

# Proposed Financial Requirements for Future NOS Participants

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\*\*\*Pre-Decisional; For information purposes only\*\*\*



# Objectives

- Minimize the risk of cost shifts from requesting customers to BPA's regional ratepayers in future NOS processes
- Maintain open and non-discriminatory access to transmission service through the NOS process
- Continue to encourage participation in NOS cluster studies by retaining value – where possible – from previous NOS processes
- Encourage efficient expansion of BPA's transmission system by building for customers committed to taking service
- Effectively use BPA's borrowing authority, and determine the appropriateness of customer-funding requirements

# Principles of a Multi-Phased Financial Requirement

- Study Phase – S1\*
  - Intends to consider costs associated with Cluster Study, Preliminary Engineering/NEPA Scoping, and NEPA Study
  - Intends for the region to be kept whole, in terms of cost exposure from Study Phase
  - Initial financial requirement should be sufficient to encourage those most committed to participate in NOS
  - Financial requirement should not be unduly burdensome and should be linked to actual costs incurred by BPA
- Construction Phase – S2\*
  - Mitigate risk of cost shifts to regional ratepayers
  - Identify and construct facilities for those that most need service

\*Refer to the Proposed NOS Future State Model available at:

[http://transmission.bpa.gov/customer\\_forums/nos\\_gi\\_reform/preliminary\\_future\\_state\\_nos\\_model.pdf](http://transmission.bpa.gov/customer_forums/nos_gi_reform/preliminary_future_state_nos_model.pdf)

# Study Phase (S1) Financial Requirement Options

(Cluster Study, Preliminary Engineering/NEPA Scoping, and NEPA Study, Re-study)

- Option 1: Pro Forma model – Customers pay for each step of the Study Phase
- Option 2: Customer Securitizes Study Phase – Customers provide security in amount **at least** sufficient to cover its estimated pro rata share of Study Phase costs, plus re-study
  - BPA funds some/all steps of the Study Phase
  - If Customer proceeds to Construction Phase, all security rolls forward towards its Construction Phase financial requirement
  - If Customer ejects from NOS prior to Construction Phase, BPA returns any deposit amount remaining after deducting pro rata costs incurred until ejection point plus restudy costs
- Option 3: Customer Security Correlated to Viability Evaluation – Customers' Study Phase financial requirement is based on the viability of the underlying request (e.g., whether associated with PPA, for load service, etc.)
  - Financial requirements for Study Phase could be less for customers that have PPA, or can attest to load service
  - Similar to Option 2, in that BPA would fund some/all of Study Phase
  - If Customer proceeds to Construction Phase, all security provided would roll forward to partially meet its Construction Phase financial requirement
  - If Customer ejects from NOS prior to Construction Phase, BPA returns any remaining deposit amount remaining after deducting pro rata costs incurred until ejection point, plus restudy costs

# Construction Phase (S2) Financial Requirement Options

- Customers taking part in the Construction Phase likely will be permitted to roll all security provided for the Study Phase toward their Construction Phase financial requirements
- Four options:
  - Option 1 – Uniform Security amount
    - All Customers provide security for a uniform % of their pro rata share of commercial costs, up to 100% (as example, all customers could securitize 75% of their pro rata share of commercial construction costs)
  - Option 2 – Uniform Advance Funding amount
    - Identical to Option 1, but instead of providing security, Customers advance fund a uniform % of their pro rata share of commercial costs, up to 100%
  - Option 3 – Hybrid Securitization/Advance Funding
    - Blend of Options 1 and 2; Require a portion of the pro rata share of commercial costs to be advance funded, plus an additional portion to be securitized
  - Option 4 – Tiered Securitization/Funding based on Viability of Request
    - Evaluate the viability of the underlying request for service (whether it is part of a PPA, or is for load service), and tier the securitization/funding requirement accordingly. For instance, requests associated with a PPA may be required to securitize 33% of the pro rata share of commercial costs, while all other requests may be required to securitize 75% of their pro rata share of commercial costs.

# Construction Phase (S2) Financial Requirement Options (cont)

	Customer provides <b>Security</b> for some % of its pro-rata share of (commercial) construction costs	Customer <b>Advance Funds</b> some % of its pro-rata share of (commercial) construction costs	BPA funds construction?	Mitigation of Cost Risk to Region	Disposition of Security/Funding
NOS Status Quo	No	No	Yes	None	Return PA following 180 days of service
<b>Option 1:</b> Uniform Security Amount	Yes, letter of credit or other security for up to 100% of pro-rata share of construction costs (pro forma considers 100%). All Customers would provide identical % of their share	No	Yes	Yes, to the % that the Customers secure. If Customers secure 75% of build, the risk to the region is mitigated by 75%	Likely result in some form of security reduction over time (LOC, escrow, cash deposit)
<b>Option 2:</b> Uniform Advance Funding Amount	No	Yes, advance funding for up to 100% of the pro-rata share of construction costs (or a smaller amount, such as the portion that BPA cannot lease-finance). All customers provide the same %	Yes, for the portion that is not advance funded by customers	Yes, to the % that the Customers advance fund. If Customers finance 30% of build, the risk to the region is mitigated by 30%. However, this likely introduces rate impacts due to Tx credits	Would likely result in transmission credit balance for Customer
<b>Option 3:</b> Combination of Options 1 and 2	Yes, letter of credit or other security for up to 100% of pro-rata share of construction costs that Customer has not advance funded	Yes, advance funding for some portion of the pro-rata share of construction costs	Yes, for the portion that is not advance funded by customers	Yes, to the cumulative % that Customers advance fund and secure their pro-rata shares	Combination of reduction in security and transmission credit balance
<b>Option 4:</b> Build security/advance funding based on viability evaluation	Yes, possibly	Yes, possibly	Yes, for the portion that is not advance funded by customers	Yes, although if Customers are not required to securitize and/or advance fund 100% of their share, the region would still face cost risk.	Likely obligation to reduce security or provide transmission credits

# Questions to Stakeholders

- In considering the risk of cost shifts to BPA ratepayers, what level of security should BPA ultimately require from NOS participants at the Construction Phase?
- How should BPA consider the requirement for customers to provide funding, as opposed to security?
- For security or advance-funding that BPA receives, what disposition methodology should be used?
- Are there any additional comments on the multi-phased financial requirement approach?
  - Should additional financing stages be added?
- Should there be a true up after the conclusion of NEPA?
  - Should BPA seek additional security if pro rata Study Phase costs exceed pro rata Study Phase financial commitment? Should there be a cap on financial commitment collected by BPA?

# Next Steps

- Continue to welcome customer feedback on proposed modifications to financial requirements.
  - Submit comments to [techforum@bpa.gov](mailto:techforum@bpa.gov).
- Additional customer meetings will be scheduled.
- Questions?

# Preliminary Future State of NOS Model

