

**To: BPA Tier 2 Rate Development Group**  
**From: John Saven, Northwest Requirements Utilities**  
**Date: April 28, 2011**  
**Re: Comments on BPA's Proposed Market Purchase Based Vintage Tier 2 Rate**

*Submitted online at [www.bpa.gov/comment](http://www.bpa.gov/comment)*

Northwest Requirements Utilities (NRU) appreciates this opportunity to submit a second round of comments on BPA's proposed Vintage Tier 2 rate.

**Start Date of Vintage Tier 2 Rate Should Be FY 2015.** BPA should offer the Vintage Tier 2 rate starting in FY 2015. Eligibility should start based on when a customer has forecasted above rate period high water mark (A-RHWM) load, at any point that is forecasted to occur during the second purchase period.

**Length of Vintage Rate Should Be Five Years (if possible).** BPA has stated that the depth of the market and the strength of potential counterparties for a FY 2019 market purchase are unclear at this point. Ideally, NRU members are interested in being able to secure a market purchase for the entire second purchase period, FY 2015-2019. We suggest that the Statement of Intent (SOI) provides language that allows for special considerations for the FY 2019 purchase, separate and apart from a FY 2015-2018 market purchase. This would provide better flexibility to BPA when it is negotiating a market purchase for the Vintage rate and prevent negating the entire SOI because FY 2019 could not be acquired pursuant to the SOI terms established for FY 2015-2018. For example, the SOI could provide a maximum cost cap for FY 2015-2018 and a different maximum cost cap for FY 2019. There could be additional considerations provided for FY 2019 to ensure the SOI doesn't terminate due to unforeseen circumstances related to FY 2019.

**Stepped Purchase Amounts Should Be Allowed.** While we understand BPA is concerned about purchasing stepped amounts under the Vintage rate, BPA needs to provide a rate that fits the customers' needs. Customers should be responsible for making power supply decisions that fit their needs and are within their own risk parameters. Additionally, a customer individually assumes the risk if it purchased more Vintage Tier 2 than it turns out to need once A-RHWMs are actually set. Therefore, customers should be allowed to purchase increasing stepped amounts based on their forecast A-RHWM load. Customers should be allowed to purchase up to their forecast A-RHWM load for each year of the purchase period (regardless of whether they have FY 2015 forecast A-RHWM load). Specifically, we propose the following (assuming BPA is steadfast to its requirement that customers can only purchase in 1 aMW increments):

- FY 2015 purchase amounts – limited to forecast FY 2015 A-RHWM load, rounded to the next whole MW per conventional rounding rules (round down if less than 0.5, round up if 0.5 or greater). Customers are responsible for any remarketing cost risks if their Vintage rate purchase amount exceeds their need, so they should be responsible for electing a purchase

quantity they are comfortable with. Additionally, customers with forecast A-RHWM load greater than 0.9 aMW should be allowed to purchase 1 aMW.

- FY 2016-2019 purchase amounts – set as stepped aMW amounts for each year (FY 2016-2019) based on that year’s forecast A-RHWM load, rounded to the next whole aMW per conventional rounding. If BPA is concerned about an unwieldy large aMW request, BPA can limit each customer to the same fixed aMW per year (example, limit each customer to 10 aMW/year).

FOR EXAMPLE:

	Forecast A-RHWM load	Vintage Rate Purchase Amount
FY 2015	1.5	1
FY 2016	2.2	2
FY 2017	3.9	4
FY 2018	4.6	5
FY 2019	6.1	6

**Two Fallback Options Should Be Available.** If the SOI terminates because BPA is unable to secure a market purchase pursuant to its terms, customers should have the option to place that load on the Short Term Tier 2 rate or non-federal resources (or possibly some stated combination of the two). The load following contract provides that a Vintage rate is accessed by customers purchasing at the Short Term rate by “converting” a portion of their Short Term purchase to the Vintage rate. The situation we are in today is very different than the world contemplated in that provision. First, the Vintage rate was initially conceptualized to secure output from an actual generating resource, not a market purchase. Second, the idea was that customers had *already* provided their notification to BPA on how they would serve their A-RHWM load – the customer would truly be converting to the Vintage rate from the Short Term rate so falling back to the Short Term rate made some sense.

