

Federal Power Subscription

Public Update Meeting

November 25, 1997

Spokane, Washington

Comprehensive Review

- Four governors initiated Regional Review in 1996
- 20 members appointed to Steering Committee
- Recommendations finalized on December 12, 1996
- Recommendations in five key areas
- Formed the Governors' Transition Board to oversee implementation of recommendations

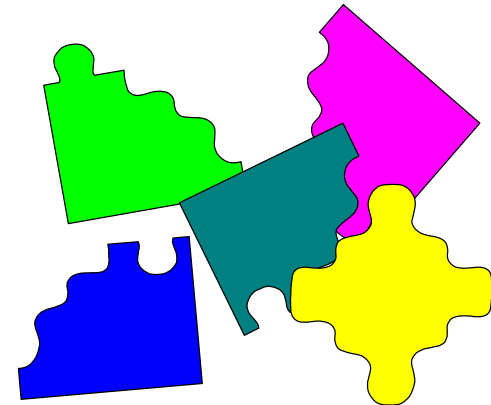
Transition Board's Pieces of the Puzzle

- Cost control
- Fish & wildlife MOA
- Transition cost recovery



Subscription

- Transmission separation
- River governance



Comprehensive Review's Goals For Subscription

- Align the benefits and risks of access to existing federal power
- Ensure repayment of the debt to the U.S. Treasury
- Retain the long-term benefits of the Federal Columbia River Power System (FCRPS) for the region

