Summary of January 2005 Regional Dialogue Policy Decisions

For ease of reading, below is a brief summary of the Regional Dialogue Policy that is the basis for the Record of Decision (ROD). Please be advised that, where there are differences in wording between this summary and the Policy document, the Policy is the official expression.

BPA's Near-Term Strategy
BPA's near-term strategy is intended to address certain issues that must be resolved for the next rate period that will begin on October 1, 2006.

- **FY 2007-2011 Rights to Lowest-Cost Priority Firm (PF) Rate.** BPA will apply the lowest-cost PF rates to public agency customers whose contracts contain that guarantee throughout the remaining term of the Subscription contracts.

- **Tiered Rates.** Though a tiered rates structure will very likely be needed in conjunction with new long-term contracts, BPA will exclude a tiered PF rate proposal from its FY 2007 initial rate case proposal. BPA has reached this conclusion for the following reasons: First, BPA expects that it will be in load and resource balance for at least the next 3-5 years and can be expected to meet its firm load obligations with little or no new resource purchases. Second, postponing rate tiering allows it to be done in conjunction with development of new contracts so that customers are clear on their rights to power at the lowest-cost rate as the tiered rate proposal is developed.

- **Term of the Next Rate Period.** BPA will set the next rate period for 3 years rather than the current 5 years. The shorter rate period should result in lower rate levels than would be the case if rates were set for a longer period. It will also facilitate a smoother transition to a different rate structure before 2011. BPA plans to conduct a separate rate case to ensure new rates are in place when new contracts take effect.

- **Service to Public Agency Customers with Expiring Five-Year Purchase Commitments that Do Not Contain Lowest PF Rate Guarantee through FY 2011.** Public customers whose contracts do not currently contain the guarantee of the lowest cost-based PF rates for FY 2007-2011 will receive the same rate treatment in FY 2007-2011 as customers whose contracts do contain this guarantee as long as the customers without the guarantee sign a new contract or contract amendment no later than June 30, 2005, that will extend the term of their existing contracts and commit them to purchase firm power in FY 2007-2011. Customers that do not meet the deadline and subsequently request service will not receive the lowest cost-based PF rate guarantee. Such customers will be able to purchase firm power under the PF rate but may be subject to an incremental resource rate or targeted adjustment charge. One customer has an on-ramp contract without the lowest-cost guarantee that will likely give it more, lowest-rate power than it would need to meet its recalculated net requirements. BPA's strong view is that limiting customers to the amount of lowest-cost power they actually need to meet their net requirements is most consistent with BPA's broader decision to limit its total sales at its lowest-cost rates. However, BPA has decided not to limit this customer to its recalculated net requirements because this is not consistent with the existing contract with that customer.

- **Service to New Public Agency Utilities.** As with 5-year contracts, qualifying newly formed public utilities that request service under Section 5(b)(1) of the Northwest Power Act, meet BPA's Standards for Service, and sign contracts by June 30, 2005, will also receive the lowest cost-based rate for the FY 2007-2011 period. Entities forming small public utilities that serve less than 10 aMW of retail load, up to 30 aMW in total, have an additional 6 months (until January 1, 2006) to form their utility and sign a contract to receive service at the PF rate without a targeted adjustment charge. Such new public utilities must take service by October 1, 2006. New public utilities that miss these deadlines will be subject to a targeted adjustment charge that BPA may propose during the next rate period.

- **Annexed Investor-Owned Utility (IOU) Loads.** Consistent with existing contract terms and conditions, in the FY 2007-2009 period, the increase in a public utility's load due to annexation of load that was previously residential or small-farm load served by an IOU will receive its prorated share of benefits through offsetting any incremental-cost charge or rate levied against the public utility up to the aMW amount of its prorated share of benefits during the rate period as if the annexed load had remained an IOU load. Such treatment will apply regardless of whether the annexing public agency customer is new or existing. For purposes of receiving firm power service at the lowest PF rate during the FY 2007–2009 period, a customer must complete its annexation and notify BPA of the annexed load amount by June 30, 2005. Power service for annexed IOU load requested after June 30, 2005, will be subject to a charge or rate similar to the current TAC charge, beginning in FY 2007.

- **Product Availability.** Any new public customer, or existing customer whose contract expires in FY 2006 that executes a new contract, may select from any of BPA's standard products except Complex Partial (Factoring), Block with Factoring, or Slice. For the following reasons, BPA will not offer contract amendments that would allow changes in the power products and services purchased by 10-year Subscription contract holders, including, but not limited to, changes that would increase the total Slice megawatts currently sold by BPA:
  - BPA hears clearly the strong desire of some customers to buy Slice or change Slice purchase amounts, but these customers will have to wait 2 years, not 5 years, for a new contract if the current schedule for new long-term contracts is met.
  - The effort required to negotiate changes in Slice amounts and purchasers would threaten achievement of the schedule for new long-term contracts in FY 2009, especially given that the opportunity to make changes to Slice purchases would have to be offered to all interested customers.
  - The original Slice decision and contract was for a 10-year term. It is premature to conclude that a different term is reasonable, especially in view of the fact that the first 3 years of experience with Slice have not been evaluated by the region.
  - The ongoing dispute over Slice true-up creates a significant risk of cost-shifts if more Slice is sold.

