Bonneville Power Administration Regional Dialogue Technical Group Summary of October 28, 2005 Meeting

Scott Wilson (BPA) led a discussion on access to the Federal Base System and how the Tier I rate would be determined. Participants also discussed how the rate for the public exchange would be calculated under the Concept Paper.

Representatives from the Northwest Investor-Owned Utilities then presented a proposal for the residential exchange program post 2011. The group discussed how benefits should be determined and in what form they should be provided.

A representative for public power then outlined some ideas for the residential exchange program post 2011 and highlighted an interest in having payment levels to IOUs tied to keeping overall rates low, aligning the all utilities on BPA cost control.

See below for the following handouts distributed at the meeting:

- Draft Proposed Resolution: Cost Controls
 [Note: This handout was originally posted on BPA's web site as a Word document on
 October 28, 2005. It was later converted to PDF without any changes to the content of the
 document.]
- Federal Base System Access
 [Note: This handout was originally posted on BPA's web site as a PowerPoint document on
 October 28, 2005. It was later converted to PDF without any changes to the content of the
 document.]
- Residential Exchange Program
 [Note: This handout was originally posted on BPA's web site as a PowerPoint document on
 October 28, 2005. It was later converted to PDF without any changes to the content of the
 document.]
- Regional Dialogue Calendar
 [Note: This handout was originally posted on BPA's web site as a Word document on October 28, 2005. It was later converted to PDF without any changes to the content of the document. For an updated version of this calendar, see the Regional Dialogue web site.]

<u>Title of document</u>: Draft Proposed Resolution: Cost Controls

<u>Author / Submitter (Organization)</u>: Kim Leathley (BPA)

<u>Date document created or revised</u>: October 27, 2005

For meeting on (date): October 28, 2005

Proposed Resolution #9 Cost Controls

- 1. Customers and other interested stakeholders will form a single Cost Management Group (CMG), which will be broadly representative of the breadth and diverse customers and other stakeholder interests.
- 2. The CMG will seek "consensus" which generally means broad support, not 100% support of the group.
- 3. Agreement between the CMG and BPA describes the situation when BPA agrees with the CMG "consensus".
- 4. The scope and structure of the CMG needs to be clearly defined prior to signing contracts. In the meantime, we think it generally includes cost levels used for rate-setting, and major policy decisions that drive future costs and capital programs. The treatment of issues dealt with in other BPA processes (such as re-payment studies, risk-mitigation packages etc.) will be dealt with when the CMG proposal has been further developed and its details are better understood.
- 5. The Technical Group chartered a subcommittee of its members to further refine this proposed resolution and bring back a proposal November 3rd that:
 - a. Keeps in the spirit of the high-level principles above
 - b. Defines what "broadly representative of the breadth & diverse customers and other stakeholder interests" means (in #1)
 - c. Defines what "broad support" means (in #2)

<u>Title of document</u>: Federal Base System Access

<u>Author / Submitter (Organization)</u>: Scott Wilson (BPA)

<u>Date document created or revised</u>: October 27, 2005

For meeting on (date): October 28, 2005

Who Has Access to the Federal Base System (FBS)?

A Simplified Version of a Somewhat Complicated Tale*

*NOTE to Accountants and the Like: Numbers used in this presentation are designed to be illustrative and may be simplified to a level that will make you a bit nervous.

Public Utility Access to PF Power.

Much of the Regional Dialogue Focus to Date has been on designing an approach that divides a public customers PF power access into two pricing categories:

- <u>Tier 1.</u> Rates based on the existing Federal system resources. Amounts are limited by a High Water Mark.
- <u>Tier 2.</u> Rates based on the marginal costs of new resources for PF purchases beyond the Tier 1 limits.

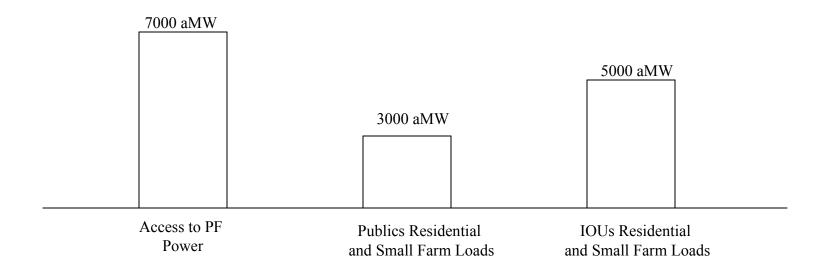
But This only about half of the FBS Access Story.....