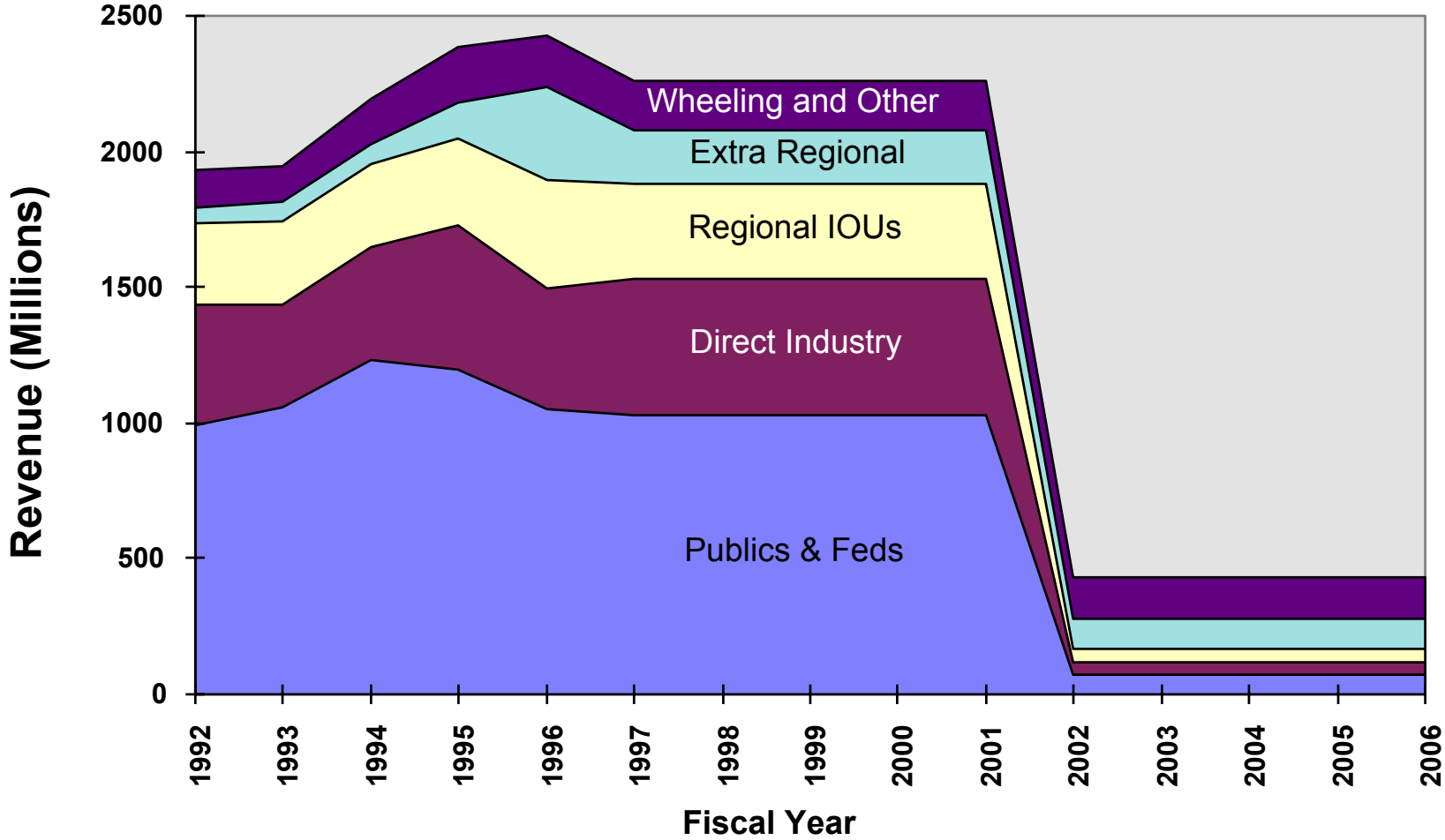
Success is



Fully subscribing federal power,
thus ensuring BPA will be
financially stable and will avoid
stranded costs.

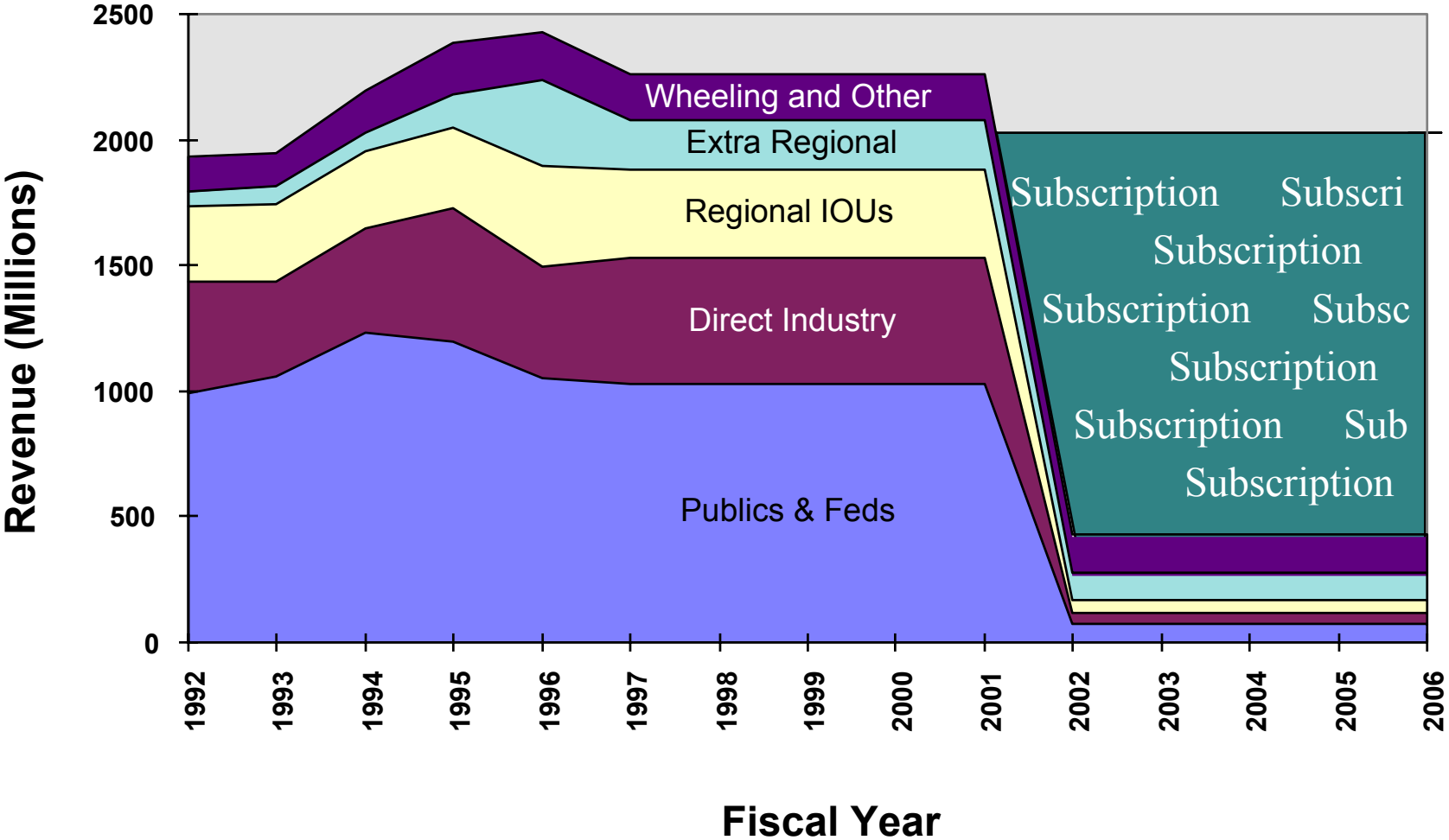
The Cliff:

