

10/29/02

**INVESTOR-OWNED UTILITY/PREFERENCE UTILITY PROPOSAL**  
**FOR THE**  
**FUTURE ROLE OF THE BONNEVILLE POWER ADMINISTRATION**

**I. Introduction**

This draft proposal is a revision of the original 4/12/02 discussion draft proposal presented to BPA by its investor owned and preference utility customers. The changes reflected in this revised draft proposal respond to the concerns raised by BPA. The investor owned and preference utilities appreciate the complete review BPA gave to the 4/12/02 draft proposal, and believe that this revised draft proposal addresses the concerns raised by BPA. In particular, substantial efforts have been made to ensure the implementation of the proposal enhances BPA's ability to maintain system reliability and operate the system efficiently, and to address the legal concerns raised by BPA.

**II. Settlement Objectives**

1. To create a common interest between BPA's regional preference utility and investor owned utility customers by allocating to such customers equitable, secure and long-term benefits of the Federal base system (FBS).
2. To expose all BPA's customers to the same risks and benefits of changes to the costs and output of the FBS.
3. To reduce BPA's presence in the wholesale power market as a buyer and seller of power.
4. To enhance the ability of BPA to make its Treasury payments in full and on time across a broad range of possible futures.
5. To allocate the costs of procuring power for future load growth to the serving utility.
6. To reduce BPA's need to augment the FBS and its reliance on market revenues from the sale of secondary energy by shifting to utilities through expanded use of the Slice product the obligation to procure resources to serve their load growth and the marketing of secondary energy.
7. To settle outstanding litigation in a manner that is fair to all parties, and that avoids future litigation over the allocation of FBS benefits.
8. To implement the foregoing consistent with existing statutes, without federal legislation.

### III. General Description of Settlement

#### **A. Benefit Allocations**

1. BPA will offer new power supply and financial benefits contracts to its regional utility customers defining BPA's power supply and financial benefits obligations for 20 years.<sup>1</sup> These new contracts will be take or pay contracts, and will allocate the output, costs and benefits of the Defined FBS<sup>2</sup> and also will provide for the allocation of certain other resource costs and benefits as discussed below. These new contracts will be the sole contract to which the customer is entitled under sections 5(b) and 5(c) of the Regional Act during the contract term.<sup>3</sup> Upon the expiration or termination of its new contract for power or financial benefits, each utility customer of BPA will have the right to request and receive from BPA, without penalty or surcharge, any and all statutory rights and services to which it is entitled. For example, a Slice and a Requirements purchaser both electing Slice service after the expiration of the new power sales contract would be charged the same rate for such Slice service.
  
2. The allocations of the output of the Defined FBS to preference agencies, net of now-existing contractual, system and treaty obligations (until their expiration), will be based on preference customers' forecast FY 2007 net requirements ("Baseline Net Requirements")<sup>4</sup> and will be done in two steps. First, the amount of load placed on BPA by preference customers selecting Slice service (up to their Baseline Net Requirement) will be summed and that amount of Defined FBS capability (expressed as a percentage) will be allocated to the Slice purchasers. Second, the amount of Defined FBS capability remaining after the allocation to Slice purchasers will be allocated to the Requirements purchasers. The Defined FBS capability so allocated to Requirements purchasers that exceeds the sum of their net requirements placed on BPA will be managed by BPA, and the Requirements purchasers will bear the costs and/or receive the benefits from the sale of such surplus power. When the sum of the net requirements of the Requirements purchasers placed on BPA exceeds the Defined FBS capability allocated to the Requirements purchasers, all costs of augmenting the FBS to serve net requirements of the Requirements purchasers will be borne by those purchasers.

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<sup>1</sup> The term of the new power supply contracts will extend for 20 years from the date of execution. Due to a difference between the execution and the effective date of the new contracts, the period of service under these agreements is likely to be less than a full 20 years.

<sup>2</sup> "Defined FBS" shall consist of the generating resources set forth on Exhibit H of the Block/Slice contract. Fish and wildlife obligations will continue to be treated as system obligations to be met first.

<sup>3</sup> The sole contract concept will require both preference and investor owned utilities to settle and forego participation in the residential exchange program. The sole contract concept does not prohibit the type of contractual arrangements between BPA and PNGC Power and its member cooperatives entered into to address tax-exempt financing issues.

<sup>4</sup> Upon execution of the new contract, preference customers that have purchased the Stepped-up Multi Year Block Product (SUMY Product) will receive a rebate of the amounts paid to date for the SUMY Product and the SUMY Product portion of the customer's Requirements contract shall be terminated.

3. The allocation to investor-owned utility customers will be for the benefit of their residential and small farm consumers and in settlement (for the term of the contracts) of their statutory rights to residential exchange benefits and their statutory rights to purchase their net requirements from BPA. The contract providing these benefits will be the sole contract to which the customer is entitled under sections 5(b) and 5(c) of the Regional Act during the contract term.

## **B. Service Selection**

1. Each preference utility customer will make a one-time selection of either Slice or Requirements service for the contract term.
2. The Slice customers will be entitled to a power supply reflecting a percentage of the actual variable Defined FBS output, in return for paying the same percentage of the actual costs of the Defined FBS. This is not a transfer of ownership or operational control of the Defined FBS, both of which remain with BPA. Rather, this product provides to the purchaser a power supply reflecting its percentage of all Defined FBS capabilities. The costs of the Defined FBS will be accounted for separately from the costs of resource augmentation, shaping and other costs incurred by BPA to provide service to Requirements purchasers. Preference agencies electing Slice service will be responsible for procuring power to cover load growth and shaping services. See Section IV below for a detailed description of the Slice service.
3. Requirements customers will be provided power to meet the actual load of the utility, including load growth. Preference agencies electing Requirements service will pay their percentage share of Defined FBS costs and all costs incurred by BPA to provide Requirements service, including load shaping and load growth service. Under Requirements service, the preference utility will be able to use non-federal resources to meet its load growth in lieu of relying on BPA. See Section IV below for a detailed description of Requirements service.
4. Customers may elect to retain their existing BPA power sales contract, and would retain all rights available under such contracts. Upon the expiration of such contracts, these customers could exercise their then-existing statutory rights to request follow-on contracts from BPA, subject to the then applicable BPA rates and policies. The term of any such follow-on contract would not exceed the remaining term of the new power supply contracts offered pursuant to this proposal. The pricing for service under retained BPA power contracts, and under the follow-on contracts, would be decided in the relevant BPA rate proceeding.

## **C. Investor-owned Utility Financial Benefits**

1. The investor-owned utilities will be offered financial benefits. The financial benefits will be calculated using a formula that compares the price of BPA power to the cost of power from a hypothetical combined cycle combustion turbine, and uses the difference to compute the financial benefits using an assumed small farm and residential load of 3300 aMW. During the first five years of the new power

contract, the financial benefits calculated by the formula will be subject to floors and caps to moderate the range of the financial benefits across a range of possible BPA rates, and will also be adjusted to reflect the sale of power to PGE discussed in subsection III(C)(4) below. Starting in FY2012, both the floors and caps and the adjustment for the PGE power sale will be eliminated, and the formula will be the sole determinant of the financial benefits available to the residential and small farm customers of the investor owned utilities. See Section VI below for a detailed description of the financial benefit calculation.

