



June 13, 2005
Via Electronic and U.S. Mail

Paul Norman
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P.O. Box 3621
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Re: Comments on BPA's Long-term Regional Dialogue

Dear Mr. Norman:

The Public Power Council (PPC) appreciates this opportunity to comment on BPA's future role in regional power supply. The issues outlined in your May 11 letter are very important, but also very complicated. PPC has not yet developed recommendations on all of the issues identified, but we have on many. Fortunately, PPC and the region still have some time to work through the harder points before new contracts must be in place for FY2012.

1. Future service to public utilities should be based on a percentage allocation of the Federal Base System (FBS).

Much of the conflict between BPA and its Preference customers over the last several years can be linked to BPA's open-ended obligation to serve all load placed on it. PPC supports a move toward a more limited power-provider role for BPA post-2011. We submitted to BPA an allocation proposal in August 2004 (included in these comments as Attachment 1) that describes PPC's recommendation for how BPA should allocate the existing FBS to its Preference customers. Under that proposal, the existing FBS would be allocated to Preference customers at the embedded cost associated with doing so, with additional incremental service to those customers who specifically request it priced at the cost of providing that service. In February 2005, we submitted a follow-on implementation paper (included in these comments as Attachment 2) that further clarified some of the positions offered in the original allocation proposal.

These papers offer a way for BPA, with broad public power support, to define clearly BPA's responsibility to serve the load of its Preference customers post-2011. There are, however, details associated with the allocation that these papers have not addressed, and PPC is currently working to create greater clarity on these outstanding issues.

2. The benefits to the residential and small-farm customers of the Investor-Owned Utilities (IOUs) should be equitable and consistent with the law.

We agree with BPA's objective to ensure that benefits to the IOUs are both equitable and consistent with the law. We think that future benefits to the IOUs should be financial in nature. We do not elaborate here on the specific method of providing benefits to the IOUs because of the current litigation in which we and numerous other public power entities are engaged.

3. BPA should not offer embedded-cost service to the Direct Service Industries (DSIs) post-2011.

As PPC states in Attachment 1, and then reiterated in its September 22, 2004, comments to BPA regarding the near-term Regional Dialogue decisions, we do not believe BPA should provide the DSIs embedded cost power or financial benefits post-2011.

4. BPA should not include in its post-2011 power sales contracts a provision requiring customers to comply with resource adequacy standards.

BPA should not add a provision to its long-term contracts that requires customers to comply with regional resource adequacy standards. We are willing to discuss resource adequacy standards with BPA and the Council, but we feel that this should not be a contractual issue.

5. BPA should endeavor to create meaningful cost-control and dispute-resolution mechanisms as part of long-term contracts with BPA.

Meaningful cost control, cost segregation, and enforcement of cost segregation are central to a successful, durable allocation of the FBS to BPA's Preference customers. While BPA's recent attempts to provide increased transparency through improved financial reporting are to be lauded, we do not feel

that transparency in and of itself is a sufficient cost-control mechanism. We believe that further resolution on this topic is necessary.

PPC looks forward to future opportunities to work with BPA and others in the region to develop further the framework for 20-year contracts effective in FY2012.

Thank you.

Sincerely,

/s/

Marilyn Showalter
Executive Director

ATTACHMENT 1

**Allocation Proposal
Public Power Council
August 18, 2004**

DRAFT

Proposal Background

The Public Power Council (PPC) has been working for several months on a mechanism for allocating the Federal Base System (FBS) to BPA's preference customers. Though this has been a difficult process, the Executive Committee voted unanimously to support this proposal.

BPA, its customers and other interested parties have noted that one of the significant sources of cost escalation that has plagued BPA over the last several years is the open-ended nature of BPA's obligations to provide power to its customers. Constraining BPA's obligation to provide additional power at a melded rate is an important first step in getting this component of BPA's costs under control.

PPC members agree that the only way to assure the success of cost control associated with BPA's obligation to serve is to allocate the FBS to BPA's preference customers. Preference customers would receive their allocations in the form of products that BPA now offers. Preference customers selecting designated products that allow for load growth would continue to be free to place their load growth on BPA, and would be charged BPA's incremental cost to serve that additional load, either individually or as a member of a class of such purchasers. Preference customers that do not have their load growth met by BPA would be free to use other power providers.