BPA Revenues Historic Actuals and Contractually Committed for the Future



Subscription:

How Subscription takes out the "Cliff"



Game Plan

Phase 1

- Identify Business Interests
- Define Products and Services
- Identify Business Relationships
- Develop Implementation Steps
- Determine Price of Products/Services

Subscription Update - Overview

Timeline

Phase 1



Phase 2



	1997				1998				1999				2000				2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Business Interests	Complete																			
Products & Services	Complete																			
Business Relationships																				
Implementation Approach																				
Product Pricing																				
Assess Obstacles																				
BPA Rate Case																				
BPA NEPA Activity																				
Subscription Period																				
Current Contracts Expire																				

The Work Group

- Formed in March 1997
- Facilitated by PNUCC
- Meets twice a month (1st and 3rd Wednesdays)
- Normally 40-45 participants
 - ✓ Customers
 - ✓ Customer associations
 - ✓ State governments
 - ✓ Public interest groups
 - ✓ BPA

BUSINESS INTERESTS

BUSINESS RELATIONSHIP

PRODUCTS AND SERVICES

IMPLEMENTATION

PRODUCT PRICING

Major Interests of Participants

1. BPA products primarily available for region's benefit
2. BPA covers its costs
3. Contract simplicity
4. Ability to capture business opportunities quickly
5. Freedom to choose amount of reliance on BPA
6. A broad array of contract, product and pricing options
7. Competitive pricing and appropriate sharing of risk
8. Ability to tailor products to customers' and end users' needs
9. No constraints on planning and operation of non-federal resources
10. Ability to buy a block of power at a fixed price
11. Resale rights; and other forms of relief from take-or-pay obligation
12. Ability to pool power purchases among utilities
13. Protection from excessive risk
14. BPA transmission system not used to advantage its power business

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Contract Principles

- Subscription Rights
- Obtaining Subscription Rights
- Subscription Contract Types
- Subscription Contract Basic Features
- Addressing Load Loss

What are subscription rights?

A subscription right is the right to buy

- an amount of power
- at BPA's lowest* cost-based price
- for a defined period of time.

* For example, the PF' rate (as opposed to the PF'' rate) in BPA's September 17, 1997 presentation, "Rate Differentiation for Requirements Service."

How are long-term (e.g., Post-2006) subscription rights obtained?