- **Service to Direct Service Industries (DSIs).** Although BPA has no statutory obligation to serve the DSIs, it recognizes that the DSIs have been an important part of the Pacific Northwest (PNW) economy for over 60 years. BPA has determined that it will provide eligible Pacific Northwest DSIs some level of Federal power service benefits, at a known quantity and capped cost, in the 2007-2011 period. Notwithstanding the difficult economics of Pacific Northwest aluminum smelting and the discretionary nature of BPA service to DSI load, BPA believes that the issue of sustaining DSI jobs is compelling. BPA is mindful of the important historic role DSIs have played as BPA customers and in the development of the Federal Columbia River Power System and the importance to local economies of the jobs they provide, which is BPA's primary consideration for any decision to continue to serve DSI load. BPA also recognizes there are rate impacts on other utilities and therefore effects on jobs in other industries associated with continuing to provide service benefits to the DSIs. While no final decision regarding the actual level of service benefits to be provided is being made at this time, it is anticipated that service will be at a substantially reduced level compared to the level contracted for in the current rate period. BPA wishes to further discuss the level of the DSI service benefit, and criteria for eligibility, with PNW regional interests before making final policies and decisions on those issues. After these further discussions, BPA will issue a supplemental policy on this topic.

- **Service to New Large Single Loads (NLSL).** BPA will continue to apply its prior interpretations of Section 3(13) of the Northwest Power Act that aggregates load of a single consumer "associated with a facility" and will not consider multiple contracts or suppliers as disaggregating large loads into 9.9 aMW increments. For most DSIs whose production load or contract demand exceeds 10 aMWs, if any portion of that load is served by the local utility with requirements power purchased from BPA, the load will be an NLSL and the applicable BPA wholesale rate will be a 7(f) rate and not the PF rate. This policy does not preclude BPA from selling surplus firm power consistent with Section 5(f) of the Northwest Power Act to utility customers at a Section 7(f) rate to serve former DSI load. If a consumer directly provides on-site cogeneration or a renewable resource to serve all or a portion of a load associated with a facility that is otherwise an NLSL and the remaining new load or load increase served by the local utility is reduced to 9.9 aMW or less, then that 9.9 aMW portion of the load on the utility will be served at the PF rate.

- **Service to Residential and Small-Farm Consumers of Investor-Owned Utilities (IOUs).** BPA recently signed agreements with all 6 regional IOUs that provide certainty in the amount and manner that benefits will be provided to their residential and small-farm consumers under their Subscription contracts. In the event a court sets aside the new agreements and amendments but leaves the underlying Subscription contracts in place, BPA is providing the IOUs a contingent notice that BPA will provide financial benefits, not power benefits, during FY 2007-2011 under those contracts. If the Subscription contracts are successfully challenged in court, the agency will follow the court's instructions in negotiating new contracts under the Northwest Power Act.

- **Conservation Resources.** BPA is relying on the current ongoing collaborative planning process to develop a fully defined proposal for conservation that can then be brought to the entire region for consideration. Development of the conservation program will be guided by the five principles proposed by BPA in July 2004, as amended.

- **Renewable Resources.** BPA will engage in an active and creative facilitation role with respect to renewable resource development. Although BPA will still consider acquisition as a viable facilitation option under the appropriate circumstances, the agency's primary focus will be to reduce the barriers and costs interested customers face in developing and acquiring renewables. BPA is establishing a management target to spend *up to* a net of $21 million per year to support its facilitation activities. The $21 million net expense is a measurement of the expected, added costs of our renewable program measured against avoided alternative long-run marginal power costs. The $21 million comprises the existing $15 million renewables fund and $6 million of annual renewables spending that is currently being accomplished through the Conservation and Renewables Discount program.

- **Controlling Costs and Consulting with BPA's Stakeholders.** For the term of existing contracts (through FY 2011), or until new contracts go into effect if that is earlier, BPA will continue to focus on non-contractual means that promote transparency under BPA's financial information disclosure policy, allow for public input on agency costs, and demonstrate management of those costs. BPA intends to take the following actions.
  1. Engage customers and non-customers in collaborative forums structured similarly to the Power Net Revenue Improvement Sounding Board and current Customer Collaborative.
  2. Continue to improve BPA's external financial reporting.
  3. Implement the BPA-wide business process improvement initiative begun in July 2004.
  4. In 2005, conduct an in-depth regional discussion regarding power function cost levels that will be used to set rates for the FY 2007-2009 rate period.

  BPA will consider additional actions to address cost control as part of the long-term regional dialogue policy to be decided in January 2006.

Long-Term Issues

BPA is establishing a long-term policy regarding its load obligations to set the stage for the second phase of the Regional Dialogue. BPA's policy is to limit its sales of firm power to its Pacific Northwest preference customers' firm requirements loads at its lowest-cost rates to approximately the firm capability of the existing Federal system. We anticipate implementing this policy decision through new long-term contracts and rates to be implemented as early as October 2008. The Regional Dialogue ROD includes a schedule to develop the long-term policies by January 2006, and offer new long-term contracts by December 2006.