The Rest of the Story. Access to the FBS

Understanding the FBS Access Story requires grappling with an unsettling, intuitively illogical truth:

15,000 aMW of load has currently access to the 7,000 aMW FBS.

Here is who is included in the 15,000 aMW:



The Rest of the Story. FBS Access via the PF Exchange Rate

Why do the Public and IOU Residential and Small Loads also have access to the the FBS? *In short: it's the law. The 1980 Northwest Power Act provided regional utilities the right to exchange their average cost of serving their residential and small farm loads for BPA's average cost of serving our PF power and exchange loads. This right is known as the Residential Exchange.*

Besides Being the Law, what is the Public Policy Reason for the Residential Exchange? It provides a means for residential and small farm customers have access to benefits from the FBS and ensures parity in the wholesale power rates they face, regardless of the decisions their own utility has made.

Doesn't this Mean Some Public Loads Get Access to the FBS twice? Yes.

The Rest of the Story. The Basics of Rate Setting

Under the 1980 Power Act PF power rates and PF exchange rates are equivalent. (Except for the potential addition of costs to the PF exchange rate from what is commonly referred to as the 7b2 test, discussed later in this presentation).

The Rate is calculated by taking the resource cost from the Exchange Load ASCs and the cost of the FBS resources and dividing them by the total of both the PF Exchange and PF Power loads.

The Rest of the Story. Calculating the PF Rates

15000 aMW

PF Exchange Loads (8000 aMW)

> Ave ASC \$35/Mwh

PF Power Loads (7000 aMW)

Ave FBS Cost \$25/Mwh

Total PF Loads

Two cost categories go into setting the initial PF Exchange and PF Power rates:

ASC costs. Each utility exchanges their average system cost for BPA's. There is a significant range in the costs depending on the resource decisions made by each utility. The average of all of the ASCs is assumed here to be \$35/Mwh but remember individual utility ASCs would be higher or lower.

FBS costs. These costs are assumed here at \$25/Mwh. This may seem intuitively low since it is so far below the PF rates you are used to seeing but it should be below those PF rates since it represents the FBS costs without any exchange costs.

The Calculation

Formula Version ((PF Exchange Loads * Ave ASC) + (PF Power Loads * Ave FBS Cost)) / Total PF Loads

Illustrative Example ((8000 aMW * \$35/Mwh) + (7000 aMW * \$25/Mwh)) / 15,000 aMW (280K+175K) / 15K

PF Power and PF Exchange Rates =\$30.33/Mwh

The Rest of the Story. 7b2 Oversimplified

Admit It You're Lost: You've heard the details, you've been to briefings, you know its real important but you really don't quite get the nuances of 7b2. Here is what you need to know:

What 7b2 Is. The 1980 Northwest Power Act establishes a test to check whether PF power purchasers are better off due to its passage. Under section 7(b)(2) of the Act this is accomplished by comparing the calculated PF rate against what rates theoretically would have been in an alternative world if the Act hadn't happened.

<u>How 7b2 Works.</u> When the 7b2 test shows that rates are lower due to the Act the PF Power and PF Exchange Rate remain equal. If the test finds costs have gone up then 7b2 is said to have triggered and the costs are added to BPA's other requirements rates, raising the PF Exchange Rate. 7b2 triggering is why PF Power rates are currently about \$30/Mwh and PF Exchange rates were raised to about \$45/Mwh.

Why 7b2 Is Controversial. Creating the world that would have existed without the Act is not straightforward and the rules for establishing the test and how to characterize current decisions leaves a lot of room for interpretation. Even the experts often don't agree and recent work shows that decisions on details affecting 7b2 create a range of future exchange costs of \$100 million-\$600 million.

PF Exchange Rates Under the Concept Paper

Understanding that 15,000 aMW of load has access to the 7000 FBS and how rates are sets the background to discuss the proposed approach for setting the PF Exchange rate from the concept paper.

The concept paper proposes two tiers for PF Exchange Rates:

- <u>Tier 1.</u> PF exchange loads whose costs are melded with the cost of the FBS. The amount of load would be limited to the residential and small farm loads of participating utilities in FY2002.
- <u>Tier 2.</u> PF exchange loads whose costs are based solely on Exchange Load ASCs.

PF Exchange Rates Under the Concept Paper

Calculating the Rates

15000 aMW

PF Exchange Loads (8000 aMW)

> Ave ASC \$35/Mwh

PF Power Loads (7000 aMW)

Ave FBS Cost \$25/Mwh

Total PF Loads This slide illustrates the calculation of the PF Exchange Rate for the tiering approach proposed in the Concept Paper. To do this it assumes that in 2002 eligible residential and small farm loads were 6000 aMW.

