BPA in March 1998.

Product Description:
The Slice product is a power sale that reflects, by formula, the shape of BPA's resources. The product includes the right to modify the rate of delivery of energy within the hour, day, week, month and year, consistent with legal and contractual constraints that BPA must observe in the management of the FCRPS. The purchaser's rights to modify the rate of delivery are proportional to BPA's own capability at any point in time. Capability in this context is defined as the maximum and minimum rate of delivery in any given hour that BPA must itself observe in combination with its ability to store and release energy.

The Slice product gives no authority to purchasers to make FCRPS operating decisions or to influence operations of individual projects, and it will not alter the way BPA and other federal agencies make FCRPS operating decisions.

Slice purchases will be used to meet the purchaser's requirements loads in the Pacific Northwest. The firm component of Slice purchases will be limited by the customer's net requirements, as determined by forecast firm loads and declared resources. Rights to purchase Slice shares must be matched to requirements rights, including peaking requirements, under section 5(b) of the Northwest Power Act. Under the Slice arrangement, it is likely that the output or capabilities available to the purchaser will, at times, exceed that purchaser's monthly or hourly requirements rights under section 5(b)(1) of the Northwest Power Act. In anticipation of that occurring, BPA may contractually establish mechanisms to buy back the excess if and when necessary to assure service to BPA's other statutory or contractual commitments in the Pacific Northwest.

A Slice purchase will not affect purchasers' rights to BPA power after the Slice contract period.

The product may not be purchased in combination with Full Service. The operational accounting and pricing issues when Slice is combined with Actual Partial Service become very complex. If BPA and its customers can work through the issues, BPA will consider offering this product in combination with Actual Partial Service.

Payment for Slice would be on a formula basis. The formula is a percent of BPA's Power Business Line revenue requirements for each year of the contract. The only excluded costs are some costs of short-term power purchases and payments to the Transmission Business Line for transmission of federal power from generating resources to Slice purchasers. Purchasers of Slice shares will be expected to pay the costs of relieving the expected FCRPS inventory constraint, whether that solution is power purchases, cash payments, interruptible service to industrial customers or another solution. BPA also expects purchasers of Slice shares to assume an appropriate share of planned net revenues for risk.

If BPA's Subscription rate case and evaluation of the risks borne by Slice purchasers determine that there are cost shifts to or from Slice purchasers from or to other BPA customers, those costs would be adjustments to the costs to be paid by Slice purchasers.

Transmission of Slice purchases will be contracted and paid for separately by Slice purchasers.

Under current fish and wildlife mitigation and enhancement scenarios, the highest costs occur after 2006. To assure that those costs are not shifted to other customers, Slice commitments must be for at least 10 years. Alternatively, Slice purchasers must make financial commitments that position BPA equally as well as other Subscription purchases to meet post-2006 financial obligations.

Slice purchasers will pay the costs necessary to implement Slice. Implementation costs include the actual and ongoing costs of developing systems, software, and procedures; acquiring hardware and personnel costs to implement the Slice. Significant costs may be incurred prior to actual Slice purchase commitments.

Slice purchasers may obtain their Slice shares by schedule. The ability of purchasers to obtain Slice shares by dynamic signal will require resolution with both the Power Business Line and Transmission Business Line.

In order to permit Slice purchasers to make use of the product on the same basis as BPA's use of the system, BPA will provide information on the bounds constraining Slice purchasers' use of the product. This information will include real-time minimum and maximum operating constraints, including ramp rates. BPA will provide non-proprietary information to Slice purchasers for the implementation of the Slice. BPA will not provide internally developed forecast information to Slice purchasers, including, but not limited to, forecasts of streamflows, generation or sales.

Slice purchasers are responsible for providing operating reserves for the Slice. Such operating reserves may be provided from the Slice or from other resources.

The Slice product will include a dispute resolution process to apply to instances of perceived arbitrary or inconsistent application of constraints or where information is withheld. The process will be defined in a way that avoids the potential for second-guessing of BPA operational decisions.

The issue of pooling of Slice purchases will be treated consistently with the treatment of all pooling requests currently being considered by BPA.

BPA is considering the need for a pilot, or testing, period for implementation of the Slice.

IV. Pricing

A. Public Agency Customers

Subscription sales to public agency customers will be under the Priority Firm rate. Some public agency customers will see a differentiated PF rate. This rate difference is based on requiring the customer that creates the need for BPA to incur the cost to bear those costs directly. We are proposing the following PF Preference Rate concepts:

- PF(1) = Price is the lowest-cost rate;
- PF(2) = Price reflects cost of acquiring additional resources; and
- PF(1) surcharge = Price reflects cost of acquiring additional resources.

