PTSA Reform Initiative Decision and Process

December 6, 2011

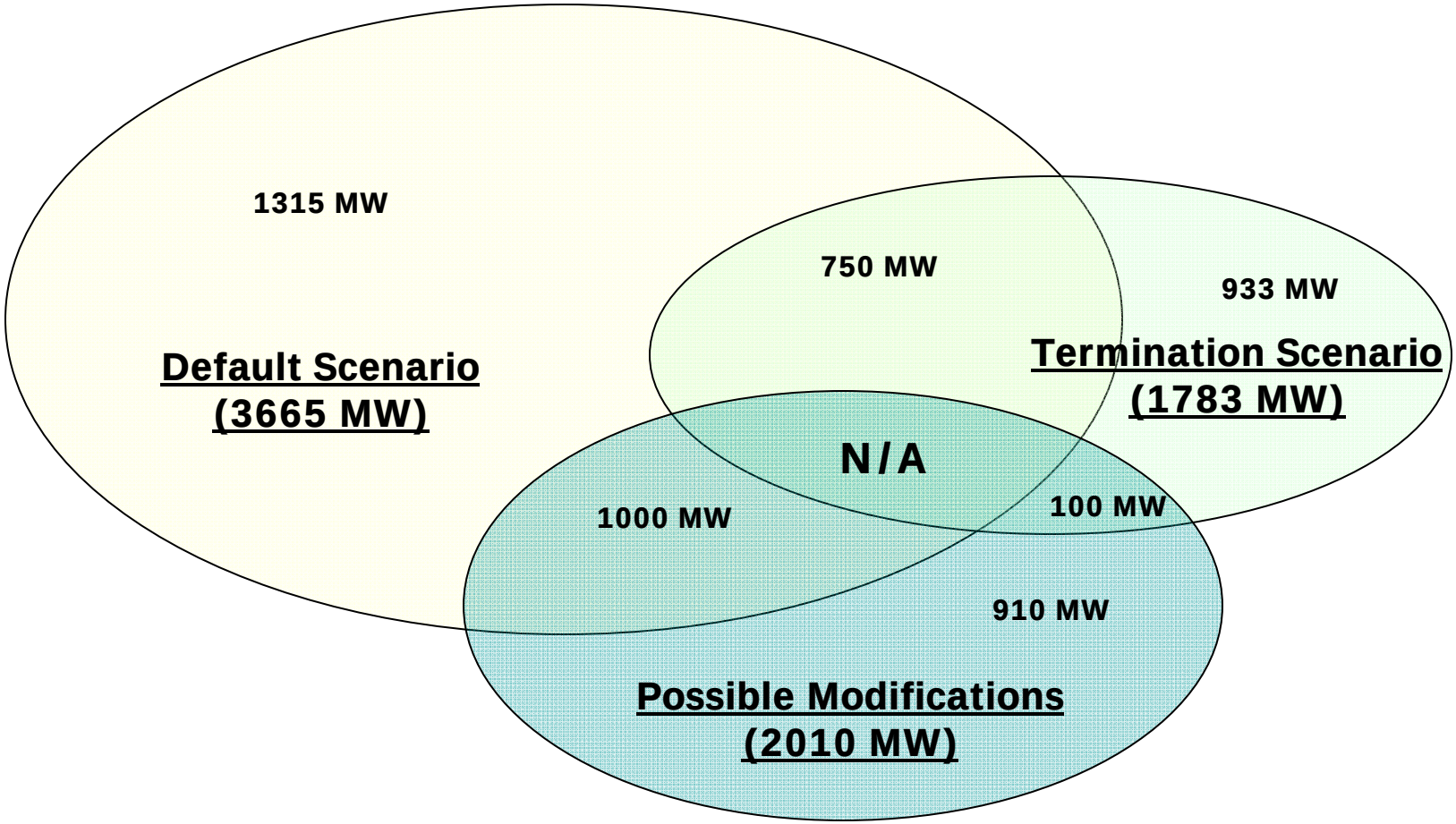
Background & History

- BPA held the 2008, 2009 and 2010 NOS processes resulting in 263 PTSAs for 11,722 MW.
  - The PTSA commits customers to take service in exchange for BPA's commitment to conduct and finance studies and, if a decision to build were reached, to finance construction of the new facilities at rolled-in rates.
- In response to customer requests, BPA agreed to consider a process for evaluating termination or modification of some of these contracts.

