POWER SUBSCRIPTION

BASE CASE SUMMARY

FY 2007-2011

BONNEVILLE POWER ADMINISTRATION

August 2002

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1. Introduction – Sharing the Benefits

The Bonneville Power Administration (BPA) and the Northwest Power Planning Council (Council) want to engage the region in a discussion of how BPA will market the power and distribute the costs and benefits of the Federal Columbia River Power System (FCRPS) in the Pacific Northwest after FY 2006. To that end, BPA and the Council believe that the best way to initiate a regional discussion on issues related to post-2006 service is to conduct a regional public process seeking input from customers, constituents, and consumers alike. BPA and the Council have invited interested persons throughout the Region to submit, by September 12, 2002, comments and/or proposals regarding the relevant issues as they see them. Starting on September 16, 2002, BPA and the Council will jointly hold a number of public meetings (see: www.bpa.gov/power/regionaldialogue) in the Region to allow interested persons to ask questions, offer comments, and submit proposals. To be considered as BPA develops its draft proposal, all comments and/or proposals must be received by BPA and the Council by October 18, 2002.

Please submit comments to BPA and the Council at the following address:

Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212
e-mail: comment@bpa.gov
FAX: 503-230-3285

To assist the public in preparing comments and/or proposals regarding the post-2006 period, BPA has prepared this summary of its existing Subscription power sales policies and related power sales contracts for the FY 2007-2011 rate period. Subscription policies establish the guidelines and processes by which BPA is marketing power to Pacific Northwest customers for the period from 2001-2011, within the framework of existing law. Subscription policies address the availability of power, describe power products, lay out strategies for pricing, and discuss contract elements. This Summary provides a brief overview of the "base case" of policies and contracts that will be applicable for the FY 2007-2011 rate period if no further substantive actions are taken.

Included in this Summary is an abbreviated discussion of some of the basic matters defined and described in the following BPA documents:

- Power Subscription Strategy, and Administrator's Record of Decision (ROD), both released in December 1998;
- Final Policy and ROD on Standards for Service, released in December 1999;
- Supplemental Subscription Strategy ROD, released in April 2000;
- Policy on Determining Net Requirements of Pacific Northwest Utility Customers Under Sections 5(b)(1) and 9(c) of the Northwest Power Act and ROD, released in May 2000;
- 2002 Final Power Rate Proposal and ROD, released in May 2000 (for rates to be in effect from October 1, 2001, through September 30, 2006); and
- 2002 Supplemental Power Rate Proposal and ROD, released in June 2001 (for rates to be in effect from October 1, 2001, through September 30, 2006).

The discussion herein does not alter or otherwise replace the policies defined and described in those documents. For complete treatment of an issue, the above documents should be consulted. The documents listed above and additional information are available from BPA's Power Business Line (PBL) Account Executives, from BPA's Constituent Account Executives, from BPA's Public Information Office, and on BPA's PBL web site. BPA has designated and priced Subscription power products as undelivered products, so transmission issues are generally not covered in this summary.

2. Overview of FY 2007-2011 Subscription Policies and Contracts

Introduction

BPA had four principal Subscription goals throughout the Subscription development processes. They are:

- To spread the benefits of the FCRPS as broadly as possible, with special attention given to the residential and rural customers of the region;
- To avoid rate increases through creative and business-like responses to markets and additional aggressive cost reductions;
- To allow BPA to fulfill its fish and wildlife obligations while assuring a high probability of Treasury payment; and
- To provide market incentives for the development of conservation and renewables as part of a broader BPA leadership role in the regional effort to capture the value of these and other emerging technologies.

Subscription policies are implemented through a variety of BPA executed power sales and related contracts with its utility, Federal agency, and Direct Service Industry (DSI) customers. While the DSI contracts expire in 2006, the utility contracts generally extend to 2011. Current BPA wholesale power rates cover the FY 2002-2006 rate period.

Public Body and Cooperative Utilities

Under Subscription, BPA offered to meet all requested regional firm net load requirements of publicly-owned, cooperative, Federal agency,[1] and tribal utility customers under contracts of up to 10 years in duration. Contracts signed by preference utilities within the Subscription window (i.e., before October 31, 2000) are served at the Priority Firm Power (PF-02) rate, BPA's lowest rate, during the FY 2002-2006 rate period. Contracts signed within the Subscription window, and having a term exceeding 5 years, are contractually guaranteed the lowest PF rate applicable during the contract term. Loads that are annexed by a customer after signing its Subscription contract, and loads covered by new contracts signed after the Subscription window closed, are generally served at the PF-02 rate plus a Targeted Adjustment Charge (TAC), or its successor rate. The TAC serves to hold other customers harmless from the adverse impacts of unanticipated customer load that would otherwise increase their PF and NR rates.

[1] While federal agencies are not preference customers, BPA is authorized to sell power to Federal agencies in the region.

Subscription power sales contracts are take-or-pay to ensure that BPA continues to recover sufficient revenue to cover the costs of the FCRPS even if load loss occurs at a time when market prices are lower than BPA's cost-based rates. This is intended to protect BPA's customers, help BPA continue to fulfill its responsibilities to the Treasury, and ensure a flow of revenue to support continuance of regional benefits. Subscription contracts also include an Appropriations Refinancing clause, also known as the "contract lock." This clause "locks in" the terms and conditions for repayment of the refinanced appropriations to BPA through September 30, 2011.