2. To ensure that the investor-owned utilities face the same Defined FBS costs and supply risks and benefits as the preference utility Slice customers, the financial benefits calculation will be adjusted annually to reflect the actual Defined FBS costs, changes in the Defined FBS firm capability and the amount and value of the Defined FBS secondary energy.
3. Preference agencies selecting the Slice service will have a one-time option prior to the signing of the new power contract to provide to BPA an amount power equal to their percentage responsibility for DSI load and/or the first 75 aMW of new public agency load served by BPA, and thereby be shielded from the costs of serving these loads. This power will be provided by the Slice customer delivering to BPA at the Federal system bus a block of power shaped to the DSI or new preference customer load equal to its percentage share of such load(s).<sup>5</sup>
4. During the first five years of service under the new power supply contracts, PGE will purchase from BPA about 140 aMW shaped to a profile of the historical load pattern of its residential and small farm load.<sup>6</sup> The hourly shape of the PGE Purchaser will be fixed in the contract for the five-year term. This power will be priced at a rate equivalent to the lowest PF rate charged preference customers for Requirements service (“PGE Purchase”). In the event that the section 7(b)(2) rate test triggers and a surcharge is imposed on this sale, PGE will have the contractual right to terminate the sale and take full financial benefits in lieu of the power sale. The benefits of the PGE Purchase will be flowed through to PGE’s small farm and residential customers. The details of the PGE Purchase are set forth in a term sheet attached hereto as Attachment A.

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<sup>5</sup> Upon the expiration or termination of BPA’s contractual service obligation to a DSI, any Slice purchaser that has elected to supply BPA power in lieu of paying its pro-rata share of DSI augmentation costs will be entitled to make a reduction its power deliveries to BPA in proportion to such reduction in BPA’s contractual service obligation to the DSI.

<sup>6</sup> The customers have worked closely with BPA staff on both resource and load projections available for allocation under the proposal, and are convinced that under all plausible assumptions there will be sufficient Defined FBS capability to meet the net requirements of Slice and Requirements customers, as well as the 140 aMW sale to PGE. Further, the power sale to PGE is an integral part of the customer proposal that is important to both preference and investor owned utilities because it provides both planning certainty and moderates the financial benefits paid in the first five years of the new power contracts. As a consequence, the customers propose that the power necessary to fulfill this sale obligation to PGE will either be deducted from the firm capability of the Defined FBS if there is sufficient capability to do so after the allocations described in section III (B) are made, or if not the power will be purchased and the costs of such purchases will be treated as a system cost paid by all BPA customers.

5. The financial benefits available to PGE during the five-year PGE Purchase will be reduced to reflect this power sale. At the end of the five-year purchase, PGE will receive full financial benefits under the settlement.
6. Upon the expiration of the PGE Purchase, the returned power (about 140 aMW) will be treated as an increase to the firm capability of the Defined FBS.<sup>7</sup> Slice purchasers will receive a portion of such returning power based on their Selected Slice Percentage. The remainder of such returning power will be available for service to the loads of Requirements purchasers. The costs and benefits of the portion of the returning power available to the Requirements purchasers will remain solely in the Requirements rate.

#### **D. Service To New Public Agencies<sup>8</sup>**

1. After the execution of the new power contracts, any newly formed preference utility that meets BPA's standards for service may request and receive service from BPA. Service will be provided at a Targeted Adjustment Clause (TAC) rate until the costs of serving the newly formed utility can be included in BPA rates, as discussed below. Service to loads annexed from an investor-owned utility will be treated in the same fashion as load of a newly formed preference utility.
2. The service provided to loads of new preference agencies and to investor-owned utility loads annexed by any preference agencies will be limited to Requirements service,<sup>9</sup> and the first 75 aMW of such service in the aggregate for all new and annexed preference utility load will be provided at a melded rate, with the costs of any necessary increase in the firm capability in the Defined FBS to serve such 75 aMW being treated as a system cost.<sup>10</sup> After the 75 aMW is exhausted, all of the costs incurred by BPA in procuring the power and shaping necessary to provide

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<sup>7</sup> If the power for this sale is purchased, upon its expiration the costs of this purchase will be removed from all power rates, and from the calculation of the investor owned utility financial benefits. In this case, there will be no increase in the capability of the Defined FBS upon the expiration of the PGE sale.

<sup>8</sup> The provisions of this section do not apply in the cases of a merger of two preference agencies or the annexation by one preference utility of another preference utility's load. BPA will cooperate with preference agencies that want to enter into such transactions and will not apply the "sole contract" policy to prohibit or impede them. Such mergers or annexations will not result in any increase or decrease of rights to Defined FBS benefits or obligations for Defined FBS costs. Such transactions will not result in preference utility load being served under a Requirements contracts obtaining service under a Slice contract, or vice versa.

<sup>9</sup> If the annexing utility is a Slice purchaser, it will have access to the 75 aMW of power for new preference agencies and annexed loads to the extent it is available. This purchase will made out of the Requirements pool as a block product from BPA in lieu of taking requirements service for the annexed load.

<sup>10</sup> Any power allocated to the existing Requirements customers in excess of their needs may be used to serve the loads of new preference utilities. If such service is provided while the 75 aMW is available, such service will be priced at the melded Requirements rate. As this power is needed to serve load growth of existing Requirements customers, BPA will augment the Defined FBS up to the lesser of the 75 aMW or the amount used to serve the new preference utilities, and the costs of such augmentation will be treated as a system cost. In this way the surplus Defined FBS available to serve the load growth of existing Requirements customers is not reduced. After the 75 aMW is exhausted, surplus Defined FBS may be used to serve new preference utilities, and will be priced at the cost of providing such service.

requested service in excess of the 75 aMW will be directly assigned to the preference utility requesting such service.

3. If there is any transfer of residential consumer service obligations between utilities during the term of the new power contracts, all benefits flowing to such consumers by virtue of this settlement will either be extinguished or follow those consumers. If there is such a transfer of residential consumer service obligations from an investor-owned utility to a preference utility while the 75 aMW supply referred to in paragraph 2 above is still available, service to such load will be provided out of the 75 aMW to the extent available, and a proportionate share of the financial benefits shall be transferred for such residential load not served from the 75 aMW.<sup>11</sup> The financial benefits attributable to such transferred residential load served out of the 75 aMW will be extinguished. When the 75 aMW has been used up, the preference utility to which the residential load is transferred will be eligible to receive only the financial benefits associated with such transferred load, and will be eligible to purchase requirements service from BPA for its entire load at the full cost incurred by BPA to provide such service. The purchase by a preference utility out of such 75 aMW at the melded rate and the receipt of any financial benefits shall be in lieu of any right of such preference agencies to receive residential exchange benefits.

#### **E. BPA And Other Resource Costs**

1. The region has recently seen the economic hardship that double digit BPA rate increases can inflict. Under this proposal, BPA's customers will be making a long-term commitment to BPA's financial integrity by assuming much of the market and resource risks currently borne by BPA. Since spending and cost issues have been excluded from BPAs wholesale rate cases, currently there is no meaningful forum in which customers can voice their concerns regarding BPA spending. In order to make a long-term contractual commitment to BPA, it is imperative that these customers obtain meaningful and enforceable participation in the process for setting BPA's expenditures, and the rates these customers will pay under the new contracts. This participation may take the form of an advisory group and contractual rate provisions that provide a remedy when BPA spending exceeds certain levels. The purpose of these mechanisms is to ensure that the commitment made by the customers to BPA's financial security under the new, long-term contracts is matched by an enforceable ability to ensure that rates they will pay are based only on necessary and legitimate costs.
2. The BPA's existing long-term transactions (both within and outside the Region) will be treated as system obligations until their expiration, with the costs and benefits of such transactions being spread to all BPA firm power rates.<sup>12</sup>

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<sup>11</sup> Such proportionate share received by such preference customer will be determined without inclusion of an amount of its residential load equal to the product of any amount of such 75 aMW received by such preference utility multiplied by the percentage of its load that is residential.