As noted, a key aspect of any long-term allocation proposal is meaningful cost controls. Allocation is not a panacea; allocating the system is only the first step on the way to control costs. Long-term mechanisms for controlling all of BPA's costs must be developed and implemented in tandem with an allocation method.

It is essential that the allocation under new contracts in FY 2012 be determined and fixed as soon as possible. The fixed allocation would be agreed upon and memorialized in contracts well before FY 2012 with implementation starting in FY 2012 for all preference customers. An objective of allocating the FBS is to reduce BPA's exposure to future augmentation costs. Determining the allocation in advance of FY 2012 allows preference customers ample time to plan and meet their future load obligations. It also allows BPA to focus on cost control

and to develop a load growth service, as a self-supporting product, for those interested in having BPA provide that service.

Determining the allocation before FY 2012 sets a clear and sensible framework for establishing what is essentially a fixed and un-augmented FBS for the new contracts. Our vision of the allocation available in FY 2012 to preference customers is a percentage of the FBS charged at the lowest possible preference rate. Key to this approach is establishing a long-term right to a share of the FBS for preference customers. Short-term rate measures that can be altered with every rate case, such as tiered rates for the sale of FBS power, are not an acceptable substitute for a long-term allocation.

Reasons For Allocation Approach Selected

The following principles were adopted by the Executive Committee in its endorsement of pursuing an allocation of the FBS. The allocation approach must

1. Treat all publics in a fair and equitable manner;
2. Be broadly acceptable to public power utilities; and
3. Be transparent and understandable.

After looking at many different allocation proposals, an approach that relied to the greatest extent possible on existing net requirements data was adopted. The data allowed calculation of the impacts of allocation on subgroups of customers and individual utilities, thus eliminating the need to guess what would be the impact of a future allocation determination.

Basis of Proposed Allocation Approach

PPC relied on the forecasted FY 2002 net requirements (load on BPA from preference customers) from the last BPA power rate case, and used to establish 5- or 10-year contracts for Slice and Block customers. As an historical, known and documented data set, the FY 2002 forecasts of net requirements excluded the post-FY 2002 load growth and resource losses of preference customers. This left the publics at a fair starting point. Furthermore, the fact that the allocation would be based upon FY 2002 net requirements lessened concerns over unmitigated near-term load loss because loads are recovering.

PPC realized that no historical method could adequately capture the special circumstances or hardships that some utilities would face under this allocation method. We addressed these hardships by making specific adjustments to the FY 2002 net requirements for several “special case” utilities, based on changes in their

circumstances since FY 2002. An example is the Port of Seattle load not being contained in 2002 forecasts.

In addition, we propose that the amount of FBS capability allocated to the Full Requirements customers be converted into an individual utility allocation based on a net requirements determination performed by BPA after the initial allocation calculation is made. Using a new net requirements calculation to allocate power to individual utilities within the Full Requirements class allows adjustment for individual Full Requirements utilities without changing the allocation percentages assigned to other classes of utilities (such as the Slice and Block product utilities).

Description of Proposed Allocation Approach

PPC proposes that the FBS allocation be a percentage share of the actual output of the FBS for each preference customer. That percentage share will remain fixed for the term of the contract. The percentage allocation approach relies either on the BPA rate case net requirement forecast for FY 2002 utility load to be served by BPA (for Full and Partial Requirements customer classes), or on FY 2002 contract net requirement quantities (for Block and Slice customer classes).

“Special case” adjustments have been made for specific utilities, adding 129 net MW to the net requirement forecast (about 2% of the net requirement forecast amount).

The total FY 2002 net requirements for all preference customers, including adjustments, is used as the denominator for calculating the decimal fraction (or percentage share) for each customer’s allocation. The numerator is the individual customer’s net requirement as specified in FY 2002, adjusted for any applicable “special cases”.

The following table shows how the FBS would be divided by customer class:

Customer Class	FY 2002 Load (aMW)	Adjustment by Class (aMW)	Adjusted FY 2002 Load (aMW)	Percent Allocation of FBS
Full Requirements	2,120	add 43	2,163	31.9%
Partial Loads	1,024	add 16	1,040	15.3%
Block	845	add 60	905	13.3%
Slice Block	1,054	add 10	1,064	15.7%
Slice	1,617	add 0	1,617	23.8%
Total	6,660	add 129	6,789	100.0%

The following examples show how the allocation would be calculated for an individual utility:

Example 1: An individual utility with 100 MW of load in FY 2002 would receive an allocation of $100 \text{ MW} \div 6789 \text{ MW} = 1.47\%$ of the FBS. If the size of the FBS is 7,000 MW in FY 2012, the utility would receive a maximum of 103.1 MW of the FBS in that year.