1. Make a commitment to buy
an amount of BPA power
at BPA's lowest* cost-based price
for the period of time for which subscription rights are desired.
2. Make a commitment to buy
an amount of BPA power
at BPA's lowest* cost-based rate
for an initial period,
and
purchase an option to buy that amount of power
at BPA's lowest* cost-based price
for the period beyond the initial commitment.

* For example, the PF' rate (as opposed to the PF'' rate) in BPA's September 17, 1997 presentation, "Rate Differentiation for Requirements Service."

Contract Types

- Subscription Umbrella Contract with
Subsidiary Product Purchase Agreement
- Commercial Contract

Contract Basic Features

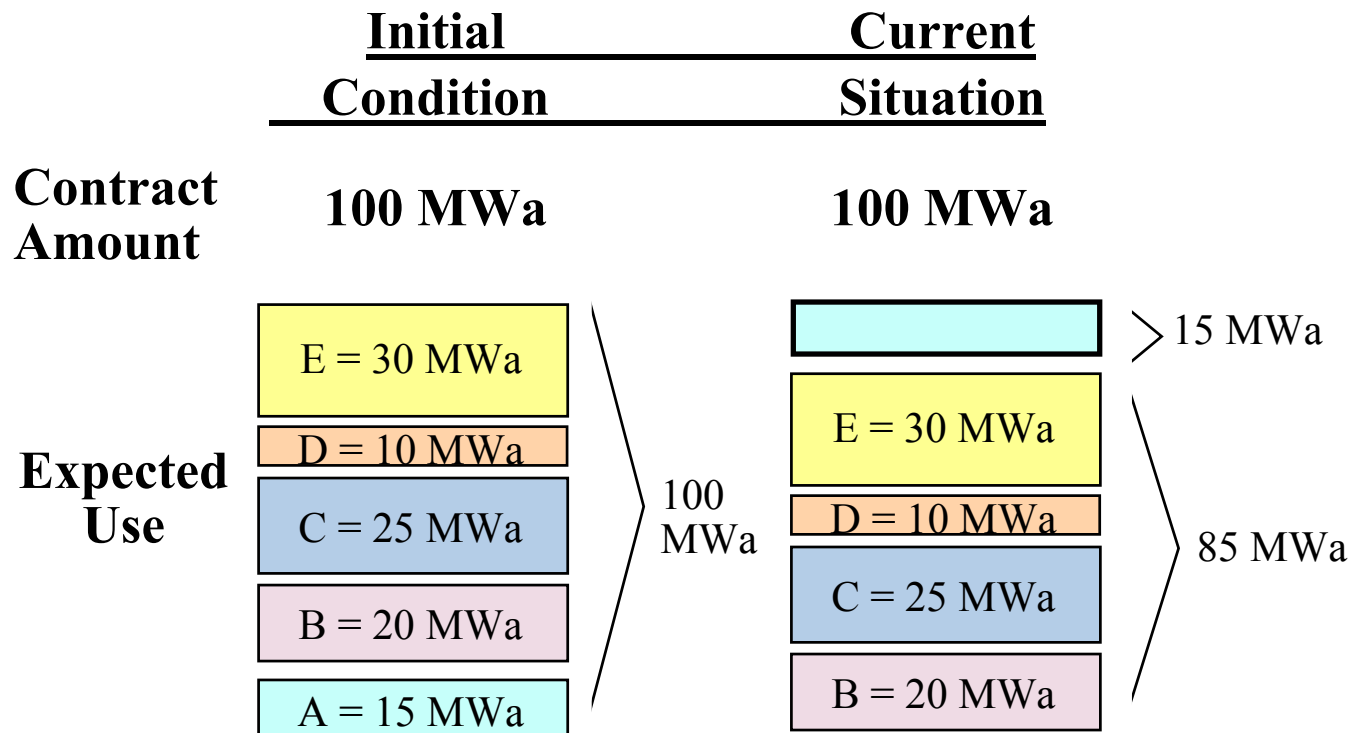
- BPA has firm obligation to deliver amount of power
- Customer has obligation to pay for amount of power
- Cost-based price for initial period known at time of contract execution