<sup>12</sup> This provision is not intended to require such costs and benefits be included in the prices charged for (i) surplus power sold at market rates, (ii) power sold under existing contracts that prohibit such treatment, or (iii) power priced at the cost of new resources that are not included in the Defined FBS.

3. BPA will not include the costs of any additional resources or transactions in the Defined FBS or the Slice or Requirements pools except as provided in this settlement proposal.
4. The costs that BPA incurs to procure the resources necessary to serve BPA's firm power sales to DSI customers (if any), and to serve the first 75 aMW of new preference customers will be included in the costs used to calculate to the rates charged to Requirements and Slice purchasers (other than those who elect the supply reduction option described in section III(C)(3)), and in the calculation of financial benefits to the investor owned utilities. If a DSI purchaser ceases to purchase power from BPA, upon the expiration of any power purchase made to supply such customer, the costs of such power purchase will be removed from the Requirements and Slice rates, and from the calculation of investor owned utility financial benefits.
5. Funding for conservation and renewable discounts (C&RD) and market transformation will be increased and stabilized, with specific funding provided for renewable resources. Funding at current levels will be maintained through FY 2006 for all existing conservation and renewable resource programs. Conservation and renewable program treatment is described in more detail in Section VII below.

#### **F. Settlement Implementation**

1. Within 150 days of the issuance of the Record of Decision by BPA, each utility customer will provide to BPA and all BPA utility customers a written, non-binding indication of whether it intends to recommend to its governing body in the case of preference customers or regulatory authority in the case of investor owned utilities the execution of the new power contract be approved, and if it intends to recommend execution the type of BPA service it intends to elect. In the event that a customer determines that its recommendation regarding the execution of the new contract will differ from that indicated in the written notice, the customer will notify those who received the initial notice of the changed recommendation.
2. BPA will offer to the customers new, unsigned contracts for power supply and financial benefits, and for the selection of the Block Product for the first contract year, 150 days after BPA issues the final Record of Decision. The new contracts must be executed and returned to BPA within six months. BPA will advise the customers of the number and type of new contracts returned to it with signatures, and the amount of load that would be served under such contracts. The customers will then consult and determine whether the new contracts should go into effect, with each customer retaining the right to make the final determination whether its new contract shall take effect. If the new contracts take effect, they will do so on October 1, 2006, and will expire 20 years from the date of execution.

3. This settlement will be implemented in three steps. The first will be a filing with the Court declaring that a settlement in principal has been agreed to by the parties, and setting forth a schedule for the drafting of necessary contracts, conducting a public process, and obtaining regulatory approval. The second will be negotiating acceptable contracts implementing the settlement, conducting the necessary public process and obtaining regulatory approval. The third will be the filing of a stipulation dismissing any then pending litigation challenging the preference utility and investor-owned utility Subscription contracts and Subscription settlement agreements. The stipulation will contain a covenant not to challenge and to cooperate in opposing any challenge of the current PF, Slice and RL rates, this settlement, or the treatment of the 7(b)(2) rate test in this settlement and in the current and future BPA rates for the contract term, and will have the contracts implementing this settlement attached.<sup>13</sup>

#### **IV. Slice and Requirements Service Options**

##### **A. Slice Service Option**

1. Slice service will be provided under contracts essentially the same as the existing Slice agreement. The purchaser will receive a fixed percentage (Selected Slice Percentage) of the variable output (energy, capacity, storage and pondage) of the Defined FBS, and will pay the same fixed percentage of the Defined FBS costs. **The Selected Slice Percentage established when the Slice contract is signed will be based on the portion of the purchaser's forecast of its net requirement for FY 2007 that the purchaser elects to place on BPA.** As under the current Slice agreement, the purchaser's Selected Slice Percentage will be fixed by contract.
2. The net requirement of each Slice purchaser will be subject to periodic determination, as it is under the current Slice agreement, which periodic determination will establish on a planning basis the division between Requirements and Surplus Slice. As under the current Slice agreement, BPA will have the ability to recall power under contractually specified conditions when the Slice purchaser has retail load loss, which contractual provisions will be similar to those in the current Slice agreement. These provisions will include withdrawal of non-federal resources, determination of BPA deficits, and reasonable compensation to the Slice purchaser if BPA recalls power.
3. Slice purchasers will pay their Selected Slice Percentage of the Defined FBS costs, including the costs of any DSI settlement, the augmentation costs associated with the first 75 aMW of new public utility load (except as provided in section V below), and the costs of the investor-owned utility financial settlement. Except for the limited inclusion of augmentation costs for new preference utility load described in Section III(D), all of the costs of providing Requirements service, such as resources procured by BPA to serve Requirements customers, planned net

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<sup>13</sup> The settlement described in this section does not include any claims or judicial or administrative litigation relating to DSI service or to DSI rates.



revenues for risk associated with Requirements service, costs of shaping purchases, and any credit for secondary energy sales will be excluded from the Defined FBS costs paid by Slice purchasers.

4. Under the new long-term contracts, BPA will not collect financial reserves under the Slice product, nor will Slice purchasers receive any benefit from financial reserves held by BPA. However, at the end of FY 2006 (and at the start of FY 2007), BPA's financial reserves will include amounts that were contributed during the 2002-06 rate period through purchases of Block and Requirements power products other than Slice by customers that have selected the Slice product under the new power contract.

In order to align the costs and benefits for customers selecting Requirements or Slice service, respectively, at the end of FY2006 there will be an allocation of BPA's accumulated reserves, in excess of a calculated threshold amount to be retained by BPA, to Slice customers that have contributed them according to method set forth on Attachment B. Both the threshold amount and any balance remaining after the allocation to the Slice purchasers will be retained by BPA as financial reserves. Conversely, if BPA's financial reserves at the end of FY 2006 do not exceed the threshold amount, there will be no allocation of financial reserves to Slice purchasers.

5. Slice purchasers may elect to buy from BPA, for a payment in addition to their Selected Slice Percentage of the Defined FBS costs, a Block Product to convert all or any portion of the purchaser's Slice power into a block delivery. The shape of the block delivery will be contractually fixed for the term of the Block Product purchase. This option may be elected for any portion of the purchaser's Slice power, and for any duration up to a full rate period. The aggregate amount of Block Product service shall not at any time exceed the aggregate amount of Block Product service elected for the first Contract Year. The cost of the Block Product will be determined by BPA based on the purchaser's requested block shape and in no case shall the cost of the Block Product be less than zero. All costs and risks of this product will be borne solely by the requesting purchaser, and it will include an after-the-fact annual true up to reflect the actual costs of BPA incurred to provide the Block Product.
6. Slice service will not include additional power for load growth over the term of the contract, nor does it guarantee a power supply at a particular level. Rather, it provides a power supply that varies based on the actual output of the Defined FBS, which output can decrease for such reasons as fish obligations and hydro conditions, and can increase for such reasons as the return of power from the expiration of BPA power sales obligations. Purchasers selecting Slice service will be solely responsible for shaping the Slice power to meet their actual loads, including balancing purchases and sales, and power needed to meet their load growth. Other than providing the Block Product, BPA will be contractually released from any responsibility to provide shaping and load growth service to Slice purchasers. All preference customers retain their statutory rights to request a

power supply from BPA to serve their net requirements upon expiration of the new power contracts, without discrimination or penalty based upon customers' choice of Slice or Requirements service products.

