

Subscription Update

June 18, 1998

BPA wants your comments on a plan it is developing that will spell out how it will sell over 6,000 average megawatts of cost-based federal power for the 2001 to 2006 period. Although it is a federal agency, the Bonneville Power Administration does not receive tax money. It must cover all its costs with revenues it earns in the market by selling its goods and services. The "subscription process" is the way BPA will sell much of its power in the future.

BPA is soliciting comments on its design for the subscription process before it proceeds to negotiate the individual sales and conducts the rate case that will price the subscription power products. While we welcome your comments on all aspects of the policy, this phase of comment focuses on implementation, allocation policy, subscription phases, stranded cost, slice and the residential exchange. Previous meetings have focuses on products and overall guidelines for subscription. This is the third in a series of public update meetings on subscription and marks the beginning of the official public comment period which will close on July 20.

BPA will officially open the subscription window in July when it will begin bilateral negotiations with prospective customers to sell federal power for use in the Northwest after the year 2000. For more than a year the agency has worked with its customers and other interested parties to structure subscription power sales in a deregulated wholesale electricity marketplace. Based on those discussions, BPA has developed a proposal for carrying out the federal power subscription effort, which is summarized in this document. This document is intended to explain how the idea for subscriptions to BPA power came about, what subscription is, some of the issues it raises, and how BPA proposes the process will work.

Subscription: A Product of the Governor's Comprehensive Review of the Northwest Energy System

In 1996, the four Northwest governors appointed a 20-member steering committee to recommend how the BPA could best make the transition to competition in the wholesale electric power market. This Comprehensive Review spent a lot of time considering BPA's role in a deregulated marketplace and recommended the establishment of a subscription-based system for marketing the electricity produced by the Federal Columbia River Power System (FCRPS). Delivery of subscription power would start in 2001, when contracts for most of BPA's power will expire.

The committee said a subscription system is needed to meet the following goals: align the benefits and risks of access to existing federal power; improve BPA's ability to repay its debts to the U.S. Treasury; and retain the long-term benefits of the Federal Columbia River hydroelectric system for this region. The committee stated that longer-term sales would provide BPA with the highest and most stable revenue stream and the highest assurance that it could continue to provide public benefits, such as environmental protection. The committee acknowledged, however, that some customers may want to sign contracts of shorter duration as they adjust to new competitive markets.

The Review's steering committee said the subscription process should maintain the principles of public and regional priority access ("preference") to the output of the FCRPS and of cost-based rates for that power. In 1997, the governors established the Northwest Energy Review Transition Board to follow up on the Review's recommendations, which included matters in addition to subscription.



Work Group Gets the Issues Out on the Table

BPA and the Pacific Northwest Utilities Conference Committee convened a work group of customers and diverse regional and extraregional interests early in 1997 to give guidance to BPA in sorting out the issues raised by changing from its current approach for regional power sales to a subscription approach. The Subscription Work Group identified products and services BPA could offer and discussed the types of contractual implementation relationships that would work best for subscription. In addition, the group took note of the fact that a variety of complex related developments, such as changing market structure, changing transmission regulation and many cost uncertainties (such as BPA's fish and wildlife obligations), would affect subscription. In many cases it was difficult to narrow the range of possible effects.

The work group met at least once a month over the past year and produced a set of business interests,

a list of products and services that most participants agreed reflects what customers want, and some business principles intended to guide contract development. The group did not find a consensus on some topics, and in a few cases determined it probably never would. Nevertheless, by the end of May, there was a strong sense that it would be worthwhile for BPA to propose a subscription policy and plan, taking all that it has heard in the work group and public meeting discussions into account. The work group is continuing to meet through the end of June and will be an important forum to help BPA refine its thinking on the contents of this proposal.