Tier 1 Calculation

((Eligible PF Exchange Loads * Ave ASC) + (PF Power Loads * Ave FBS Cost))
/ Tier 1 Eligible Loads

<u>Tier1 Illustrative Example</u>

((6000 aMW * \$35/Mwh) + (7000 aMW * \$25/Mwh)) / 13,000 aMW (210K+175K) / 13K

*Tier 1 = \$29.62/Mwh

Tier 2 Calculation

2000 aMW @ \$35/Mwh Average ASC

*Tier2= \$35/Mwh

(*Note These rates compare to a 30.33 melded rate from the earlier slide. Also note that if 7b2 triggers these rates could go up significantly)

<u>Title of document</u>: Residential Exchange Program

Author / Submitter (Organization): Scott Brattebo (PacifiCorp)

Date document created or revised: October 27, 2005

For meeting on (date): October 28, 2005

NW Investor-Owned Utilities

BPA Regional Dialogue

Post - FY 2011

Residential Exchange Program

October 28, 2005

Reviewing the Concept Paper

- **BPA** is seeking an approach to the Residential Exchange Program benefits consistent with the following:
 - Provides an equitable level of benefits to residential and small farm customers of investor-owned utilities and to high-cost public utilities
 - Is consistent with current law
 - Ensures that BPA's lowest firm power rate reflects the cost of the undiluted existing Federal system
 - Is predictable
 - Is objective
 - Minimizes administrative costs for BPA and the customers
- Additional Regional Dialogue Interests
 - Simplicity over complexity
 - An approach that promotes stability
 - Is acceptable in Washington D.C.
 - Certainty e.g, bounds on obligations for the parties
- Successful resolution of the Residential Exchange Program is vital to the goal of aligning regional interests and reducing conflicts

Reviewing the Concept Paper Cont'd

Absent a Settlement -- Resume the Residential Exchange Program

- Residential Exchange Program Uncertainty
 - Range of assumptions regarding the utilities' average system costs (ASCs)
 - BPA costs / rates
 - Outcomes of legal interpretation that are not subject to current litigation
 - BPA's estimate of the range of uncertainty :: Annual Residential and Small Farm Customer Benefits = zero to \$491 million
 - Investor-owned utility estimate > \$600 million
 - Public utility estimate = or < \$140 million
 - Consultation process to revise ASC methodology
 - Develop an in-lieu policy
 - Revise the 7(b)(2) methodology
- Disparity or uncertainty in expected outcomes is the source of ongoing regional conflict
- Very high administrative costs for BPA and the utilities

Reviewing the Concept Paper Cont'd

Concept Paper Settlement Proposal

- Provide benefits based on a financial formula, reducing uncertainty
- Reduce financial uncertainty for BPA and the exchanging utilities
- Eliminate the administrative cost that could add tens of millions of dollars to BPA rates

Option A :: Variable Payment

- Similar to the existing settlement between BPA and the investor-owned utilities
- Higher benefits when the value of power is relatively high and lower benefits when value of power is relatively low
- ▶ \$300 million cap on benefits for investor-owned utilities residential and small farm customers
 - 2 percent annual escalation (cap at the end of the 20-year contract period = \$411 million)
- \$100 million floor is a tradeoff for capping the benefits and using 2200 aMW (40% of eligible loads)
- \$100 million to \$300 million seen as consistent with historical level of benefits
- Transparent and objective method for calculating benefits
- Benefits not assignable upon distribution system takeover

Reviewing the Concept Paper Cont'd

Option B :: Fixed Payment

- \$250 million fixed payment to six investor-owned utilities
 - Fixed for the term of the settlement, without escalation for inflation
- Payment directed primarily to high-cost utilities
 - Allocation based on simplified description of ASC minus lowest-cost-based PF rate
- Low cost utilities would receive minimum payment with the remainder of the \$250 million allocated to high-cost utilities
- Benefits would not be assignable upon distribution system takeover

Investor-Owned Utility

Draft Settlement Proposal

Draft Settlement Proposal

- Fix the qualifying load at 2200 aMW for investor-owned utility residential and small farm customers
 - Subject to upward adjustment for public utility exchange
- Cash benefits determined as a function of BPA's preference rate and market prices.
 - Total IOU Benefits = (Forward Flat Block Price Forecast BPA's Tier 1 rate) x 2200 aMW
 - Provides a partial market price hedge. When market prices are high and BPA's secondary revenues may be high the benefits are relatively high when market prices are low and BPA's secondary revenues may be low the benefit would be relatively low.
- > \$350 million cap on total FY 2012 benefits.
- \$100 million floor on total FY 2012 benefits.
- Cap and floor annually increased by the rate of inflation.