7. During the term of the contract, BPA will include in the Defined FBS upgrades to resources listed Exhibit H of the Block/Slice contract and certain renewable resources, but will not include in the Defined FBS any costs or output from resources acquired to replace lost Defined FBS capability. BPA will have no obligation to provide service to Slice customer loads served by non-federal resources if those resources are lost during the contract term.

## **B. Operations Under The Slice Product**

1. Under the new Slice agreements, BPA will continue to operate the federal system, and will continue to have the unilateral right to establish operating constraints to fulfill its statutory, treaty and multi-use obligations. Fish and wildlife requirements will continue to be treated as system obligations that will be met first, and the system capability available to Slice purchasers will be what is left after fulfilling all of these obligations.
2. As is the case under the current Slice agreement, BPA operations will retain the rights it currently enjoys to take unilateral actions it deems necessary to respond to emergencies in a manner that maintains system reliability, including use of the portion of the system allocated to the use of Slice and Requirements purchasers. The fact that such actions will impact the Slice resource that would otherwise be available to purchasers will require BPA and the purchasers to work cooperatively to address such impacts. One means of doing so would be for BPA to share with affected Slice purchasers proceeds from the sale of power used to alleviate the emergency based on the amount of power the Slice purchasers contributed to alleviating the emergency.
3. BPA will continue to establish the operational limits within which all parties entitled to a Slice of the system (including PBL) must abide, absent an emergency situation discussed above. Since the result of any party exceeding an operational limit is to take energy to which other Slice purchasers are entitled, once BPA establishes operational limits, such as maximum and minimum generation, all parties must face penalties for exceeding the operational limits that fully compensate other Slice purchasers for the harm suffered by such exceedence.
4. To ensure that the FBS is operated in an efficient fashion with an expanded use of the Slice product, the Slice purchasers will provide to BPA information regarding their expected operations, including loads and resources, necessary for BPA to operate the system in the manner it currently does. This will include Slice purchasers providing BPA operational personnel with their load and resource planning information in a format and timeframe that will replace BPA's current reliance on forecast data. The information provided to BPA by the Slice purchasers will be about prospective operations, and as a consequence will be business

sensitive. BPA will be obligated to treat this information in a confidential manner, and not reveal it to potential competitors (including the BPA trading floor).

5. More widespread reliance on the Slice product may warrant the installation of Generation Management System (GMS) at some point, but at the outset BPA and its customers should explore cost effective alternatives to full scale implementation of GMS, including Slice customers covering the cost of the within hour risk currently borne by BPA.
6. Communications between BPA's operations personnel and its trading floor appear to be necessary in order to help ensure that BPA meets its obligations in an efficient and cost-effective manner. Such communications should be continued under the new power contracts. This will be done in a manner that ensures that the BPA trading floor and all Slice purchasers receive the same information about system operations, requests by the trading floor for changes to operations and/or operating limits, and actual or possible changes to system operations, from BPA at the same time.
7. Generation inputs needed by TBL for ancillary services will continue to be provided by PBL to TBL at cost and credited to the Defined FBS, and such obligation will be treated as a system obligation, until such time as a competitive market in generation inputs for ancillary services has developed in the Northwest. At such time, TBL will acquire its generation inputs from such competitive market, into which PBL and Slice purchasers will be free to offer generation inputs for sale in such market.
8. New Slice purchasers may not have the appropriate transmission arrangements to enable them to move the surplus Slice power to market. This may be rectified by converting existing NT agreements to PTP service, by PBL assigning to such customers PTP capacity it no longer needs, by use of transmission from secondary markets, or by other innovative approaches to resolve this matter that do not shift costs to other transmission customers. The customers anticipate working closely with TBL to identify solutions to these issues.

### **C. Financial Considerations Under the Slice Product**

1. The current Slice contract contains extensive credit assurance provisions that allow BPA to take actions to secure payment of the purchaser's obligations. The new Slice agreement should contain similar provisions for credit support to help ensure that the risk assumed by Slice purchasers is not shifted to other BPA customers.<sup>14</sup>
2. The more widespread use of the Slice product will shift to numerous utilities the risk of managing fluctuating power supply, market prices and surplus power availability. There is concern that this may result in an increased risk of default by such utilities, exposing BPA to risks for which it has no financial reserves. To

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<sup>14</sup> This will not preclude BPA and individual Slice purchasers from working bilaterally to implement credit assurance provisions that are tailored to better suit unique situations.

address this concern, the Slice contract will contain a provision under which the Slice rate will be subject to a temporary surcharge to cover the cash flow impact of a default in payment by a Slice purchaser. This provision will ensure that BPA will not fail to make its Treasury payment due to such a default in payment by a Slice purchaser.<sup>15</sup>

3. Increased reliance on the Slice product will likely change the timing of BPA's cash flow. Since timely payment to the Treasury is of primary importance to the region, the investor owned and preference utilities are committed to working with BPA regarding cash flow and timing issues under the Slice agreements to ensure they do not conflict with BPA's financial obligations, including its payment to the Treasury.
4. The more widespread use of the Slice product by BPA may be viewed as a change by the bond rating agencies. Since the Slice product will provide BPA with an assured cash flow and reduced revenue volatility due to less reliance on surplus revenues, the bond rating of BPA should be positively impacted. BPA's utility customers are ready to work with BPA to explain to the appropriate rating agencies the revised draft proposal.

#### **D. Requirements Service**

1. Requirements service will provide firm power for the entire variable load of the purchaser in excess of any declared non-federal resources, and includes load following and additional power to serve load growth occurring during the term of the new power contract. **Retail load loss under the new power sales contract will be treated in the same fashion as it is under the Subscription power contract.**
2. Customers with non-federal generation will be able to elect Requirements service. Such customer will declare the amount of load to be served by its non-federal generation, and the customer will be responsible for serving that portion of its load regardless of the performance of its non-federal resources. BPA will provide service to the remainder of the customer's load, including load following and load growth.
3. The Requirements service rate will include all of the costs of additional resources needed to serve Requirements load growth, planned net revenues for risk associated with such service, shaping purchases for Requirements loads, and a proportionate share of the investor-owned utility financial settlement, the costs of serving the first 75 aMW of new preference load and any DSI settlement costs. This rate will also include the costs of the portion of the Defined FBS allocated to serve requirements

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<sup>15</sup> This payment assurance provision will limit the payment by the Slice purchasers, will ensure that the payment is allocated to the Slice purchasers in proportion to their Selected Slice Percentage, will require BPA to make use of all credit assurance provisions available to it before seeking payment from other Slice purchasers, will require BPA to take all reasonable actions to mitigate the loss due to the default, and will entitle the Slice purchasers making payment under such provision the right to repayment from the defaulting utility or its successor.

loads, and a credit for revenues from the sale of secondary power associated with the portion of the Defined FBS allocated to serving Requirements loads.

4. During the new power contract, Requirements purchasers can develop non-federal resources for use in serving load growth or for sale into the market, with contractually stipulated notice to BPA of when the resource will begin serving the customer's retail load. This notice period will be of sufficient duration to permit BPA to dispose of the power supply in its portfolio acquired to serve the load growth that will be served by the non-federal resource. The utilities want to work with BPA to determine the optimum notice period. Once a non-federal resource has been dedicated to serving the Requirements purchaser's retail load under the new power contract, it must continue to be so used until removal from load service is authorized under BPA's 5(b) policy. The Requirements rate will also include the costs of additional resources needed to serve additional Requirements load due to such removal.
5. Surplus Defined FBS output resulting from retail load loss by Requirements purchasers will be marketed by BPA, and the proceeds or losses from such sales will be equitably shared by Requirements purchasers.