However, the circumstances surrounding this particular Vintage rate offering are very different. First, the Vintage rate is for a market purchase and not a particular generating resource. Second, and most importantly, *customers have not yet elected how they will serve their A-RHWM load for FY 2015-2019.* (For the record, the fallback options for future Vintage rate offerings should also include Short Term Tier 2 or non-federal.)

Therefore, BPA needs to allow customers to either fall back to the Short Term Tier 2 rate or non-federal resources (or possibly some stated combination of the two). In the customer’s 9/30/11 notification to BPA, the customer can state that if it signed the SOI and the SOI terminates because the market purchase could not be executed, then the customer will serve those stated aMW amounts with \_\_\_\_\_ [Short Term Tier 2 rate, non-federal resource, or some combination of the two]. The customer will also state how it will serve the rest of its A-RHWM load beyond these amounts.

This will provide BPA with the advance knowledge it would like when it comes to customers’ power supply options. This also provides customers with flexibility. Additionally, this approach matches the existing circumstances where the Vintage rate is not being offered in the manner the contracts contemplated so it is appropriate to provide a fallback option different from what is included in the contract.

This provision of fallback flexibility does not appear to present additional risks or costs to BPA or other customers. If, however, BPA sees a potential risk with this flexibility, we would like to better understand the nature of that potential risk and then have the opportunity to work with BPA to mitigate that potential risk.

**Confidentiality.** BPA should ensure that the maximum price cap provided to customers is provided in a confidential manner so as to not bias market bids BPA will receive.

**Potential for Stranded Costs/Counterparty Default.** BPA needs to include a mechanism for ensuring any costs associated with the market purchase, such as counterparty default and replacement power, flow through to that particular cost pool. This could take the form of a Vintage Rate Adjustment Clause (VRAC) where the Vintage rate could be adjusted within a rate period to capture those costs if the costs occur in the last rate period of the Vintage rate.

**Process and Timing.** NRU understands that BPA’s trading floor sees the potential for attractive market prices in the July to November timeframe, and therefore is interested in receiving signed SOIs by the end of June. It is imperative that BPA provide customers with sufficient time to discuss the SOI with their Boards. Therefore, BPA needs to provide the fundamental terms of the SOI at least 6-8 weeks prior to the due date to sign the SOI. Customers need to have a final version of the actual SOI at least 4 weeks prior to the due date. The fundamental terms that BPA needs to have finalized and provide to customers at least 6-8 weeks before the due date are:

- Start date of Vintage rate (i.e., starts in FY 2015).
- End date of Vintage rate and whether FY 2019 purchase will have its own terms and conditions to not derail the SOI for the other years of the purchase.
- The maximum amount of Vintage rate purchase the customer can request – i.e., stepped amount (increasing amounts for each year), based on the forecast A-RHWM load for that year. Customers should be eligible to purchase whenever they begin to have forecast A-RHWM load, even if that is after FY 2015. BPA should also provide the forecast A-RHWM load they will use to determine the customer’s maximum Vintage rate purchase amounts 6-8 weeks prior to the due date.
  - If BPA is going to limit the total amount purchased at the Vintage Tier 2 rate, which may result in reducing customers’ elected amounts on a pro-rata basis, BPA needs to state that limit and the reasons for the limit as well.
  - Since the Northwest Power Act defines a “major resource” as an acquisition with a “planned capability greater than 50 aMW” and “is acquired for a period of *more than* five years,” we do not think BPA needs to limit the size of the Vintage rate in order to comply with its statutory requirements. However, BPA should ensure the size of the potential Vintage rate offering is workable from an administrative and power supplier perspective.
- The fallback option if the market purchase cannot be secured per the terms of the SOI (i.e., customers should have the flexibility to fallback to non-federal market purchase or the Short Term Tier 2 rate).
- Maximum price cap for each year of the market purchase.

