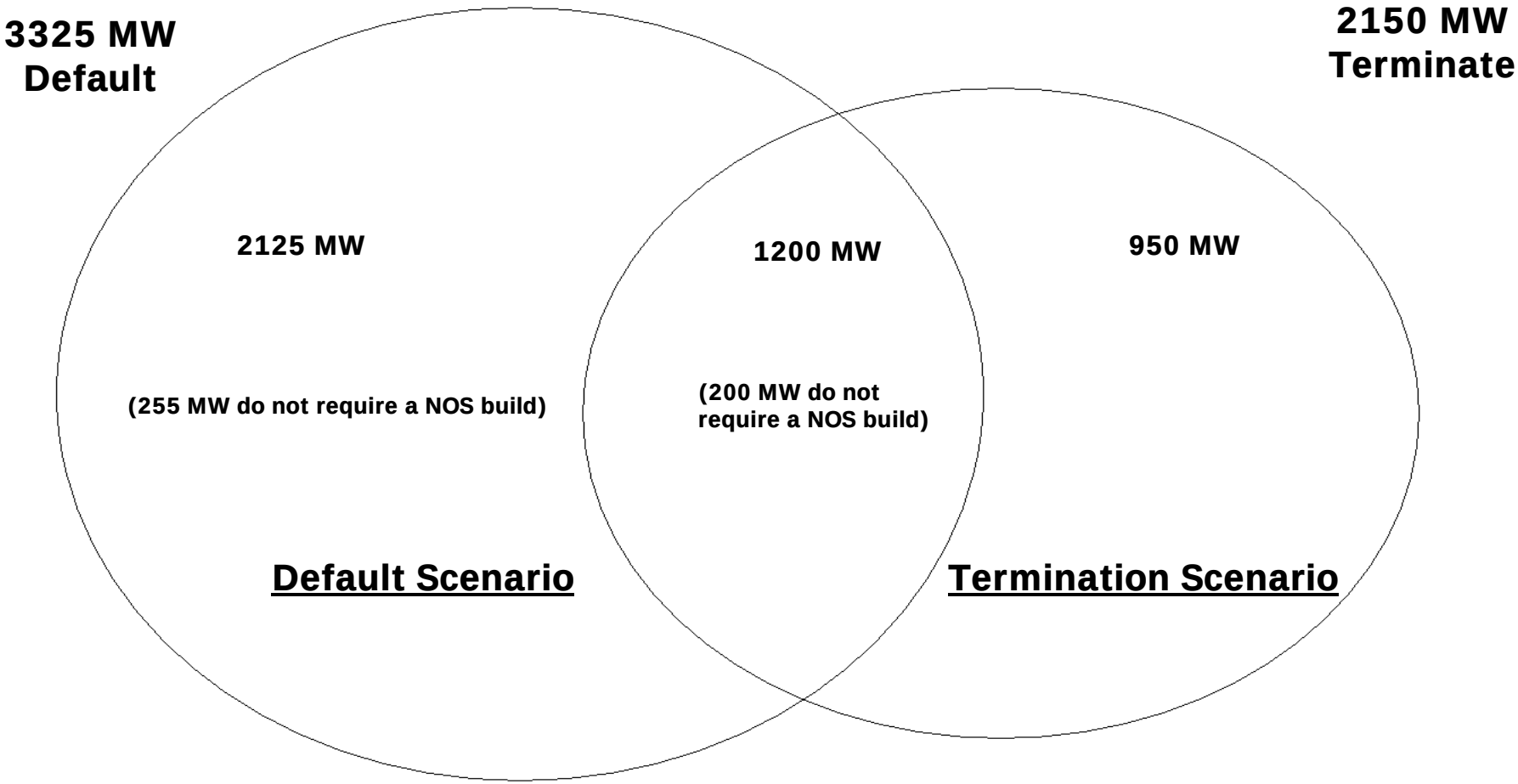
Analysis of NOS PTSA Termination Rate Impacts
Supplemental Analysis

October 27, 2011

MW Reduction in PTSA Rate Analysis Scenarios



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

Termination Scenario – Assumes termination of TSRs that customers identified in previous outreach.

* In both cases the generation associated with the TSR is never completed and the associated LGIA is not funded or completed.