The contracts executed with public and cooperative customers provide for four basic product or service arrangements, namely, Full Service, Partial Service, Slice, and Block. (*See* Table 1 – for more information.)

Investor-Owned Utilities (IOUs)
Under Subscription, BPA offered its IOU customers a choice between new Residential Purchase and Sale Agreements (RPSAs) and Settlement Agreements for their Residential Exchange Program rights (Settlement Agreements). All of the region's IOUs elected to sign Settlement Agreements that stipulated that BPA provide the equivalent of 2,200 average megawatts (aMW) in power or monetary benefits. These benefits, by law, must be passed on to the utility's residential and small farm consumers, and this would continue to be the case for the period FY 2007-2011. The state public utility commissions of Washington, Oregon, Idaho, and Montana collaborated to recommend to BPA the portion of this 2,200 aMW of benefits available to each IOU. BPA issued a proposal for public comment that reflected the commissions' recommendations. In the Supplemental Subscription ROD, specific amounts of settlement benefits were designated for each participating IOU. BPA incorporated that allocation in the IOU Settlement Agreements.

Direct-Service Industries (DSIs)
While BPA is authorized by statute to sell power to the DSIs in the future, BPA has no contractual obligation to serve DSI load after FY 2006. Certain DSI contracts for the FY 2002-2006 period include language limiting a DSI's claim to Federal power or ability to take a course of action relative to seeking Federal power for the period after FY 2006.

The current DSI contracts provide a flat block product of undelivered firm power. These contracts are take-or-pay and expire in FY 2006. These contracts allow a DSI to curtail its power purchase from BPA under its contract, but the DSI is required to make BPA whole for any revenue shortfall that BPA may incur by selling the power at market prices rather than at the Industrial Firm Power (IP) rate.

Funding for Fish and Wildlife
BPA is committed to meeting its fish and wildlife responsibilities during the FY 2007-2011 rate period, although the level of funding needed to achieve those responsibilities will not be set until the conclusion of BPA's next wholesale power rate proceeding. BPA will work with its Federal partners, including the U.S. Army Corps of Engineers, Bureau of Reclamation, National Marine Fisheries Service, U.S. Fish and Wildlife Service, the Northwest Power Planning Council, Pacific Northwest Tribes, and others to estimate the level of funding and operational parameters

that will enable BPA to fully meet its obligations. BPA will meet its responsibilities through a variety of mechanisms, including implementing the Council's fish and wildlife program.

Conservation and Renewables

BPA continues to support energy efficiency and renewable resource investments in the Region. Through a variety of mechanisms, BPA is seeking to establish a sustained production level for these resources to minimize the boom-bust cycle that has characterized conservation funding in the Region over the last two decades.

BPA's conservation resource acquisition approach relies on a robust portfolio of programs for all sectors that leverages available resources and funding to achieve conservation at the lowest cost possible. Resource acquisition will be a key part of BPA's FY 2007-2011 energy efficiency and renewables initiatives, but BPA will also continue sponsoring programs such as the Conservation and Renewables Discount; market transformation; low income weatherization; and technology innovation, education and outreach. Based on future needs and circumstances, new conservation acquisition initiatives will be developed for the FY 2007-2011 rate period.

BPA established a Renewables Fund to support its purchase of new renewable generation and to cover the costs of related research and support efforts (e.g., regional wind and solar data collection). BPA has limited this fund to an aggregate $15 million per fiscal year during the current 5-year rate period. To the extent purchases of output from renewable resources do not pay for themselves (via the value of power and the green attribute value), those renewable purchases draw on the $15 million account. BPA currently plans to continue to fund its renewables program at the present level in the next rate period. To the extent it can be done cost-effectively or without exceeding the $15 million cap, BPA intends to acquire renewable resources to supply the energy needs of its customers in FY 2007-2011.

Rates and Pricing

The level and design of BPA's posted rates (PF, IP, RL, and NR) for the FY 2007-2011 rate period will be determined in a formal wholesale power rate proceeding as established under section 7(i) of the Northwest Power Act. Although the final level and design of its posted rates has yet to be determined, BPA's FY 2007 power rate proposal will be informed by the Subscription contracts now in force, as well as BPA's experience with the posted rates in the FY 2002-2006 rate period. BPA will set the posted rates to achieve both its public benefits and a high probability of recovering the forecasted revenue requirement for the rate period, including Treasury payments.

3. Table I--Summary of BPA's Regional Power Contract Obligations as of October 1, 2006

1	**General BPA Product**	**Load Following**				**Non-Load Following**				
2	**Customer Type**	**Public Utilities, Coops, and Federal Agencies**							**IOUs**	**DSIs**
3	**Specific BPA Product**	Full		Partial		Slice		Block		None
		Subscription	Hungry Horse pre-Subscription [2]	Simple Partial	Complex Partial with Dedicated Resources	Slice of the System	Block Component of Slice	Non-Slice Block	IOU Block	No DSI contracts after 9/30/06 [3]
4	**Total Power Amount (aMW for FY 2007) [4]**	1,723	218	522	485	1,620 [5]	942	1,017	0-2,200 MW [6]	N/A
5	**Number of Customers**	85	9	6	1	25 public utilities [7]		3	6	N/A
6	**Term (expiration of contract)**	2011 [8]	2011: 7 contracts (140 aMW) 2018: 2 contracts (78 aMW)	2011	2011	2011 [9]		2011	2011	Block sale expires on 9/30/2006