**Level Playing Field.** BPA needs to work to ensure that the rules it plays by when acquiring market purchases are similar to the rules customers have to play by when acquiring non-federal market purchases (for example, a sleeve and adding the resource as a Designated Network Resource). This may mean adjusting the rules for the customers *or* adjusting the rules for BPA *or* BPA providing services to the customers using non-federal market purchases so customers are on more of a level playing field with BPA.

**Comments on the Draft SOI.** The following are comments specific to the draft SOI language.

- The SOI needs to be adapted to accommodate for a fallback option of either the Short Term Tier 2 rate or non-federal resource (or possibly both). Specifically, the language should reference that the fallback is whatever customer notifies BPA it will be no later than 9/30/11.
- 2.2 – “BPA shall set the VR1-201X Rate to recover the costs of BPA acquiring power *plus the costs of shaping power into annual flat block amounts of energy...*”
  - Since BPA is planning to acquire a flat a block of power, can this language be removed or otherwise clarified that the power will be acquired in a flat annual block so there will be no additional charges for this?
- 2.3 – won’t the administrative costs of “developing, negotiating and executing” the contracts be determined in the 7(i) process? The way this reads now is that those costs will be *included* in the 7(i) process. Customers should have the ability to participate in the calculation of those administrative costs.
- SOI should include a termination date whereby if a market purchase is not executed, the SOI will terminate. This termination date could be a year from now to provide BPA with sufficient time, but would provide customers with certainty of knowing at some point whether the rate will go forward or not. This will help inform them of how (and the price of) they will serve their A-RHWM load, including ability to proceed with non-federal acquisitions. Additionally, this will allow BPA to know how much Short Term rate they have to serve (if customers chose Short Term as the fallback).
- BPA should clearly state that the Vintage rate will be for a firm, flat annual block purchase, and ensure that the resource will meet any other requirements for load service at a Tier 2 rate. Customers need to be assured of exactly what the product is and that it will meet its contractual obligations for Tier 2 purchases.

These comments pertain to Exhibit A:

- Section 1 – clarify that these additional costs will be calculated and set in the applicable 7(i) process
- Section 1 – “Excess T1 System Resource contribution” – if BPA does not plan to use this as a source of power for the vintage rate, removing this language from the SOI would simplify things and remove potential future confusion.
- Section 2 – the first two paragraphs need to be revised given the fact that customers have not yet provided notice of how they will serve their A-RHWM load for FY 2015-2019. In addition, BPA should provide customers with the option to choose their “fallback” option (see proposal above).
- Section 3 – this section needs to be clarified. Also needs to address the ability to recover costs associated with the Vintage Tier 2 rate even if the rate ends. For example, if there were a supplier default in 2019, there would be no subsequent rate to collect those costs from those

Vintage rate purchasers. This is where the idea of a VRAC could come in (see discussion above).

- Section 5 – modify to provide fallback flexibility
- Section 6 – the second to the last sentence needs to be revised. Now it can be read to say that if the customer elects to receive the remarketing credits, it can. This sentence is really trying to say that if customer elects to have BPA remarket the excess Vintage rate, then BPA will do so.
- Section 7 – this does not seem applicable since no customer has yet elected Short Term Tier 2 for the FY 2015-2019 period. Furthermore, BPA should obligate itself to not acquire resource for the Short Term Tier 2 rate for FY 2015-2019 while the Vintage Rate SOI is out. This will protect the customer from BPA acquiring a resource for the Short Term rate while also being on the hook for the Vintage rate. In addition, it does not seem likely BPA would want to purchase for FY 2015-2019 at this time anyway, since loads are not yet known and customers' elections have not yet been provided.

Again, we appreciate the opportunity to participate in the development of this rate. We encourage BPA to continue involving its customers and their representatives in designing appropriate mechanisms to allow customers to cost-effectively and reliably serve their A-RHWM loads.

Best regards,



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Chief Executive Officer

CC: NRU members