

Background on FERC Order 2003-A

Large Generator Interconnection Procedures and Agreement

- **FERC's Stated Objectives**

- Reduce overall cost of electricity to customers, including the cost of renewable energy

- Reduce interconnection time and costs

- Prevent undue discrimination in interconnections

- Increase energy infrastructure

- Ease entry for competitors while promoting more efficient siting decisions

- Clarify pricing of transmission enhancements for interconnections

- Preserve reliability of the transmission system

- **FERC Rulemaking Process**

- ANOPR October 2001 initiating a stakeholder negotiation process

- Consensus document filed January 2002

- NOPR issued April 2002

- More than 170 entities filed comments

- Order 2003 issued July 2003

- Over 40 requests for rehearing

- Order 2003-A (Order on Rehearing) issued March 2004

- About 12 requests for rehearing-rehearing granted

- No further Order on rehearing yet

FERC Direct Assignment Policy For Interconnections

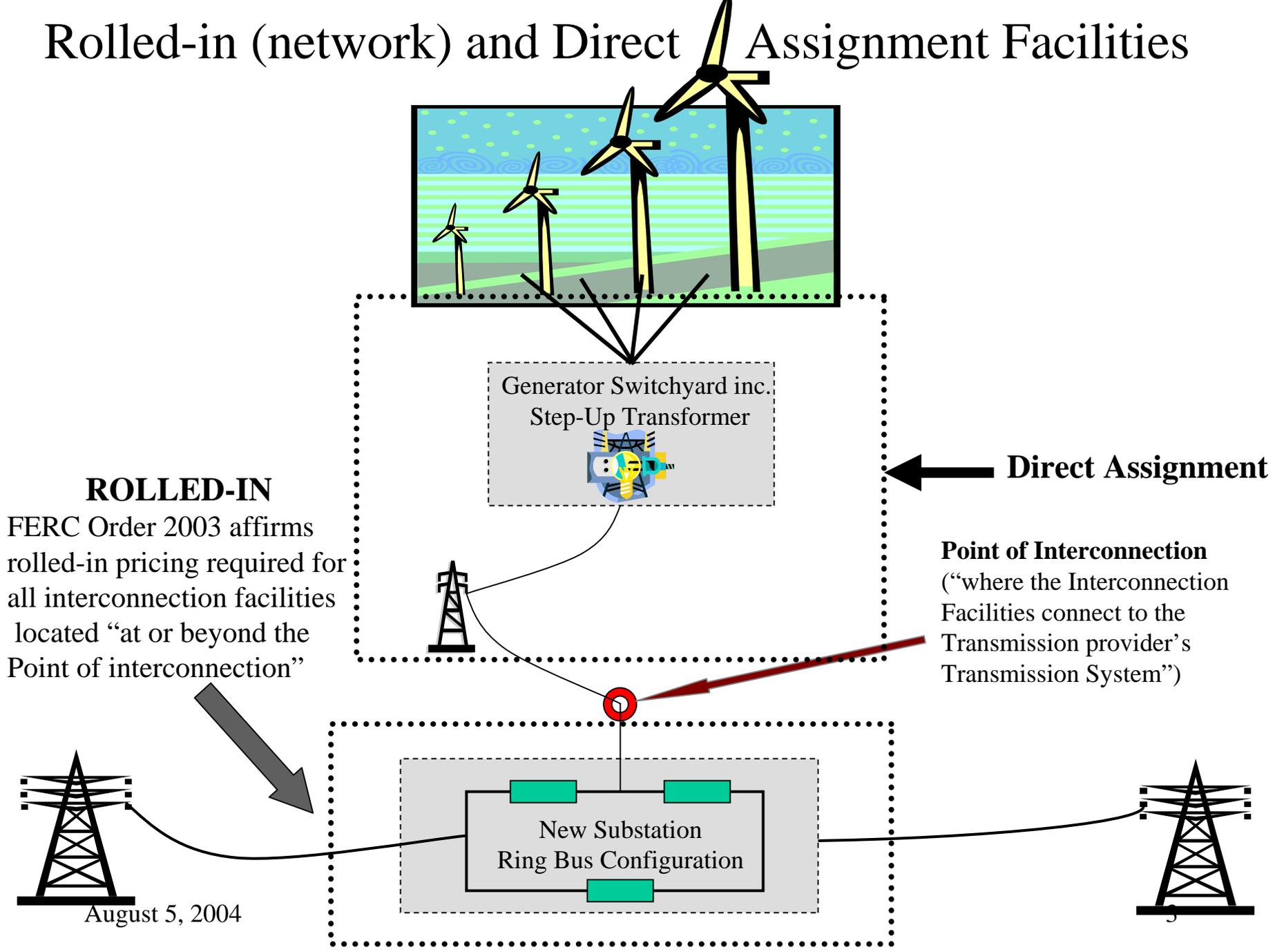
Order 2003 reaffirmed existing FERC direct assignment policy which is the “at-or-beyond test” (explained on the following page)