Goal/Objective

- To be responsive to customer interest in terminating or modifying PTSAs when it makes business sense consistent with the following criteria:
  - Customers seeking termination are given the opportunity to demonstrate value to other BPA ratepayers.
  - BPA's other ratepayers are neutral or better off compared to not terminating or modifying.
  - Consideration of impacts to PTSA holders awaiting or anticipating NOS builds.
  - Transparent & expedited process.

Relationship of Potential PTSA Related Actions



Default Scenario (3665 MW) – Assumes default of TSRs related to incomplete generation being funded by non-investment grade customers.

Termination Scenario (1783 MW) – Assumes termination of TSRs that customers identified in previous outreach.

•In both scenarios above the generation associated with the TSR is never completed and the associated LGIA is not funded or completed.

Possible Modifications (2010 MW) – TSRs identified by customers that they would possibly modify if modifications are allowed.

PTSA Reform Decision

- BPA will consider proposals from customers interested in termination or modification of specific PTSAs.
  - BPA will not run a process to allow PTSA terminations based on a common template.
- Customers must demonstrate that their proposed terms are sufficient to keep BPA ratepayers at least rate neutral for each deal.
- Customers that assert an inability to pay for committed transmission service must demonstrate their inability to pay.
  - Customers should assume that BPA will dispute any reduction in contracted payments.

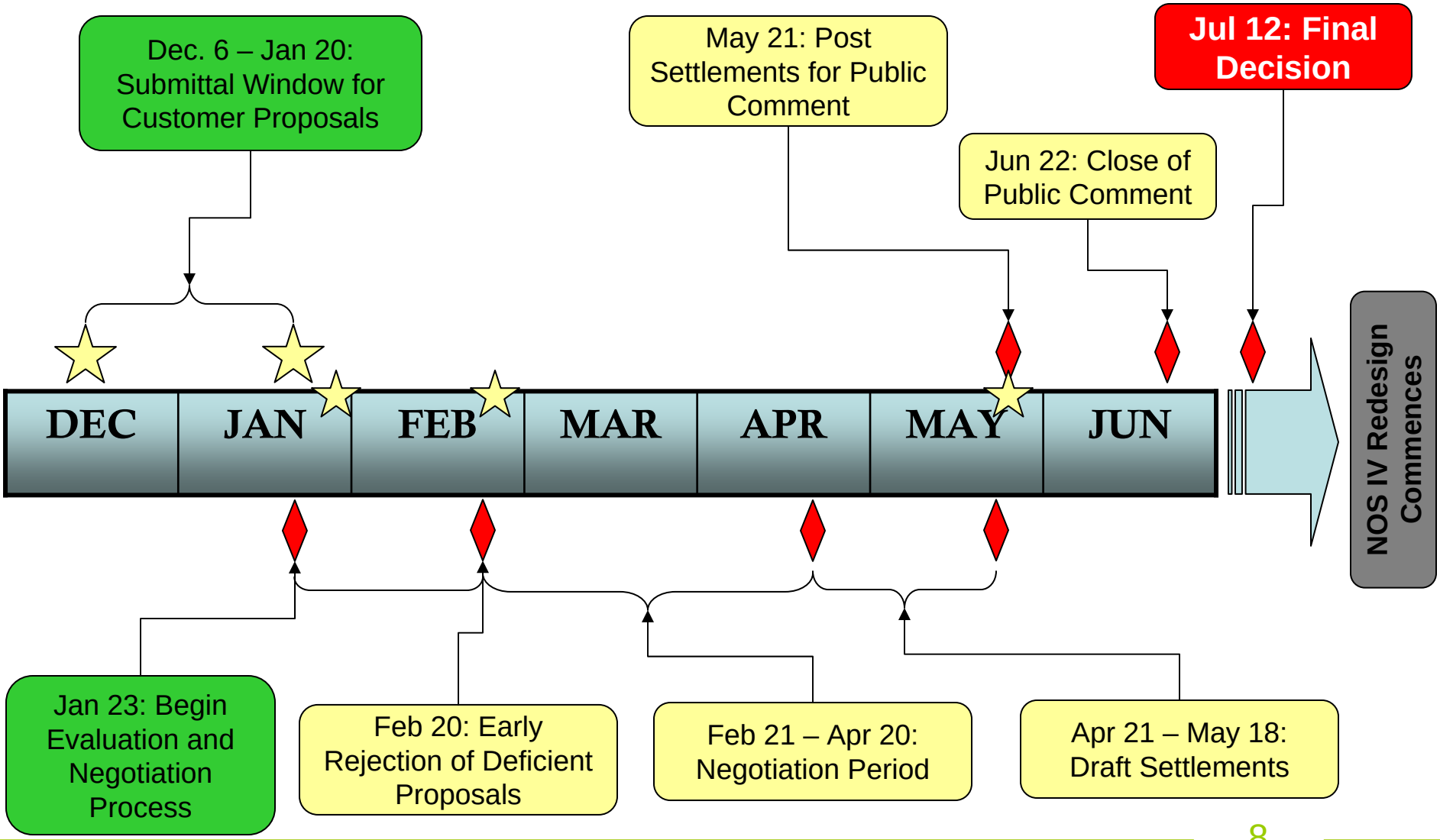
Why Bilateral Negotiations?