Note: PF(1) surcharge and PF(2) may be the same rate level.

BPA is proposing to apply these rates to public agency Subscription amounts in the manner described in the following table.

Loads currently served by BPA and currently served by expiring 5(b)(1)(B) contract resources	PF(1)
Loads currently served by 5(b)(1)(A) and (B) generating resources	PF(1) surcharge
Post-Subscription public agency requests for additional requirements service	PF(2)
New Large Single Loads	NR(2)

Low Density Discount (LDD)

BPA plans to continue the LDD, with changes in rate design and implementation that will be made a part of BPA's Initial Rate Proposal. One change BPA is proposing is to eliminate the kilowatt-to-investment (k/i) ratio in the calculation of the LDD. The changes will be targeted at assuring that LDD benefits go to customers with truly low system densities as envisioned by the Northwest Power Act.

B. Residential Exchange

PF Exchange Rate

Consistent with the Northwest Power Act and the description in section II.B above, the section 7(b)(2) rate test will be run. A PF Preference Rate and a PF Exchange Rate will be published. If the 7(b)(2) rate test does not trigger, the PF Preference and PF Exchange Rates will be equal. However, if the 7(b)(2) rate test does trigger, then the PF Preference Rate and the PF Exchange Rate will differ. The current ASC (Average System Cost) methodology will be used for any Residential Exchange forecasts. Because the Residential Purchase and Sale Agreements (RPSAs) 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.

Utilities with negative account balances under the previous RPSAs must pay BPA the full amount of their negative account balances before being eligible to receive any benefits from the Residential Exchange Program after 2001.

C. IOU Residential and Small Farm Loads

1. Physical Deliveries

IOUs with residential and small farm loads will have the ability to continue the Residential Exchange Program under section 5(c) of the Northwest Power Act, subject to in lieu transactions. In the alternative, Subscription sales to IOUs under section 5(b) of the Northwest Power Act for specified amounts of residential and small farm loads will be available at the new resource NR(1) rate. The NR rate for service to the IOUs will be differentiated as described below.

NR(1)≈PF(1)
NR(2) price reflects cost of acquiring additional resources

Consistent with the principles described in section II.B above, BPA will serve a limited amount of residential and small farm loads at the NR(1) rate under these terms and conditions:

- The purchaser (IOUs with residential and small farm loads) will waive the right to request benefits under section 5(c) of the Northwest Power Act;
- BPA will serve at the NR(2) rate requirements requests from IOUs under section 5(b) for residential and small farm loads exceeding the amounts served at the NR(1) rate.

2. Financial Component

BPA will make available up to 1500 aMW of power benefits for the residential and small farm loads of IOUs. At least 1000 aMW will be actual power deliveries. For the remaining 500 aMW, BPA may either deliver additional power and/or provide a cash payment that reflects the difference between the actual market price of power and the NR(1) rate.

D. Direct Service Industries

IP = PF(1) plus Industrial Margin, adjusted for reserves.

Subscription sales to DSIs from BPA's firm inventory may be made pursuant to section 5(d) of the Northwest Power Act and will be priced at the Industrial Firm Power (IP) rate.

E. General Transfer Agreements (GTAs)

A General Transfer Agreement is a contract in which BPA pays a fee to transfer BPA power over another utility's transmission system for delivery to a BPA customer. BPA proposes to continue existing GTA service to customers for delivery of federal power through the 2001-2006 rate period. This service will not be available to new preference customers or to existing preference customers for service territory expansions. For GTA agreements that expire during this time, BPA will attempt to negotiate their extensions through 2006. If unsuccessful in this attempt, BPA will arrange for open access tariff transmission to replace the GTA for delivery of federal power to GTA points of delivery. Any GTA charges that are directly assigned to customers will conform with the BPA Transmission Business Line’s Direct Assignment policy. For most circumstances this means only the Low Voltage Delivery Charge, where applicable, will be directly assigned. GTA customers will purchase ancillary products, such as load regulation, from the Transmission Business Line. The costs for GTA service or replacement service will be carried in the Power Business Line revenue requirement. PBL will not provide for delivery of nonfederal power to GTA points of delivery.

F. Conservation and Renewables

BPA enjoys an important role in the area of energy conservation and renewable resources by providing direction and scope to the development of such resources. A number of factors influence the way BPA carries its leadership responsibility for energy conservation and renewable resources. Among these are: the changing electric power industry, regional load resource balance, the dynamics of the new marketplace, changes in BPA's inventory (particularly significant decreases in flexibility) and the directions from the Comprehensive Review and the BPA Cost Review.

