

EDPR Termination Financial Analysis

For PTSA Termination Discussion Only
November 29, 2012



This document contains information on:

- 1) Calculation of Performance Assurance
- 2) Calculation of Foregone LGIA Credits
- 3) Calculation of Released AFC

Performance Assurance of 495 MW of Redirect if Termination Option is Exercised

The 495 MWs are made up of two PTSAs totaling 145 MWs that have 5 year contract lengths and seven PTSAs totaling 350 MWs that have 3.5 year contract lengths. The Performance Assurance required in the event the customer decides to terminate their contract after 2.5 years is based upon the remaining amount of years in their transmission contract. The total performance assurance found in the term sheet is the sum of these two performance assurances that have been pro-rated according to the amount of contract years left.

$$\text{Performance Assurance} = \text{Pro Rated 145 MW PA} + \text{Pro Rated 350 MW PA}$$

Where:

$$\text{Pro Rated PA} = \text{Contract MW} * (\text{PTP Rate} + \text{SCD}) * 12 * \frac{\text{Remaining Contract Years}}{\text{Total Contract Years}}$$

The 145 MW would have 1 year remaining and the 350 MW would have 2.5 years remaining. So the total performance assurance in the case of the termination option is:

$$\text{Performance Assurance} = \left(145 * 1.501 + * 12 * \frac{1}{5} \right) + \left(350 * 1.501 * 12 * \frac{2.5}{5} \right)$$

This value is then discounted to present value with an annual discount rate of 9%. These calculations can be found in “ptsa_reform_financial_model” Microsoft Excel workbook posted externally on the “EDPR NPV” tab of the worksheet. The values are calculated in the “Option to Terminate @ 2.5 Year” section beginning in row 180. The performance assurance is assumed to be received following the last month of service taken. Inside of those cells are the calculations of the performance assurance. The summary boxes next to each revenue stream contain the values of the performance assurance associated with the 145 MW and the 350 MW.

Calculation of Foregone LGIA Credits

The calculation of Foregone LGIA credits is based upon an expected value of transmission credits associated with Antelope Wind (Elkhorn) and Saddle Mountain.

The total transmission credit balance is assumed to be eligible for credits:

$$\text{Transmission Credit Balance} = \text{Estimated Network Upgrade Costs} - \text{Deposited Funds}$$

Unspent deposited funds are not included in the transmission credit balance, due to the fact that if the project does not move forward, the customer will receive these funds back. Giving the customer unspent funds back and giving value to those funds as foregone transmission credits would be double counting.

Transmission Credits are then forecasted based upon the estimated amount of service taken by each project. Additionally, the number of years transmission credits are forecast to be taken is limited to 3.5 years (the number of years of the contracts in question). To arrive at the foregone transmission credits, the estimated transmission credits are discounted to present value with a 9% discount rate and risk adjusted with a 50% probability of occurring:

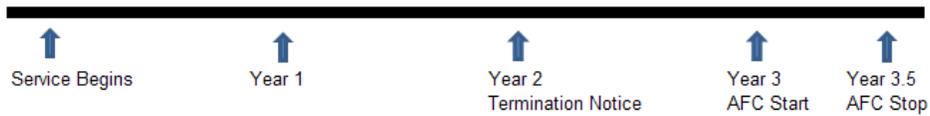
$$\text{Foregone Transmission Credits} = 50\% * \text{Discounted Transmission Credit Estimate}$$

These calculations can be found in “ptsa_reform_financial_model” Microsoft Excel model posted externally on the “EDPR Transmission Credits” tab of the worksheet.

Calculation of Released AFC

There are two methodologies of calculating a value of released AFC.

- 1) AFC is resold 1 year after release
 - 2) AFC is resold randomly within 10 years of release
- 1) The first methodology assumes that released AFC is resold in the market 1 year after being released.
- The released AFC associated with the 300 MW termination is assumed to be resold when the Big Eddy Knight transmission project is energized.
 - The released AFC with the 495 MW is assumed to be resold 1 Year after the notification to terminate is received. After two years of service, the customer would notify BPA of intention to terminate. One year later, the released AFC is assumed to be resold. 6 months of AFC is calculated to have value in this scenario. This is to ensure no value for AFC beyond the 3.5 year duration of the original contracts are valued.



2) The second methodology assumes that released AFC is resold randomly within 10 years of release. The model assumes the release of AFC being resold follows a risk uniform distribution using @Risk.

- The released AFC first becomes available when the Big Eddy Knight transmission project is energized.
- The released AFC associated with the 495 MW becomes available after 2.5 years of service if the option to terminate is exercised. AFC is only given value if it is randomly resold in the last year of the original contract. This is to ensure no value for AFC beyond the 3.5 year duration of the original contracts are valued.