



Fact Sheet

June 2013

BPA launches a new version of Network Open Season

Beginning in 2008, Bonneville Power Administration conducted a new annual process called Network Open Season to better manage requests for long-term firm transmission service and plan for system expansion on BPA's transmission network.

Three years of experience in employing the NOS model demonstrated that the innovative process provided many benefits to BPA and the region. However, it also yielded evidence of unintended financial and risk consequences, as well as system planning and study gaps.

A pause in the program since 2011 has allowed the agency, in collaboration with regional partners and in coordination with FERC, to evaluate alternatives to address these challenges. BPA has refined the process to more effectively serve the region. The agency's revised NOS process resumed in May 2013. BPA also conducted a similar reform of the related Precedent Transmission Service Agreement, the contract for participating in NOS.

Summary of accomplishments

The NOS processes of 2008, 2009 and 2010 successfully supported and accelerated the large-scale integration of wind generation into the region over the past five years. To date, 7,105 megawatts of the requests processed for new transmission service were associated with wind generation.

During the first three years of conducting NOS, BPA processed transmission service requests totaling



approximately 26,000 MW. In total, BPA offered PTSAs to customers for 263 transmission requests totaling 11,722 MW under NOS. The agency was able to turn those requests into 6,886 MW of new service, including 2,555 MW authorized using available transmission capacity (ATC).

NOS review findings

During the legacy NOS era (2008–10), a number of economic and political factors markedly altered the region's utility industry landscape. They included a severe recession; dwindling load growth; and changing market conditions and policies, including the California in-state renewable mandate.

These events adversely impacted a number of commitments to take transmission service made by customers participating in the NOS process. As economic and market changes decreased the likelihood of development,



some customers determined they did not need transmission service requested from BPA through NOS. BPA was faced with the decision whether to build facilities taking into account asserted changes in level of commitment for transmission service, decisions whether to enforce contractual commitments, and a need to re-evaluate anticipated regional transmission needs.

Enhancing transmission to encourage the development of renewable resources has been a key element of NOS. BPA required NOS participants to provide the equivalent of one-year of transmission service revenue, called performance assurance, or PA, to guarantee the right to the service requested. In hindsight, this requirement was insufficient in light of the cost and long life span of facilities developed through NOS and failed to deter speculative participation. Some participants had unstable credit profiles, were thinly capitalized, and

were limited liability entities with minimal assets beyond the development rights they held. Such entities could participate in BPA's legacy NOS process at relatively minimal cost and risk. When market conditions deteriorated, these entities were threatened with strategic default and forfeiture of their PA.

Other unanticipated results and risk also arose from leniency in NOS policies. Some customers — unsure about future demand for their product — wanted to modify or terminate transmission service agreements completely in 2012. BPA and its customers embarked on a review of the requests to ensure such action would not shift costs to remaining NOS participants and other customers. In addition, BPA had assumed all study and construction financing costs — a critical issue, given the agency's limited access to capital. Challenges were further exacerbated by BPA not requiring point of

delivery information, which would have given system planners responsible for cluster studies more complete information about where energy associated with transmission service requests was going.

NOS improvements

With these findings in mind, BPA has decided to reform NOS to address the known risks and deficiencies of the previous process. The policies and objectives intend to:

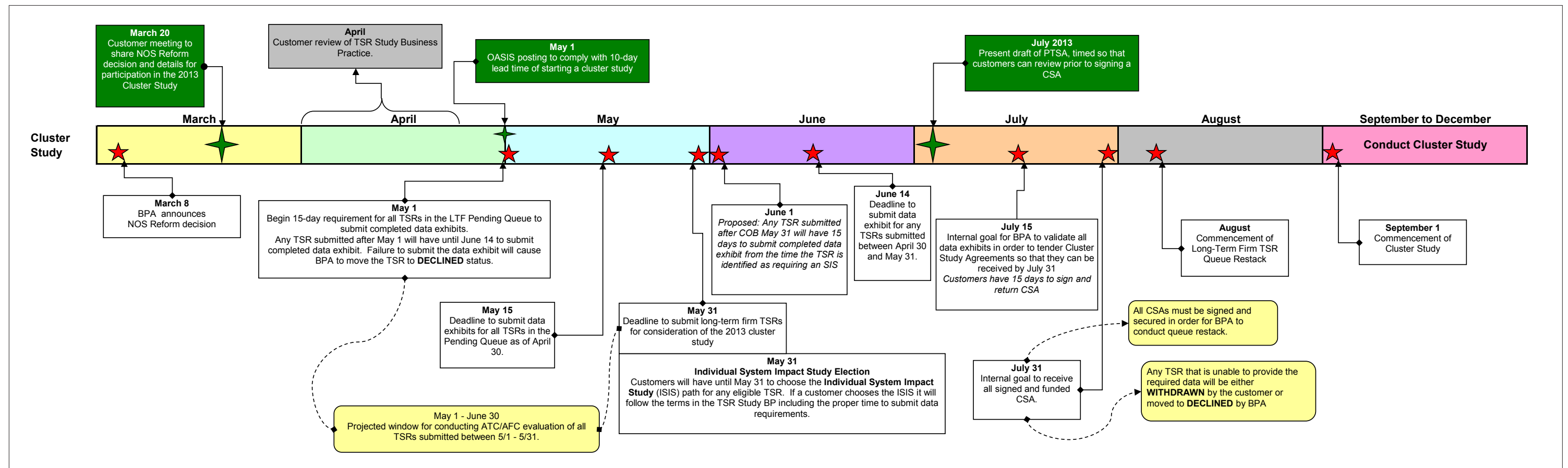
- 1. Minimize cost shifts.** BPA will require participants to provide security for their full pro-rata share of study costs, which will not be shifted to others in the event of default. While BPA will continue to assume some risk attributable to participants, the agency will enable a tiering approach that evaluates the relative risk created by participants in assigning construction security responsibility. Higher-risk entities will

provide more security. Less-risky entities will provide lower security.

- 2. Increase financial commitment.** As noted, participants will provide security proportionate to their financial standing. Construction security will mitigate the risk of building too early or building unneeded facilities. Staged financial commitments will require participants to provide more security as they move through the NOS process, ensuring that those whose requests are driving development are more evenly sharing risk.

- 3. Elevate eligibility requirements to obtain needed planning information.** The agency will require the existing FERC pro forma TSR information in line with BPA's OATT. Such information will provide BPA with knowledge of where transmission service originates, where deliveries will be made, and what

2013 Network Open Season Timeline



BPA re-launched its NOS process in spring 2013.

changes occur in generation and load patterns. This enables BPA to accurately reflect true needs in transmission plans of service. In addition, requiring a minimum five-year commitment for transmission service provides for more certainty and helps justify development of long-lived facilities.

4. Enhance customer certainty by executing

PTSAs later. Doing so will give participants the benefit of the cluster study plan of service and cost estimates before they must commit to take service. That will help ensure that those who sign PTSAs actually want and need the service they are committing to take, if offered by BPA after NEPA and build decision.

5. Reduce speculation. Successively larger financial participation requirements, later PTSA execution (after cluster study), financial participation by stages, and more precise transmission service request information will all discourage participants from submitting speculative requests and prevent BPA from building facilities to accommodate speculative requests.

Taken together, these reforms will help ensure that BPA and ratepayers share risk and financial commitment. BPA and its customers will be protected from speculative requests, leading to a more sound NOS financial foundation able to avoid costs shifts due to defaults. The improved process aligns with BPA's strategic priorities to enhance the value of the region's transmission assets and to meet the demands of a new era of variable generation.

For more information, please visit http://transmission.bpa.gov/customer_forums/nos_home/.