

To: John Hairston, Suzanne Cooper

From: AHWM BPA Preference Customers Listed Below

Re: Comments on BPA Post-2028 Power Contract Development from an AHWM Perspective

Dear Administrator Hairston and Ms. Cooper:

BPA issued its Provider of Choice Concept Paper in July 2022, in response to Public Power's Concept Papers, which was informed by both formal and informal input from various BPA customers and stakeholders. We sincerely appreciate the collaborative engagement that BPA staff has facilitated thus far in the post-2028 contracting process and we look forward to more opportunities to provide constructive feedback and proposals.

By way of introduction, a subset of BPA preference customers having Above-High Water Mark Requirements have been collaborating to develop a shared vision that represents our respective communities' interests in the Bonneville Power Administration Provider of Choice (PoC) contracting process. This group of utilities, informally referred to as the AHWM Group, recognizes the importance of speaking with a direct and collective voice to BPA, like other customer groups and larger utilities regularly do, in order to develop products and services that will similarly meet the unique needs of our utilities. As such, we are presenting ourselves as a stakeholder group in the PoC process with the goal of advancing discussions that will result in fair, equitable and cost-effective products and services to meet our needs, as well as the needs of other stakeholders. We collectively recognize that while our comments today focus on the needs of AHWM utilities, any solution to the issues presented here will need to take into account the diverse interests of all BPA customers.

As a group, our shared interests are the fair and equitable rate treatment of AHWM loads. If the Tiered Rate Methodology construct is to remain in place, there needs to be more consideration given to, and more upfront certainty regarding, BPA Tier 2 product offerings. This will require exploring alternatives to the existing and proposed Tier 2 and non-federal resource options for the next contract. It is a primary goal in writing this letter to urge BPA to have these conversations with public power soon.

We see an urgent need to explore options and details directly with BPA regarding AHWM service before settling on Tier 1 service terms, due to the interaction between Tier 1 and Tier 2 rates and the impacts to retail customers and members served at those rates. This includes pricing policy, resource type, risk management, and the delivery period of resource acquisitions BPA anticipates offering to meet net requirements for AHWM loads. In the spirit of collaboration, BPA staff has requested that customers offer counterproposals for elements of the BPA Concept Paper that don't meet our needs. Before turning to our specific proposals, we want to share a foundational principle we feel is of the utmost importance when considering the next BPA power contract.

### **Foundational Principle**

Our position has been, and remains, that BPA preference customers should receive cost-based power from BPA to serve their full net requirements. Used here, "cost-based rates" means setting power rates at the actual cost incurred to meet preference customers' full net requirements. This reflects a level necessary to recover total system costs and to assure treasury repayment, but to us also means that

when BPA Tier 2 power is resourced from the federal system, the Tier 2 rate should be consistent with the Tier 1 rate. Any incremental Tier 2 resource acquisitions (beyond the federal system) would then be blended into the Tier 2 rate at actual cost incurred for such acquisitions.

It is our position that the current Regional Dialogue Contracts do not offer cost-based rates, consistent with the definition above, for preference customers' *full* net requirements. As a result, in our view the current implementation of the TRM, including the choices BPA and its customers have made in the intervening years, has placed an unacceptable and inequitable amount of risk on individual preference customers who are exposed to growing wholesale market volatility. We are interested in revisiting the Tier 2 and non-federal resource options for serving net requirements that were made available under the Regional Dialogue contracts. This includes an assessment of needed changes to address current realities as well as lessons learned. The intent is to find a path forward to meet both BPA's and its customers' diverse interests in the next contract.

A tangible example of how this principle could be employed is through dedicating a portion of federal power generated any given year, in excess of what is deemed critical, to serve AHWL loads at cost-based rates as part of an updated Tiered Rate Methodology. It is not our intent to harm any other preference customers through this change. We recognize that concepts like this will require in depth exploration of a variety of issues such as: how BPA allocates firm and non-firm production between customers, how and when additional energy is acquired when the federal non-firm energy is insufficient, and how the Resource Adequacy compliance obligations for those loads are met. It is these types of discussions that we are asking to have take place before BPA issues its draft policy ROD in 2023. The December 1, 2022, BPA-sponsored workshop on resource acquisition costs was a good first step and is appreciated.

### **AHWL Customer Interests**

The AHWL Group has been meeting for several months now to define and refine areas of general alignment in hope of finding a common voice in the PoC process. We represent a segment of BPA preference customers who have not been collectively heard from in PoC discussions thus far. We are speaking up now as a stakeholder group in this process so that we can effectively represent the unique needs of our communities and begin the discussion of these issues with greater focus and depth.