Although BPA plans no generating resource acquisition in the near future, we realize the region is moving into load resource balance. As the region moves into a new era of resource development, the need for critical priorities on energy conservation and renewable resources increases. State and regional power planning bodies and legislatures will assume their leadership roles. The Comprehensive Review described some of these roles. BPA wants to supplement their actions.

BPA believes it can use its power pricing to best communicate the cost of resources and priorities for developing conservation and renewable resources. The rate design for the new rate period will reflect new values of on-peak and off-peak energy. On-peak energy purchases will increase in price while off-peak purchases will decrease in price. These changes should motivate customers to take conservation actions to reduce their peak use of energy.

In addition, BPA intends to use its power rates to support power customers who voluntarily choose to finance their own development of conservation or renewable resources. Specifically, BPA is developing a proposal that will provide discounts off its posted rates when these utilities’ developments meet regionally developed performance criteria. This rate discount should provide a greater incentive for utilities to meet the Comprehensive Review’s goal of supporting conservation and renewables through local action. The agency will also take into consideration actions by the states such as uniform public benefits charges. BPA intends to rely on a regional forum to develop clear direction about what would qualify for the discount, thus making it simple to administer.

V. Contract Elements

A. Bilateral Contract Negotiations

BPA intends to conduct bilateral negotiations with each of its customers to develop a customized contract that establishes the specific business relationship between that customer and BPA. Each contract will be based upon the Subscription decisions contained in BPA's final record of decision on Subscription contracts.

B. Standard Provisions

BPA intends to bilaterally negotiate contracts with its customers that will have a standard set of boilerplate provisions that are intended to be non-negotiable and consistent across all Subscription contracts. In all contracts, BPA will preserve its existing rights to emergency cost recovery. Some of the standard provisions are listed below.

Emergency cost recovery	Uncontrollable forces
Dispute resolution	Delivery (transmission)
Required statutory language	Cost recovery
Billing/payment language	

C. Contract Types

The customer may choose an umbrella/subsidiary contract or a commercial contract. Umbrella-type contracts have general provisions and a term up to 20 years. The initial power purchases may be shorter term. Commercial contracts also include general provisions and expire when the sales commitment expires.

D. Contract Length

In Subscription, BPA is attempting to provide various incentives for customers to choose between three-year contracts, five-year contracts and contracts longer than five years.

1. Contracts Shorter than Five Years

   BPA and its customers have several business goals that can be met by having power sales contracts of various lengths (or terms). For example, by staggering or varying the terms among power sales contracts BPA will reduce its exposure to future revenue cliffs. Some BPA customers have consumers who are also interested in shorter-duration purchase commitments. Also, contracts of varying terms give BPA the ability, if necessary, to collect greater revenues if costs, and the market, increase in the later years of the rate period. BPA proposes to use the following two-part incentive to encourage differing contract terms.

   First, because of the unpredictability of certain costs in the later years of the rate period due to market volatility, fish and wildlife funding and resource capability, BPA expects its costs will be higher in those years. To account for the potential increase in its costs, BPA intends to develop a two-part, stair-stepped posted rate. The rate step will increase in the fourth year of the rate period. The three-year rate will recover forecast costs, including risk, for that period; and the last two years will cover any increased costs and risks.

Second, a customer may choose to enter into either a three-year contract or a five-year contract. The rate for the three-year term will be the first, lower step rate. For the five-year contract, the rate for the first three years will be the same lower step rate, and the rate for the last two years will be the higher step rate.

It is important to note that the entire five-year posted two-part rate is the "lowest-cost-based rate." Typically in the rate setting process, rate models calculate a "rate" for each year of the rate period, and then they are averaged to establish the single, posted rate. We propose to use a similar calculation, but average only the first three years of the rate period and then the last two years, to develop the entire five-year rate. This concept will be more fully developed in the power rate case Initial Proposal. However, five-year pre-Subscription contracts BPA has already entered into for the post-2001 rate period that are tied to the PF rate will face the entire five-year rate as long as the established rate falls within the rate collar negotiated in those contracts.

BPA will offer contract incentives to customers who choose to purchase a three-year contract. Specifically, BPA would waive the take-or-pay provisions for the risk of losing load due to retail open access. That is, if a customer purchases requirements power for a three-year period, the customer will not need to purchase one of the products described elsewhere in this document to mitigate customer risk due to retail load loss. In addition, BPA may develop other contract incentives.