Example 2: An individual utility with 100 MW of load in FY 2002 and a special circumstance of 10 MW would receive an allocation of $110 \text{ MW} \div 6789 \text{ MW} = 1.62\%$ of the FBS. If the size of the FBS is 7,000 MW in FY 2012, the utility would receive a maximum of 113.4 MW of the FBS in that year.

Implementation of Allocation

If required, BPA would perform an annual net requirements determination for all customers to establish the amount of firm energy that could be taken from BPA in a given year to serve requirements load, up to a maximum based upon the utility's allocation percentage. The annual net requirements calculation method for Slice and Block customers will be identical to the method used in the existing 10-year BPA contracts.

The allocation percentage would be fixed for a long period of time (*i.e.*, the 20-year life of new contracts). Inasmuch as public loads are forecast to exceed the FBS firm capability in 2007, a percentage allocation provides a method to ensure the allocated amount is equal to the FBS. Even though the allocation percentage of each utility would be fixed, the actual energy available would fluctuate with increases or decreases in the capability of the FBS. Recalculation of net requirements by BPA over the 20-year contract period would not change the allocation amounts, only the amounts of firm energy actually delivered to the

customer in that year to serve its requirement load. Any allocated power in excess of the utility's net requirement would be treated as surplus power is treated in the Slice contracts.

Existing contract holders could keep their contracts for the life of the contracts. Preference customers with contracts expiring at the end of FY 2006 would receive extension contracts through FY 2011. This would not preclude customers from signing new contracts now that would go into effect before current contracts expire, so long as any contract switching before FY 2012 does not cause cost impacts to the customers who stay with their existing contracts.

The allocation percentage derived for each utility, when applied to the annual energy output of the FBS, would produce the maximum annual FBS share for that utility. This share could be purchased in a number of ways.

- It could be purchased as a Slice product, in which case the allocation percentage would be applied to the actual output of the FBS as it is under the existing contracts. Such customer would pay the same percentage of the BPA costs of the Slice product.
- The allocation share could be purchased as a Full Requirements product, in which case BPA would take the utility's share (both firm and non-firm) and provide whatever additional services would be needed to serve the total load of the customer, less any dedicated resources. The customer would pay both the costs of the FBS, and the additional costs needed to convert its allocation into a full service product, either as the individual customer or as a member of the Full Requirements customer class.
- The share could be purchased as a Block product. The customer would pay its allocation percentage of the FBS costs, plus the additional costs, if any, incurred by BPA to convert its allocation into a block product.
- The share could be a Partial Requirements product, which would allow the utility to declare additional non-federal resources, but would obligate BPA to provide load growth, load shaping and regulation. The customer would pay its allocation percentage of the FBS costs, plus the additional costs incurred by BPA to provide the additional services needed to serve the customer's residual load.

Treatment of IOUs and DSIs

We support BPA's suggested approach of providing benefits to the IOUs via financial payments rather than through power sales. This is an appropriate way of providing benefits to the residential and small farm customers of private utilities. PPC does not believe that it is appropriate for BPA to provide either power or money to the DSIs after 2011.

Summary and Conclusions

The support within public power for this allocation method is based upon equity, fairness and compromise. No one customer or customer class will receive its "ideal" allocation under this proposal, but we have agreed to support the proposal as an important and necessary first step to deal with the serious issue of controlling costs associated with the FBS. We do not believe that cost control will be fully achievable without a contractual mechanism that clearly eliminates the cost pressure of augmentation to the FBS. As we have said, allocation is only the first step. And as the first step, it should not be delayed.

PPC's proposal is consistent with existing BPA policy and with the Northwest Power Act. This first step does not require new legislation, or a change in BPA policy, because it simply extends what is already in place. The allocation methodology may be thought of as a continuation of the current BPA power contracts.

ATTACHMENT 2

2/24/05

DISCUSSION PAPER ON THE IMPLEMENTATION OF THE PPC ALLOCATION PROPOSAL

The PPC allocation proposal focused primarily on the question of how an allocation of the Federal base system would be made to preference customers. This paper was prepared to start the discussion among preference customers about how such an allocation, once made, should be implemented. It does not deal with such issues as cost control, BPA governance or the enforceability of the provisions of allocation contracts, which will be subject to subsequent discussions.