[2] Most pre-Subscription contracts will expire on September 30, 2006. The only exceptions are nine pre-Subscription contracts with Montana customers with statutory geographic preference rights under the Hungry Horse Reservation. All other customers will be served under Subscription contracts.
[3] Customer Type: BPA has no contractual commitment to serve the DSIs after their current contracts expire in September 2006. For FY 2002-2006 period, BPA has contracts with nine DSIs.
[4] BPA's total firm resources, less other obligations, are approximately 7,160 aMWs and its total Subscription power sales commitments for FY 2007 less any power sales to IOUs is 6,527 aMW. (Columbia Generating Station is on a 2-year refueling schedule which will reduce BPA's total firm resources, less other obligations, to about 7,040 aMW every other year.)
[5] Equivalent to 22.6 percent of the firm power output of the Federal system.
[6] Power amounts sold to the IOUs may vary from 0 to 2,200 aMW. Monetary benefits can be provided in lieu of power.
[7] Fifteen of whom are served through a joint operating entity customer (PNGC-JOE). (BPA deals with 11 Slice customers.)
[8] Seven customers have Full Service Subscription contracts that terminate September 30, 2006. If requested by the customer, BPA has a legal obligation to provide service to net requirement load of these customers in post-2006 period.
[9] One Slice customer has a Subscription contract only through September 30, 2006. If requested by the customer, BPA has a legal obligation to provide service to the net requirement load of this customer in the post-2006 period.

3. Table II—Matrix of Subscription Base Case for FY 2007-2011

Class of Customer	Relevant Subscription Product(s)	Treatment of Customer-Owned Resources	Eligible Loads	Load Service Applications	Applicable Rates [1]
Existing Preference (“publics”: public bodies, cooperatives, Federal agencies) [2]	Full Service	All resources are dedicated to retail load and are small[3], non-dispatchable	Up to “net requirement”[4]	All FY 2002 retail baseload (non-NLSL[5])	Lowest cost-based rate[6], currently Priority Firm Power Rate (PF)
				Load growth	PF
				Voluntary[7] retail access load loss	PF, assessed under take-or-pay provision
				Mandatory retail access load loss	No charge; PF take-or-pay provision waived
				Load fluctuations[8]	PF
				Annexed load	PF if previously served at PF, otherwise PF + Targeted Adjustment Charge (TAC) (or successor)
				NLSL	New Resource Firm Power Rate (NR)[9]
	Actual Partial Service	All resources dedicated to retail load have their capabilities declared in advance	Up to net requirement	Virtually same as above[10]	Same as above, except Unauthorized Increase Charge (UAI) (or successor) assessed for under-delivery of declared resource capability
	Block	All resources dedicated to retail load have their capabilities declared in advance	Up to net requirement	Base load served with monthly or annual blocks shaped to FY 2002 net requirement	PF (all billing determinants except Load Variance)
				Load growth (optional)	PF plus Stepped-Up Multi-year Block (SUMY) charge (or successor)
	Slice	All resources dedicated to retail load have their capabilities declared in advance	Up to net requirement for the combination of Block and Slice, the latter being an agreed percentage of the Federal system equal to net requirement minus Block amount	Base load served with combination of Block and Slice[11]	Annual charge based on pro rata share of allocated BPA costs; Block and Slice amounts subject to UAI.
New[12] Preference	To be determined (TBD)	TBD	Up to net requirement	TBD	TBD
Pre-Subscription Preference	”Full Service”[13]	Dedicated per contract	FPS purchase not to exceed net requirement	Similar to Full Service	Contractually specified under FPS rate schedule
Investor-owned utilities (IOUs)	Block	N/A	Residential and small farm load	Flat; benefits provided to reduce rates consumers would otherwise pay	Residential Load Firm Power Rate (RL)[14]
Direct service industrial customers (DSIs)	None offered	N/A	N/A	N/A	N/A

[1] With few exceptions, rates and rate schedules applicable to load service for the FY 2007-2011 period will be established in a future rate case.
[2] Including Tribal utilities.
[3] Up to 3 megawatts (MW) nameplate individually or 6 MW in total allowable without loss of Full Service designation. Resources in excess of those amounts permitted if customer purchases Generation Management Services (GMS).
[4] Meaning, generally, a utility customer's regional retail load less resources it has dedicated to such load service. If requested by a utility, BPA is obligated to sell power in amounts required to meet the utility's net requirement.
[5] New Large Single Load, as defined in section 3(13) of Northwest Power Act (Act).
[6] Known as a "7(b)" rate under the Act. The rate is customarily applied against load quantities by means of power billing determinants (rates) for the quantities Generation Demand, Heavy Load Hour (HLH) Energy, Light Load Hour (LLH) Energy, and Load Variance. Charges under the PF rate are assessed monthly.
[7] Meaning the customer voluntarily opens up its service territory to permit retail access.
[8] Distinguishing two broad categories of load fluctuation, "longer-term" for purposes of this table means within-day, within-month, or annual; the cost of longer-term load fluctuation is recovered through the Load Variance charge. In contrast, "shorter-term" load fluctuations – those occurring within an hour or shorter time durations (e.g., instantaneous or "real time") – are not covered by a Subscription product per se; such needs are met through the customer's transmission contract services provider, typically by its provision of a load regulation service.
[9] Known as a "7(f)" rate under Northwest Power Act – the rate set to reflect the cost of new resources.
[10] Actual Partial Service is, for all intents and purposes, identical to Full Service except that the customer guarantees resource performance.
[11] A customer's Slice entitlement is not linked directly to its load service obligation, but rather to its pro rata share of Federal generation.
[12] Meaning that service commences during the FY 2007-2011 period.
[13] Nine pre-Subscription contracts remain in effect in the FY 2007-2011 period, providing Full Service equivalency under Firm Power Products and Services (FPS) contracts to Montana customers entitled to a share of the Hungry Horse Reservation. All other pre-Subscription contracts (FPS contracts providing either Full Service or Block equivalency) terminate on or before September 30, 2006.
[14] The allocation between power and monetary benefits is at BPA's option and is to be determined no later than October 1, 2005. Using BPA's current forecast of future wholesale market prices, BPA's estimate of the monetary value of the 2,200 aMW is approximately $220 million per year.