Pre-Decisional - For Discussion Purposes Only

Duration of Terminating Contracts

Weighted Average Duration of Terminating Contracts*	
NOS 2008 and 2010	5.6 years
NOS 2008 and 2010 (Authorized)	5.6 years

*Based on contracts assumed to terminate in BPA analysis

Updated Assumptions

- The Base Case was updated to reflect revenue from reservation fees which resulted in a change of .23%.
  - October 12 Base Case (no reservation fees) = 11.16% rate pressure
  - October 24 Base Case (includes reservation fees) = 10.93% rate pressure
- The supplemental analysis for the PTSA termination and Default scenarios consider Performance Assurance and deferrals.
  - PTSA Termination scenario
    - Performance Assurance is included in its entirety
    - Reservation fees for deferrals are included.
  - Default scenario
    - Performance Assurance is refunded after customer takes six months of service and then customer defaults.
    - Reservation fees for deferrals are included.

MW Assumptions
PTSA Termination Scenario Compared to Base Case

	Base Case	PTSA Termination	MW Lost Compared to Base
NOS 2008 and 2010 Projects	6,740 MW	4,790 MW	1,950 MW
NOS 2008 and 2010 Projects (with authorized)	8,715 MW	6,565 MW	2,150 MW
Big Eddy Knight Only	3,385 MW	2,185 MW	1,200 MW
CF Lomo Only	200 MW	100 MW	100 MW

MW Assumptions
Default Scenario Compared to Base Case

	Base Case	Default Scenario	MW Lost Compared to Base
NOS 2008 and 2010 Projects	6,740 MW	3,870 MW	2,870 MW
NOS 2008 and 2010 Projects (with authorized)	8,715 MW	5,390 MW	3,325 MW
Big Eddy-Knight Only	3,385 MW	1,005 MW	2,380 MW
CF-Lomo Only	200 MW	200 MW	0 MW

All NOS 2008 and 2010 Projects
Rate Pressure for PTSA Termination Scenario with Performance Assurance

	Base Case	PTSA Termination	Delta
5 yr Rate Pressure	10.93%	11.30%	0.36%
20 yr Rate Pressure	3.23%	5.74%	2.50%

- Cash effects of LGIA credits associated with TSRs are included in the analysis.
- **Reservation Fees associated with deferrals are included in the analysis.**
- Assumes TSRs that customers have expressed interest in are terminated. The associated generation is never completed and associated LGIA are not funded or constructed.
- Upon terminating the customer forfeits their performance insurance.
- **The forfeited performance assurances are used to relieve rate pressure caused by the terminations until the performance assurance balance is exhausted.**
- All contracts that do not terminate roll over indefinitely.
- No future sales of ATC are assumed.

All NOS 2008 and 2010 Projects
Rate Pressure for Default Scenario

	Base Case	Default	Delta
5 yr Rate Pressure	10.93%	12.77%	1.84%
20 yr Rate Pressure	3.23%	8.76%	5.42%

- Cash effects of LGIA credits associated with TSRs are included in the analysis.
- Assumes default of TSRs related to non-investment grade customers without constructed generation. The associated generation is never completed and associated LGIA are not funded or constructed.
- **Defaulting TSRs defer five (5) times before defaulting. Reservation fees are included in this analysis.**
- **Before a customer defaults they take 6 months of service in order to receive their performance assurance. Six (6) months of revenue is included for defaulting entities. Performance assurance is not.**
- No future sales of ATC are assumed.

Summary

- The analysis implies that reservation fees from deferrals and performance assurance could help mitigate upward rate pressure risk resulting from terminations and defaults.
- In the termination scenario, including the use of performance assurance when compared to the updated base case:
  - Would result in a rate pressure differential of 0.36% for 5 years
  - Would result in a rate pressure differential of 2.50% for 20 years
- In the default scenario, including the additional revenues from six months of transmission service when compared to the updated base case:
  - Would result in a rate pressure differential of 1.84% for 5 years.
  - Would result in a rate pressure differential of 5.42% for 20 years.

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Appendix

Rate Pressure Information Shared at October 12, 2011

PTSA Termination Customer Meeting

PTSA Termination Scenario: 5-year Analysis with Transmission Credits

	Base Case	PTSAs Terminate	Delta
NOS 2008 and 2010 Projects	11.16%	12.20%	1.05%
NOS 2008 and 2010 Projects (with authorized)	7.43%	8.36%	0.92%
Big Eddy Knight Only	0.82%	1.33%	0.51%
CF Lomo Only	1.87%	1.87%	0.00%

PTSA Default Scenario:
5-year Analysis with LGIA Credits

	Base Case	Default Scenario	Delta
NOS 2008 and 2010 Projects	11.16%	13.74%	2.58%
NOS 2008 and 2010 Projects (with authorized)	7.43%	10.43%	2.99%
Big Eddy Knight Only	0.82%	2.13%	1.30%
CF Lomo Only	1.87%	1.87%	0.00%