#### **V. Slice Supply Reduction Option**

1. Slice purchasers may elect to provide their pro-rata share of augmentation for first 75 aMW of new public agency load and/or DSI loads that are treated as system obligations in lieu of paying their share of the costs incurred by BPA to serve such loads. To implement this option, the Slice purchaser will make a one-time election for the term of the contract prior to executing the new power contract to deliver to BPA at the Federal bus an amount of power shaped to the load of the new public agency load and/or the DSI loads. The amount of power so delivered will be equal to its pro-rata share of the DSI and/or new public utility load served by BPA that is treated as a system obligation.<sup>16</sup> Slice purchasers making such an election would be shielded from the augmentation costs incurred by BPA to serve such loads.<sup>17</sup>

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<sup>16</sup> Pro-rata share means a percentage of the DSI and/or new public load equal to the percentage that the Slice purchaser's net requirement is of BPA's total preference agency, investor owned utility, DSI and federal agency loads.

<sup>17</sup> Upon the expiration or termination of BPA's contractual service obligation to a DSI, any Slice purchaser that has elected the supply BPA power in lieu of paying its pro-rata share of DSI augmentation costs will be entitled to make a reduction its power deliveries to BPA in proportion to such reduction in BPA's contractual service obligation to the DSI.

## VI. Investor Owned Utility Financial Benefits

1. The annual aggregate investor-owned utility financial benefits will be calculated using the following formula:

$$3300\text{aMW} \times ((A + B) - C) = \text{financial benefits}$$

Where:

A is the CCCT costs in mills/kWh other than commodity fuel

B is the commodity fuel cost using a 10-year rolling average gas price and a heat rate of 7100 btu/kWh

C is the Net Slice Costs in mills/kWh

2. The Net Slice Costs in each year will be determined with the following formula:

$$\frac{\text{Defined FBS Costs} - \text{Secondary Revenue Credit}}{\text{Historic Defined FBS Firm Output}}$$

Where:

Defined FBS Costs mean the costs (in each case as applied during the applicable year for Slice purchasers) of the Defined FBS, including the costs of the investor-owned utility financial benefits, a share of the up to 75 aMW for new preference utilities, and any DSI settlement.

Secondary Revenue Credit means for a Contract Year the value of the Historic Defined FBS Secondary Energy (based upon the applicable Mid-Columbia hub indices for the corresponding periods of the preceding Contract Year) less a transmission cost for transmission of such energy. Such transmission cost per kWh for a month shall reflect the transmission costs actually paid by preference utility Slice and Slice/Block customers for delivery in the region on the high voltage transmission grid of Slice or Slice/Block power to other than their retail loads during such month. The Secondary Revenue Credit (before reduction by the transmission costs described above) for such month will equal the sum of the products of the Historic Defined FBS Secondary Energy (net of transmission losses) for each hour of the month multiplied by the Mid-Columbia firm index applicable to power in such hour.

Historic Defined FBS Firm Output means for each Contract Year the monthly firm energy allocated by hour during the previous Contract Year of the Defined FBS using critical water conditions, as adjusted for System Obligations. For purposes of determining the Historic Defined FBS Firm Output, the monthly firm output shall be allocated among the hours of such month in a manner that reflects the actual availability of firm output to preference utility Slice and Slice/Block customers.

Historic Defined FBS Secondary Energy means for each Contract Year the (i) total energy produced by hour by the Defined FBS during the previous Contract Year as adjusted for System Obligations, less (ii) the Historic Defined FBS Firm Output.

3. The value of A will be set once for the term of the new power contract using the following initializing formula:

$$A = 39.90 - B_{2006}$$

Where:

$B_{2006}$  is the commodity fuel cost using the 10-year (1996-2005) rolling average gas price for the first year and using a heat rate of 7100 btu/kWh.

4. The annual financial benefits paid to PGE in each of the first 5 years of the new power contract will be reduced by a dollar amount calculated using the following formula:

$$[140 \text{ aMW} \times (A + B)] - D = \text{amount deducted from PGE financial benefits}^{18}$$

Where:

A is the CCCT costs in mills/kWh other than commodity fuel

B is the commodity fuel cost using a 10-year rolling average gas price and a heat rate of 7100 btu/kWh

D is the total amount paid by PGE to PBL for such power in each year.

This adjustment is made to reflect the reduction in financial benefits due to the PGE Purchase.

5. The annual aggregate investor-owned utility financial benefits will be calculated in year one (and in subsequent years) using the formula from paragraph 1 above with the initialized value for A, the then-current 10-year rolling average gas price for B and the Net Slice Costs for C.
6. To reflect changes in the actual costs of the Defined FBS, the financial benefit payments made to the investor-owned utilities will be subject to an annual true up based on the actual Defined FBS costs incurred by BPA. This adjustment will use the same costs and payment procedures that are used to adjust the Slice rate for preference utility Slice purchasers.

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<sup>18</sup> The 140 aMW used in this formula is an estimate based on a preliminary examination of the PGE historic residential and small farm load data, and may be subject to change based on a more thorough analysis of the PGE residential and small farm load data.

7. The specific CCCT assumptions regarding the value of A and the heat rate set forth in paragraphs 1 and 3 above will not be subject to change. The CCCT assumptions will not be revised for technological change.
8. The gas price used to calculate the CCCT costs for the calculation of the financial benefits will be based on a ten-year rolling average of the gas prices for a gas supply derived 1/3 each for Rockies, Sumas and AECO. In other words, the first year gas price for the calculation of the financial benefits will be calculated using the volume-weighted price of gas from each of the three sources for the preceding ten years (1996-2005). Moving forward, a new year of gas prices will be added to the average, and the oldest year will be dropped from the average. The year to year change in the ten-year rolling average gas price will be capped at one standard deviation above and below of the previous year's ten-year rolling average price. The standard deviation will be calculated using the 10-year monthly average prices from the immediately prior year. A sample calculation of the standard deviation is provided in Attachment C.
9. In the event the Net Slice Costs exceed the cost of power from the CCCT as determined by the above calculations ("C" is greater than "A" + "B"), the financial benefits to the investor owned utilities will be zero until such time as the CCCT costs exceed the Net Slice Costs. In other words, there will be no accrual or payment of any negative benefits.
10. During the first five years of the new power contract, the total benefits available to the investor owned utilities will be subject to certain caps and floors that will be applicable based on the level of the Net Slice Costs (from Section VI(1) above), used to calculate the benefits for the residential and small farm customers of the investor owned utilities that is established for the rate period FY 2007 through FY 2011. The caps and floors applicable to the investor owned utility financial benefits are set forth on Attachment D. The caps and floors will apply to the investor owned utility financial benefits (and to the annual true-up of such financial benefits calculated pursuant to section VI(6)) based on the final, iterated Net Slice Costs that includes all costs, such as DSI service, the financial benefits for investor-owned utility residential customers and the augmentation costs incurred to serve the first 75 aMW of new public utility load. In the sixth and subsequent years, the financial benefits for investor-owned utility residential customers will be calculated as set forth in this section VI and shall not be subject to any cap or floor.
11. Any dispute arising with regard to the implementation of the investor-owned utility financial benefits will be subject to dispute resolution conducted pursuant to an arbitration process to be developed.



