

February 3rd, 2023

Kim Thompson
Vice President, Northwest Requirements Marketing
Bonneville Power Administration
Via email to Post2028@bpa.gov

Re: Bonneville Power Administration's Provider of Choice

Thank you for the opportunity to comment on the Bonneville Power Administration's process to develop the Provider of Choice Post-2028 power contracts. These comments are in response to issues raised in the Concept Paper and materials presented at the January 2023 Provider of Choice workshops.

I. Environmental and Public Interest Principles and Goals:

As shared in our previous comments, these are the principles through which we will be evaluating BPA's proposals in this process:

- *The flexibility of BPA's system is more valuable to the region than ever.*
- *BPA's products and services should enable transformation, not constrain it.*
- *The need to invest in the demand-side of the system is growing, not shrinking.*

We continue to support the following environmental and public interest goals for the Post-2028 contracts:

- *BPA resources will be emissions-free.*
- *The BPA system will be better integrated with the broader Western grid.*
- *BPA will enable and promote customer-side resources.*
- *BPA will operate its system in a manner that will enhance wild salmon runs and honors obligations to the Tribes and future generations of Northwesterners.*

II. Specific Comments to Address New and Emerging Issues

NWEC appreciates the effort being made by BPA and all parties at this stage of the Provider of Choice dialogue. Positions and concerns are becoming clearer and BPA has proposed some refinements to its proposals that are responsive to comments and are helping advance the discussion to the next stage. However, NWEC continues to have significant concerns about the perspective and general direction of the process. Overall, the general sense seems to be that the underlying Regional Dialogue/Tiered Rate structure has done well overall, and all that is required to meet future needs is fine tuning of a variety of current features.

The task of updating these contracts for a new era is a complex undertaking, and changing any one element requires careful examination of effects on others. Further, the risks and benefits

in the prospective contracts are perceived in different ways by different parties, and significant change also risks upsetting longstanding provisions that provide important protections. Finally, we acknowledge that contracting parties have evolved their operations and financial management to accommodate the current construct.

NWEC urges all parties and stakeholders to consider again the challenges of moving into an era of dramatic changes in the Northwest power sector. **Increased uncertainties -- and opportunities -- point to the need for a post-2028 contractual framework that promotes much more flexibility and coordination.**

At this point in the process, we encourage greater discussion of three key themes:

1. The likelihood of significant demand growth across all of the Northwest, and not just in the urban load centers, over the coming decades.
2. The changing relationship between Tier 1 rates and the declining costs of new clean resource portfolios.
3. The relationship between stable Tier 1 rates and increasingly volatile market prices.

There are other significant other factors that create uncertainty - including the changing hydrograph from the effects of climate change, and potentially significant changes to the fundamental operational framework of the hydrosystem under the Columbia River Treaty, and more. After a long period of low demand growth, in large part due to the success of the region's conservation efforts, substantial new load is beginning to come onto the grid driven by policy, technology and markets:

- Transportation electrification, including electric vehicles, mass transit, marine and aviation.
- Building electrification, as fuel switching accelerates, particularly moving away from direct use of natural gas.
- New large commercial and industrial loads, serving end uses such as data centers, chip fabrication, food processing, etc.

In light of these broader dynamics, we are doubtful that the construct which BPA has outlined to date provides sufficient flexibility and enablement to meet regional objectives.

a. System size

“Modest augmentation” is not sufficient to address a 15% to 50% increase in demand by mid-century. While there is a wide range of uncertainty, we believe it is reasonable to anticipate that the aggregate load growth of the next quarter century will be well above that implied by the current Provider of Choice construct. NWEC believes that tiered rates provide the right basic framework, but a substantial change in direction is needed to address the needs and opportunities of future demand expansion. This will require review of all elements of the Provider of Choice contracts to remove obstacles to resource action by utilities and Bonneville.

To illustrate, consider the EWEB draft Integrated Resource Plan released in December 2022:

EWEB currently has average load of about 275 MW and a 1-in-10 peak demand of 500 MW. The draft IRP projects that EWEB's load in 2042 without electrification would be 290 MW (a 5.5% increase in 20 years). But with electrification, average load would be 360 MW (a 31% increase). Peak demand would rise even higher. While EWEB may well see new demand from building electrification and large single loads, the IRP focuses on the first category: "Starting in 2030, forecasted unmanaged electric vehicle (EV) charging begins to increase peak capacity needs by 2% per year, driving increased portfolio costs." (emphasis added)