4. Serving Public Body and Cooperative Loads

Serving BPA's Preference Customers
BPA's organic statutes (those that relate to BPA's formation and mission) provide that Pacific Northwest public body and cooperative customers, also known as preference customers, have priority to and the first call on Federal power from the FCRPS. These customers are served under a cost-based rate known as the Priority Firm Power (PF) rate. Between April and October 2000, BPA and the vast majority of customers eligible for preference service executed Subscription power sale contracts that stated the terms and conditions of service to their net requirement loads for up to 10 years. A number of public agency customers had already signed power sales contracts with BPA for post-2001 service. These contracts are known as pre-Subscription" contracts. Although they have many similarities to BPA's Subscription contracts, many pre-Subscription contracts are unique and most terminate on September 30, 2006.

While ostensibly referring only to the new group of long-term power sales contracts that BPA has with its customers, the term "Subscription" is really more appropriately viewed as a global descriptor of the nature of service to BPA's customers for the period FY 2002-2011. The overarching provisions of Subscription are described below. Some of these provisions do not apply to the pre-Subscription contracts.

BPA's Obligation to Serve
The Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act) calls for BPA to meet, if requested, the "net requirements load" of BPA's preference customers. The term net requirements load means the difference between a utility's firm regional retail power loads (sometimes called "native load") and the power from resources that the utility has acquired and dedicated to serving its firm retail load. Under Subscription contracts, purchasers of the Slice and Block products, the calculation of their net requirements resulted in a contractually defined amount of power that BPA delivers to such customers. For customers that purchased a load following product, i.e., Full Service, the amount of power a customer purchases depends on the customer's actual load.

Standardized Contract Language
Subscription contracts represent a return to standardized contract language. BPA returned to standardized contract language because consistency among customers facilitates contract administration and assures equitable treatment among customers. Pre-Subscription contracts are not standardized and are designed to more readily meet individual customer needs.

Contract Term
The vast majority of public agency Subscription contracts expire in 10 years or at the end of FY 2011, although a few customers opted for a shorter contract term (S*ee* Table 1).

Service Options and Product Descriptions
BPA customers buying a Subscription product were given a choice of several service options. In addition to the descriptions listed below, Table I summarizes a number of aspects of BPA's Subscription service for the FY 2007-2011 rate period.

1. **Full Service –** Full Service customers either buy all of their power from BPA, or have only very small resources of their own that they dedicate to serve their own loads. BPA serves the difference between their retail load and the net output of their resources (if any). Some Full-Service customers have pre-Subscription contracts that will be "replaced" by Subscription contracts in 2006.

2. **Partial Service –** Partial Service is comprised of two types of service: Simple Partial and Complex Partial with Dedicated Resources.

   A. **Simple Partial –** Simple Partial customers have resources of their own (including physical generation resources and/or contract purchases). Simple Partial customers' resources are in larger amounts and exceed the limit allowed under Full Service. BPA serves the difference between their retail load and the power output of their resources and contracts dedicated to serving such load. Simple Partial Service is much the same as Full Service, except the customer self-supplies a part of its power for its load needs by pre-agreed amounts established in the contract.

   B. **Complex Partial –** The Complex Partial Service product is the same as Simple Partial Service except that the customer is contractually obligated to set a minimum monthly amount of energy and demand it will provide to serve Total Retail Load from its resources or, when necessary, from market purchases. That minimum power amount is established in the Net Requirements Exhibit. When the energy amounts provided by the resources exceed the minimum, BPA provides a credit based on the market value of that energy. That methodology for calculating the credit is set in the Billing Exhibit. If the power amount provided by the customer to serve Total Retail Load is less than its contractual obligation, BPA will charge an Unauthorized Increase to make up the difference for the power amount provided. One customer elected Complex Partial Service under Subscription.

3. **Block –** Block customers have chosen to purchase a planned amount of monthly power from BPA. This amount is designated in the contract and may only be changed during the contract term based on specific terms in the contract. The customer is responsible for meeting all of its remaining power requirements, including load shaping and load regulation. The Block customer may use its own resources or buying power as needed to provide these services.