The basic views of the AHWL customers developed to date are as follows:

- Allocation of Tier 1 federal power should align with statute and reflect the interests of all types of customers, including those with AHWL obligations. Large deviations from simply meeting preference net requirements to try and preserve benefits gained over the course of the existing contract term (such as CHWL headroom) have no legal basis in statute, create inequities among preference customers, and should not be perpetuated.
- We need more alternatives and greater certainty for BPA Tier 2 offerings. We believe there is an urgent need to dig into these details with BPA before settling on Tier 1 terms. This includes pricing policy, the type of resources, and term of acquisitions BPA anticipates offering. We look forward to working with BPA and other stakeholders to enhance current product offerings and consider new approaches for the post-2028 contracts.
- Cost-based pricing for Tier 2 is widely supported by AHWL customers and is in our view consistent with the intent of federal statute. While we deviated from this underlying principle under the current Regional Dialogue Contracts by using theoretical marginal and opportunity

cost pricing to set Tier 2 rates under the TRM construct, we do not see this approach as a sustainable or equitable construct for the next contracts.

- When power is provided from the Federal Base System to serve Tier 2 net requirements, we think that power should be priced at the Tier 1 rate. As additional resources are required to meet Tier 2 net requirements, the cost of those additional resources should be folded in at the actual cost incurred. We believe this can be accomplished in a way that is consistent with the basic premise of tiered rates, including a separation of cost recovery between the two power pools.
- This group is not supportive of what has become known as the “BPA 50% fallback scenario”, where half of current AHWM and CHWM headroom are “rolled over” as starting places for Tier 1 system allocation in the next contract for the reason stated in bullet one above.
- Tier 1 augmentation as a means to minimize AHWM exposure at the start of this next contract is widely supported. This group is interested in further exploring a future Tier 1 system size ranging between 7,500-8,000 aMW.
- We need to better understand options for BPA resource acquisition for the purpose of augmentation, including the options to leverage the statutory billing credit construct.
- Non-federal resource integration terms and costs are also of high importance to many AHWM customers that have interest in expanding and diversifying public power’s regional resource portfolio, or who may face state regulatory requirements to do so.

More detail on specific components of the next BPA contract terms, from our perspective, are provided below.

### **System Size, Augmentation and Allocation**

It is our fundamental position that all preference customers should have their full net requirements met by BPA at cost-based rates. If the tiered rate methodology is retained, this means both Tier 1 and Tier 2 rates should be based on actual costs incurred to meet customers’ net requirements at the lowest feasible, cost-based rate. Our proposed solution is that we augment the BPA Tier 1 system to meet all customer net requirements at the start of new contracts. There have been a number of analyses that show this approach can be constructed to have a small impact on Tier 1 rates overall, which is within the “noise” of other cost pressures we will be facing as a region.

With respect to how BPA augments the federal system, BPA should rely on the statute which clearly points to conservation and renewable resources as the priority resources. Carbon-free resources are the emergent priority to many utilities since the statute was last updated. BPA can and should look to customers to bring these resources into the region, consistent with the statutory direction authorizing the use of billing credits to develop new resources. Additionally, BPA should provide contractual mechanisms that continue to support future customer conservation, including self-funded conservation. This has been a successful approach so far and can be leveraged to help create enough federal power to meet all BPA preference customers’ net requirements, at least at the start of the new contracts. This leaves the matter of load growth open for resolution through further discussion.

### **Tier 2 Power and Growth**

As a general proposition, the existing Tier 2 product was designed to handle load growth. Tiers 1 and 2 are not statutory constructs, rather they are a ratemaking policy matter. Assuming all customers have an equal opportunity to meet their full net requirements at cost-based rates as the starting point of the

next contract, we can support the continuation of the Tier 2 construct. As an approach worth exploring, we think many of the concerns expressed by non-growing utilities regarding changes to system size could be mitigated by creating a Tier 2 rate where priority access to *a portion* of federal secondary system sales at cost-based rates are leveraged to enable system augmentation within Tier 2. To offset some of the potential reduction of secondary revenue returned to Tier 1 rates, BPA could allocate a portion of the federal system costs to the Tier 2 cost pool, commensurate with the quantity being used to serve AHWM loads. This would have the added benefit of improving rate stability for both BPA and its customers.

Leveraging secondary surplus sales at cost to integrate new resources into the Tier 2 resource pool is an item we think has merit and would like to discuss. Today, value from the Tier 1 system above and beyond need, as defined by net requirements and as limited by CHWM, is credited to Slice customers through the allocation of non-firm surplus for resale and to Load Following customers through the non-slice credit of non-firm sales to Tier 1 rates. All we are asking here is that a portion of the non-firm preference power be made available to AHWM customers to serve actual preference eligible loads (net requirements) at cost-based rates.

We acknowledge that additional analysis is needed to fully evaluate the implications of this proposal and we look forward to working with BPA staff and the rest of public power to further explore this option. There is value in assessing the extent to which non-firm federal surplus power could be efficiently leveraged to integrate new physical resources into the region - an outcome that is widely recognized as needed. This seems like a fair and equitable compromise across the vested interests among BPA's preference customers and we would look to BPA to assist in striking the right balance in how a fair allocation is established.