## **VII. Conservation and Renewable Programs**

With respect to conservation and renewable resources, the customers' goal is to acquire the lowest cost resources through continued reliance on the least-cost planning concepts embedded in the Northwest Power Act as implemented by the NW Power Planning Council in its Regional Power Plan on a region wide basis. This will encourage the acquisition of all cost-effective conservation and renewable resources, along with more conventional generation resources to ensure an adequate, efficient, economic and reliable power system for the region.

The customer conservation and renewable resource proposal relies upon existing institutions and proven program delivery mechanisms, but adapted to a customer-BPA business relationship that shifts the primary responsibility for load growth to the customer, and places less reliance on BPA as the regional power supplier of choice. This proposal was designed to stabilize and enhance the funding for conservation and renewable resources over the term of the new contracts, and to conform to the principles articulated by the NW Power Planning Council and public interest representatives. The roles of the various parties under the customer conservation and renewable proposal are described below.

### **1. Northwest Power Planning Council Role**

The Northwest Power Planning Council (NWPPC) will continue to prepare the five-year regional power plan. In each plan the NWPPC will set the cost-effectiveness standard for conservation and renewable resources, identify the amount of such cost-effective conservation and renewable resources that is expected be available in the region in the planning period, and the portion of such cost-effective resources that BPA is expected to acquire.

### **2. BPA Role**

- a. BPA will establish a budget for the rate period to acquire all or some portion of the cost-effective conservation and renewable resources that BPA is expected to acquire during the rate period under the NWPPC power plan. Funding stability will be provided by subjecting overall budget levels to both a floor and ceiling that will limit the amount that the budget can change from year to year during the term of the new contracts, with the floor being set above current overall budget levels. The funding of individual program elements within the budget may change from rate period to rate period to reflect changes in technology, availability of conservation and renewable resources, and the cost-effectiveness of resource alternatives. The final budget level will be determined by BPA after consideration of relevant factors set forth in the contract, including without limitation BPA's need for additional resources.
- b. Once the budget is established, through the rate process BPA will establish the conservation and renewable discount (C&RD) available to customers, including investor owned utilities based on the amount of load used to calculate the financial

benefits, who implement conservation and renewable resources that qualify for the C&RD. A fixed percentage of the C&RD expenditures will be dedicated to acquisition or support (such as contribution to the Bonneville Foundation) of renewable resources, and this percentage will be reviewed after 10 years to determine if it is adequate.

- c. BPA will be responsible for program administration, including receiving reports from utilities, verifying measure installation, and conducting periodic audits.
- d. BPA will also collect charges from customers that fail to implement sufficient conservation and renewable projects to qualify for their full C&RD. The money so collected by BPA will be invested in conservation and renewable projects to make up for the shortfall, and may be used to fund conservation augmentation programs. There will be no requirement that such money be spent in the service area of the utility from which it was collected. The output of renewable resources acquired by BPA with C&RD funds will be used to serve the pool in which the utility from whom the money was collected receives its power supply.
- e. BPA will continue to operate as centrally funded programs low income weatherization, research and development for emerging technology that has special application in the region, market transformation and legacy programs such as multi-year conservation augmentation contracts currently in place. The budgets for these programs will be set in the same manner that BPA currently uses.

### 3. Regional Technical Forum Role

- a. The Regional Technical Forum (RTF) will be made more permanent and more professional by the inclusion of hired experts who would work with utility personnel and interested parties. Using the NWPPC cost-effective standard, the RTF will evaluate proposed measures and establish the list of qualified measures, their cost credit and expected savings to be recommended to BPA. Utilities and other interested parties will have an active role in the measure evaluation, cost credit and expected savings analysis, but the final decision on what to recommend to BPA will rest with the hired experts. Since the conservation and renewable programs are BPA programs, BPA will have the final word on all of these matters.
- b. The RTF will conduct periodic verification audits to determine if the measures being installed are producing the expected energy savings, and if not, the reason for the shortfall.

### 4. BPA Customers' Role

- a. The primary role of the BPA customers is to implement conservation measures from the RTF recommended list, and to acquire or support the appropriate amount of renewable resources. Utilities will be free to participate in conservation augmentation contracts with BPA in addition to the activities conducted under the

C&RD program. Implementation of conservation and renewable resources that are done pursuant to local, state or federal mandates will qualify under the C&RD program.

- b. Utilities will report at least annually on the number and type of measures installed, and will be required to pay the power surcharge if they have failed to implement sufficient conservation and acquire or support the required amount of renewable resources within the rate period. Utility reports must show reasonable progress toward qualifying for the full C&RD through the rate period to avoid loss of the discount prior to the end of the rate period.
- c. Utilities can group their conservation and renewable activities, and both credits and measures can be traded in order to achieve the target level of conservation and renewable resources.

### **VIII. Service to DSIs**

1. This proposal recognizes that the right of the DSI customers under the Regional Power Act to obtain an allocation of FBS power expired on September 30, 2001, that all of BPA's power sales are at all times subject to preference and priority rights of public bodies and cooperative customers, and that Congress intended that the benefits of the FBS be shared with the residential and small farm customers of BPA through power sales under Section 5(b) or by financial benefits available under the residential purchase and sale program. Nonetheless, this proposal also recognizes that the aluminum smelters may provide long-term employment opportunities for Northwest workers if aluminum prices are adequate. In order to capture this employment opportunity for the region, preference and investor owned utilities are willing to consent to BPA offering a power supply to the DSI customers in order to encourage them to make an on-going and long-term commitment to their workers in the region, to BPA and to the Northwest economy.
2. Because BPA's providing this power supply will entail substantial costs to a large number of retail customers of preference and investor owned utilities, these utilities require assurance that this power supply will be limited to amounts that are affordable, will be distributed in a fair manner, and will benefit those DSI customers who are committed to the broader interests of the region.
3. As part of this proposal, the preference and investor owned utilities are willing to have BPA make a discretionary power sale to the DSI customers, and consent to bearing a reasonable share of the costs of providing this power supply in order to support long-term employment opportunities in the region. The preference and investor owned utilities recommend that BPA offer this power supply as follows:

- a. BPA will offer to the qualifying smelter loads of DSIs an amount of federal power not to exceed 600 aMW in aggregate. An additional 50 aMW will be offered to non-smelting DSI loads, with such amount being prorated among the non-smelting loads. As a condition for receiving this discretionary federal power supply, DSIs will agree not to supplement this federal power supply by shifting smelter load to any preference utility.
- b. The base supply amount will be 100 aMW per smelter, and BPA will decide which smelters should receive a base supply amount. BPA should consider favorably requests for service from smelters that have a current BPA power contract, have not been declared unsuitable for operation by the company, have not imposed stranded costs on BPA by substituting market power for their federal power supply, have not denied liability or rejected their BPA power contract in a bankruptcy proceeding and are not in default of their payment obligation under their current BPA contract at the time of allocation.
- c. Companies owning more than one operating smelter may from time to time shift their federal power supply, in whole or in part, between such smelters for operational reasons. However, such shifts must be temporary because each allocation of federal power is intended to support continued operation of a specific smelter.
- d. DSIs seeking a federal power supply for a smelter in excess of the 100 aMW base supply amount may do so by offering to BPA at cost the output of an incremental generating resource. On a case-by-case basis, BPA will evaluate the incremental resource output offered by any DSI. To the extent that BPA acquires the output so offered, the DSI making such offer may obtain a total federal power supply equal to the amount of the incremental resource output so acquired by BPA. Such federal power supply may exceed the 100 aMW per smelter base supply amount, but all such additional federal power supplies as well as all base supply amounts must be accommodated within the 650 aMW available to the DSI customer class. If the smelter load declines or is curtailed, the obligation of BPA to purchase power from the incremental resource will be similarly reduced. This supply will be sold at the same rate as the base supply, and the costs of acquiring the resource output will be included in all BPA power rates (including those charge the DSIs), and in the calculation of the financial benefits of the investor owned utilities.
- e. The rate charged for the federal power supply for DSI service would be the BPA rate equal to the Net Slice Cost calculated pursuant to the formula contained in Section IV of the proposal with the addition of a pro-rata share of costs of planned net revenues for risk and the costs of shaping purchases as determined in the most recent BPA rate case.