   A. **Block with Shaping Capacity –** The Block with Shaping Capacity product provides a customer the same basic rights and obligations as the Block product customers, but it also provides the right to vary the size of the customer's block during heavy load hours (HLH), within a range specified in the contract. The hourly purchase amount must be established at preschedule and cannot be changed later. The total amount of power to be delivered each day must be equal to the customer's contractually established block. One customer currently purchases this product.

   B. **Stepped-Up Multi-year Block (SUMY) –** This product allows the customer's block to increase over multiple years due to increases in the customer's net requirement as predetermined in the contract.

4. **Slice –** The Slice product is based on the customer's net requirements load but is sold in the shape of the Federal system's generation in any month to produce power, rather than as a product based on the customer's monthly net load shape for power. The customer provides its own load shaping. A customer's eligibility for Slice is limited to a percentage share of firm power comparable to the customer's net requirements. Slice is a new product and is discussed in more detail at the end of this Preference Customer section. Therefore, Slice customers also have a block component to their purchases as none of their respective Slice shares are adequate to meet their net requirements.

Serving Public Utility Load Growth
The net requirements of BPA's preference customers have typically increased over time as more industries, more businesses, and more people locate in a utility's service area. The term "load growth" refers to the power requirements of these new consumers as well as any increased electricity usage by existing consumers.

Under the Subscription contracts, BPA provides load growth service to its Full and Partial Service customers (although SUMY is a modified load growth product). The cost of load growth service is currently included in the customer's PF rate. In the FY 2007-2011 rate period there may be a separate charge for such service. Both Block and Slice customers must provide for their own load growth. Only one customer purchased the SUMY product.

The Northwest Power Act provides that a utility serving a large consumer load pay the marginal cost of service. Utility customers serving a single consumer's facility load that increases by more than 10 aMW in a 12-month period pay a rate called the New Resource (NR) rate. Such consumer's loads, called New Large Single Loads (NLSL), may result from a consumer building a facility new to the region or existing consumers who are expanding their existing facilities, either of which would not for the magnitude of the load increase, typically be covered by applicable load growth provisions. After reviewing its NLSL policy, BPA decided, for the most part, to continue its historical NLSL treatment. (*See* Administrator's record of decision, New Large Single Load Policy Issue Review (March 27, 2002.))

Financial and Service Certainty
In recent years electric power markets have been volatile, with prices skyrocketing and then falling below the cost of generation. This situation has been disruptive and problematic for all concerned. Subscription addressed this issue by trying to balance the need for flexibility with the need for certainty. Low prices jeopardized BPA's ability to meet its expenses while high prices are devastating to utility finances. The Subscription contracts require customers to determine the nature and amount of service needed from BPA in advance, and to pay for such service irrespective of what happens in the market over the term of the contract.

All Subscription power sales contracts include take-or-pay contract language. This language helps ensure that BPA recovers sufficient revenue to cover the costs of the FCRPS regardless of the relationship between BPA rates and market prices. The take-or-pay contract provision is intended to protect BPA's customers, help BPA continue to fulfill its responsibilities to the Treasury, and ensure regional benefits such as conservation, renewable resource development, and fish and wildlife protection.

The nature of the take-or-pay provision is a function of the type of service that the customer has chosen to purchase. Both Full and Partial Service customers have “load following” as one of the components of their service. Load following allows a customer’s load to rise and fall over the course of the day as people turn lights and equipment on and off. It also provides for BPA to absorb variations in the customer’s load due to load growth or load loss, provided such a change is due to actions taken by *consumers*; utilities may not voluntarily displace BPA service with another source of power. If retail consumers are legally allowed (by state legislative action) to choose their retail power provider and if a BPA utility customer loses load as a result, that customer remains in compliance with the power sales contract. Take-or-pay in Full and Partial service contracts refers to the fact that a utility cannot voluntarily allow load to be served by another entity nor may the utility acquire additional resources to serve its load beyond those specified in the contract or explicitly permitted under the terms of the contract.

Both Block and Slice/Block customers have simpler take-or-pay provisions. Their power entitlements are contractually fixed and do not vary as a function of the size of their loads. Therefore, they are required to pay for a specified amount of power regardless of whether or not they take it.

“Contract Lock”

All Subscription contracts include a “contract lock” clause as required by Public Law 104-134, Appropriations Refinancing. This clause “locks in” the terms and conditions for repayment of refinanced appropriations to BPA through September 30, 2011. The contract lock language preserves BPA’s existing rate setting discretion with respect to allocating costs and designing rates, including assuring cost recovery. It also constrains the amount that BPA can recover through rates for the investments that BPA refinanced with the Treasury, thereby assuring customers with contract lock language that they will pay cost-based rates through the duration of their contracts.

The Slice Product

Slice is a new product, introduced for the first time in FY 2002. Slice combines a firm power product with occasional available secondary power, and other services such as Federal system storage to a public utility. The basic concept of Slice is that the preference customers will purchase Federal power service based on their net requirement load, stated as a percentage share of the output of the Federal system. In return, the customers agree to pay the same percentage share of BPA’s actual costs as specified in the contract and the rates. Customers choosing this product elect to receive their service as a fixed percentage of the actual output of the Federal system in lieu of an amount of power directly tied to their monthly load and load shape. Thus Slice is a generation shaped, as opposed to a load shaped, product, although the amount of Slice that a customer may purchase is limited by its net requirements.

