

factsheet

May 2009

Transition Period High Water Marks

As part of the process of implementing the Contract High Water Mark (CHWM) contracts in May 2009, BPA is publishing initial Transition Period High Water Marks (THWMs) and Above-Rate-Period High Water Mark (Above-RHWM) load data for the transition period for all customers with a CHWM contract.

The transition period covers the 2012, 2013 and, for customers with block Priority Firm (PF) purchase obligations, 2014 fiscal years. The THWM will be used to forecast each customer's Above-RHWM load during the transition period. Then, by Nov. 1, 2009, customers must elect in their Contract High Water Mark contract how much Above-RHWM load will be served either by BPA at Tier 2 rates, by the customer with nonfederal resources or by some combination of the two. The THWM is a proxy for, and different from, the Contract HWM that will be developed in 2011. The THWM is based on a 2009 forecast of customers' FY 2010 loads instead of on the measured (historical) FY 2010 load that will be used to calculate CHWMs.

FAQs

1. What is the Transition Period High Water Mark?

The THWM is an estimate/forecast of the Contract High Water Mark – the dividing line that determines how much of a customer's BPA power purchases will be priced at Tier 1 or Tier 2 rates. The THWM is used to establish the amount of Above-RHWM load for each customer for each fiscal year of the transition period so customers can plan who will serve that load.

2. What is the transition period?

For load-following customers, it is, effectively, FYs 2012 and 2013. For customers purchasing a block amount of power from BPA, it includes FY 2014.

3. Why are there different transition periods for different products?

Load-following customers' purchase obligations to serve Above-RHWM load are reset every two-year rate period, while customers with purchase obligations for block amounts of power have a longer purchase period commitment for PF service. However, if a load following customer commits to a longer-term purchase that includes set amounts for the duration of the purchase obligation (for example, a vintage Tier 2-rate purchase), that obligation would extend through the full three-year transition period.

4. How is the THWM calculated?

The THWM is based on forecasts of FY 2010 total retail load for each customer net of any new large single loads and the customer's existing resource amounts used to establish its CHWM, as set forth in the Tiered Rates Methodology. That individual customer's net load amount is divided by the sum of those calculations for all customers. That factor is then multiplied by the forecast average capability for the first rate period (FY 2012-2013) of the federal resources designated to serve load at Tier 1 rates (including possible Tier 1 augmentation, as allowed for in the TRM).



5. Are weather or conservation adjustments made to the load forecast used for the THWM and Above-RHWM calculations?

No. This is one of the distinctions between the THWM and the CHWM. See page 47 of the Tiered Rates Methodology.

6. What does this calculation yield?

The THWM acts as a proxy for the CHWM and provides the ability to establish a customer's Above-RHWM load for each year of the transition period. The difference between a customer's THWM and the amount of load it is forecast to have in the fiscal year (see net load information in paragraph 4, above) yields the utility's Above-RHWM load for that year of the transition period.

7. What does a customer do with that information?

Each customer will then decide, before Nov. 1, 2009, who will serve its Above-RHWM load for each year of the entire three-year transition period, including whether to purchase power from BPA at Tier 2 rates. Consequently, BPA will have the ability to plan for any resources it needs to acquire to meet the cumulative Above-RHWM load being placed on BPA. Additionally, load-following customers will use these Above-RHWM load values to generate their nonfederal resource commitment amounts, if any, for at least the first two years of the Transition Period.

8. What is the importance of the Above-RHWM amount calculated based on the THWM?

Customers will contractually commit to meet the amount of Above-RHWM load determined using the THWM, through either BPA purchase commitments at Tier 2 rates or through self-supply. The THWM number itself has no other function and will not be included in a customer's CHWM contract. In FY 2011, BPA will determine each customer's CHWM, which is the benchmark that will go into its CHWM contract.

9. What is the connection between the THWM and the Tiered Rates Methodology language clean-up, including the economic downturn/provisional (anomaly) CHWM issue?

There is no connection aside from both matters sharing similar timing for milestones. None of the TRM clean-up language applies to the THWM calculation, and none of the anomaly decisions (with or without the proposed provisional CHWM amounts) would affect the already-calculated THWM. However, the proposed economic downturn/provisional CHWM adjustment could affect the accuracy of the forecast Above-RHWM load amounts calculated using the THWM. BPA is planning the 7(i) process for the TRM clean-up and "economic anomaly" adjustment to be complete prior to the Nov. 1 deadline for customers to elect how they will supply Above-RHWM load. This will allow customers to be able to take into account what they expect the outcome of the 7(i) process to be as they make their Above-RHWM load service decisions.

10. What if the Above-RHWM load forecast through the THWM is higher than the actual amount calculated in FY 2011?

If a load-following customer's forecast Above-RHWM load amount ends up being greater than its actual Above-RHWM load, then credits through the load-shaping charge established in the TRM rate design will act to minimize the financial impact to the customer. Load-shaping credits will be based on marginal costs and are expected to reflect the market value of the power, so the credits should be comparable to what the customer would have paid for the power.

For block/slice customers that purchase power at Tier 2 rates from BPA, excess Tier 2 amounts will be remarketed by BPA at a market forecast rate determined in the rate case 7(i) proceeding, with the value credited to the customer's monthly bill.

11. What if the Above-RHWM load forecast through the THWM is lower than the actual amount calculated in FY 2011?

If a load-following customer's forecast Above-RHWM load amount ends up being less than its actual Above-RHWM load, then load-shaping charges established in the TRM rate design will act to minimize the financial impact to the customer. Load shaping charges are based on marginal costs and are expected to reflect the market cost of the power so the extra power purchased should be at a rate that is very close to what the customer would have paid at Tier 2 rates.

Block/slice customers will receive Tier 2-priced power based on the forecast amounts and they will be required to apply additional resources to meet their load in excess of the forecast amounts.

12. Where can a person get more information on the THWM process?

Further information on this process is available in Sections 4.3.2 - 4.3.2.2 of the Tiered Rates Methodology document released in November 2008 (available online at www.bpa.gov/corporate/ratecase/2008/2008_TRM/supplemental.cfm).

13. What is next?

BPA released initial THWM and Above-RHWM load data for all customers about May 1. Customers need to work with their account executive to make any needed revisions by May 31. Customers will then have until Nov. 1, 2009, to determine how they want to serve their Above-RHWM load and make the election for their CHWM contracts.