4. DSI customers wishing to take advantage of this power supply opportunity should be willing to accept the risks of doing business with BPA comparable to those accepted by BPA's preference and investor owned utility customers, and to also commit to a long-term program of employment and support for BPA.
  - a. The power supply contract offered to the DSIs will include credit assurance, load loss and contract termination provisions to the benefit of BPA that are the same as those contained in the Slice power supply contract offered to preference customers.
  - b. The federal power would be provided under a 20 year power sales contract containing a take or pay provision that requires monthly payment for power whether taken or not, with a credit at the end of each year for revenues generated by the resale of power not taken by the DSI. In the event that such credit exceeds the take or pay obligation, such excess revenues would be retained by BPA for credit against future take or pay obligations. Any accrued credit remaining at the end of a rate period would be reduced to zero. The DSI customer would have no right to directly remarket federal power.
  - c. All new 20-year DSI and utility power sales contracts would include a provision that would preclude the imposition of a charge on transmission service to collect power costs (other than FERC recognized ancillary services) not charged to BPA power customers. This provision would not preclude BPA from exercising any authority it may be determined to have to impose a charge on transmission service to pay existing obligations to Energy Northwest, nor from collecting power costs specifically assumed by a particular customer.
5. On a case-by-case basis, BPA should give consideration to providing credit support to DSIs who develop incremental generating resources that they are willing to contractually dedicate to serving their in-region smelter load not served by BPA, and who are unable to otherwise procure financing for such resources. The total amount of credit support offered to all DSIs would be limited to 300 megawatts of incremental generating resources. Any DSI requesting such credit support from BPA will be limited to an allocation of federal power of 100 aMW per smelter.
6. If offered, credit support should generally contain the following:
  - a. The DSI should demonstrate that financing of the resource is unavailable without BPA credit support, and that with such credit support the generating resource can be reasonably expected to be developed and placed into commercial operation.
  - b. The term of the credit support would not exceed 5 years from the date of the

commercial operation. BPA should bear no risk of resource non-completion.

- c. The credit support would be limited to resource debt service. Credit support would not include any variable costs of the supported resource.
  - d. Any default in payment by the DSI would terminate the DSI's BPA power supply agreement.
  - e. If the DSI is in default of its payment obligation under the credit support agreement, BPA would be entitled to priority repayment from the power sales revenues of the supported resource ahead of the payment of an investment return to, or a buy-out of, the equity participants. Such repayment obligation would continue until satisfied.
  - f. BPA should be entitled to additional consideration for providing such support, such as access to excess energy produced above warranted amounts at the variable cost of producing such energy, or an option to purchase output at cost for a defined period.
7. As a necessary element of BPA's discretionary action of offering a power supply to the DSIs, BPA will include in each new DSI power contract, and in the new contracts of utilities that so request, a meaningful and enforceable contract provision which prohibits BPA, both during and after the term of the new power contract, from executing with any DSI a power supply contract, other than the new power contract described in this section VIII, that supplies power at a rate that does not fully recover all of the costs of providing such service.

# ATTACHMENT A

## PGE Power Purchase Term Sheet

PGE would purchase a power product from BPA for five years on the following basis:

The power would be shaped such that the peak 280 MW would coincide with PGE's historical annual peak for its residential load. The power amount for the other 8759 hours (8783 in leap years) would effectively be a percentage of the peak based on the historical shape of PGE's residential load.

PGE would submit a five-year schedule for power deliveries to BPA that would be based on the residential load shape. PGE's preliminary calculations indicate that this would amount to approximately 140 average annual megawatts (aMW) of energy.

The power would be priced at a rate equal to BPA's lowest priority firm power rate (PF rate).

During the term of the power purchase the value of the power would be subtracted from PGE's share of the IOUs' monetary benefits. Therefore, if the PGE rate is higher than the PF rate, the value of the power subtracted from PGE's monetary benefits would be less than if the power were priced at the PF rate.

At the end of the power sale PGE's share of the IOU monetary benefits would return to its full share of the IOU monetary benefits for the remaining years of the new power contracts.

PGE would have rights to terminate the power sale and convert to monetary benefits in certain circumstances (e.g. "PGE rate" is higher than PF rate, 7(b)(2) is determined to be applicable to the sale etc.).

## ATTACHMENT B

### ALLOCATION OF FY 2006 ENDING PERIOD FINANCIAL RESERVES

The method for allocating end of year FY 2006 reserves for the benefit of post-2006 Slice purchasers and post-2006 Requirements purchasers is as follows:

First, an equilibrium reserve amount (ERA) is calculated as:

$$(0.5)(1-0.226)(\$525 \text{ MM}) = \$203.18 \text{ MM}$$

Second, a threshold reserve amount (TRA) is calculated as:

$$\text{TRA} = (\text{ERA}) (\text{RR})$$

Where:

RR is the % of BPA revenues contributed by non-Slice purchasers during FY 2002-2006 that choose Requirements service under contracts beginning in FY 2007.

Third, reserves allocated to post-2006 Slice purchasers (RAS) is calculated either as:

$$\begin{aligned} \text{RAS} &= (\text{RS}) (\text{YER}) \text{ when } \text{YER} = \text{ or } > \text{ ERA, or as} \\ \text{RAS} &= (\text{YER} - \text{TRA}) \text{ when } \text{YER} < \text{ ERA} \end{aligned}$$

Where:

YER is BPA's ending FY 2006 accumulated reserves.

RS is the % of BPA revenues contributed by post-2006 Slice purchasers during FY 2002-2006 through their purchases of non-Slice products.

When  $\text{YER} < \text{ERA}$ , RAS is allocated among post-2006 Slice purchasers pro rata based on their respective percentages of the total revenues contributed by such Slice purchasers through their 2002-2006 purchase of non-Slice products. RAS may be less than the total revenues contributed by Slice purchasers through purchases of non-Slice products during 2002-2006, but in no event may RAS exceed such total revenues contributed by Slice purchasers.

BPA will distribute RAS to post-2006 Slice customers 30 days after FY 2006 numbers are final, but in any case no later than October 1, 2007.



## ATTACHMENT C

### Sample Calculation of the Standard Deviation

**Example:** Determine the allowable price range for the 10-year rolling average used to calculate financial benefits for FY2003 (*i.e.*, the 10-year rolling average ending in 2001 plus or minus one standard deviation of the ten yearly averages comprising the 10-year rolling average ending 2001).

**Step 1:** Calculate for each of the ten years included in the 10-year rolling average used to calculate financial benefits for the preceding year an average yearly price, derived by equally weighting the twelve volume-weighted monthly prices from Sumas, AECO and Rocky Mountain.