Customers who make a three-year commitment would retain the right to make a PF follow-on purchase for the remaining two years at BPA's lowest cost-based rate without purchasing an option. The new rates for those two years will be set based on updated estimates of BPA costs. Any changes in BPA's system capability would also affect the cost of power available.

2. Contracts Longer than Five Years (Follow-on Rights)

Contracts between five and less than 10 years are another element in BPA's strategy to reduce risk and provide a guarantee to power at the lowest applicable posted cost-based rates for the customer class. Those customers willing to sign a 10-year contract will be guaranteed the lowest applicable cost-based rate without paying an option fee for the full 10-year term. Customers who sign a power purchase agreement between five and less than 10 years will be guaranteed the lowest applicable cost-based rate for the initial five years. For the remaining term of the contract beyond five but less than 10 years, customers have two choices: (1) they may choose to negotiate an option fee to guarantee the lowest applicable cost-based rate; or (2) they may choose to pay an indexed rate tied to, but below, market.

E. Option Fees and Basic Follow-On Rights

The Comprehensive Review recommended that BPA preserve its lowest cost-based rates for customers who made long-term purchase commitments. Therefore, customers can make those long-term commitments either by signing a 10-year contract or by purchasing an option fee. The table below lists the choices available to customers. It also shows what right a customer has to what quantity at BPA's lowest applicable cost-based rates for what amount of time. This table reflects BPA's interpretation of existing statutes that mandate power be made available and the option associated with locking in the price of that power.

Option Alternatives	Option Fee	Type of Service	Right to Quantity at Rate	Length of Time of Right
One: Customer signs a contract of at least 10 years.	None	Full Service Customers Block and Partial Service Customers	Right to continue to purchase Full Service at lowest applicable cost-based rate. Right to monthly amount up to the average monthly amount purchased, by month, during the initial period.	For both: Up to 20 years.
Two: Customer makes a purchase commitment for an initial period less than 10 years.	BPA and customer agree to a negotiated option fee.	Full Service Customers Block and Partial Service Customers	Right to continue to purchase Full Service at lowest cost-based rate. Right to monthly amount up to the average monthly amount purchased, by month, during the initial period.	For both: Up to the end of the option.
Three: Customer makes a purchase commitment for an initial period less than 10 years.	BPA and customer do not agree to a negotiated option fee.	All customers	None	None

F. Future Price Guarantees

A customer who wants a price guarantee beyond 2006 may ask BPA to secure that right for them from the financial markets. The price a customer will pay will reflect the cost BPA incurs to provide the guarantee.

G. Surplus Firm Power Contracts

Certain groups of customers, such as small rural full service customers with heavy summer seasonal load, may be inordinately affected by rate design changes (for example, seasonal/diurnal rate changes, changes in the level of demand charges and changes in demand billing determinants) in our final wholesale power rate schedule and have no ability to respond to these changes. BPA is willing to negotiate nonrequirements surplus firm power contracts and other mechanisms to help mitigate rate design changes that negatively affect such groups of customers inordinately more than other customer groups.

H. Take-or-Pay

Previous BPA power sales contracts gave customers considerable flexibility to increase or reduce their purchases by adding or removing non-BPA power supplies on relatively short notice. BPA proposes to mostly eliminate this flexibility in the new subscription contracts. However, eligible customers will still be able to purchase requirements service in which BPA absorbs load fluctuations due to weather, plant closures and load growth (see paragraph ***1.*** below). The risk of load loss due to retail access is a largely new risk factor that must be managed differently. BPA has used the term "take-or-pay" to describe the contractual situation where customers will bear the risk of losing load due to retail open access whether that access is voluntary or legally mandated. Most customers are expected to mitigate their take-or-pay risk by having "at risk" consumers sign power purchase contracts in the event of legally mandated retail open access laws. In addition, BPA plans to offer products for those customers who do not mitigate this risk themselves. Several means available to mitigate a customer's financial risk due to take-or-pay are listed below.

1. Conversion to Excess Federal Power (EFP)

   BPA will offer a contract provision that allows the conversion of PF purchases to EFP if the EFP is available and the customer loses load due to retail access and cannot serve the load with its take-or-pay power purchase obligation. A conversion to EFP will allow the customer to resell the power. Before making the conversion, however, BPA will have the option of reducing the customer's take-or-pay obligation and taking back the power. Once this option is exercised, the customer's right to purchase the amount of power associated with the load loss at the lowest cost-based rate in its follow-on contract will be permanently reduced.

2. Insurance

   The customer may purchase an insurance product to reduce the financial risk associated with retail load losses under firm power take-or-pay contracts if the law mandates retail open access.