Because the Federal hydrosystem can generate more energy in the spring when river flows are high than is possible at other times of the year, Slice customers have also purchased excess power from the system in some months. While in some months the total amount of firm and secondary power available to Slice customers may exceed their load need, in others they will not have enough power from their Slice share to serve their entire retail load. It is up to each Slice customer to follow its load and determine how to serve its load in all months of the year. Slice is designed to ensure, to the extent reasonably possible, that Slice customers and BPA receive the same operational and marketing opportunities while facing the same risks and challenges.

The following principles were used to guide development of the Slice product:

- There can be no shifting of risks or costs among customers or to taxpayers as a result of implementing Slice.
- Slice customers must pay their proportional share of BPA's fish and wildlife funding costs.
- Federal entities are to remain solely responsible for operational decisions; Slice customers may not interfere in system operations.
- It must be possible to implement Slice without changing the law.

Currently, 1,620 MW of firm power, or 22.6 percent of the Federal system critical output, is being sold as a Slice product. No Slice customer bought a Slice share adequate to meet all of its net power requirements for FY 2002. All Slice customers chose to supplement their Slice purchases with a Block purchase from BPA. Load growth coverage (whether the traditional load growth product or SUMY) is not available to Slice customers.

Slice customers pay a fixed monthly rate for Slice service based on BPA's forecasted average annual system operating costs, and any deviation from actual costs is trued up at the end of each fiscal year. The block portion of the Slice service is billed monthly according to standard rate schedule billing provisions.

Slice customers are responsible for acquiring Ancillary Services from the Transmission Business Line.

Conservation and Renewables

BPA continues to support energy efficiency and renewable resource investments in the Region. Through a variety of mechanisms, BPA plans to establish a sustained production level for these resources to minimize the boom-bust cycle that has characterized conservation funding in the Pacific Northwest over the last two decades. The Northwest Power Planning Council's Fifth Power Plan deliberations will guide future development of energy efficiency resources by BPA in the Region.

BPA's conservation resource acquisition approach relies on a robust portfolio of programs for all sectors that leverages available resources and funding to achieve conservation at the lowest cost possible. BPA will continue to sponsor energy efficiency programs such as the Conservation and Renewables Discount; market transformation; low income weatherization; and technology innovation, education, and outreach. Based on future needs and circumstances, new conservation acquisition initiatives will be developed for the FY 2007-2011 rate period.

As part of its 2002 power rates, BPA established the Conservation and Renewables Discount (C&R Discount) program to encourage regional conservation and renewable resource development by customers and to help rebuild the local infrastructure required to deliver conservation. The C&R Discount allows power customers to design conservation and renewable resource programs that best meet their individual needs. The size and use of the C&R Discount will be addressed in future rate cases

In addition to promoting renewables through the C&R Discount program, BPA also supports the development of renewables through an annual $15 million renewable resources fund. The $15 million is a commitment made to renewable resource advocates during the Comprehensive Review. BPA has met that commitment through project costs associated with BPA's renewable resource purchases (plus the cost of third party transmission, line loss, and firming and shaping). Energy and other (e.g., green attribute) revenues from BPA's renewable projects are added to the $15 million annual fund – increasing the amount of money BPA is able to spend on renewables. BPA plans to continue this approach in the next rate period.

Transmission Service

Power contracts for FY 2002-2011 do not include delivery of that power to the customer except in the case of customers served by general transfer agreements and the Hungry Horse Reservation pre-Subscription contracts. All other customers are responsible for securing transmission and the associated ancillary services themselves. Ancillary services are those services without which it would not be possible to deliver power reliably. Customers are now required to purchase transmission services directly from BPA's Transmission Business Line.

General Transfer Agreements

BPA built the Federal transmission system to deliver Federal power to its customers at the lowest possible cost. In some cases, however, it proved problematic to build Federal facilities to serve a customer because of existing non-Federal transmission lines. These BPA customers, usually located in remote or rural areas of the Pacific Northwest, are served under "General Transfer Agreements" (GTA). Under a GTA, BPA pays a third party transmission owner to deliver power to a BPA customer.

GTA customers are treated by BPA as if they are served directly. Without a GTA, BPA would have incurred both construction and operations and maintenance costs associated with the transmission line needed to deliver power to the customer.

The cost of GTA service (for Federal power deliveries only) is spread over all PBL power sales and recovered through power rates. For preference customers served under an existing GTA, if that GTA expires, PBL will obtain comparable transfer service under an open access tariff.

The customer is responsible for obtaining required ancillary services except services bundled into their GTA. PBL will pay for the ancillary services included in a bundled GTA charge until the charges are unbundled. At that time the customer will be responsible for obtaining all necessary ancillary services. However, the PBL will cover the difference between what the cost would be under the TBL's posted rate schedule and the non-Federal transmission provider's rate schedule.

PBL has conditionally agreed to provide GTA service to its customers through FY 2011. If, however, a Regional Transmission Organization (RTO) is formed and if that RTO is structured so that it is no longer necessary to pay each transmission owner for use of its facilities, then the GTAs will no longer be needed, as only a single transmission charge will be applied to the transaction.

