Customer Financial Commitments at Construction

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Approaches to Participant Financing

Should Customers Provide Financing for NOS Projects?

- Background
  - BPA has limited borrowing authority, currently estimated to be fully depleted as early as 2016 absent additional sources of capital.
  - BPA has used customer financing for different types of projects including directly assigned projects, generator interconnection projects, and capacity ownership.
  - However, BPA's unsuccessful experience with obtaining customer financing for the John Day-McNary project indicates that it may be challenging to agree upon options for construction of major projects with customer funds only.
- Considerations
  - Should BPA seek customer participation in the financing of NOS projects?
  - How much should customers contribute?
  - Should participating customers be repaid? If so, how much should they receive? How should repayment be structured?
  - Should customers finance, secure, or both, NOS project construction?

Should Customers Provide Financing for NOS Projects?

- Alternatives
  1. Status quo: BPA fully provides financing for construction either through Treasury borrowing, lease financing, or another alternative.
  2. NOS participants partially or fully finance construction with no repayment.
  3. NOS participants partially or fully finance construction and receive transmission credits.
     - 3a: no interest is credit to participant contributions
     - 3b: interest is credited to participant contributions

How Much Should Participants Provide?

- The financing threshold could be relatively arbitrary. It could range up to 100%, or any amount less than that.
- The financing threshold could be set to a specific standard.
  - BPA could measure the reliability benefit of a NOS project and determine that this portion will be financed by BPA. The remainder would be financed by participants.
  - BPA could tie participant financing to the availability or applicability of other sources of capital. For example, if BPA determines that a new NOS project will be financed through lease-financing, we know that not all project costs are eligible for these funds. Participants could be required to advance fund the portion of the project that is not eligible for lease financing.

How Should Participant Cash Advances be Repaid?

- If participants advance fund construction, repayment in the form of transmission credits seems possible. Our experience with LGIA credits can help us avoid the pitfalls of that system.
  - There may be concerns about rate impacts associated with additional transmission credits.
- If accepted, we consider consider how to design NOS credits in light of participants that will also have LGIA credits.
  - LGIA customers receive credits against their full monthly bill. This would leave nothing against which we could credit the NOS advances.
  - We could seek to limit LGIA credits to no more than 50% of a customer's monthly bill which will leave room for a NOS credit of no more than 50% of the monthly bill.
    - This could complicate the already complicated LGIA program.
    - This could stretch out the repayment of credits, more closely matching the cost with the life of the asset.
  - Alternatively, we could allow the LGIA credits to be paid first which could delay the application of NOS credits. This would result in much larger NOS credit balances if the balances accrue interest during this time and even more if interest is compounded as it is with LGIA.

Tiered Financial Commitment Construction Phase

NOS Construction Phase: Financial Commitment Concepts

- The NOS team has presented a multi-staged financial commitment proposal, with commitments during the Study Phase of NOS and another commitment at the Construction Phase
- Two* basic Construction Phase financial commitment alternatives:
  - Uniform Level of Financial Commitment for all Customers
  - Tiered Level of Financial Commitment based on evaluation of underlying request

*Footnote: We are considering a second study stage financial commitment prior to NEPA

Overview of Tiered Commitment Concept

- Central tenet: Requests for service presenting lower levels of risk to the region would correlate to a lower level of financial commitment for the Construction Phase
- Examples of such risks are:
  - Performance Risk (whether the Customer ultimately will need the requested capacity/service)
  - Risk of Customer Default (does the Customer have a capacity to make the required payments for such requested service)
  - Risk of Recovery (what ability will BPA have to seek damages or recovery on defaulted service, and what ability will BPA have to resell unused or defaulted capacity, e.g.)
- Objective: Identify criteria to evaluate the relative risk of requests and requestors, and also criteria that aids in ensuring the facilities that are identified are the appropriate facilities to meet the requested need

Initial Possibilities for Criteria

Criteria	Description
Financial Risk of Customer	Evaluation of Customer, consistent with BPA Transmission's credit policies
Customer's Commitment to Advance Fund Construction	Whether a Customer commits to advance fund its share of Construction Phase, as opposed to providing security
Market Assessment of Request	An evaluation of the certainty that may be associated with the requested capacity/service (whether the request is tied to load service, a generator interconnection request, or some other indicator; or, whether the requested path has a high likelihood of being resold, e.g.)
Executed PPA	Whether a TSR is associated with a PPA at the point of construction, or becomes associated with a PPA at any point during the Construction Phase
Designated vs. Forecasted Network Resource	Whether the TSR is associated with a Designated Network Resource (DNR) or a forecasted Network Resource
TSR Term Length	The term length of the underlying request
Limitations on Deferral Rights	Whether the Customer agrees to limit its ability to extend its service commencement date

Follow-up

- Do Customers and stakeholders believe that a tiered financial commitment methodology delivers a higher overall benefit, relative to a uniform financial commitment structure?
- If Customers and stakeholders prefer a tiered approach, should all criteria be equally weighted, or are certain criteria more valuable than others?
- We would appreciate any comments that Customers and stakeholders may have on the possible criteria presented above, as well as any additional criteria that Customers believe warrant inclusion.