- Provides flexibility to allow consideration of all potential items of value that a customer might propose.
- Overcomes the challenge of applying common criteria to a set of customers with varied business models.

Value Proposition

- Customers must demonstrate the value of their proposal to other BPA ratepayers.
- That value could be demonstrated in various forms. A few examples of value propositions include:
  - Full performance assurance plus some portion of present value of the contract.
  - Freed-up AFC that will be resold to other customers.
  - Value of avoided network construction costs.
  - Items related to interconnections associated with a transmission service request.
- Customers are encouraged to consider other opportunities to provide value to BPA ratepayers.

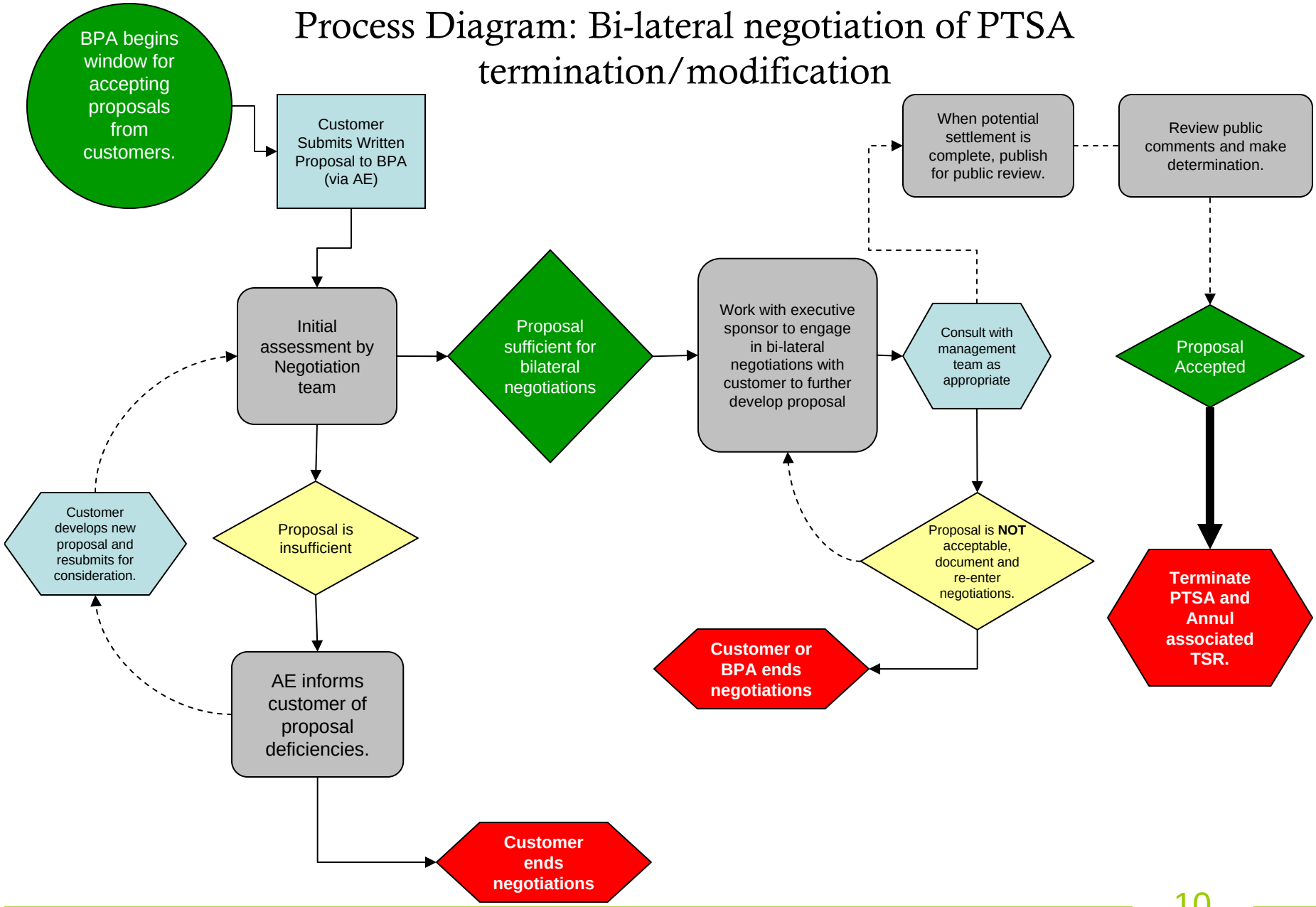
Proposed Timeline



Process Benefits

- BPA resources will focus on proposals received by January 20, 2012.
  - BPA resources will not be focused on evaluating requests received after the suggested window.
- Each proposal needs to stand on its own merits.
  - Early rejection of proposals that don't demonstrate value to BPA's ratepayers.
  - Also could allow BPA to review in aggregate to identify potential benefits of related proposals.
- Conclude negotiations prior to start of the next NOS.

Process Diagram: Bi-lateral negotiation of PTSA termination/modification



Transparent Process

- Customers should be aware that all information that is included in the negotiations may be shared publicly at some point in this process.
- BPA will post the identity of customers seeking termination or modification and relevant TSR(s).
- BPA will post the final terms of proposed settlements for public comment prior to execution.
- BPA will make its final decision after considering any public comments.

Next Steps

- Submit proposal by January 20, 2012
  - Submit through your Transmission Account Executive.
- BPA will provide regular updates on participation and status throughout evaluation process.
- Web site: http://transmission.bpa.gov/customer_forums/open_season_2011/

Appendix I
Analysis of NOS PTSA Termination Rate Impacts
Supplemental Analysis Summary