Changes in Service to Preference Customers Beginning in 2007
BPA's rates are generally established for periods not exceeding 5 years. Rates are determined through a formal rate proceeding described in section 7(i) of the Northwest Power Act. In FY 2002 a new 5-year rate period began. Wholesale power rates that will be applicable in the FY 2007-2011 period will be determined in a rate case proceeding that will be conducted sometime prior to October 1, 2006. Because BPA must examine conditions expected to be in effect during a rate period and must consider rate case party and participant input when designing rates, it is not possible at this time to describe the rates that will be in effect for the FY 2007-2011 rate period.

Although the final level and design of its posted rates are yet to be determined, BPA's FY 2007 rate proposal will be informed by the Subscription contracts now in force, as well as by BPA's experience with the posted rates in the FY 2002-2006 rate period. Preference customers that signed a Subscription contract during the Subscription window are provided a guarantee of BPA's lowest cost-based PF rate through the term of their contract for load they placed on BPA. New customers who signed take-or-pay Subscription contracts before the close of the Subscription window and who met BPA's Standards for Service also received this guarantee**.**

BPA will set the posted rates at a level designed to achieve a high probability of recovering the forecasted revenue requirement for the rate period, including necessary treasury payments. To increase the Treasury Payment Probability (TPP), BPA will include an amount of planned net revenues for risk (PNRR) in its revenue requirement and possibly use other risk mitigation tools such as cost recovery adjustment clauses (CRACs).

Pricing of BPA's core Subscription products will likely continue to be based on the principle that core products will be billed from a "common table of rates" to assure equitable comparability of charges among purchasers of different types of core products. The "common table of rates" includes tables with charges for: (1) demand, (2) heavy load hour (HLH) and light load hour (LLH) energy, and (3) load variance, where applicable.

5. Benefits to Residential and Small Farm Consumers of Investor-Owned Utilities

Serving the IOUs
The Northwest Power Act provides for residential and small farm loads of IOU customers to receive benefits from the Federal system. BPA provides those benefits through the Residential Exchange Program. As part of Subscription, BPA offered IOU customers a choice of new Residential Purchase and Sale Agreements (RPSAs) or, alternatively, 5- and 10-year settlement agreements for each IOU's Residential Exchange Program rights. All of the region's IOUs, except Puget Sound Energy, elected to sign 10-year settlement agreements with BPA for their Residential Exchange Program rights (Settlement Agreements) under which the utilities waived their rights to participate in the Residential Exchange Program through FY 2011. Puget Sound Energy later amended its 5-year Settlement Agreement to extend it to 10 years as well.

Each IOU's settlement of its right to request Residential Exchange program benefits under section 5(c) of the Northwest Power Act is in effect until the end of the term of its contract. Under the Settlement Agreements, residential and small farm loads of the IOUs are assured access to annual benefits equivalent to 2,200 aMW of Federal power for the FY 2007-2011 rate period. These benefits may be provided in the form of a power sale at the RL rate, a rate approximately equal to the PF (Preference) rate, or by providing monetary benefits based on the difference between BPA's 5-year flat-block market price forecast and the RL rate.

The state public utility commissions of Washington, Oregon, Idaho, and Montana collaborated to recommend to BPA the distribution of these 2,200 aMW of settlement benefits available to each IOU. BPA issued a proposal for public comment that reflected the commissions' recommendations. In the Supplemental Subscription Strategy ROD, specific amounts of settlement benefits have been designated for each participating IOU. BPA incorporated that allocation in the IOU Settlement Agreements. The individual IOUs share of the 2,200 aMW are: Avista, 149 aMW; Idaho Power, 225 aMW; PacifiCorp, 590 aMW; Montana, 28 aMW; Puget Sound Energy, 648 aMW; and Portland General Electric, 560 aMW.

A proportionate share of the benefits of the Settlement Agreement, both the power delivery and the financial components, reverts to BPA if another entity serves all or a portion of an IOU's residential or small farm load unless the IOU takes one of two actions to continue to pass through benefits of the Settlement Agreement to the residential and small farm load now served by a new entity. BPA's agreement allows an IOU to either act as an agent for another eligible entity that serves an IOU's residential and small farm load or to pass through the benefits of the Settlement Agreement under a qualifying program developed by the applicable state regulatory authority.

Exchange Settlement

BPA Subscription Strategy Record of Decision intended the entire 2,200 aMW of Residential Exchange Settlement Agreement benefits in the FY 2007-2011 rate period to be power deliveries. If BPA chooses to not deliver all power for the FY 2007-2011 rate period, however, BPA will determine the financial component payment. The IOUs have a right to terminate the Settlement Agreement if BPA does not use the same forecast for estimating the cost of augmentation purchases for establishing the IOU financial payment as that used for forecasting the cost of augmentation purchases in balancing the Federal system and for other purposes. Service of power and calculation of monetary benefits will be based on deliveries in a flat annual shape at 100 percent load factor.

For the period FY 2007-2011, BPA will notify each IOU no later than October 1, 2005, of the amount of the power delivery component and the amount of the financial component associated with its Residential Exchange Settlement benefits. BPA has agreed to consult with each IOU regarding its desire for power delivery or financial payments. Under the settlement contracts, IOUs purchase a specified amount of power at the Residential Load Firm Power (RL) rate, a rate BPA expects to be approximately equal to the PF (Preference) rate, subject to establishment in a BPA rate case. The actual power deliveries for these loads will be in equal hourly amounts over the period. Cash payments made under the financial component of the settlement reflect the difference between the market price of power forecast in the rate case and the rate used to make such Subscription sales (e.g., the RL rate). Using BPA's current forecast of future wholesale market prices, BPA's estimate of the monetary value of the 2,200 aMW is approximately $220 million per year.