Advantages of Settlement Proposal

- Minimize potential for litigation
 - The proposed settlement is similar to the current agreements for 2007 2011 that are currently under review by the United States Court of Appeals for the Ninth Circuit. If the Ninth Circuit upholds the current agreements, BPA will have a roadmap for resolving Residential Exchange Program disputes.
 - In 2000 BPA decided to offer the investor-owned utilities a settlement of the Residential Exchange Program to avoid litigation issues involving, e.g., the PF Exchange Rate, section 7(b)(2) rate step, ASC Methodology, determination of ASCs under that methodology, and in lieu transactions. Absent some form of settlement of these issues, BPA and the IOUs would likely be forced back to the courts.
- Ease of program administration for BPA and the investor-owned utilities
- Predictable range of Residential Exchange Benefits
- Limits the rate impact to BPA's preference customers
- Generally aligns the interests of BPA's customers

Comparison Beginning FY 2012 Residential Exchange Program <>>> Settlement Proposal

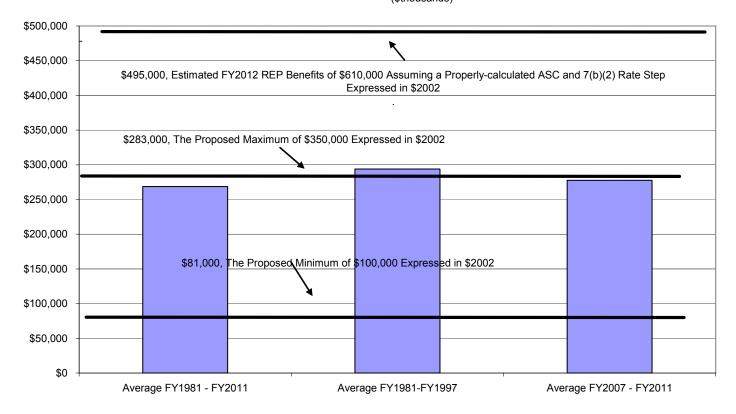
	Elements	Residential Exchange Program	Draft Settlement Proposal
1.	Term		20 years from execution : benefits begin in FY 2012
2.	aMW	5010 aMW in 2012	2200 aMW
3.	Formula	Total IOU Benefits = (ASCs - PF Exchange Rate) x 5020 aMW	Total IOU Benefits = (Forward Flat Block Price Forecast - BPA's Tier 1 rate) x 2200 aMW
4.	Annual Cap on total IOU Benefits	None	\$350 million for FY 2012
5.	Annual Floor on Total IOU Benefits	Zero	\$100 million for FY 2012
6.	Inflation of Cap and Floor	N/A	Adjusted Annually for Inflation
7.	Expected Benefits in FY 2012	Greater than \$610 million	\$100 - \$350 million

Investor-Owned Utility Benefits: Study of Averages

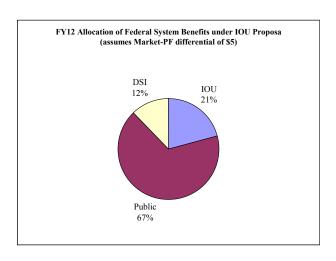
The \$350 million cap and \$100 million floor fit within the historic range of cash benefits received by the residential and small farm customers.

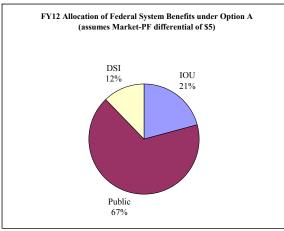
BPA Residential Exchange Program / Residential Exchange Program Settlement Payments

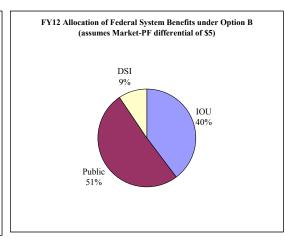
Average Value per year Provided to Residential Customers of Investor Owned Utilities - 2002 Dollars (Amounts prior to 2002 increased to reflect residential customer loads in 2002)
(Includes only financial benefits for residential and small farm consumers)
(FY2007 - FY2011 at maximum per contracts, without 2003 deferrals)
(\$thousands)

