

Initial staff leanings: Interests and Foundational Tenets

March, 2021

Context

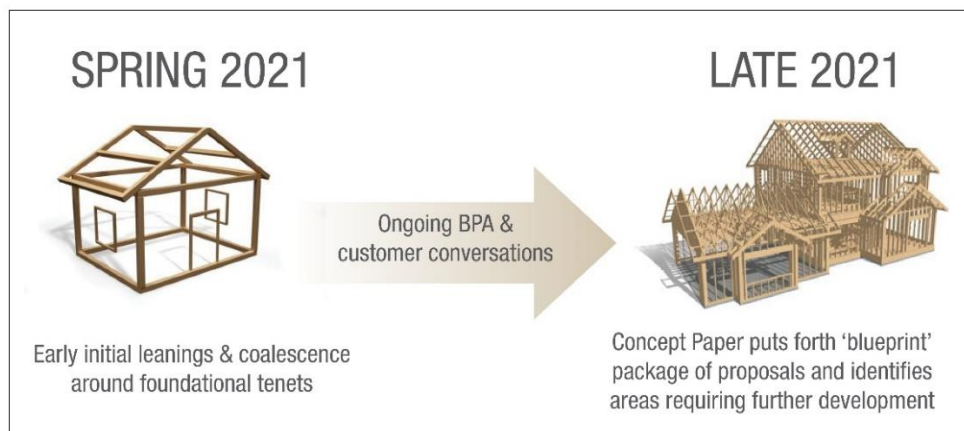
BPA formally kicked off its Provider of Choice (post-2028 contracts) initiative in late 2019 with account executive-led conversations with BPA's current preference customers. Customer feedback that BPA received highlighted elements of the Regional Dialogue (RD) policies and contracts that work well and shed light on areas for improvement. The effort also provided insight into what BPA's utility customers may value in future contracts.

In October 2020, BPA released a "[Customer Engagement Summary](#)" that memorializes key findings from these conversations. Among others, those findings highlight that:

1. this is a time of great uncertainty;
2. the RD principles are still relevant;
3. RD contracts and tiered rates work well, but may need adjustments; and,
4. preservation of BPA's low-carbon system fuel mix to help meet low-carbon energy requirements is imperative.

This leanings document builds off these key findings and is intended as a pre-decisional conversation starter for the next phase of discussions with customers regarding post-2028 sales of power under [section 5\(b\)](#) of the Pacific Northwest Electric Power Planning and Conservation Act¹.

During 2021, BPA is planning a collaborative, customer-centered process to develop the Provider of Choice policy framework². This effort will inform BPA's Provider of Choice Concept Paper, a package of BPA's pre-policy proposals, that the agency anticipates sharing in late 2021. BPA believes it prudent to seek coalescence ahead of the Concept Paper on certain fundamental and foundational tenets of the Provider of Choice contracts and rate structure.



¹ Section 5(b) starts on page 16 of the linked document—the NW Power Act.

² Accompanying this leanings document, BPA staff is sharing a process-oriented engagement plan that provides more information about how it plans to engage and inform stakeholders throughout 2021. BPA remains committed to transparency and may adjust its Provider of Choice engagement plan in response to customer and other stakeholder needs.

BPA’s Initial Staff Leanings

Below, BPA staff offers its initial thinking related to: 1. the interests, or foundational principles, that will underscore the decision-making related to the Provider of Choice policy, contracts and rate structure; and 2. the foundational tenets of the Provider of Choice offering.

In addition to ongoing dialogue, BPA appreciates the feedback and thoughtful conversations with customers during the 2019/2020 customer engagement. These initial leanings reflect comments received during the engagement.

Provider of Choice Interests

In the early years of RD conversations, when the region started to conceptualize a new paradigm for BPA’s power sales, many discussions centered on what BPA, customers and stakeholders hoped to achieve via subsequent policies, rates and contracts. The resulting regional interests served as an important foundation for what would become the RD construct (i.e. the Tiered Rate Methodology (TRM), RD Policy, and the Contract High Water Mark (CHWM) contracts).

As BPA engaged customers on Provider of Choice through 2020, we sought input on the durability and applicability of the RD interests moving forward. In response, BPA generally heard broad customer support for those interests with indications that most or all remain relevant as we look ahead to post 2028.