Addressing Load Loss

- For small full service customers,
BPA will absorb load loss
- BPA will offer a product that offers load loss protection
- BPA can structure contracts such that:
 - Customers can resell power if load is lost
 - BPA can remarket power and credit customer bill

Resale/Remarketing

Example - Take or Pay Situation



Resale/Remarketing

Option for managing “extra” 15 MWa:

<u>Option</u>	<u>Customer</u>	<u>Risk Taker</u>	<u>BPA</u>
1. Customer resells	X		
2. Options involving BPA			
a. BPA remarketing	X		
b. Curtailment			X
c. Block Flexibility			X
d. Built into products (e.g., Full Service)			X

RESALE

Purchaser can resell “extra” power.

Advantages:

More flexible (thus more valuable) product. Customer can decide how to manage risk and changing conditions

Impediments:

Statutory restrictions on resale rights

REMARKETING

Purchaser requests BPA to remarket power and receives credit against purchase price.

Advantages:

BPA has ongoing market presence. Avoids statutory resale constraints.

Impediments:

Customer loses some independence in managing its portfolio.

Resale Characteristics

Requirements (PF, NR and IP Rate)

- Meets firm regional load
- Limited to difference between customer resources and load
- **Cannot be resold**
- Must be used in Customer's load

Surplus Firm Power (FPS) Rate

- Surplus above utility and DSI requirements
- Not limited to regional sales
- **Available for wholesale resale**
- **Private entity resale is limited**
- Recallable for extra-regional sales
 - 60 days (energy)
 - 60 months (capacity)

Excess Federal Power (FPS Rate)

- Based on reductions in BPA's requirements obligation
- **Can be used for load or resale**
- **No limitation on resale**
- Firm for up to 7 years and not recallable
- Not limited to regional sales

Options to Provide Resale Flexibility

- Purchase Excess Federal Power to meet load or resell without limitation
- Purchase surplus firm power, which for a public agency customer does not have a resale limitation
- Purchase contract that provides for converting power from requirements power to Excess Federal Power

BUSINESS INTERESTS

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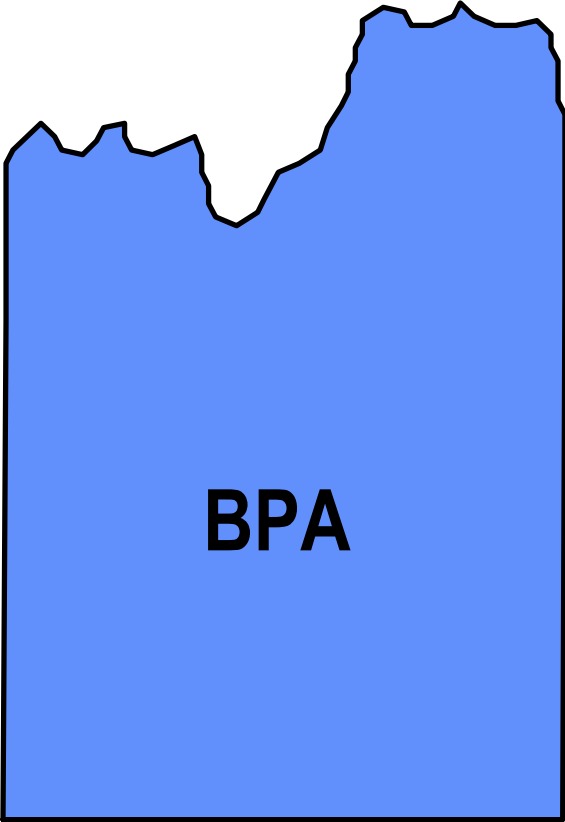
IMPLEMENTATION