1. The PPC allocation proposal creates a dividing line between embedded cost and incremental cost resources provided by BPA.

The PPC proposal provides each preference utility with an allocation percentage based on either their net requirement (load on BPA) forecast in the 2002 BPA rate case for full and partial service customers, or the 2002 net requirement contained in their BPA power contract for block and Slice customers.¹ The allocation percentage assigned to each individual preference customer will not change during the term of the contract, and when applied to the output of the Federal base system (FBS) establishes entitlement of each preference customer to power from BPA at the embedded cost of the FBS. As such, it constitutes a financial dividing line between power to which each preference customer is entitled at an embedded cost, and power for which it must pay an incremental cost.

This allocation approach applies a fixed, utility specific percentage to the variable output of the FBS. How this allocation percentage is translated into actual service taken by each customer, and the rates paid for such service, is described later in this paper. By choosing this approach, the preference customers accepted the resource variability risk of the FBS in order to obtain a stable embedded price for that resource. The preference customers could have proposed filling up the FBS to obtain supply stability, but it would have come at the cost of a volatile embedded price, due to the inclusion of market priced resources to achieve supply stability, so they chose not to do so.

2. Whether a preference customer manages its allocation percentage of the actual FBS output depends on the power product they elect to purchase.

¹ The 2002 BPA rate case forecast of full requirements and partial customers' net requirements were used to establish the percentage for those classes of purchasers. The percentage for each individual Slice, block and partial customer was established in the PPC allocation proposal. The percentage for each individual full requirements customer will be determined by a net requirement performed by BPA at a subsequent date. This determination will not alter the percentage of FBS available to the full requirements, partial, block or Slice customer classes as a whole, nor the individual percentages assigned to partial, Slice and Block customers.

The PPC proposal anticipates that the individual preference customer entitlement to embedded cost power (individual customer allocation percentage applied to actual FBS output) will be purchased under one of BPA's power products, such as full requirements, partial, block or Slice.² Consequently, whether an individual preference customer ever actually manages its embedded cost entitlement to the actual FBS output will depend on the BPA power product under which they elect to purchase. The selection of BPA power product will be made at the time the allocation contract is executed, and such choice is not limited to the product under which the customer is currently purchasing power from BPA. For example, a customer currently purchasing power from BPA under the partial product will be able to elect to take its embedded cost entitlement to FBS power as a full requirements customer.

For example, each of the customers that elect to purchase power from BPA as a full requirements, partial and block customer will turn over to BPA the management of their entitlement to embedded cost power (which includes the utility's allocation percentage of FBS firm energy, secondary energy, capacity and storage).³ BPA will manage these entitlements provided by each of these classes of customers to deliver to the customer the type of service requested.

In addition to the embedded costs of the FBS for their allocation entitlement, the full requirements, partial and block customers will also pay the additional costs BPA incurs (such as shaping purchases) to provide the requested service. BPA will market the secondary energy associated with these customers' entitlements, and the proceeds from such sales will be treated as a revenue credit reducing the rate for embedded cost service paid by these customers. To the extent that the load of one of these customers exceeds the firm portion of its entitlement to embedded cost power, BPA will procure and manage additional resources to serve such load, and the customer taking such load growth service from BPA will pay an incremental cost rate reflecting such costs for that service.⁴

Thus, under the PPC proposal the full requirements, partial and block customers will not manage nor control their individual allocation percentage of the FBS output any more so than they do today. Rather, BPA will continue to manage that portion of the FBS on behalf of such customers, just as it does today. In addition, BPA will continue to manage the entire FBS for things such as non-power constraints.

Preference customers will be able to take their entitlement to embedded cost power under the Slice product. The Slice purchasers will be entitled to receive up to their allocation

² As is the case under the current Slice contract, Slice customers will have the ability to take a portion of their entitlement to embedded cost power under the Slice product, and a portion under the block product.

³ A more detailed discussion of the rate implications of allocation is set out in section 5 of this paper.