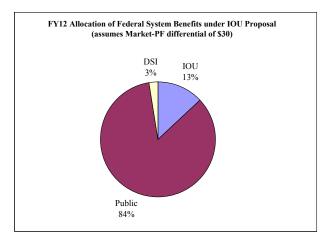


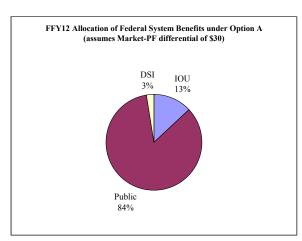
Market Price and Equitable Allocation

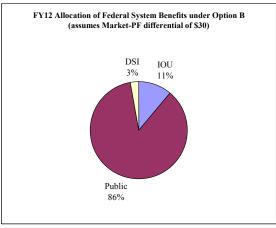




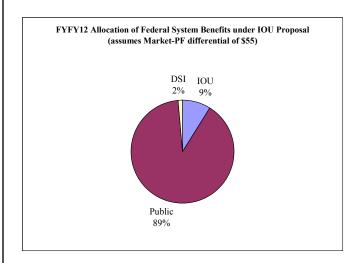


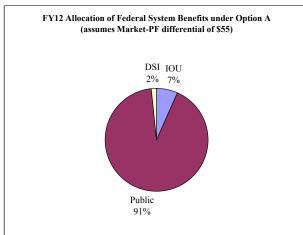


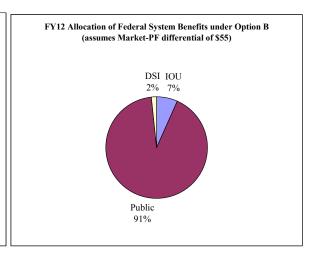




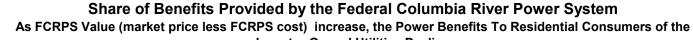
Market Price and Equitable Allocation

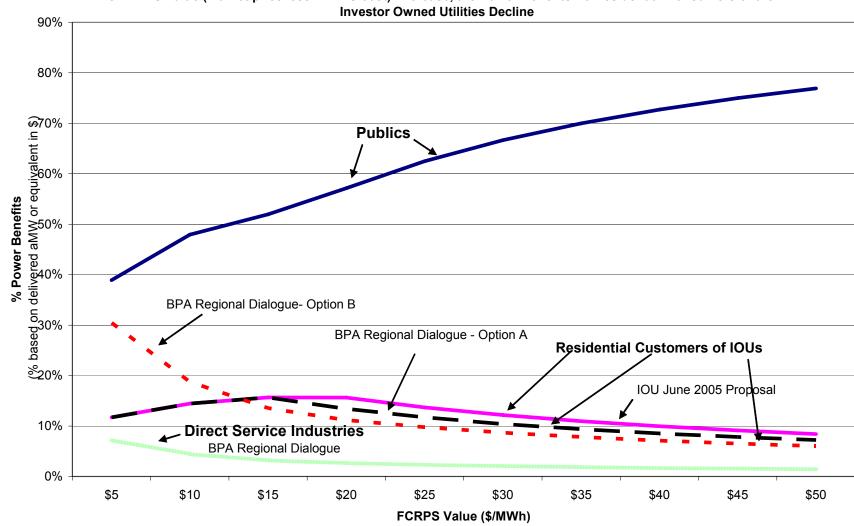






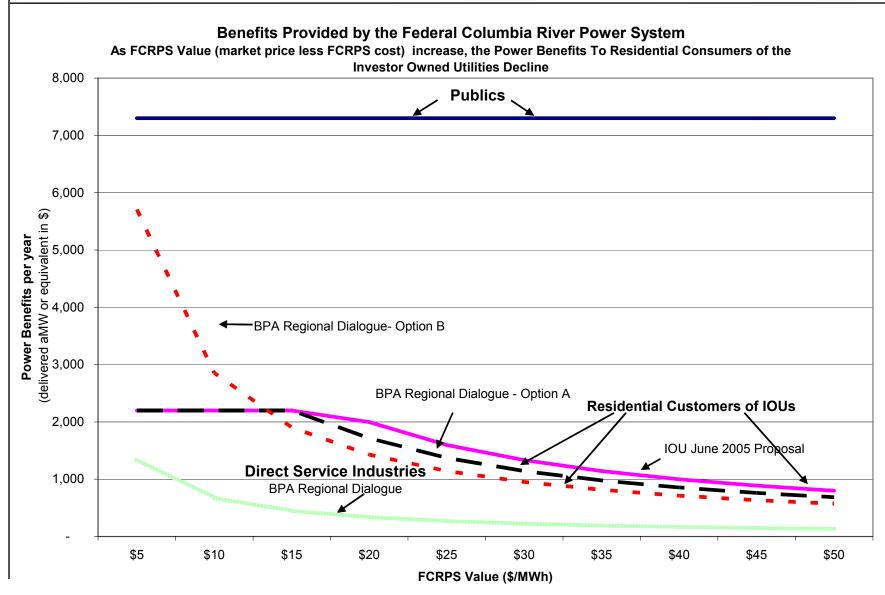
Percentage Share of Benefits Provided by the FCRPS