The Basics of BPA's Subscription Game Plan

BPA plans to begin subscription sales in July, when account executives sit down with customers and negotiate contract terms. BPA expects the subscription process to continue through 1999. All regional customers will be eligible for sales, consistent with

BPA/Customer Business Interests in Subscription

The work group developed the following list of common BPA/customer business interests with respect to subscription:

- BPA's power products should be primarily available for the benefit of the region.
- Success means BPA's products are fully subscribed and its costs are fully covered through voluntary commercial transactions after 2001.
- Contracts should be as brief and simple as possible and reflect the diversity of customer needs.
- Customers should have the ability to move quickly with BPA to capture business opportunities through bilateral agreements.
- Customers should have the freedom to choose their amount of reliance on BPA.
- Prices for products should be competitive with the market over the long term and reflect an appropriate sharing of risks between BPA and its customers.
- A broad array of contract and pricing options should be available to customers to meet their business needs.
- Products should be tailored to accommodate customer operational and planning flexibility.
- There should be no constraints on planning and operation of nonfederal resources, except those negotiated on a bilateral basis.
- Customers should have the ability to buy a block of power at a fixed price for a short and/or long duration.
- Customers should have resale rights for take-or-pay power.
- Customers should have the ability to pool power purchases.
- Customers should be protected from BPA marketing tactics that create undue risks.
- BPA should not use its transmission business to advantage its power business and vice versa.

BPA's statutory obligations, and limited sales to non-regional customers may also occur.

It's important to note that, since the Comprehensive Review took place, the predictions of how BPA's future power prices will compare with those of other suppliers have become more favorable to BPA. Our prices are now projected to be at or below market.

Since the Comprehensive Review ended in late 1996, the amount of power BPA is projected to have to offer in the 2001-2006 period has decreased slightly. While BPA's total firm inventory was 8,300 average megawatts in the 1996 rate case, it now looks like that inventory is about 7,820 aMW for the 2002-2006 period. A major reason for the reduction is spill and flow regimes required under the Endangered Species Act. After subtracting BPA obligations under Columbia River Treaty with Canada and contracts signed with extra-regional customers, the agency estimates it has about 6,380 aMW available to offer for subscription.

Contract Types

The work group agreed that a subscriber should be able to choose a standard commercial contract or a long-term "umbrella agreement." The umbrella agreement would specify the amount of power a customer has the right to purchase at cost, and customers would enter into periodic subsidiary agreements with BPA that define actual power transactions. BPA expects most initial contracts will cover the five-year period 2001 to 2006, but is open to discussing other time periods. The Comprehensive Review recommended longer contracts of up to 20 years.

Many features of the contracts will be negotiated between BPA and a customer, but some features will be standard for all contracts. Standard features will include "boilerplate" language on such items as billing and payment and dispute resolution, and may include provisions addressing such features as load growth, coverage, off-ramps and stranded costs. The work group is continuing to discuss contract principles.

Subscription Rights and Differentiated Pricing

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. Only certain regional customers

have the right to subscribe for post-2001 federal power at BPA's lowest cost-based rate.

Based on Section 7(b) of the Northwest Power Act, BPA has identified an approach that defines two rates that differentiate between customers who subscribe for requirements service (service that is used by a utility to meet some or all of its load-service obligations) beginning in 2001 and those who do not subscribe initially but ask for such service after 2001:

1. The PF' rate would be charged to regional customers who subscribe for requirements service beginning in 2001. The PF' rate is based on the average embedded cost of Federal Base System (FBS) resources and will be BPA's lowest cost-based rate.

2. The PF" would be charged to a customer who BPA is obligated to serve and who, in the future, places an amount of load on BPA that exceeds its subscription rights. For example, a customer could initially subscribe for 50 aMW of power. Years later, that customer might place an additional 50 aMW of load on BPA. The PF" rate would likely be based on higher cost resources or the cost to acquire power to serve this additional load.

Products and Pricing Principles

In the work group meetings, BPA and its customers developed a list of products for BPA to offer in the post-2000 period. The major product group – core subscription products – is similar to the requirements service products BPA has sold in the past. BPA will also offer other products, some of which are spin-off pieces of services that previously were bundled into full-service packages. The product list includes core and customized subscription products as well as non-subscription products.

Core Products Are Central to Subscription

Core products will be available to customers who request power from BPA to serve load and are willing to accept constraints on their ability to adjust their purchases to take advantage of changes in market prices. There are three categories of core products:

- **Full Service** – BPA provides all of a customer's power supply needs. With the exception of transmission-related services and retail access mitigation, the full service product will provide everything the

Presubscription Sales Show Strong Appetite for BPA Power

In April 1997, BPA and the Transition Board agreed to BPA's making some interim power sales to customers who wished to arrange early for some post-2000 deliveries. BPA wanted to be able to respond to such customer needs and avoid losing these customers to other suppliers. The Transition Board and BPA agreed to limit such "pre-subscription" sales to 1,300 aMW, which BPA would price at approximately its current priority firm (PF) rate.