⁴ As discussed in detail in section 8 of this paper, if BPA has power available to it from customers whose entitlement to embedded cost power exceeds their load, and the customer did not retain that power by withdrawing non-federal resources from retail load service, then BPA could forego making market purchases and use such excess entitlement power to serve load growth until such time as that power is needed by the utility whose entitlement to embedded cost power exceeded their load

percentage of the actual output of the FBS, as that varies from year to year. They will be responsible for marketing the secondary energy associated with their allocation percentage taken as Slice, and will bear directly the risks of water conditions and market prices. In short, the preference customers taking their percentage allocation under the Slice product will have the similar rights, risks and responsibilities under that product as they do under the Slice product today.

3. Use of FBS capacity under an allocation.

Currently BPA manages the capacity of the FBS that is not made available to Slice customers, and in addition has the ability to use capacity available to the Slice customers when they are not making use of it themselves. For the most part, this would continue to be the case under the PPC allocation proposal.

Under the PPC allocation proposal, BPA would manage the portion of the FBS capability (energy, capacity, storage and secondary) for full requirements, partial and block customers, and would manage and have access to the capacity associated with that portion of the FBS. And as is currently the case, the portion of the FBS capability (energy, capacity, storage and secondary) dedicated to the Slice power product would be managed by the preference customers purchasing under the Slice power product. BPA will continue to manage the entire FBS for things like the non power constraints, and Slice customers will get to manage their share within the overall system constraints. To the extent that Slice purchasers are not using the full capacity amount available to them under the Slice contract, BPA would have the ability to use such idle capacity should it wish to do so, subject to the obligation to cease such use when the Slice customer wants to use it.⁵ And lastly, system obligations (such as the PacifiCorp capacity contract) would be deducted from the FBS capacity available to all preference customers, regardless of whether they or BPA manages their allocation.

Where this is likely to be a need for change under the PPC allocation proposal is when BPA uses capacity in the future for commercial purposes. It is possible that there will be markets available in the future into which capacity rights can be sold, such as reserve markets under an RTO. In the event that BPA makes such sales using FBS capacity, a means will need to be developed to insure that the customer classes (full requirements, partial, block and Slice) receive a monetary credit against their rate for embedded cost service that reflects the revenues from such sales in relative proportion to the capacity that such classes contributed to such sales. In the future, the commercial use of capacity by BPA, as contrasted to capacity use to fulfill system obligations, will need to be treated in a fashion similar to the way BPA sales of secondary energy are treated today.

⁵ There will be a need to discuss with BPA ways of improving the access of Slice customers to their percentage allocation of FBS capacity, so that their access is comparable to that enjoyed by BPA.

4. Load growth service from BPA will be charged at the cost of resources procured and managed by BPA to provide such service.

Under the Subscription contracts, load growth service for full requirements, partial and block products is available from BPA at a melded rate. BPA does not currently provide load growth service for the portion of preference loads served under the Slice product.

Under the PPC proposal, full requirements, partial and block customers will continue to have the option of purchasing from BPA service for load growth beyond their allocation entitlement, but not at the melded cost of resources. Since the PPC proposal creates a financial demarcation line between embedded cost service and incremental cost service, the price at which load growth service will be provided by BPA to full requirements, partial and block customers will not be a melded rate reflecting the costs of the FBS and market purchases. Rather, it will be at a rate reflecting the incremental costs that BPA incurs to obtain the resources necessary to provide the load growth service for customers that request such service.

Under the PPC proposal, Slice customers will also be able to purchase load growth service from BPA for loads in excess of their allocation entitlement. And similar to the full, partial and block customers, such service would be charged at a rate reflecting the incremental costs that BPA incurs to obtain the resources necessary to provide the load growth service for customers that request it. It is likely that to be operationally compatible with the Slice product, load growth service purchased by the Slice customers will need to be provided under a product similar to the block product, as is the case today.

5. Translating allocation entitlements and load growth service into rates.

Creating a financial demarcation line between embedded cost service and incremental cost service, and translating that into rates that differentially charge for the service taken by each customer, raises a number of rate implementation issues which must be resolved. The following is one approach for doing so.

The easiest translation of a percentage allocation to a rate under which service is taken occurs under the Slice product. As is the case today, the Slice rate is produced by applying the Slice customer's allocation percentage to a forecast of the embedded costs of the FBS, subject to exclusions of certain costs and credits due to the nature of the Slice product, such as the secondary revenue.