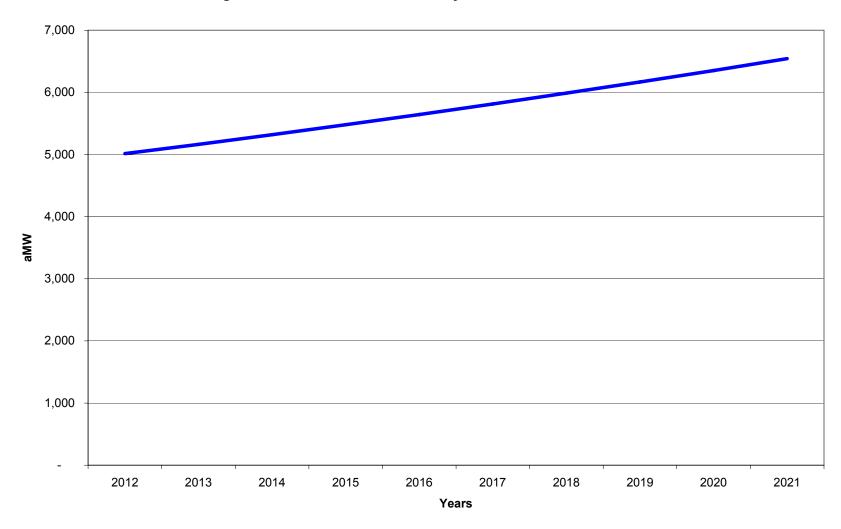
This Draft Proposal is for settlement discussion purposes only and has not been reviewed or approved by or on behalf of any party.