There turned out to be a strong market for BPA's post-2000 power, indicating widespread confidence

that the agency's cost-based rates will be competitive early in the next century. The limited amount of presubscription power sold out.

As of June 1, 1998, BPA had signed 46 contracts with 40 separate customers for a total of about 936 aMW of sales to public and private utilities for deliveries within the region. These sales will bring in annual revenues of about \$140 million per year from 2001 to 2006. BPA also signed seven contracts for a total of about 500 aMW with customers outside of the Northwest.

customer needs to meet its firm load. With the full service product, BPA accepts all the risk associated with fluctuation in load caused by weather and changes in economic conditions.

- **Firm Power Block** – is designed to meet a portion of the firm load of a customer that has its own resources or wants flexibility in deciding when to purchase additional power from BPA or other suppliers.

- **Partial Service** – This product provides power that will meet some of a customer's power supply needs. Unlike Full Service, this product will allow generating customers the flexibility to use their own generation to follow or help follow their actual load and do so in a way that puts no more business risk on BPA than the Full Service product does.

Core products will be provided on a take-or-pay basis and sold at cost-based rates. The take-or-pay component of the full and partial service product will be a continuing payment obligation. Posted rates will be based on BPA's costs and will be guaranteed for 5 years for those who begin their purchases on Oct. 1, 2001 and buy steadily during the 5-year period. BPA's first priority will be to sell its core products and expects that the bulk of its sales and resulting revenues will involve these products.

Customized Products

These products essentially are mixtures of core and non-subscription products. Customized subscription products are designed for customers who want

requirements service, but also want additional flexibility to use their own power generating resources to and take advantage of fluctuations in market prices than is possible with core subscription products. These customized products will not have posted rates, but their pricing will reflect a combination of posted rates for requirements service, and negotiated prices for whatever additional flexibility a customer wants. These products will include **flexible partial service, variable load factor service** and a **renewable resource product**. One renewable resource product, requested by utilities who favor "green resource" choices, will be a block of power specifically supplied by new renewable resources with a price reflecting the cost of such resources.

Non-subscription Products

These are tailor-made products, with negotiated prices. Factors influencing their prices include the amount of flexibility a customer desires, opportunity costs, and the level of business risks BPA might assume in making the sale. Examples of such products include capacity, storage, reserves, load factoring, scheduling services and remarketing of load lost as a result of retail competition.

Slice of the System

BPA is meeting with interested parties on the merits of another approach to marketing federal power, known as the "slice of the system." Proposed by several utilities that own and operate generating resources, the concept is that purchasers would buy a

fixed percentage of BPA's power costs for a fixed percentage of Federal Columbia River Power System's output. The proposal is a fundamental change from how the system is currently managed and BPA has not yet decided whether to make this a subscription offering. Public meetings involving BPA and the Slice proponents will continue through August.

Option Fee

Any regional customer who buys firm power at the cost-based rate under a subscription contract for a negotiated period of time can include, for a fee, a provision in its contract that will secure the basis for the rate at which it can purchase BPA power in the next period. BPA and the customer will negotiate how the future price will be determined, the duration of the price protection and the amount of power covered by the future price. The fee for this option is negotiable. Customers whose contracts do not have such provisions may pay a higher price for BPA power if they want to purchase it again after their initial contracts expire.

Rates

BPA will conduct a rate case this September to establish cost-based rates for its core subscriptions products. After the rate case, expected to last three or four months, a customer will know the rate at which it could purchase power from BPA for up to 5 years, since the rate for subscription power products will be established in a published BPA rate schedule. A customer can choose additional flexibility

by purchasing a customized subscription product. Such a customer will have a negotiated price stated in the power purchase contract as a result of negotiations with the account executive. A customized subscription product would point to the PF rate schedule for the power and flexibility incorporated in the core subscription product. The customized features of the product would be the flexibilities beyond those incorporated in the core subscription product. These flexibilities would point to the Firm Power Products and Services rate schedule. In responding to customer interest in a negotiated arrangement, BPA is free to give highest priority to negotiating arrangements which give it the highest probability of covering its costs. BPA expects customers may buy more than one product and will negotiate individual, customized product packages.

Term

While BPA will be publishing prices for only 5 years, customers will be able to sign contracts for terms other than 5 years. For example, BPA would be quite willing to sign 20-year contracts under which the customer obligates itself to buy at BPA's cost-based rate for 20 years. On the other hand, BPA would be willing to sign contracts for less than 5 years, partly as a means to avoid another revenue cliff in 2006.