3. Remarketing

   The customer may purchase a product that uses BPA's services to remarket the power to an alternate source if the customer loses load due to retail open access. The customer must continue to pay for the power but BPA will provide a credit to the customer for the amount of energy remarketed based on a formula using the Dow Jones Mid-Columbia Daily Diurnal Index or some similar index.

4. Walled-off Loads

   As an alternative to the above, and prior to execution of the contract, BPA and a Full Service customer may agree that neither will provide service to a specific retail load that has another supplier and is not requesting service. A specified portion of the load of a Full Service customer load may be excluded from the utility's purchase and will not be eligible for service at PF(1). These loads must be separately metered on an hourly basis. The utility will be responsible for purchasing from BPA only the remaining portion of its load and must hold BPA harmless from any third-party claim. This service will only be available before the contract is signed and not during the term of the contract.

I. Public Agency Load Growth

BPA will offer load growth coverage under the Full Service and Actual Partial Service products to all public agency customers under the same terms and conditions, to be determined in the rate case. Load growth coverage is not provided under the firm power block product. BPA plans to determine the cost of providing this service and equitably recover these costs under the Full Service and Actual Partial Service products.

J. Public Agency Load Gain and Annexed Loads

Load gain is retail load that a utility customer serves that is not physically connected to its distribution system. Annexed loads are those that come about through mergers, consolidations and annexation. The different treatment proposed reflects BPA's concern about expanding BPA's load serving obligations and increasing costs for other customers. This proposal is structured so that loads served at PF(1)/NR(1) will continue to be served at that rate regardless of the serving entity. PF(2)/NR(2) loads will be served at that rate regardless of the serving entity with one exception for new tribal utilities as explained below. This same rate treatment will apply for retail loads that are acquired as a result of open access legislation. Consistent with section V.A., new large single loads will be served at the NR(2) rate. To the extent that an annexed load was previously an IOU residential and small farm load that would otherwise receive BPA power or other benefits, the annexed load will continue to receive its prorated share of the power delivery or financial benefits as if it had remained an IOU residential and small farm load.

K. Serving the Load of a New Public Agency

A new public agency will be offered power at the PF(1) rate for an amount of its load service that was previously served by another preference customer at BPA's lowest cost-based rate (PF(1)). New publics will also be eligible for a proportional share of 5(b) sales at the NR(1) rate and financial elements for any eligible IOU residential load it acquires. All other power needs it places on BPA will be met with PF(2).

L. New Preference Tribal Utility

Significant interest by Northwest tribes has risen in their becoming eligible to purchase power during the Subscription process. Tribes have an independent means to form utilities and may even qualify to purchase power from BPA on a preference customer basis. Because of this and in recognition of the tribes sovereign status, the agency is offering a special opportunity to tribes to access BPA's lowest cost-based power.

For Northwest tribes that form a nonprofit utility (that is, form a cooperative and obtain the means to take delivery and distribute power within their reservation boundaries) during Subscription, BPA is willing to sell power to such a tribal utility to meet its general requirements for service to residential and small farm loads at the PF(1) rate. This is without regard to whether or not the residential and small farm loads are currently served by IOUs or existing public customers. The loads of new tribal utilities that form after Subscription ends would be treated the same as other new publics. BPA expects new tribal entities to work collaboratively with the entities currently serving reservation lands.

M. Customer Resource Replacement

Load served by a customer's own resources or a customer's market purchases, and therefore not placed on BPA during a Subscription window, will not be eligible for future service at BPA's lowest cost-based rate. Such load will be served at PF(1) surcharge or PF(2).

N. Customer Pooling of Requirements Purchases

BPA has had a policy based on the directives and purposes in the Bonneville Project Act and the Northwest Power Act of selling power to individual utility customers based on the difference between their resources and the consumer load the utility serves. A few customers have asked about creating an entity that would allow them to pool their requirements purchases. This would provide both administrative savings and enhanced risk management opportunities. At this time, legislation is pending that would allow BPA to sell such power to a "joint operating entity." If that legislation passes, BPA will apply the modification to customers who create a joint operating entity to purchase power on mutually acceptable terms and conditions. There may be other pooling arrangement customers create and BPA will remain open to examining those in light of whatever statutory flexibilities exist.

O. Indexed Cost-based Rates

Customers may choose to convert their fixed price requirements rates to a market-indexed price, adjusted for BPA's risk, that reflects equivalent revenues at the time the contract is signed. This will be offered, as BPA currently does, under current PF and NR rate schedules. Customers may also choose to purchase surplus firm power indexed to the California-Oregon Border, New York Mercantile Exchange or other mutually agreed-to locations.