PRODUCT PRICING

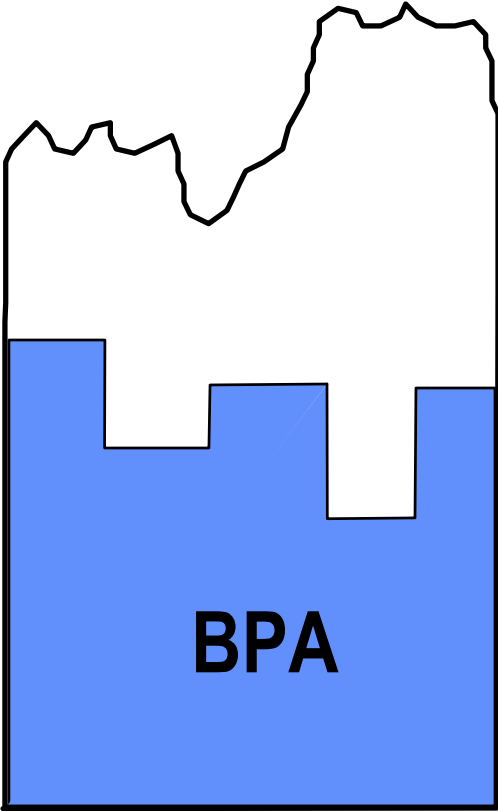
Types of BPA service

- Full service to meet all customer needs
- Pre-defined block
- Simple partial service
- Moderate partial
- Wide array of other products