Load Loss and Load Growth

For purchasers of its full or partial service products, BPA has identified basic contract provisions for

Subscription Products

Core Subscription Products

- 1 Full Service
- 2 Firm Power Block
- 3a Partial Service

Customized Subscription Products

- 3b Flexible Partial
- 4 Variable Load Factor
- 5 Renewable Resource

Non-Subscription, Tailor-Made Products

- 6* Bilateral Products and Services
(These products are not necessary to meet the power needs of the Full Service customer. Examples include: Non-Subscription Power, Capacity, Storage, Preschedule Change Rights, Scheduling Services.
- 7* Reserves, Resource Support
- 8 Complements to Core Products
- 9 Option Fee

*Unbundled products currently available through open-market negotiations.

dealing with changes in load levels during the period of the sale.

If a purchaser of the full service products experiences a load loss, due to such things as a plant closure or fuel switching by a retail customer, or retail load loss to a competing customer, BPA would reduce power deliveries and related charges to reflect the customer's new load level. However, if a load continued to operate, but switched to another supplier, the full service customer would be responsible for purchasing that amount of power from BPA. The agency currently plans to offer subscription customers contingent contract conditions which would allow the customer to sell the power no longer needed to serve the load lost to retail competition. These include negotiating a load loss protection package with BPA or having BPA remarket the power and credit the revenues to the customer's account.

BPA defines load growth as an increase in a customer's total retail load due to growth on the customer's distribution system. For customers that experience load growth, BPA plans to provide power to meet the growth, with the price dependent on the type of purchase being made. For full service customers, the price would be the same as paid in the original full service contract. Customers with partial service contracts and investor-owned utility (IOU) loads would be charged a different rate for additional energy. For new customers, such as a new public utility or a load aggregator, BPA's current thinking is that the price of BPA service would reflect BPA's cost of the additional resources needed to serve them.

Implementing Subscription

The Comprehensive Review envisioned that subscriptions would be available to regional customers in a specific priority order, called "phases." In Phase 1, existing preference customers (public bodies and cooperatives currently served by BPA) publicly owned utilities would get first rights to subscribe, up to the average of their highest two consecutive years of purchases from BPA during the 1997-2001 contract period. In Phase 2, the direct service industries currently buying from BPA and the residential and small farm customers of the IOUs would next have the opportunity to subscribe. Other regional loads would have the priority. Non-regional customers

would get last priority. BPA estimates the following amounts of load in Phases 1 and 2:

Phase 1 – public customers, 4,300 aMW;

Phase 2 – DSIs, 2,040 aMW; and IOU/exchange loads, 3,370 aMW.

Since it looks now as if the demand for BPA's cost-based power may exceed the supply, BPA is seeking ways to be able to meet the needs of all customers that want to sign contracts. BPA could simply acquire more resources, but one of the recommendations of the Comprehensive Review was that BPA not acquire additional resources to serve additional load, except on a bilateral basis where the customer absorbs the risk and the costs of the regional resource. This assumed that BPA's costs-based rates remained comfortably under market in the future.

Three Allocation Options

BPA is examining three basic options, among others, for implementing subscription:

- **The "one window" plan** – Last year, the Subscription Work Group endorsed this plan for implementation rather than a phased approach. Any regional purchaser, regardless of customer class, could sign up for power, and BPA would "manage" subscription by initially reserving some power for Phase 1 customers who may want to sign up later and adjusting amounts of power available depending on how sales are going. For example, if subscription sales were progressing slowly, BPA would have the ability to sell some inventory at the best price available in the market place. One feature of that approach would be that it does not guarantee anyone that power at the lowest price would be available during the final months of the subscription window.
- **Separate cost-based rates** – BPA would establish one cost-based rate for specific subscription amounts, and a different cost-based rate for additional amounts of service. BPA would make a calculation of subscription power available to each customer within each customer class, based on amounts purchased from BPA in the 1997-2001 period, and each customer could buy up to that amount at BPA's lowest cost-based rate. If a customer asks to purchase more than its calculated subscription amount, the price for the additional

service would reflect the higher costs to BPA of arranging for additional resources to meet the request.