BPA has an obligation to ensure that the benefits of Federal power are provided to the intended recipients, the region’s residential and small farm consumers. For this reason, the Subscription settlement contracts with IOUs include a provision permitting BPA to review the manner in which the benefits of the Federal system are being provided to the intended beneficiaries. In addition, 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 non-Federal resources that currently serve regional loads but which could then be used to serve loads outside the region. This issue is addressed in BPA’s Policy on Determining Net Requirements of Pacific Northwest Utility Customers Under Sections 5(b)(1) and 9(c) of the Northwest Power Act, attached to the ROD of May 23, 2000.

Net Requirements Sales

Net requirements sales to IOUs for their regional loads, other than settlement sales, including requirements sales above the amounts purchased under the Residential Exchange settlement at the RL-02 rate, are made under the NR rate. The IOUs have agreed not to place additional requirements loads on BPA except for limited exceptions provided in the IOU Block power sales contracts, in accordance with BPA’s Policy on Determining Net Requirements.

Pricing

Under the traditional Residential Exchange Program established in section 5(c) of the Northwest Power Act, a Pacific Northwest utility may offer to sell power to BPA at the utility's Average System Cost (ASC). 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 exchanged can be no greater than the utility's qualifying residential and small farm load. In past practice, no actual power sales have taken place, and BPA provided monetary benefits to the utility based on the difference between the utility's ASC and the applicable PF Exchange Rate, multiplied by the utility's eligible residential and small farm load. These monetary benefits must be passed through directly to the utility's residential and small farm consumers. The amount of Residential Exchange benefits actually provided depends in large part on the level of the PF Exchange rate. Generally speaking, all else being equal, the higher the PF Exchange rate, the lower the exchange benefits.

The successor to the RL-02 rate for the FY 2007-2011 period will be established in a future rate case pursuant to the Northwest Power Act and BPA’s 7(i) rate procedures, and is expected to be approximately equal to the PF rate established for that period.

6. Direct-Service Industries

Serving the Direct-Service Industries

While BPA is authorized to sell power to the direct-service industrial customers (DSIs) in the future, BPA currently has no contractual or statutory obligation to serve DSI load after FY 2006. Certain DSI contracts for the FY 2002-2006 rate period include language impacting either a DSI’s claim to Federal power or the ability to take a course of action relative to seeking Federal power for the period after 2006.

The current DSI contracts are for a flat block of undelivered firm power. Although BPA had no statutory obligation to offer its DSI customers new power sales contracts after 2001, BPA executed these contracts and has developed various service and rate features to enhance the likelihood of the DSI's continuing viability (although BPA cannot guarantee their survival).

BPA's contracts with the DSIs for the FY 2002-2006 rate period are take-or-pay. A DSI may curtail the power purchased under its contract, but is required to make up any revenue shortfall BPA incurs selling the power at market prices rather than at the Industrial Power (IP) rate. Although these contract provisions are designed to protect BPA's revenue, there is significant concern about whether BPA will realize those revenues because aluminum prices are low enough that the financial health of some of the smelters with these contracts is threatened.

The total power for the DSIs in FY 2002-2006 was originally 1,486 aMW priced as flat, undelivered power. The original termination date for the DSI contracts was September 30, 2006. However, as a result of modifications made during BPA's load reduction effort of 2001, one contract was terminated, leaving a maximum of 1,442 aMW of DSI load. While BPA has this much power under contract, to date none of that power has been used to smelt aluminum; all power under contract from BPA for smelter loads has either been repurchased by BPA through buy-down agreements or curtailed by DSIs through curtailment agreements.

Pricing

BPA worked with the DSIs to develop a Compromise Approach for power sales and rates for these customers for the FY 2002-2006 rate period. The implementation details associated with the Compromise Approach, including how much power to make available to each company and the price for that power, were decided in BPA's 2002 wholesale power rate case. The amount of power made available to each DSI was based on each DSI's average annual purchases from FY 1996-2001 at the Industrial Firm Power (IP-96) rate.

DSIs currently purchase their Subscription power under the IP-02 rate, which is subject to the Industrial Firm Power Targeted Adjustment Clause (IPTAC) and all Cost Recovery Adjustment Clauses. The power being offered at the IPTAC rates includes a mixture of cost-based power (approximately two-thirds) and market-based power (approximately one-third). The DSIs currently have no contract for power after FY 2006. The approach for serving the DSIs during the FY 2007-2011 rate period is yet to be determined. BPA has made no proposal to date for such sales.

7. Conclusion

In the late 1990s and early 2000s, BPA and its customers and constituents designed service principles and provisions for the next 5 to 10 years. Since then, many things have changed in the electric power industry. At this time it makes sense to review previous decisions to see if they are still appropriate, given changes in the electric utility industry. Should there be a general consensus that adjustments are required, BPA and its customers will work together to take the necessary actions to make those changes. Providing the Region with this post-2007 Subscription Base Case is the first step in evaluating if any changes are required.