Updated Financial Analysis

Scenario Definitions

- Base Case
  - All PTSAs take service. There are several deferrals assumed. There are no terminations and no defaults. LGIA projects are constructed as forecast.
- PTSA Termination
  - PTSAs are allowed to terminate. This analysis is based on the assumption that customers that indicated interest in termination are allowed to terminate (authorized TSRs were considered ineligible to terminate). LGIA projects associated with these projects are not funded or constructed.
- Default Risk
  - TSRs related to non-investment grade customers without completed generation default. The associated generation is never completed and associated Large Generation Interconnection Agreements (LGIA) are not funded or constructed.
- Customer Requested Analysis for Default Risk
  - Assumes that only requests related to non-investment grade customers who do not have other business in the region and who have not yet constructed transmission default. The associated generation is never completed and associated Large Generation Interconnection Agreements (LGIA) are not funded or constructed.

Assumptions

- Energization dates for NOS 2008 & 2010 projects match those in the NOS Project Summary Fact sheet updated September 1, 2011
- TSRs that have been associated with LGIAs are expected to defer until the commercial operations date based on a wind forecast developed 9/9/2011.
- Redirect and NT requests do not result in incremental revenues included in this analysis.
- TSRs are forecast to use their right of refusal and rollover indefinitely, unless the company defaults or terminates.
- Reservation Fees and Performance Assurance have been considered in the analysis.
- Default and termination groups were updated based on new information.
- Customers identified as default risks default on the first month of service and performance assurance is forfeited to BPA.
- Customers that terminate forfeit a penalty equal to their performance assurance immediately.
- Performance assurances received by BPA are used to offset rate increases from the base case until they are exhausted.
- No future sales of ATC are confirmed.

