

WHAT'S COMING NEXT AND WHAT CAN WE DO ABOUT IT

Some Observations on the Next
Couple of Stages of Tiered Rates

NWPPA Annual Power Supply Conference
Terry Mundorf, Attorney

Presentation Overview

- We have all lived through the CHWM Contract negotiations, Tiered Rate Methodology negotiations, and two TRM rate cases
- That was all the prelude – preparation for what happens in the next two years
- Now we are actually going to try to implement the CHWM Contracts and the TRM, and do business under them
- Want to look down the road for next 24 months – What is likely to happen, why it is important to you
- Take a look at some strategies that should be considered – Some for your utility, some for publics generally

TRM Fish Story



What Is Next With Tiered Rates

- Next major events in the implementation of Tiered Rates include:
 - FY 2012 Rate Case to establish actual Tiered Rates we will pay
 - Contract High Water Mark (CHWM) determination
 - Contract Demand Quantity (CDQ) determination
 - Rate Period High Water Mark (RHWM) Process and determination for WP-14 rate period
- These are a little out of sequence, but all are important
- There will be real dollars at stake, and they are your dollars
- Let's take a look at each

The First TRM Rate Case

- The WP-12 will establish Customer Charge, Load Shaping Charge, Demand Charge and Tier 2 rates for FY2012 – FY 2014
- Here are some thoughts on why you should care
 - First time any of this has ever been done, and everything is up for grabs
 - Current precedents that have ruled rate setting for many years will be out the window
 - No energy or load variance charges, and really different demand and customer charges
 - Precedents set in this case will likely rule our lives for many years to come
- First TRM Rate Case takeaways
 - Major change is also an opportunity to make (or lose) money
 - Things we did not think of are bound to come up and will require decisions
 - Those who pay attention may be able to advantage themselves
 - Those who do not will not
 - Attention should be paid to cost pools, demand charge and Tier 2 pricing

The CHWM

- CHWM is entitlement to purchase BPA power at Tier 1 rates
- Will be determined after end of FY 2010
- Original concept was to use FY 2010 actual loads
- Recession and load loss modified that plan
- Still can use FY 2010 actuals for setting CHWM
- Two additional options include:
 - FY 2007-2008 actual loads
 - Adjusted FY 2010 actuals (single event impacting multiple customers or single customer)
- Because adjustment options, load loss in FY 2010 important
- Option allow load loss to be replaced for determining CHWM
- To become permanent, lost load must return by FY 2014

The CHWM - continued

- CHWM takeaways:
 - FY2010 loads lower than previously expected
 - Unlikely to use all of available Federal base system (Tier 1)
 - BPA is unlikely to augment the size of the FBS as permitted by TRM (up to 300 aMW of augmentation)
 - FBS likely to exceed sum of CHWMs by about 160 aMW
 - Concern about what BPA may do with this unused FBS (DSI service)
 - FBS you now see is the FBS you will get under CHWM Contracts – unlikely to get any larger in near term
 - CHWM determination is mainly about your load and adjustments to it
 - Very important – Can appeal BPA CHWM determinations to recently selected third party neutral – Not like THWM process

The RHWMM

- The RHWMM determined in year prior to the start of a new BPA rate period
- RHWMM establishes eligibility to purchase power at Tier 1 rates for a rate period
- Determined by adjusting CHWMMs for changes in the amount of Tier 1 resources available – smaller FBS results in RHWMM smaller than CHWMM
- RHWMM does not apply until FY 2014 (THWMM in place for FY 2012-2014)
- Two moving parts in RHWMM calculation – your utility's load forecast and determination of Tier 1 resource capability
- RHWMM takeaways:
 - Everyone will be impacted by Tier 1 resource capability determination, so everyone will (should) pay attention to this
 - Each utility should be attentive to their own load forecast for Tier 1 and Tier 2 eligibility
 - The third party neutral can decide disputes with BPA over the Tier 1 resource capability and individual utility load forecasts – also consider mediation
 - Do not have to accept BPA determination if you feel it is in error (not like THWMM)

The CDQ

- CDQ establishes amount of BPA demand service at no additional payment – get it for paying Customer Charge
- It is in essence your Tier 1 demand entitlement
- CDQ will be calculated at end of FY 2010, based on average monthly load factor for FY 2005-2007 applied to actual FY 2010 monthly peaks
- Demand in excess of monthly CDQ served at demand rate
- BPA included fudge factor that reduced CDQ by 10% to be sure everyone starts out paying the demand charge
- FY 2010 demand loads may or may not differ markedly from expected levels due to the recession due to weather sensitivity