- Explicitly rejected the “but for” test
 - Facilities that would not be necessary “but for” the generator interconnecting to the system are directly assigned
- Authorized transmission provider to require interconnection customer to finance interconnection-related network upgrades
- Established policies on transmission credits to repay interconnection customer financing

TBL intends to formally adopt FERC Order 2003-A by making a tariff compliance filing in August without conforming to FERC direct assignment policy.

- The filing will include adoption of FERC crediting policy: 1) credits only for service taken by the generator and 2) no accelerated payment of credits.
- The issue of whether to conform to FERC’s direct assignment policy will be addressed in the 2006 Transmission Rate Case

Rolled-in (network) and Direct Assignment Facilities



ROLLED-IN
FERC Order 2003 affirms
rolled-in pricing required for
all interconnection facilities
located "at or beyond the
Point of interconnection"

Point of Interconnection
("where the Interconnection
Facilities connect to the
Transmission provider's
Transmission System")

August 5, 2004

CURRENT POLICY

Transmission Business Line (TBL)

Generation Interconnection Direct Assignment

This document is provided for purposes of the April 22, 2004, public meeting on Federal Energy Regulatory Commission Order 2003. It summarizes BPA's application of its direct assignment guidelines.

Generator Interconnection Direct Assignment Facilities are new facilities or the replacement of existing facilities required to interconnect a new generator to the FCRTS, or to increase the capacity of an existing generator in a safe and reliable manner as determined by BPA.

Such facilities include those necessary to accommodate the capacity requirements associated with operating the generator at full output. Such facilities may include:

1. a new substation,
2. a new terminal at an existing substation,
3. a simple line tap, under certain circumstances, or
4. line reconductor/rebuild, new line, or voltage upgrade

Direct Assignment Facilities include the following:

- A) Communication, control, meter, telemetry, protection, RAS and ICCP equipment at the generation plant and at the interconnection substation, line terminal, or tap (generator interconnection point), and all facilities located between the generation plant and the generator interconnection point.
- B) Facilities required for capacity or fault duty that are located between the generator interconnection point and the line terminal at the nearest network substation (a network substation is a substation connected to the transmission system by more than two transmission lines that are also interconnected with other network substations). Facilities located between the generator interconnection point and the line terminal at the nearest network substation that are not required for thermal capacity or fault duty will not be directly assigned.
- C) Generator Interconnection Direct Assignment Facilities do not include facilities located beyond the line terminal at the nearest network substation except for the costs associated with communication, control, metering, telemetry, protection, RAS and ICCP equipment additions or replacements.

ISSUE: Should TBL modify its current direct assignment guidelines for interconnection related facilities by adopting FERC direct assignment policy (the “at-or-beyond” test)?

Scope:

1. Should TBL adopt the FERC “at-or-beyond test” for determining which interconnection facilities are directly assignable and which constitute network upgrades, the costs of which will be recovered through network rates?
2. If TBL adopts FERC’s direct assignment policy, how will interconnection related network upgrades be reflected in the TBL revenue requirement, and how will credits for generator financed network upgrades be reflected in the revenue forecast?
3. Crediting policy will conform to FERC policy as reflected in our OATT, and is not a subject of this rate proceeding

Core Objectives

1. Conform to FERC policy when possible
2. Protect existing customers from stranded cost exposure or higher rates resulting from generator driven infrastructure investment
3. Support adequate regional power and transmission system

Current Expectations For Initial Rate Proposal

Initial Position: Adopt FERC “at-or-beyond test” for determining which interconnection facilities are directly assignable to new generators

Implications:

- Larger capital program (\$5-\$20 million/year)
- Financing initially provided by generator until credits repaid
- May increase borrowing requirements in the future

Rate Protections For Existing Customers

- FERC crediting policy adopted into our tariff will limit credits only to incremental revenues
- Will not increase rates to existing customers, but may reduce potential size of rate benefits otherwise resulting from expanded transmission sales to the new generator