#### Volume -Weighted Monthly Prices (\$/MMBtu)<sup>19</sup>

|      | Jan   | Feb  | Mar  | Apr  | May  | Jun  | Jul  | Aug  | Sept | Oct  | Nov  | Dec   |
|------|-------|------|------|------|------|------|------|------|------|------|------|-------|
| 1992 | 1.40  | 1.00 | 1.04 | 1.00 | 1.10 | 1.03 | 0.90 | 1.03 | 1.03 | 1.25 | 1.50 | 1.74  |
| 1993 | 2.25  | 1.74 | 1.80 | 1.80 | 2.25 | 1.58 | 1.55 | 1.65 | 1.92 | 1.75 | 1.80 | 2.40  |
| 1994 | 2.18  | 1.79 | 1.98 | 1.62 | 1.60 | 1.39 | 1.48 | 1.45 | 1.36 | 1.18 | 1.52 | 1.63  |
| 1995 | 1.40  | 1.03 | 1.00 | 0.97 | 0.99 | 0.97 | 0.85 | 0.75 | 0.85 | 0.96 | 1.26 | 1.29  |
| 1996 | 1.24  | 1.20 | 1.15 | 0.93 | 0.93 | 0.90 | 0.96 | 1.01 | 1.01 | 1.10 | 2.17 | 3.55  |
| 1997 | 4.15  | 2.37 | 1.05 | 1.11 | 1.33 | 1.38 | 1.22 | 1.08 | 1.19 | 1.48 | 2.70 | 1.40  |
| 1998 | 1.85  | 1.43 | 1.12 | 1.43 | 1.70 | 1.38 | 1.45 | 1.57 | 1.46 | 1.67 | 2.14 | 2.09  |
| 1999 | 2.88  | 1.77 | 1.50 | 1.51 | 1.95 | 1.91 | 1.94 | 2.21 | 2.50 | 2.39 | 2.92 | 2.28  |
| 2000 | 2.30  | 2.36 | 2.31 | 2.73 | 2.74 | 3.64 | 4.07 | 3.04 | 3.45 | 4.88 | 4.83 | 13.69 |
| 2001 | 14.20 | 6.95 | 5.21 | 5.37 | 5.17 | 3.96 | 2.67 | 2.42 | 2.18 | 1.38 | 2.78 | 2.68  |

For the 1992 yearly average, the calculation would be as follows:

**1992 Yearly Avg.** = Average of 1.40, 1.00, 1.04, 1.00, 1.10, 1.03, 0.90, 1.03, 1.03, 1.25, 1.50 and 1.74

**1992 Yearly Avg.** = **1.17**

Repeating this calculation for the remaining years yields the following results

#### Yearly Averages

|             | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|-------------|------|------|------|------|------|------|------|------|------|------|
| <b>Avg.</b> | 1.17 | 1.87 | 1.60 | 1.03 | 1.35 | 1.71 | 1.61 | 2.15 | 4.17 | 4.58 |

**Note:** The 10-year rolling average of yearly averages ending in 2001, or the 10-year rolling average used to calculate financial benefits in FY2002, would be the average of the above yearly averages, or \$2.12/MMBtu; *i.e.*,

**10-year rolling avg. of yearly averages ending 2001** = Average of 1.17, 1.87, 1.60, 1.03, 1.35, 1.71, 1.61, 2.15, 4.17 and 4.58

**10-year rolling avg. of yearly averages ending 2001** = **2.12**

<sup>19</sup> The monthly averages in this example are not the average of the volume-weighted average prices for Sumas, Aeco and Rockies, but rather are the volume weighted monthly average prices for Sumas only.

**Step 2:** Calculate the standard deviation of the ten yearly averages.

For the standard deviation of the yearly averages that comprise the 10-year rolling average ending in 2001, the calculation would be as follows

**St. Dev. of 10 yearly averages ending 2001** = Standard Deviation of 1.17, 1.87, 1.60, 1.03, 1.35, 1.71, 1.61, 2.15, 4.17, and 4.58.

**St. Dev. of 10 yearly averages ending 2001 = 1.2338**

This standard deviation is the limit (to be determined each year) on the amount of change, either positive or negative, in the 10-year rolling average used to calculate financial benefits in the subject year from the 10-year rolling average used to calculate financial benefits in the previous year.

For the 10-year rolling average used to calculate financial benefits for FY2003 (i.e., the 10 year rolling average of yearly averages for the 10 years ending 2002), the limit on its change from 2001 would be 1.2338. Therefore, the 10-year rolling average used to calculate financial benefits for FY2003 could not be \$1.23 greater than or less than the 10-year rolling average used to calculate financial benefits for FY2002, or rather could not be greater than \$3.35 (\$2.12 + \$1.23) or less than \$0.89 (\$2.12 - \$1.23).

If the 10-year rolling average exceeds or falls below the bound, the upper or lower bound would be the gas price upon which benefits will be calculated. For example, if the 10-year rolling average ending in 2002 is greater than \$3.35, the gas price used for calculating financial benefits in 2003 will be \$3.35.

In the year following a year where the bound is used as the price for purposes of calculating financial benefits, the calculation of the 10-year rolling average and standard deviation for use in that year will be calculated via the steps stated above using the actual data without reflecting the bound.

In summary:

Benefits for FY 2003 would be based on either:

- (a) The 10-year rolling average of yearly averages for the 10 years ending 2002, OR
- (b) The 10-year rolling average of yearly averages for the 10 years ending 2001 plus or minus one standard deviation of the yearly averages of the 10 years ending 2001.

If (a) is inside the bounds calculated in (b) (10-year rolling average of yearly averages for the 10 years ending 2001 plus or minus one standard deviation of the yearly averages of the 10 years ending 2001), the benefits are based on (a).

If (a) is outside the bounds calculated in (b), the benefits are based on the appropriate bound (b).

## ATTACHMENT D

### Limit of Financial Benefits FY 2007 – 2011

| Final, iterated Net Slice Costs<br>rate (in \$/MWh) | Limit of financial benefits<br>(in millions of dollars) |              |
|---|---|--------------|
|   | <u>Ceiling</u>  | <u>Floor</u> |
| 25  | 396   | 376          |
| 26  | 367   | 347          |
| 27  | 338   | 318          |
| 28  | 318   | 298          |
| 29  | 298   | 278          |
| 30  | 278   | 258          |
| 31  | 258   | 238          |
| 32  | 238   | 218          |
| 33  | 218   | 198          |
| 34  | 198   | 178          |
| 35  | 178   | 158          |
| 36  | 158   | 138          |
| 37  | 138   | 118          |
| 38  | 110   | 90           |

The final, iterated Net Slice Costs rate includes the costs of the financial benefits for investor-owned utility residential customers, the C&RD program, augmentation costs for service to DSIs and the first 75 aMW of service to new public utilities.

The cap and floor are applied to IOU financial benefits prior to reduction for the PGE purchase.

In the event that the final, iterated Net Slice Costs rate falls between rows of the above table (e.g., \$26.5/MWh), interpolate linearly for corresponding values of the floor and the cap.

For values of Net Slice Costs rate greater than 38,

- (A) the floor equals the greater of (i) zero and (ii) an amount equal to \$90 million reduced by the product of \$28,908,000 multiplied by the amount by which the Net Slice Costs rate exceeds 38, and
- (B) the ceiling equals such floor plus \$20 million.

For values of Net Slice Costs rate less than 25,

- (A) the floor equals the greater of (i) zero and (ii) an amount equal to \$376 million plus the product of \$28,908,000 multiplied by the amount by which 25 exceeds the Net Slice Costs rate, and
- (B) the ceiling equals such floor plus \$20 million.