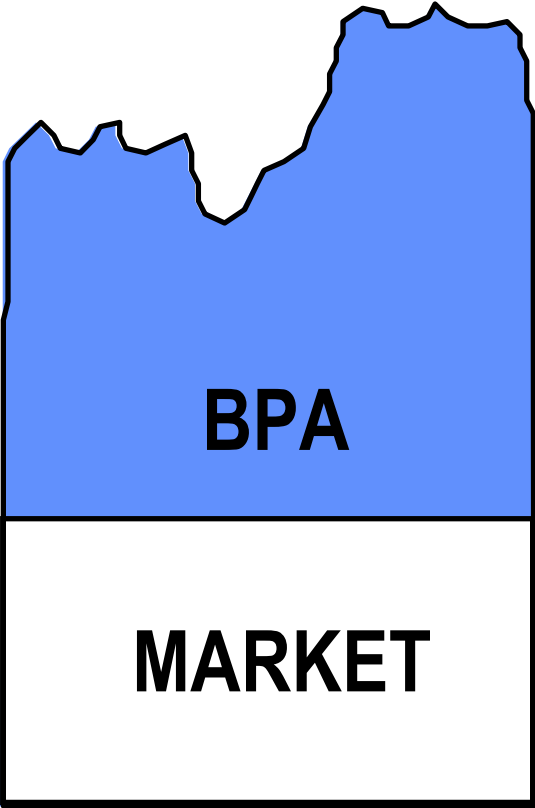
Full Service



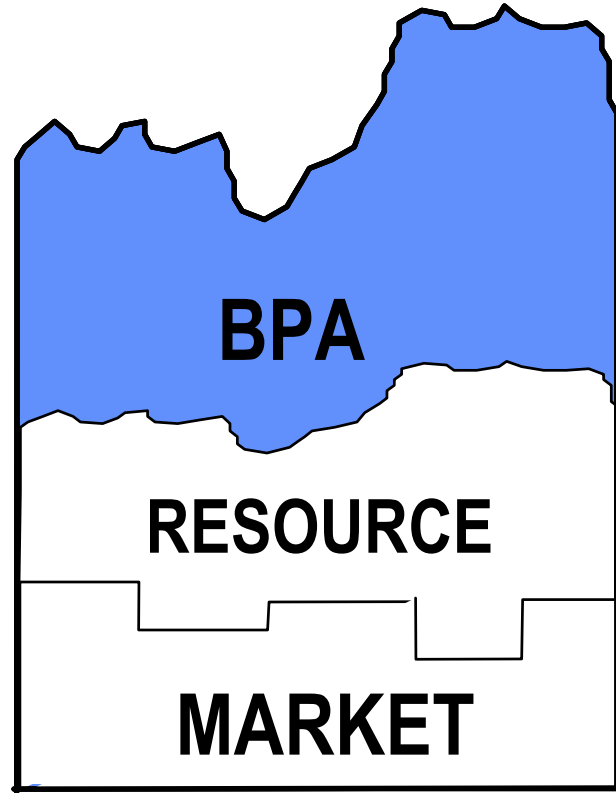
Pre-defined block



Simple partial



Moderate partial



Subscription Update - Products and Services

	<i>Product</i>	<i>Type</i>
1	Full Service	Core Subscription Product
2	Firm Power Block	Core Subscription Product
3 a	Basic Declared Resources (Simple Partial)	Customized Subscription Product
3 b	Basic Declared Resources (Moderate Partial)	Customized Subscription Product
4	Variable Load Factor	Customized Subscription Product
5	Renewable Resource	Customized Subscription Product
6	Secondary - Commodity	non-Subscription Product
7	Loss Compensation	non-Subscription Product
8	Capacity	non-Subscription Product
9	Block Flexibility	non-Subscription Product
10	Storage	non-Subscription Product
11	Load Factoring	non-Subscription Product
12 a	Supplemental AGC	non-Subscription Product
12 b	Operating Reserve	non-Subscription Product
12 c	Forced Outage Reserve	non-Subscription Product
13	Preschedule Change Rights	non-Subscription Product
14	Displacement Rights	non-Subscription Product
15 a	Retail Access - Curtailment	non-Subscription Product
15 b	Retail Access - Remarketing	non-Subscription Product
16	Scheduling Services	non-Subscription Product

BUSINESS INTERESTS

PRODUCTS AND SERVICES

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A Draft Approach to Implementing

- Rate Case to define prices - July 1998
- Subscription period - fall 1998 thru fall 2000
- All customers eligible
- BPA manages sales to implement priority order

A Draft Approach to Implementing

	1997	1998				1999				2000				2001
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Presubscription Sales (Continued)	[Blue Bar]													
<u>PHASE I</u> Prices Defined	[Blue Bar]													

<u>PHASE II</u> 7(i) Proceeding			[Blue Bar]											
Subscription Period			[Blue Bar]											

BUSINESS INTEREST

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Subscription Update - Product Pricing

	<i>Product</i>	<i>Pricing Methodology</i>
1	Full Service	Embedded-Cost Posted Rate
2	Firm Power Block	Embedded-Cost Posted Rate
3 a	Basic Declared Resources (Simple Partial)	Embedded Costs for firm energy; market costs for flexibility
3 b	Basic Declared Resources (Moderate Partial)	“
4	Variable Load Factor	“
5	Renewable Resource	“
6	Secondary - Commodity	Opportunity Cost-based
7	Loss Compensation	Opportunity Cost-based
8	Capacity	Opportunity Cost-based
9	Block Flexibility	Opportunity Cost-based
10	Storage	Opportunity Cost-based
11	Load Factoring	Opportunity Cost-based
12 a	Supplemental AGC	Opportunity Cost-based
12 b	Operating Reserve	Opportunity Cost-based
12 c	Forced Outage Reserve	Opportunity Cost-based
13	Preschedule Change Rights	Opportunity Cost-based
14	Displacement Rights	Opportunity Cost-based
15 a	Retail Access - Curtailment	Opportunity Cost-based
15 b	Retail Access - Remarketing	Opportunity Cost-based
16	Scheduling Services	Opportunity Cost-based