Benefits Provided by the FCRPS

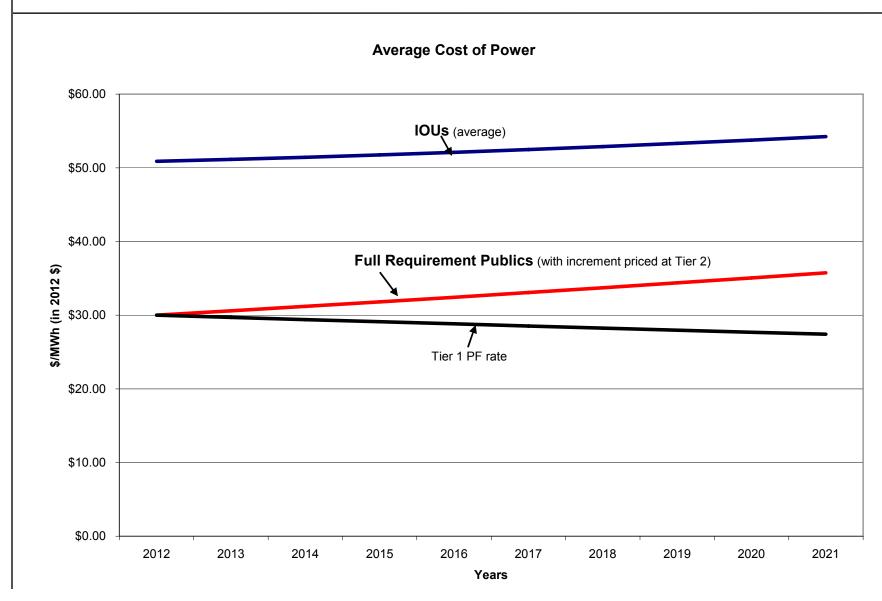


Investor-Owned Utility aMW

Regional Residential Load Served by Investor Owned Utilities

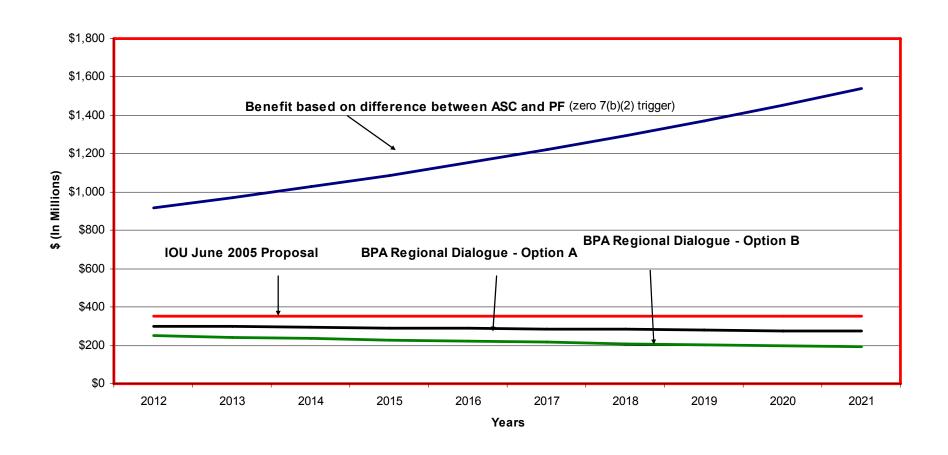


\$/MWh over 10-years



Annual Benefits to Residential Customers of Investor-Owned Utilities

Annual Benefits to Residential Customers of Investor Owned Utilities



15

Matrix of Residential Exchange Benefits

<u>Title of Document</u>: Matrix of Residential Exchange Benefist (REP)

<u>Author / Submitter</u>): **Investor-Owned Utilities**Date document created or revised: **October 28, 2005**

This matrix displays the current concept proposals Options A and B juxtaposed against two other approaches to providing REP benefits to the residential and small farm customers of investor-owned utilities (the Preliminary Investor-Owned Utility Settlement Proposal and the Residential Exchange):

Interest		BPA Concept Proposal Settlement Option B	-	Residential Exchange
1. Complexity/Simplicity	+ Simple	+Simple	+ Simple	- Very Complex
Durability/Stability/Contract Enforceability	See Item 3 below	See item 3 below	See item 3 below	- Not stable
3. Legality	- Settlement issues	- Settlement issues	- Settlement issues	- Numerous complex REP issues
4. Lowest Tier 1 Cost/Rates	+ Cuts administrative costs	Cuts administrative costs	+ Cuts administrative costs	- High administrative costs
5. Customer/Regional Support	Provides equitable share of FCRPS only under a limited number of	Provides equitable share of FCRPS only under a very limited number of scenarios Does not escalate for inflation	+ Provides equitable share of FCRPS under a wider range of scenarios	- Does not align interests of BPA's customers
6. Salability in D.C.	+ Cap/floor - See item 5 above	+ Fixed amount - See item 5 above	+ Cap/floor See item 5 above	- See item 5 above
7. Certainty of Obligations for BPA & Customers	+ Band of certainty (Cap/floor)	+ Fixed amount	+ Band of certainty (Cap/floor)	- Very uncertain
8. Promote Infrastructure development consistent with the Act	No adverse impact	No adverse impact	No adverse impact	No adverse impact
Region sees decisions as equitable	See item 5 above	See item 5 above	See item 5 above	See item 5 above
10. Consistency with BPA Stewardship Obligations	Yes	Yes	Yes	Yes

September			Regional Dialogue	
Mon All Rate Case dates are tentative	Tue	Wed	Thu 1	Fri 2
5	6	7	8	9
12 Concept Paper released	13	14	15	16
19 RD Principals Mtg	20	21	22 RD Slice review	23 RD Tech Mtg RD Slice Review - Ops Mtg
26 PPC contracts WG-pm	27 Customer Sponsored RD Workshop (9-5)	28 Customer Sponsored RD Workshop 8:30-(3:30) RD Slice Product Review – Operations Meeting in the Rates Rm (9-3)	RRG big tent (8-5) at the Sheraton RD Slice Product Review – Finance Meeting in Room 122 (1-4)	30 RD Tech Mtg (9-4)