PTSA Analysis with Authorized TSRs MW Assumptions

	McNary-John Day, & Big Eddy-Knight	McNary-John Day, & Big Eddy-Knight & CF Lomo	McNary-John Day, Big Eddy-Knight, CF Lomo & CUP	All NOS 2008 & 2010 Projects
Base Case	5,670 MW	6,420 MW	6,900 MW	8,715 MW
PTSA Termination	4,220 MW	4,770 MW	5,250 MW	6,932 MW
Default Risk	2,435 MW	3,185 MW	3,235 MW	5,050 MW
Customer Requested Analysis for Default Risk	3,759 MW	4,509 MW	4,559 MW	6,374 MW

PTSA Analysis with Authorized TSRs and **WITH** Transmission Credits: Average 5 Year Rate Impact Summary

	McNary-John Day, & Big Eddy-Knight	McNary-John Day, & Big Eddy-Knight & CF Lomo	McNary-John Day, Big Eddy-Knight, CF Lomo & CUP	All NOS 2008 & 2010 Projects
Base Case[1]	0.49%	2.27%	3.14%	6.60%
PTSA Termination[2]	0.49%	2.27%	3.14%	6.60%
Default Risk[2]	0.60%	2.34%	3.67%	7.17%
Customer Requested Analysis for Default Risk[2]	0.70%	2.50%	3.81%	7.28%

[1] Includes Reservation Fees for forecast deferrals

[2] Includes Reservation Fees for forecast deferrals and BPA retention of full performance assurance for terminating/defaulting requests.

PTSA Analysis with Authorized TSRs and **WITH** Transmission Credits: Average 20 Year Rate Impact Summary

	McNary-John Day, & Big Eddy-Knight	McNary-John Day, & Big Eddy-Knight & CF Lomo	McNary-John Day, Big Eddy-Knight, CF Lomo & CUP	All NOS 2008 & 2010 Projects
Base Case[1]	-5.50%	-4.08%	-3.36%	-0.84%
PTSA Termination[2]	-3.80%	-2.68%	-1.96%	0.87%
Default Risk[2]	-0.27%	1.14%	2.97%	5.46%
Customer Requested Analysis for Default Risk[2]	-1.53%	-0.10%	1.68%	4.20%

[1] Includes Reservation Fees for forecast deferrals

2 Includes Reservation Fees for forecast deferrals and BPA retention of full performance assurance for terminating/defaulting requests.

MW Assumptions for McNary-John Day and Big Eddy-Knight with Authorized TSRs Scenarios Compared to Base Case

	Scenario MW	MW Lost Compared to Base
Base Case	5,670 MW	N/A
PTSA Termination	4,220 MW	1,450 MW
Default	2,435 MW	3,235 MW
Customer Requested Default Risk	3,759 MW	1,991 MW

MW Assumptions for McNary–John Day, Big Eddy–Knight and Central Ferry-Lomo with Authorized TSRs Scenarios Compared to Base Case

	Scenario MW	MW Lost Compared to Base
Base Case	6,420 MW	N/A
PTSA Termination	4,770 MW	1,650 MW
Default	3,185 MW	3,235 MW
Customer Requested Default Risk	4,509 MW	1,911 MW

MW Assumptions with Authorized TSRs Scenarios Compared to Base Case

	Scenario MW	MW Lost Compared to Base
Base Case	6,900 MW	NA
PTSA Termination	5,250 MW	1,650 MW
Default	3,235 MW	3,665 MW
Customer Requested Default Risk	4,559 MW	2,341 MW

MW Assumptions for NOS 2008 &2010 with Authorized TSRs Scenarios Compared to Base Case

	Scenario MW	MW Lost Compared to Base
Base Case	8,715 MW	N/A
PTSA Termination	6,932 MW	1,783 MW
Default	5,050 MW	3,665 MW
Customer Requested Default Risk	6,374 MW	2,341 MW

Direct Costs for NOS 2008 & 2010 Projects

PROJECT	2009	2010	2011	2012	2013	2014	2015	Total Direct Cost ($M)
NOS 2008 Projects								
McNary-JohnDay (revised Nov 2011)	$1.008	$25.299	$62.228	$50.804	$11.660			$151.000
BigEddy-Knight	$2.400	$4.000	$11.100	$90.000	$70.500	$6.500	$1.000	$185.500
I-5 Corridor Reinforcement	$1.853	$11.827	$6.840	$85.499	$85.499	$75.239	$75.239	$341.996
Central Ferry - Lomo (spread updated in 2011)	$0.566	$3.231	$3.476	$44.037	$38.709	$0.000	$0.000	$90.019
NOS 2010 Proposed Projects								
CUP (West)	$0.000	$0.000	$0.000	$5.300	$29.300	$40.412	$40.412	$115.464
Northern Intertie Projects	$0.000	$0.000	$0.000	$21.364	$35.116	$14.126	$0.050	$70.656