Informed by such feedback, BPA staff propose to utilize these interests, listed below as stated in the [Long-Term RD Final Policy](#), as the starting point for the Provider of Choice discussions. The interests themselves, the **bolded** bullets below, are broad concepts. Additional discussions will clarify how BPA and customers interpret the interests and define how they would apply in the post-2028 timeframe. BPA staff acknowledges that these interests will likely continue to be revisited and fine-tuned all the way up through the final policy, but we offer them now as a means to start the conversation.

- **Lowest Tier 1 Costs and Tier 1 Rates**
- **Durability/Stability/Contract Enforceability**
- **Customer/Regional Support and Equity**
- **Certainty of Obligations for All Parties**
- **Promote Infrastructure Development Consistent with the Northwest Power Act**
- **Consistency with BPA Stewardship Obligations**
- **Legality**
- **Simplicity**
- **Advancement of National and Regional³ Objectives**

BPA seeks early customer engagement on these proposed interests as it is important to establish the guiding principles and high-level criteria against which BPA and the region will consider

³ The inclusion of “and Regional” is a proposed addition to this interest that BPA staff is recommending for Provider of Choice. The interest that is in the RD policy says “Advancement of National Objectives”. The proposed addition of advancing *regional* objectives is BPA’s only deviation from the bolded RD interests named at this time.

BPA’s post-2028 business decisions. Early alignment on these interests, *while recognizing they may evolve as we proceed through the process*, will enable discussions to progress towards the significant work of the contracts, rate structure and policies. We welcome input on these interests.

Foundational Tenets

Based on feedback from its customers, as well as internal feedback, BPA’s staff proposal is that the RD policy and contracts, and the TRM and tiered rate structure, serve as the *starting point*, or baseline, for conversations moving forward.

To clarify, BPA is neither proposing nor advocating for a wholesale roll-over of the current RD policy, contracts, or rate structure without modification. Staff recognize that the policy and TRM include many details, some of which warrant review and potential revision.

With the purpose of gaining general alignment around the initial building blocks for the Provider of Choice construct, BPA staff specifically propose:

1. Standardized contracts offered over a consistent term length.

BPA staff proposes standardized contracts for each product offering, such as Load Following, Block, and Slice/Block, including the use of as many standardized terms and conditions across all contracts as is possible. Staff proposes that the Provider of Choice contracts have the same effective date and expiration date at the time of contract offer.

<u>What</u>	<u>Why</u>
<p>To the maximum extent practicable, contracts would leverage standardized terms and conditions as well as routinized processes for administration.</p> <p>Service under such contracts would commence and proceed through uniform dates.</p> <p>Customers’ unique and special provisions would continue to be captured in their contracts.</p>	<p>Standardizing terms and conditions:</p> <ul style="list-style-type: none"> • Reduces risk of inconsistent treatment between customers electing similar products and services • Creates confidence in uniform and fair treatment of all customers • Ensures questions of inter-customer equity are addressed up-front and transparently • Reduces ongoing burden and costs associated with contract administration • Reduces risk of errors due to individualized requirements throughout contract administration <p>Standardizing service dates enables an orderly transition into new contract administration, including any necessary system or process adjustments.</p>

	Standardizing contract end dates minimizes the risk of cost-shifts among customers and presents the future opportunity for holistic, inclusive future product, service and contract development.
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2. A long-term contract term and rate structure.

BPA staff advocates for and proposes a long contract term that is as close as possible to 20 years—the longest allowed per law. Long-term stability under RD has served the region well and allows solid long-term planning for both BPA and our customers. Customers can lock in an assured and adequate supply of power, and long-term contracts support BPA’s ability to meet its U.S. Treasury repayment obligation. Such stability is critical in maintaining BPA’s overall financial health. BPA recognizes that there are trade-offs that we will need to talk about in order for customers to feel comfortable signing contracts of this length again. For that reason BPA looks forward to discussing ideas around how to integrate the necessary flexibilities so that all parties feel comfortable with a long length of the commitment.