Long-Term Regional Dialogue

Octob	per		Regional I	Dialogue
Mon	Tue	Wed	Thu	Fri
3 All Rate Case dates are tentative RD Tech mtg (9-4: Publics)	BPA finances mtg @PPC-am PNGC annual mtg (8-5?)	5 PPC E/C mtg p.1 (2:30-5:30) PNGC annual mtg (8-5?) Convergence mtg (9-12)	6 PPC E/C mtg p.2 (8-12) Cust collab- (3-5)	PNUCC- (9-12) Resource Adequacy Technical Committee (10-3)
10 Columbus Day – Holiday	RD Tech mtg (9-4: Publics) 11 Council Meeting in Oregon	Slice Ops mtg (9-4) 12 Council Meeting in Oregon	Interest Group mtg 13 OR PUD annual mtg Integration Policy Mtg (10-3:30)	14 OR PUD annual mtg Integration Tech Mtg. 8-12:00
Integration Policy mtg	RD Tech mtg (9-4: Publics) Integration Tech Mtg (9-3)	RD Tech mtg (9-4: Contract Elements, DSIs) Slice Ops Mtg (9-4)	Council Meeting in Oregon Rates GM mtg Slice Ops Mtg (9-4) Slice Finance Mtg (1-4)	integration reen intg. 6 12.00
17	18 RD Tech mtg (9-4: Cost Control/Dispute Resolution)	RD Tech mtg (9-12: Cost Control/Dispute Resolution) Transfer Service (1:00-4:30) WPUDA Mtg in Seattle	RD Principals Mtg (9-4) RD Slice Review Contracts Meeting (tentative 1-4) Integration (full) Mtg (10-3:30) WPUDA Assoc mtg.	21 WPUDA Assoc mtg Integration Tech Mtg. 1-4:00
24 Customer Collaborative (9-5)	25 Integration Policy Work Grp Mtg – PNGC offices 10-3:30	26 Res Adeq Str. Com (9-3)	27 RD Tech mtg (9-4 Cost Control/Dispute Resolution)	28 NEW TIME: RD Tech Mtg (8-12: IOUs, Public Exchange, New Public) Grid West RRG – Airport Sheraton 10-3:30
31 GW Filer's Meeting 10-12:00 Slice Product Review (9-4)	GW Board Mtg. 10-4:00 Slice Ops Meeting (9-4)			

Long-Term Regional Dialogue 2 of 4

November		Regional Dialogue		
Mon	Tue	Wed	Thu	Fri
All Rate Case dates	1	2	3	4
are tentative	PNGC Bd. Mtg	NRU qtly mtg-am	PPC E/C mtg p.2- (8-12)	PNUCC annual mtg (9-12) Quarterly PUC Meeting
	Rates: Initial Proposal Preview Workshop	PPC E/C mtg p.1- (2:30-5:30)	Cust collab- (3-5)	RD Tech mtg (9-4: IOUs,
	Slice Ops Mtg (9-4)	PNGC Bd. mtg	RD Tech mtg (1-4: IOUs, Public Exchange, New Public)	Public Exchange, New Public)
7	8	9	10	11
Rates FRN published (TENTATIVE DATE)	BPA finances mtg @PPC-am and pm	Slice Ops Mtg (9-4)	Rates presched meeting am/training pm	Veterans Day Holiday
Transfer Service (9-5)	RD Tech mtg (9-4: IOUs, Public Exchange, New Public)	RD Tech mtg (9-4: IOUs, Public Exchange, New Public)	Slice Ops Mtg (9-4)	
14	15	16	17	18
	Council Meeting in Idaho	Council Meeting in Idaho	Idaho Council Mtg	Customer Collaborative (9-5)
		Slice Principals Mtg (9-4)		
			Customer Collaborative (9-5)	
21	22	23	24	25
Rates: Prehearing Conf/Direct Case and Web site training NEW TIME: RD Tech mtg (1:30-5: IOUs, Public Exchange, New Public)	RD Tech mtg (9-4: Conservation & Renewables)		Thanksgiving Holiday	
28	29	30		
RD Tech mtg (9-4: Resource	Rates: Kalispell Field Hearing (6-9)	Rates: Springfield Hearing (6-9)		
Adequacy)	(6-9) RD Principals Management Group mtg. (9-4)	Transfer Service (9-5)		

Long-Term Regional Dialogue 3 of 4

December			Regional Dialogue	
Mon	Tue	Wed	Thu	Fri
All Rate Case dates are tentative			PPC E/C annual mtg-am and pm	2 PNUCC (9-12)
			OURCA Annual meeting	
			Rates: Spokane Field Hearing (6-9)	
5	6	7	8	9
Rates: Idaho Falls Field Hearing	Rates: Tacoma Field	WAPUDA annual mtg	WAPUDA annual mtg	WAPUDA annual mtg
(6-9)	Hearing (6-9)	TBL Business Practices Tech Forum (8-5)	Transfer Service (9-5)	
		Rates: Portland Field Hearing (6-9)		
12	13	14	15	16
	Council Meeting in Portland	Council Meeting in Portland	Council Meeting in Portland	
	Transfer Service (9-5)	Customer Collaborative (9-5)	Customer Collaborative (9-5)	
19	20	21	22	23
26	27	28	29	30
Christmas Holiday				

Long-Term Regional Dialogue 4 of 4