

**Long-Term Regional Dialogue  
Policy Proposal  
July 2006**



## Regional Dialogue Process to Date

- Proposal reflects much regional consensus on many issues, achieved through years of regional effort.
- Proposal is consistent with Council Plan, and mostly consistent with April 2006 PPC proposal.
- But a few sticking points remain.
- BPA proposal is our best shot at resolving the remaining issues.
- We are still open to new ideas during the comment period, in the interest of regional agreement. But time is getting short.



# Regional Dialogue Policy Proposal Goals

1. Lowest Costs and Tier 1 Rates;
2. Durability/Stability/Contract Enforceability;
3. Customer/Regional Support and Equity;
4. Certainty of Obligations for All Parties;
5. Promote Infrastructure Development – avoid repeat of Power Crisis;
6. Consistency with BPA Stewardship Obligations;
7. Legality;
8. Simplicity; and,
9. Advance National Objectives.



# Major Components of the BPA Proposal

## New 20-year Contracts

- Signed by April 2008.
- Go into effect October 2011 and runs through September 2027.

## Tiered Rates

- Tier 1 limited to existing system plus up to 300 aMW of augmentation (plus any augmentation for new publics).
- Augmentation only if needed and not to exceed total FBS of 7,400 aMW.
- Tier 1 priced at cost of existing system.
- Tier 2 priced at cost of new BPA purchases and acquisitions.

## High Water Marks (HWMs)

- Each public gets 20-year HWM based on 2010 net requirement.
- For loads over HWMs, publics can buy from BPA at Tier 2 rates or acquire their own resources.



## Major Components of the BPA Proposal (cont.)

### Slice

- Future sales hinge on resolution of Slice litigation.
- Proposal based on multi-month, multi-party review of experience to date.
- Small increase in amount of Slice sold – 22% to 25%.
- Some reduction in operating flexibility.

### New Publics

- Up to 50 aMW per rate period, 250 aMW total.
- BPA augments to serve them.

### IOU Residential Exchange

- \$250 million/year proposed, adjusted up or down as BPA rates and IOU system costs change.
- This is roughly in the middle of historic actual exchange benefits, and in the range of our best estimates of future benefits.



## Major Components of the BPA Proposal (cont.)

### DSIs

- A range of alternatives is described, with no preferred alternative:
  - No Service, or
  - Continue 2007-2011 benefits, or
  - 560 aMW of power deliveries.
- Council-managed study of DSI economic impacts is on-going.
- A separate regional meeting on DSI service is planned.

### Conservation and Renewables

- BPA commitment to ensure development of our share of cost-effective MW, per Council Plan.
- Meet this commitment at least cost to BPA.



## Major Components of the BPA Proposal (cont.)

### Cost Control

- New Regional Cost Review process proposed.
- Goes beyond past BPA cost review process, but does not give literal “control” to other parties.

### Dispute Resolution

- No “one-size-fits-all” solution.
- Proposal lays out legal limitations and options.



# Schedule

- Policy Proposal Released: July 2006
- Public Comment and Consensus Building: July – September 2006
- Final Policy and Record of Decision Published: January 2007
- Develop Long-Term Tiered Rates Methodology, Transparent Net Requirements Process, Revisions to 5(b)9(c) Policy, New Products, and Contracts: August 2006 – December 2008
- Limited Bilateral Contract Negotiations: January – April 2008
- New Contracts Signed: April 2008
- Energy Deliveries Begin: October 2011



## Fallback Proposal

- If Region cannot reach consensus on IOU benefits and other issues, BPA implements the Fallback proposal.
- The Fallback proposal would meet most goals, but omit features that make rates higher, delay certainty, and create exposure to legal challenge, including:
  - Settlements of residential exchange benefits
  - True-ups of high water marks in 2010
  - Augmentation of the existing system
  - Changes in the treatment of shares of the Centralia Coal Plant
  - Resource removal rights for load loss during a rate period
  - Special provisions for new public customers



# Service to Publics

## The Simple Explanation

- Based on expected firm capability of the existing Federal system, BPA's public utility customers would be served from this resource.
- BPA intends to establish two tiered firm power rates:  
Tier 1 Rates - based on costs for the existing Federal system.  
Tier 2 Rates - based on the cost of acquiring power from other resources.
- Each Public customer would be provided a High Water Mark (HWM) that establishes the maximum amount of power it can purchase at the Tier 1 Rate.
- Power provided above the HWM would be at Tier 2 Rates.



# Service to Publics

## What Products will BPA Offer?

- Load Following –Provides all power needed to meet a customer's actual load minus declared resource amounts.
- Block – Provides a predefined amount of power to meet a customer's net requirement load.
- Slice –If made available, provides power based on the actual generation shape of the Federal system.



