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Subject: NRU's comments on possible BPA Vintage Tier 2 rate

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Annick and John:

Based on the workshop held March 3 to discuss a potential BPA Vintage Tier 2 rate offering, NRU submits the following comments. NRU appreciates the opportunity to comment and looks forward to continue working with BPA to develop vintage Tier 2 rates that address the needs and interests of customers.

Eligibility and Term of Purchase. BPA should make the Vintage Tier 2 rate available to all customers based on forecast FY 2015 above high water mark (HWM) loads. The Vintage Tier 2 rate should begin in FY 2015 and go through FY 2018 or FY 2019 (see note below). To address BPA's concern about a very large aggregate aMW request for the Vintage Tier 2 rate, BPA can cap the amount of Vintage Tier 2 rate each customer can purchase per year at some fixed aMW amount. The cap would be the same aMW for every customer (i.e., not customer dependent). However, for a JOE, the cap should be applied to its individual members, not at the JOE-level). This way, BPA would not have an extraordinarily large amount of aMW to acquire for a Vintage Tier 2 rate. At the same time, all customers would have equal access the Vintage Tier 2 rate up to a certain aMW limit per year per customer.

Note: Length of Purchase. BPA should assess both (1) a market purchase from FY 2015-2018, and (2) a market purchase from FY 2015-2019, for purposes of offering at a Vintage Tier 2 rate. BPA should describe the requirements, risks and benefits of both end-dates, and seek additional public discussion, and then make a final decision. A market purchase through 2019 is attractive to customers, and lines up nicely with the second purchase period.

Process and Timing. One concern BPA expressed was the process and timing issue of issuing statements of intent (SOI) and transacting for the market purchase. Given differing interests and needs of customers, NRU proposes that BPA offer two processes for two vintage rates: a "fast track" and a more comprehensive public process. Under both approaches, BPA should be mindful of customers' needs to talk with their Boards prior to making decisions.

The first process would be a "fast track" process, where: BPA develops a SOI stating the term of the market purchase (FY 2015 through 2018 or 2019, see note above), a maximum price BPA would pay for the power, and a deadline for customers to return a signed SOI. Importantly, the SOI would require BPA to transact for the market purchase no later than **mid-August** so

customers would know prior to their September 30 notification deadline whether the Vintage rate would be available to them. If BPA is unable to transact by the mid-August deadline, the SOI would terminate. Under the "fast track" process, BPA puts an offer on the table and customers can choose to take it or leave it, simplifying BPA's need for a process to develop the SOI. Customers would know whether the Vintage rate would be available prior to their September 30 notification deadline, so they can plan their power supply strategy with more complete knowledge. In addition, by having a Vintage Tier 2 rate in place prior to the 9/30 deadline, this streamlines Exhibit C contractual amendments by putting the Vintage Tier 2 rate purchase amounts in there immediately, instead of needing to convert from the Short Term rate, which would require additional amendments.

The second process would be more of a comprehensive public process, where BPA works with customers to develop an SOI, determine a timeline that would work for the customers and for BPA. Under this path, a market purchase for the Vintage rate would not need to be secured by September 30.

Potentially having two different Vintage Tier 2 rates may add an additional accounting complexity; however, BPA should be set up to charge customers different rates already since there's already the Short Term rate and the Load Growth rate. Further, it is probable that BPA will offer numerous Vintage Tier 2 rate over time anyway.

Capping Purchase Amounts Based on Load Forecasts. We think BPA's proposal to cap the amount of the Vintage Rate a customer can purchase based on its above HWM load forecasts is reasonable. Since we believe the Vintage Tier 2 rate should begin in FY 2015, the cap should be based off 2015 above HWM load forecasts (with modification based on rounding, described below).

Rounding Purchase Amounts. BPA should allow customers to round up to the next whole MW amount according to standard rounding rules (i.e., 0.5 and greater, round up to next whole integer; less than 0.5, round down). At a minimum, if BPA requires customers to round down for the FY 2015 purchase amount, they should be allowed to round up to the next whole MW amount for the subsequent years. For example, if a customer's above HWM load is forecast to be 1.5 aMW in 2015, then the customer would be allowed to purchase 1 aMW in 2015, and then 2 aMW per year after that. This reflects the fact that loads should grow as time goes on, but also limits the risks of customers purchasing too much since above HWM loads will not be known at the time. However, even for 2015 loads, customers should be able to round up if they are pretty close to the next whole MW, instead of being forced to round down. Additionally, we agree with allowing customers that are forecast to be very close to 1 aMW in 2015 to be eligible to purchase 1 aMW vintage rate.

Carbon Emissions. BPA needs to make sure that any market purchase acquired will not exceed the carbon emissions limitations in Washington and Oregon (and any other applicable law).

Transmission Rules and Level Playing Field. BPA should make sure it follows the same rules and complications facing individual customers that procure non-federal market purchases, or alternatively make modifications to the rules and procedures so load following NT customers can

use non-federal market purchases on a basis comparable to BPA. This can help achieve the level playing field called for in the Regional Dialogue Policy ROD. Some examples of the different rules applying to customers but not BPA include: the requirement to use a "sleeve"; the requirement to add the resource as a Designated Network resource; requirements related to transfer service; the requirement to serve above HWM load that is in an amount rounded to the *third* decimal point while market purchases and transmission schedules are made in whole MW amounts. A level playing field can be better achieved between BPA and non-federal market purchases if BPA works with customers to modify BPA's own market purchase rules and/or the rules applying to customers so BPA market purchases and customer market purchases are treated equally.

Potential for Damages by Switching to Vintage Rate. BPA said that if it purchases power to serve the Short Term Tier 2 rate, but then a customer subsequently converts to the Vintage Tier 2 rate, the customer would be liable for damages. BPA should be very careful about buying in advance of need, particularly when it is offering or may plan to offer a Vintage Tier 2 rate.

Thanks again for the opportunity to comment. If you have any questions, please let us know.

- NRU staff