#### **Selection of Tier 2 Option to serve AHWM Load**

BPA included in its July Concept paper the proposal to make its Tier 2 product a one-time and upfront choice for preference customers, in effect for the entirety of the next contract. This has been met with significant negative reaction from customers. This concept is unnecessarily restrictive and could result in a 20-year market exposure for a subset of preference customers, with no options to mitigate this risk. Today, customers have some flexibility to make decisions on how to serve load on a periodic basis. We understand and appreciate BPA's concerns about its need to plan, particularly in the resource adequacy world that is now before us. However, BPA has already indicated that it would only acquire resources as load materializes, so we do not see the benefit of implementing a one-time, 20-year election decision.

A more efficient Tier 2 election approach could be made concurrent with each new BPA acquisition. The length of term for such acquisitions should be carefully considered with the recognition that AHWM customers will likely need more than one approach to effectively manage future uncertainties. For example, some customers may be willing to accept the price volatility of shorter-term acquisitions, as they do today. Others, however, will be looking for more long-term price certainty and could be willing to subscribe to a given purchase for the length of the contract. We believe there are ways to bridge our interests in BPA's obligation to serve full net requirements at cost-based rates, while still giving both BPA and its customers planning and cost certainty and mitigating the risk to BPA of stranded costs. We look forward to exploring options for Tier 2 election with BPA that meet the potentially different goals of your customers.

## **Non-federal Resource Integration**

If BPA were to expand the Tier 1 system to meet all net requirements at the start of this next contract, this action will help bridge the fault lines that have emerged within public power. However, meeting future load growth will remain a challenge. A buy and blend approach to Tier 2 pricing will help. However, some customers may still want to pursue their own resources to meet load growth. Incentivizing new resource development makes sense for BPA and all its preference customers. Unfortunately, the current implementation related to non-federal resource integration, coupled with wholesale market realities, has rendered development impractical over the course of this contract to date.

Now is the time to build new resources. Rather than setting integration prices at theoretical marginal costs, we ought to be leveraging the resources we already have, to the extent practicable, to expand public power resources in the region. Further, the PoC proposal to direct assign transfer service costs to transfer customers, not directly connected to the BPA system, would be an even greater barrier compounded upon the existing marginal integration costs. Equitable access to transmission is a key element associated with new resource development. BPA and its customers have a mutual interest in resolving this important matter and we look forward to better understanding the terms BPA proposes to offer to help facilitate regional resource development.

## **Closing Thoughts**

Our intent in writing this letter is so that BPA and all public power can better understand and appreciate these fundamental perspectives from the AHWM Group. Some utilities with AHWM net requirements have experienced significant growth in business-related energy consumption, thereby supporting the economies of their local communities. Others have simply seen load grow from the migration of residential customers from one part of the BPA service territory to another and are trying to keep up with the growth.

Our views on Tier 1 system size, augmentation, allocation, and basic Tier 1 and 2 rate design are clear. We think BPA can meet all preference net requirements at cost-based rates at the start of the next contract with minimal impact to Tier 1 rates. We recognize that there are many interests that need to be addressed in the new contract and believe we can find solutions that address the core needs of public power as a whole. For example, many of the same utilities that have proposed to keep their current CHWM headroom, while creating permanent AHWM status for those signing this letter, also want BPA to help with (and socialize) the carbon challenge they now face. Comprehensive and equitable solutions will require give and take from all customers to avoid large winners and losers while addressing our collective future challenges.

As a final thought, the region has a once-in-a-generation opportunity to access federal infrastructure funds to facilitate new resource development. We should be doing everything possible right now to set a vision and clear rules of the road for post-2028, to encourage BPA customers to move swiftly and effectively to access these funds for the good of the region. In closing, we appreciate BPA's leadership in working through solutions and look forward to on-going and constructive dialogue with the BPA team and all its preference customers and stakeholders. Doing so will help ensure that all preference customers equitably benefit from the PoC construct and the considerations proposed herein are made with that goal in mind.

Sincerely,

Benton PUD  
Big Bend Electric Cooperative  
Blachly-Lane Electric Co-op  
Central Electric Coop  
City of Bonners Ferry  
City of Forest Grove  
City of Heyburn  
City of Richland  
Clearwater Power Company  
Columbia Basin Electric Cooperative  
Columbia Rural Electric Association  
Consumers Power Inc  
Emerald PUD  
Fall River Rural Electric Cooperative  
Flathead Electric Cooperative  
Grant County PUD  
Harney Electric Cooperative  
Hood River Electric Cooperative  
Inland Power and Light Company  
Kootenai Electric Cooperative  
Lincoln Electric Co-op Inc  
Lower Valley Energy Inc  
Midstate Electric Cooperative, Inc  
Missoula Electric Cooperative, Inc  
Northern Lights, Inc  
Northern Wasco County PUD  
Okanogan County Electric Inc  
Pacific Northwest Generating Cooperative  
Surprise Valley Electrification Corp  
Umatilla Electric Cooperative  
United Electric Co-op Inc  
Vigilante Electric Co-op Inc  
Wells Rural Electric Company