

NAAPDC and Washington Utilities and Transportation Commission



The Role of Independent Power Producers

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Agenda

- Role of the Independent Power Producer
- Regulations - State vs. Federal
- Allocation of risk
- The wholesale market and contract structures

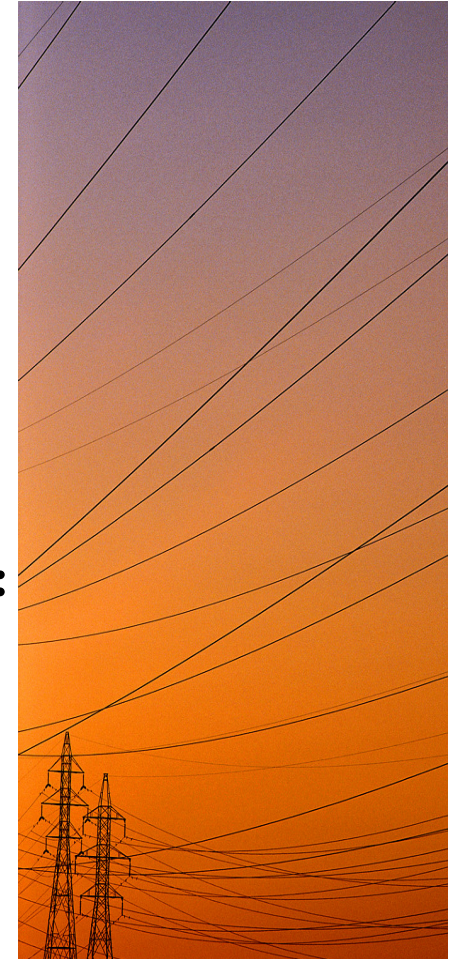
Role of Independent Power Producers (IPP)

Wholesale generation

- ▶ Request for Proposal and/or bilateral transactions
 - Power Purchase Agreement
 - Tolling Service Agreement
 - Asset Purchase and Sale Agreement

“Qualifying Facility” (PURPA mandated purchase):

- ▶ Public Utilities Regulatory Policies Act (PURPA)
- ▶ Power Purchase Agreement



Role of Independent Power Producers (IPP)

Enabling Agreement with deal specific letter agreements:

- ▶ Edison Electric Institute (EEI) – physical and financial power
- ▶ Western System Power Pool (WSPP) – physical power
- ▶ International Swap Dealers Association – financial



Regulation – State vs. Federal

Who regulates transactions between the Utility and the IPP?

- ▶ State Commissions – approvals vary by state
 - Approval of special retail contracts
 - Approval of PURPA mandated contracts
 - Does not “approve” wholesale contracts, except for cost recovery determination
- ▶ Federal Energy Regulatory Commission
 - Regulates the wholesale market to assure just and reasonable rates
 - Approval of who can sell at market-based rates
 - Approval of cost-based tariffs
 - Wholesale market monitoring
 - Contracting generally reported rather than pre-approved



Allocation of Risks

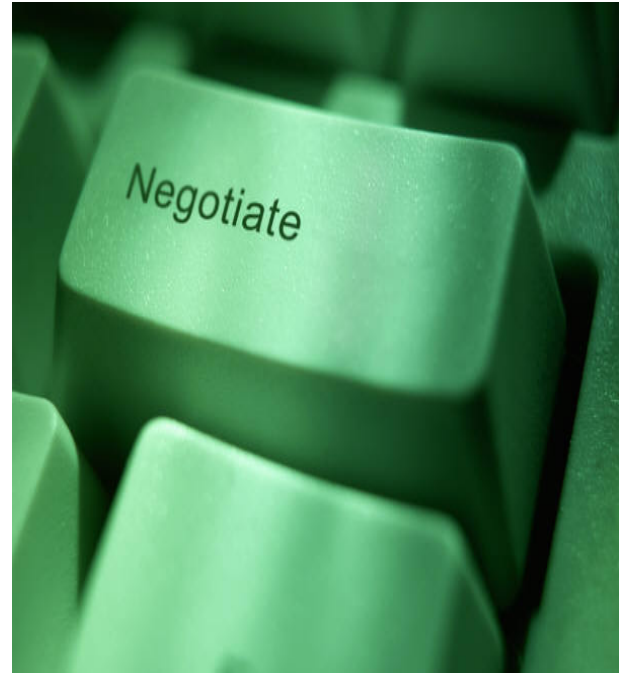
Allocation of Risk

- ▶ Force Majeure” or “Uncontrollable Force”
 - Typically includes items:
 1. not anticipated as of the execution date
 2. not within reasonable control of affected party
 3. not result of negligence or failure to act
 4. could not be overcome by use of due diligence
 - Negotiated as to what is or is not included
 - Takes different forms based on nature of the deal
 - » Trading versus asset specific transaction
- ▶ Damages for non-performance
 - Clearly describe what constitutes non-performance
 - Prescribed damages or market-based
- ▶ Credit and counterparty risk

Allocation of Risks

Disputes

- ▶ Time-limited Internal escalations first
- ▶ Arbitration Bound
 - Traditional arbitration
 - “baseball” type arbitration
- ▶ Directly to legal remedies
- ▶ Settled by Regulatory Body (typically state purview contracts)



The IPP's Market and Contract Structures

The Wholesale Electricity Market

- ▶ Transacting on a wholesale basis in the Western Electric Coordinating Council – only the US
- ▶ International Transacting
 - Canada ⇔ United States
 - » Very often, especially in the Western United States
 - » Each province has own state-owned utility
 - » Powerex is the power marketing company for B.C. Hydro
 - » PacifiCorp transacts often with Powerex
 - United States ⇔ Mexico (Commission Federal de Electricidad)
 - » Sporadic, into/out of the California Independent System Operator
 - » Specific bi-lateral transactions
 - » PacifiCorp does not currently transact with Commission Federal de Electricidad

The IPP's Market and Contract Structures

Contract Structures

- ▶ Exchanges & Cost-based Contracts
 - Exchanges have historically been a popular contracting structure
 - We have exchanged deliveries/receipt by:
 - » Season
 - » Time of day (on-peak/off peak)
 - » Delivery point
 - » Product (firm for non-firm, option for fixed delivery)
- ▶ Asset Purchase and Sales Agreements or Turn Key projects



Closing

- Questions
- Closing Comments