For full requirements, partial and block service customers, their percentage allocation of firm FBS energy capability at critical water would serve as the base of their service, and would be charged at the embedded cost of the FBS. Due to the nature of these products, full requirements, partial and block rates for embedded cost service would also receive a credit from BPA's sale of secondary power. There would be an additional charge for the costs of resources acquired by BPA to shape FBS output to match these customers' loads, which might be identical for all three purchase categories. In addition, full requirements

and partial service customers (but not block customers) would pay a charge for the costs that BPA incurs to provide service to cover the variations in these customers' loads.⁶

Given the need to track power and revenues attributable to excess allocation entitlements, which is discussed in section 8 of this memo, it is likely that embedded cost service under the block and Slice products would need to be treated as separate rate classes. Given the similarity in characteristics in the full requirements and partial requirements products, it may be possible to treat these as a single rate class for embedded cost service.

Finally, for customers taking service under the full requirements, partial, block and Slice rates that wish to have BPA provide service to their loads in excess of their entitlement to embedded cost service (customer's allocation percentage applied to the forecast FBS energy output at critical water), it appears that BPA could offer a standard incremental cost rate to serve all such loads in excess of a customer's entitlement. This rate would reflect BPA's forecast of the cost of procuring the resources necessary to provide this service, and could be uniform to all preference customers regardless of whether their embedded cost service is taken under the full requirements, partial, block or Slice rate.

In addition to the standard incremental cost load growth rate, at the request of one or more customers, BPA should offer some variations within incremental cost load growth rate to address specific requests. For example, some preference customers may wish to have their load growth served exclusively with a portfolio of renewable resources, or long or short-term resources. BPA should be open to providing such services under its incremental cost rate, and the rate paid by these customers would reflect the costs that BPA would incur to manage and provide such particularized service.

6. Adjustments for inaccurate forecasts.

As recent experience has taught, forecasts can turn out to be wrong for a number of reasons (weather, markets, and regulatory actions). While in an allocated world BPA will face less risk from market volatility, nevertheless forecasts of the costs of shaping resources, load growth resources, program spending, fish costs and secondary revenues can still pose a cash flow risk to BPA. As is currently the case, there are a number of tools that could be used to address this risk. BPA could employ some or all of the following techniques to deal with these risks:

- Use short rate periods (such as two years), so revenue shortfalls could be recovered in the next rate adjustment.
- Include adjustment clauses to cover revenue shortfalls of specific types, such as water conditions.

⁶ One or more customer classes (such as full requirements) may wish to take both embedded and incremental cost service under a single, melded cost rate that includes both embedded cost and incremental cost resources, as is the case under the current PF rate. If a rate class requests that BPA provide service in this manner, then BPA should honor that request and provide service under a melded rate.

- Include a risk component in the rate based on an assessment of specific risks, subject to refund in the event the risk does not occur.

In addition to the rate mechanisms listed above, the option of using a contractual mechanism that would true up payments based on forecasts to actual costs incurred at the end of a fiscal year could also be employed. Such an approach is currently utilized under the Slice contract.

Regardless of the mechanism(s) chosen to manage such risks, a far greater degree of differentiation will need to be designed into these mechanisms. This is due to the fact that customers who do not receive a service will not wish to be charged for cost excursions experienced by BPA in procuring the resources to provide it, while at the [same time] ensuring that when there is an excursion of costs paid by all customers (such as fish and wildlife costs), such excursions are paid by all customers. For example, customers who do not receive load variance service (such as block and Slice) will not wish to pay additional costs resulting from a BPA forecast that underestimated the costs of providing load variance service.

7. Treatment of allocation entitlements that exceed the preference customer's net requirement.

The PPC proposal uses net requirements forecast for 2002 to establish the entitlement of preference customers to embedded cost service. Since 2002, many of these utilities have experienced load loss due to the recession and price response resulting from substantial BPA rate increases. However, based on current forecasts it appears that preference customer loads will, at the time the PPC proposal is implemented, be at or near the forecast 2002 levels. Preference customers understood and accepted the fact that by using 2002 forecasts, there was some risk that there may be some degree of variance between the 2002 forecasts and actual loads at the time the PPC proposal is implemented.