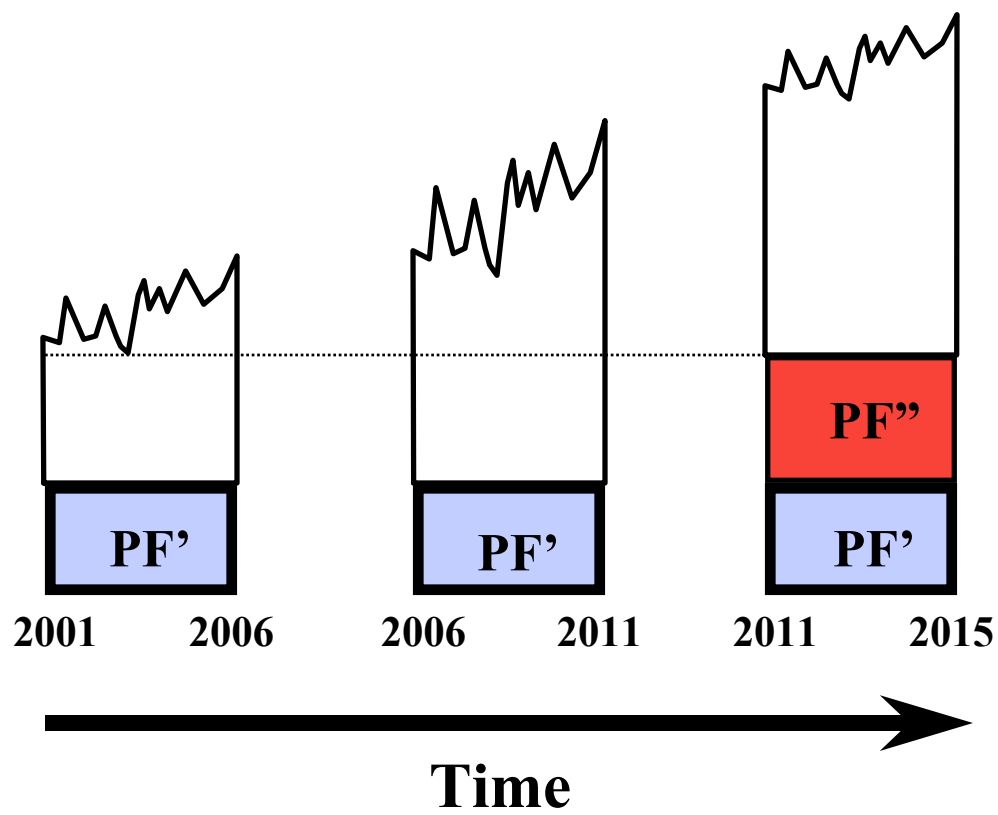
COST-BASED SUBSCRIPTION PRODUCTS

<p>Full Service Firm Power Block</p>	<p><u>Core Subscription Products</u> - - Offered at fixed, published, cost-based rates</p>
<p>Simple Partial Service Moderate Partial Service Variable Load Factor</p>	<p><u>Customized Subscription Products</u> - - Offered at negotiated prices. For that power component which confers an amount of subscription rights, price will be equal to that of Core Subscription Product.</p>
<p>Renewable Resource</p>	<p><u>Customized Subscription Product</u> - - Offered at negotiated price that reflects the costs of the renewable resources used to support the sale.</p>

Rate Differentiation for Requirements Service

What administrative ability does BPA have to differentiate the price of requirements service between those who subscribe for such service beginning in 2001 and those who do not subscribe, but ask for such service after 2001?

Subscription Update - Product Pricing



Rate or Rates

- Section 7(b) of the Northwest Power Act authorizes BPA to develop a rate or rates for preference customers' requirements loads.

**PF' = Average embedded cost
of FBS resources.**

**PF'' = (a) If not fully subscribed
then:**

Blended cost of higher cost FBS resources, but not
lower than PF'

**(b) If fully subscribed
then:**

1) Highest cost FBS resource

or

2) Cost to acquire power to serve load,
but not lower than PF'

Next Steps

- Work Group continues 1st & 3rd Wednesdays
- Identify any “obstacles” to Subscription
- Complete Phase 1 by June 1998