<u>What</u>	<u>Why</u>
Long-term (15-20 years) contracts and associated rate structure	<p>Long-term contracts provide predictability and certainty, and accordingly serve to secure many if not most of the interests named above.</p> <p>Likely that power from the FBS will continue to become increasingly valuable; locks in customers’ right to be supplied from the FBS, which is largely low-carbon and competitively priced.</p> <p>Long-term contracts best accommodate long capital recovery periods for acquiring resources, technologies and associated financial commitments, when needed.</p> <p>Long-term contracts provide certainty for financial planning, supporting financial strength and lower borrowing costs.</p> <p>Current timelines would have customers executing post-2028 agreements three years prior to actual power delivery under those agreements, so a 10-year agreement, for instance, would only afford 7 years of power deliveries.</p>

3. Provider of Choice product offerings of Load Following, Block, and Slice/Block.

BPA staff proposes Load Following, Block and Slice/Block as the three core [product offerings](#) under the Provider of Choice contracts. Again it is worth stating that BPA is not proposing or advocating that the current products and associated services be rolled over from RD without modification, nor do we think such a roll-over would be acceptable to customers. BPA staff envisions the current three products serving as a *starting point* for conversations as we contemplate and negotiate adjustments⁴ to the products in the coming years.

BPA staff is proposing that the policy and contracts are engineered in a way that perpetuates the current approach of equitability and promotes equivalent value proposition among these three product offerings.

<u>What</u>	<u>Why</u>
<p>Load Following, Block and Slice/Block as the three core product offerings under Provider of Choice.</p> <p>Adjustments to the current three products under RD are anticipated and will be discussed and negotiated transparently in the months and years ahead.</p>	<p>During the 2019/2020 customer conversations that officially kicked-off the Provider of Choice initiative, the overwhelming majority of customers expressed general satisfaction with the current product offerings and indicated that the same or similar products would meet their needs and allow them to remain competitive post 2028.</p> <p>Customers and BPA staff alike are open to product adjustments, acknowledging that adjustments could improve upon the status quo.</p>

4. Continue to utilize a tiered rate structure and the TRM.

The cornerstone of RD policy was to limit BPA’s sales of firm power at the Tier 1 rate to public preference customers to approximately the firm capability of the existing federal system. By establishing the amount of power available for customers priced at the cost of the existing federal system, BPA minimized the dilution of the value of the existing system with potentially higher cost resource/power purchases. Customers, if they choose, are able purchase additional federal power from BPA to serve their net requirement load priced at Tier 2 rates based on the marginal cost of serving the additional load. BPA staff propose to continue with a [tiered rate construct and TRM](#) post 2028. Again, BPA anticipates that

⁴ Staff acknowledges that many customers, customer groups, and trade organizations have already submitted thoughtful and innovative ideas and proposals regarding how to adjust BPA’s products and services. While some proposals relate to the foundational tenets of ‘the deal’ that we’re contemplating at this early phase, other proposals jump ahead to product design. It is important for customers to understand that we are not ignoring or dismissing those ideas. Rather, BPA intends to establish a fair process at a measured pace that seeks consensus on the foundational elements *before* we proceed with weighing the merits of proposed adjustments. Additionally, BPA staff envisions an engagement process with customers that allows for design features to be transparently discussed and carefully crafted with full consideration of the trade-offs between and among the products.

customers and staff may propose adjustments, and BPA is open to discussing such adjustments as we move forward.

What	Why
<p>Tiered rate structure governed by a TRM that would apply for the duration of the Provider of Choice contracts.</p> <p>Adjustments from the current tiered rate structure and TRM are anticipated and will be discussed and negotiated transparently in the months and years ahead.</p>	<p>Tiered rates implement the regional interest of limiting the dilution of the value of the FBS and remove a financial disincentive for BPA customers to develop regional infrastructure.</p> <p>Customers express general satisfaction with the tiered rate structure and appreciate the equity provided through the “high water mark” allocation of system costs and benefits, coupled with the establishment of cost pools in the TRM.</p>

Next Steps

BPA staff seeks early customer engagement and discussion on these proposed interests and foundational tenets. BPA staff is also sharing the process-oriented engagement plan that provides more information on how customers can engage, as it would be difficult to move forward with subsequent policy conversations in 2021 without general agreement on the basic framework:

Interests

- Lowest Tier 1 Costs and Tier 1 Rates
- Durability/Stability/Contract Enforceability
- Customer/Regional Support and Equity
- Certainty of Obligations for All Parties
- Promote Infrastructure Development Consistent with the Northwest Power Act
- Consistency with BPA Stewardship Obligations
- Legality
- Simplicity
- Advancement of National and Regional Objectives

Foundational Tenets

1. Standardized contracts offered over a consistent term length.
2. A long-term contract term and rate structure.
3. Provider of Choice product offerings of Load Following, Block, and Slice/Block.
4. Continue to utilize a tiered rate structure and the TRM.