The CDQ – continued

- CDQ takeaways
 - BPA has put all non-Slice rates on margin for demand
 - Absent peak load loss, all will face marginal demand charge in first year
 - Demand charge applies to smaller load due to CDQ
 - Rate likely to be much higher – \$2.60 now to \$9.00 or more
 - Makes paying attention to demand charge in rate case worth time and effort
 - Makes peak management financially worthwhile

Peak Management

- TRM makes peak management something to consider
- Tiered rates will have three components (Customer Charge, Load Shaping Charge and Demand Charge)
- Demand charge is most manageable to reduce cost exposure
- Techniques for managing peak include:
 - Demand resource applied to BPA superpeak – can be actual generator or market purchase
 - Can be a Specified or Unspecified Resource
 - Credit at the demand rate, so resource needs to be cheaper
 - Must declare the year before rate period starts

Peak Management - continued

- Load management also way to bring peak load within CDQ, thereby avoiding demand charge
- Number of techniques available including:
 - Industrial/commercial load reduction agreements
 - Water heater load interruption
 - Distribution voltage control
- CDQ takeaways
 - Managing load to CDQ levels is a real money saver
 - Greatest variety of strategies available

Tiered Rates and Retail Rates

- Tiered Rates at wholesale level will present challenges at the retail rate level
- Current BPA energy and capacity charges track retail loads – when retail loads get bigger, BPA bill gets bigger, but so do retail revenues
- Under Tiered Rates, preponderance of BPA costs collected through flat customer charge that does NOT vary with retail load
- Unless you change structure of retail rates, BPA bill will be flat but retail revenues will go up and down with retail load

Tiered Rates and Retail Rates - continued

- Some ways to mitigate this problem include:
 - Establish retail rates that mimic BPA Tiered Rates – large customer charge
 - Charge more in heavy load periods to fund payments in low load periods
 - Establish reserves (or line of credit) to fund periods when revenues fall short of BPA bill
 - Take advantage of BPA bill shaping option to better match retail revenues and wholesale costs
- Retail rate takeaways
 - More cash flow swing will be borne by utilities
 - Load loss risk also shifted to utilities
 - Presents some retail rate and finance issues that need to be addressed before Tiered Rates are implemented

Tiered Rates and Retail Rates - continued

- Tiered Rates also present some equity and economic development issues at the retail level
- Loads of current residential, commercial and industrial customers contributed to CHWM
- What happens when current industrial/commercial customer grows
 - Is Tier 2 cost assigned to all customer classes, industrial/commercial class or just that customer – presents obvious cross-subsidy issues
 - Good arguments for any of these approaches
- What happens when new commercial/industrial load comes to town
 - Do all customer classes see loss of Tier 1 power (retail melded rate)
 - Do just the commercial or industrial class see loss of Tier 1 power
 - Does new commercial/industrial customer pay 100% Tier 2 costs
 - If the last option selected, what does that do to economic development

Tiered Rates and Retail Rates - continued

- Takeaways
 - Start thinking about it now
 - Get policy established with community before situation presents itself
 - Do not want to fight out this kind of policy issue in context of a cost of service study and rate increase
 - Consider contracts with larger commercial and industrial customers so that
 - Utility not stuck holding the bag if company goes broke
 - Power supply rights clearly established and not subject to a big fight every rate increase

Tier 1 Resource Risks

- Current TRM rules for Tier 1 resource loss
 - Loss during rate period, BPA will replace for the rate period only
 - CHWMs reduced in next rate period – no augmentation or replacement by BPA
- Major vulnerabilities of Tier 1 resource pools
 - Fish restrictions causing loss of generating capability – Secondary revenue credit loss
 - Politics – dam removal due to “green agenda”
 - Mechanical loss – WNP-2 is a candidate due to age of facility
 - Wind Generation Integration
- Mitigation strategies are limited
 - Stay politically active (and pray a lot)
 - Stay at or below CHWM by conservation/demand management
 - Non-federal resource with recall rights
- Ultimate solution
 - Change the TRM rules
 - Publics can by vote change the way the TRM operates, subject to certain limits
 - Replacing lost Tier1 capability could be done by revising TRM
 - TRM is policy, not law, and is subject to revision if it does not work the way we want it to