It was also recognized that during a long-term contract, some preference customers may temporarily lose load, such that their entitlement to embedded cost power could exceed their net requirement on BPA.⁷ In such circumstances, any customer with a non-federal resource (including full requirements, partial, block and Slice) will have the contractual right to temporarily remove from retail load service non-federal resources equal to the size of the load loss, in order to retain full BPA service at the embedded cost. This will have the affect of making the utility, rather than BPA, responsible for marketing the surplus, and bearing the financial risk of doing so. The non-federal resource so removed must be returned to load service as the load of the utility returns to pre-load loss levels.

This right to temporarily remove non-federal resources from load service to maintain full BPA service is included in current partial, block and Slice contracts. Retaining this

⁷ It has been suggested that a preference customer suffering "permanent" load loss should have its allocation percentage reduced, and BPA should be responsible for either remarketing or reallocating the surplus allocation. This suggests that "permanent" load loss could be distinguished from temporary load loss, which over the term of a 20 year contract is a problematic distinction.

provision in future contracts is consistent with the objective of reducing the financial and market risk borne by BPA. Ensuring that each preference customer's allocation percentage, and the service provided under it, is stable over the life of the contract also provides planning certainty for the customers.

And finally, it is a fundamental tenet of the PPC allocation proposal that any customer that suffers load loss during the term of the allocation contract resulting in their entitlement to embedded cost power exceeding their net requirement on BPA, they will nonetheless retain the right to use their full entitlement to embedded cost power for the entire term of the allocation contract. As a consequence, as their load recovers towards its forecasted 2002 net requirement level, they will have the right to grow back into and use their entire entitlement to embedded cost power.

8. Treatment of allocation entitlements that exceed the customer's net requirement that are left unprotected.

While each customer will have the right to temporarily remove from load service non-federal resources equal to the amount by which its entitlement to embedded cost service exceeds its net requirement, some customers may either lack non-federal resources to temporarily remove or may elect not to do so. In such cases, the excess allocations will temporarily revert to BPA. After considering a number of options for the disposition of such power and the revenues it may generate, the following approach is recommended.

The customer will be relieved of the obligation to pay for the portion of its allocation entitlement that exceeds its net requirement (excess entitlement). The amount of FBS capability associated with the excess entitlement could be added at the market price of power to the pool of resources available to serve load growth placed on BPA by preference customers. The incremental revenues (market price minus the embedded cost of the added power) will be credited against the total costs for embedded cost service for all customers, except for those electing out of this treatment as described in the following paragraph.

Each customer will have the option of electing out of the general crediting approach described above, and instead elect to continue to pay for its excess entitlement. In such case, the amount of FBS capability associated with the excess entitlement would be added at the market price of power to the pool of resources available to serve load growth placed on BPA by preference customers. The incremental revenues (market price minus the embedded cost of the added power) would be credited to the customer that had the excess entitlement. And conversely, if the embedded cost of the added power exceeds the market price, then the individual utility making this election will bear the costs from these sales. A customer electing this option would not receive the excess entitlement distributed to all other customers described in the preceding paragraph.

This combination approach appears to offer the best combination of administrative ease and individual customer choice regarding the sale of the excess entitlement.

9. Resource options for full requirements customers.

Under current contracts, full requirements customers have a very limited ability to use non-federal resources to serve their load growth. Under an allocation, these customers will no longer have the option of purchasing service for load growth at the melded cost of FBS resources. As a consequence, it makes sense that such customers have options in addition to purchasing load growth service from BPA.

Under the allocation contract, full requirements customers will have the right to add non-federal resource to serve their retail load without becoming a partial service customer. This could be done by requiring the appropriate amount of notice to BPA, and requiring that the non-federal resource used by the full requirements customer be known in advance so that BPA does not have to deal with the resource variability. Such a requirement could be satisfied with a block purchase, or with a variable output resource for which shaping is purchased. In either event, the idea would be that the resource must be capable of predictable operation so that it can be deployed at the bottom of the customers load curve.

10. System obligations will continue to be treated as an obligation of all customers.

BPA currently has a number of system obligations which it undertakes either for the benefit of all customers, or is obligated to do so by law or contract (such as the Pacific Northwest Coordination Agreement, the Hourly Coordination Agreement, Canadian Entitlement Return). The current Slice contract recognizes such obligations, and essentially subtracts them from the output of the FBS made available to Slice purchasers.

It is anticipated that under the PPC proposal a similar approach would be taken. System obligations would be identified, along with the amount of FBS capability (energy, capacity, secondary and storage) they require. These amounts would be deducted from the FBS capability that would be available for service to preference customers at embedded costs.