- **Firming Inventory** – Under this approach, BPA would make purchases to firm up some of its non-firm inventory, thus making more power available at its lowest cost-based rate. One version of this “bigger pie” approach would have BPA serve all Phase 1 subscription public agency customers’ requests, and up to 50 percent of Phase 2 amounts (1,020 aMW for DSIs and 1,690 aMW for IOU/exchange customers). The total subscription loads under this version could total as much as 7,010 aMW. If total service requests exceed the 6,380 aMW available for subscription, BPA would “grow the pie” by making purchases in the market.

BPA customers, the Subscription Work Group and others are also considering other options besides the ones outlined here.

Outstanding Issues

While the work group handled some of the issues related to subscription, a number still remain under discussion. Two of the thorniest are the residential exchange and stranded costs. Others include such things as separation of BPA’s transmission and power activities, the effect of river governance decisions, and the extent of BPA’s public responsibilities in a deregulated environment.

Residential Exchange

The residential exchange is a mechanism established by the Northwest Power Act that enables residential and small farm customers of IOUs to share in the benefits of low-cost federal power through an exchange of power. It has historically been a financial transaction that involved BPA making a payment to a utility, rather than a physical delivery of power. The 1996 Energy and Water Development Appropriations Act called for a gradual phase-out of the exchange by October 2001, and the region has been discussing a mechanism that would give residential and small farm customers of IOUs the right to purchase federal power, instead of just receiving a cash payment that reduces the cost of their IOU-generated power. However, given expected high demand for BPA power,

freeing up inventory for a sale to these exchange loads becomes an issue.

This issue may need resolution for subscription to succeed. The higher the projected demand for federal power, the larger this problem looms. A subgroup of the Subscription Work Group has tackled exchange issues, but as yet has been unable to agree on recommendations.

Stranded Costs

The issue of how to handle the future cost recovery risks of BPA is often termed “stranded costs.” The region has yet to reach agreement on what future costs should be called stranded costs, the mechanisms that should be used to cover such costs, and how they should be allocated among parties in the region. Many proposals have surfaced and are under debate.

The Comprehensive Review said that while a successful subscription process may preclude the need for stranded cost recovery, a backup mechanism is, nevertheless, desirable in order to assure the nation’s taxpayers that the Northwest intends to bear the cost of the Federal Columbia River Power System without subsidy. The Transition Board has developed a proposal for a contingent transmission surcharge that would trigger as a last resort to enable BPA to make its annual payment to the U.S. Treasury if the power business could not cover the power costs of the system. Many customers oppose a wires charge and favor other mechanisms, such as specific language in the contracts to raise rates or to lend funds to BPA, for dealing with such a problem. Look for more regional discussion of this issue this summer by the governor’s Transition Board.

Public Involvement Supports Subscription Design and Planning

In addition to an ongoing series of workshops involving customers and constituents working on the design of the subscription process and products, BPA is encouraging the participation of the general public. Three public meetings were scheduled to inform the public on the need for subscription, to answer questions and take comments. Two of these meetings have already been held on:

- March 11, 1997, to “Kick Off” the overall subscription design and planning process; and

- November 25, 1997, to update the region on progress that had been made and issues remaining to be resolved.

The next in the series of public meetings on subscription is scheduled for June 18, 1998, in Spokane, Wash. This meeting will mark the beginning of a 30-day comment period in which interested parties in the region are invited to express their views and concerns about subscription. For details, refer to “How to Get Involved and Find Out More about Subscription” below.

How to Get Involved and Find Out More about Subscription

You can get more information on the subscription process by contacting your BPA account executive, contacting BPA at one of the numbers listed below, or by calling BPA’s toll-free line, 1-800-622-4519.

Another good source of information is BPA’s website at www.bpa.gov. PNUCC has put together a compendium of papers from the work group meetings, which you can request by calling (503) 223-9343.

Bend, Ore.	(541) 318-1680
Burley, Idaho	(208) 678-9481
Idaho Falls, Idaho	(208) 524-8750
Missoula, Mont.	(406) 329-3060
Portland, Ore.	(503) 230-7597
Richland, Wash.	(509) 372-5751
Seattle, Wash.	(206) 216-4272
Spokane, Wash.	(509) 358-7409
Walla Walla, Wash.	(509) 527-6225

You can submit your comments directly by calling BPA; by mail to Bonneville Power Administration, P.O. Box 12999, Portland, OR 97232; or by E-mail to BPA’s website. The comment deadline is July 20, 1998.