# Service to Publics – Beyond HWMs

## Basic Philosophy for Load Beyond Customer HWMs

BPA would continue to stand ready to meet the net requirements of our utility customers. The key difference under Regional Dialogue contracts is that each public utility would have a HWM that establishes its maximum rights to firm power subject to the Tier 1 rate based on the existing system. If a customer's contract obligates BPA to supply power to meet all load, i.e., beyond customer's HWM, such power would be priced at the Tier 2 rate.

### Key Considerations for Power Priced at Tier 2 Rates

- Customers choose whether or not to meet their load beyond their HWM with BPA power at Tier 2 rates.
- BPA intends to offer several Tier 2 rates that recover costs of using different resource portfolios and notice provisions.
- Tier 2 rates would reflect the full marginal cost of the power BPA provides
- BPA intends to keep Tier 2 rates as low as possible without shifting costs to Tier 1.
- BPA would reset rates every 2-3 years.



## Service to Publics Customer Choice

When the customer signs its Regional Dialogue contract they would make a choice on how their load beyond the HWM would be served--BPA or nonfederal resources--for at least through FY2016, the first five years of deliveries under their contract. Essentially the contract would provide customers two choices:

- **Buy power from BPA at the Tier 2 rate.** In which case they must choose the among the Tier 2 resource portfolio rate options BPA offers.
- **Acquire power from nonfederal resources.** In which case they commit to meet all of their load beyond their HWM with nonfederal resources or purchases from the market.



# Service to Publics

## Tier 2 Resource Portfolio Rate Options

As part of its tiered rates methodology, BPA intends to establish several Tier 2 rates that cover costs incurred by acquiring power from different incremental resources (i.e., Resource Portfolio Rate Options). The rates would be based on the types of resources BPA acquires to meet a customer's load needs beyond their HWM.

- **General Short Term Tier 2 Rate** – For customers that do not choose a specific resource Tier 2 rate. This rate would recover the full incremental cost of resources or market purchases made by BPA. BPA is proposing a minimum purchase commitment of 5 years with a 3 year notice to purchase or leave this construct. Resource purchases terms would reflect the transient nature of this construct.
- **Long Term Tier 2 Rate** – For customers that choose to have BPA serve load beyond their HWM for the entire contract term. Making this long-term commitment would provide BPA the opportunity to make longer term purchases which could make this a more stable rate.
- **Renewable Resource Based Tier 2 Rate**– Based on the cost of purchasing power from new renewables.
- **Other** – BPA may design a limited number (1-3) of other rates.



# Benefits to the Residential and Small Farm Consumers of the IOUs

- BPA proposes providing benefits to IOUs of \$250 million for the region's six investor-owned utilities.
- BPA believes this settlement reasonably reflects payments BPA would make if it were to implement the REP.
- BPA's Policy Proposal is based on an estimate of the reasonable range of future benefits to IOU consumers based on interpretations of existing statutes.
- It is also near the center of the range of actual residential exchange benefits over the 1981-2011 period.
- The settlement offer would include allocation provisions of the total annual settlement amount.
- The Policy Proposal addresses the proposed allocation methodology, which directs the benefits primarily to IOUs with high average system costs.



## Conservation & Renewables

- BPA has proposed a goal of achieving the Council's targets for conservation and renewables.
- BPA proposes to continue its commitment to ensuring that all cost-effective conservation in the load it serves is developed by continuing its general approach to conservation post-2011 (rate credit, bilateral contracts, etc.)
- BPA also proposes to continue its commitment to a range of renewable resource facilitation activities (wind integration services, coordinated planning, RD&D, targeted financial support.)
- This Policy Proposal would significantly enhance BPA's ability to achieve these goals for conservation and renewable resources by creating strong market-based incentives through tiered rates for utility investment in conservation and renewable resources.



## Environmental Analysis of Regional Dialogue

- Policy Proposal appears consistent with Market Driven Alternative of the Business Plan EIS.
- Major issues in Policy Proposal are being analyzed for a Record of Decision tiered to the Business Plan ROD.
- Responses to public comments received on potential environmental effects will be included in the tiered ROD.



## Conclusion

- Short public comment period through September 2006
- 4 public meetings scheduled in Seattle (8/1), Pasco (8/7), Portland (8/9), Missoula (8/21) and Idaho Falls (8/23).
- Time is limited – Schedule provides only about 3 years of lead time for new resource development before 2012.
- BPA will push hard for regional consensus – But intends to proceed in the absence of consensus.