The major demand growth we foresee can actually be beneficial to utilities, customers and the Northwest economy as a whole – if there is ample preparation. A key factor is preparing to acquire new generation and storage resources, promoting the most energy-efficient new vehicles, appliances and industrial processes, and enabling load management wherever possible. This will require a Provider of Choice construct that encourages utilities to acquire new resources, and just as importantly, promotes effective joint planning and action among utilities and with BPA. Otherwise, there is a substantial risk of underinvestment and duplication of effort. At this point, the Provider of Choice dialogue is simply not addressing these issues

b. Non-Federal Resource Minimum Threshold

NWEC supports BPA's proposal to consider raising the threshold for Power Services from 200 kW to 1 MW. We encourage BPA and stakeholders to continue considering the Power Services limit. Providing even more flexibility to aggregate these resources without adding major operational and transaction costs could help accommodate the oncoming proliferation of inverter-based resources such as wind, solar and battery storage.

c. Carbon Focus Areas:

We offer the following comments on the "carbon" issues brought forward in the workshop.

- *REC reallocation:* We support BPA's decision not to move forward with this proposal. Even if it did allow WA utilities to claim 100% clean electricity under CETA (which we are doubtful that it would), it doesn't move the needle at all on decarbonization, and in fact undermines the regulatory incentive to build more non-hydro clean energy resources. Structuring the contracts to allow utilities to claim 100% clean without actually making any progress would be contrary to regional objectives.
- *Contract length:* We agree with the desirability of aligning the Provider of Choice contract duration to be able to meet state policies such as CETA in Washington. However, it is important that the contracts are sufficiently robust in securing a future in which carbon-free electricity plays a major role in decarbonizing the regional economy, and sufficiently flexible to accommodate changes to state and federal climate and clean energy policy as it continues to evolve. It may be necessary for BPA to consider a shorter contract term or reopeners during the contract.

We agree with many of the comments from the January 24th workshop that the next steps on this topic are critical - and it really is impossible to separate the issue of “carbon” from other aspects of the contract - system augmentation, demand-side resources, non-federal resources, non-hydro renewables, etc. We hope this isn’t the end of the carbon conversation. It’s critical that the POC contracts make significant progress on decarbonization, and there is still plenty of time in the process to figure out how to do that. We urge that this topic continue to be prioritized.

d. Foundational policy elements driving Tier rates:

We believe that the foundational policy elements which BPA has developed to support a decision to continue the Tiered Rates construct are flawed, and not expansive enough to meet BPA’s stated policy intent:

- *“Protect the value of the federal system”* - we advocate that these contracts should instead be focused on “maximizing the value of the federal system to the region,” rather than “protecting” the federal system as it exists today.
- *“Insulate customers from costs associated with others’ load changes and resource decisions”* - this protectionist posture is a relic of the Regional Dialogue construct, and is not well-suited to the changing landscape. We recommend that BPA deemphasize its role in protecting individual customers, and instead focus on ensuring an equitable distribution of benefits from the federal system.
- *“Enable customer choice for growing load service”* - we note that many details for Tier 2 load service are still to be developed. However, we are concerned that “enabling customer choice” might not go far enough to ensure that BPA customers are able to maximize the benefits of federal incentives to the region.

e. CHWM Calculation Elements

- **Index Year.** NWECC supports adoption of a 2023 Index Year or as soon as possible thereafter, to set the starting point conditions for the post-2028 contract period in place with sufficient time for analysis and refinement of contract provisions. In addition, this will reduce uncertainty about the treatment of ongoing conservation activities and new resource and program development to capture opportunities in the IJJA and IRA.
- **Non-Federal Resources.** We encourage continued review of these provisions and consideration of methods to simplify or eliminate special categories such as Small Non-dispatchable New Resource Treated Equivalently to an Existing Resource (SNEER), consumer-owned resources, and green exception resources. While these provisions addressed new concerns during the period of the current contracts, they potentially pose obstacles to utility acquisition of a wider range of clean energy resources going

forward. In turn, this requires rethinking the view of Tier 1 as almost entirely consisting of existing resources, with very limited potential for rapid expansion of resources “off the river.”

- **Conservation Adjustment.** We continue to support a conservation adjustment equal to 100% of all self-funded, nonreportable, and reportable EE. However, we acknowledge that the impacts of a 100% conservation adjustment would be unpalatable to most customers, and arguably lead to unequitable results. That being said, BPA's proposed 50% conservation adjustment significantly devalues the investments that utilities and their customers have made in our region's conservation resources, and we urge continued discussion to develop a more comprehensive understanding of the scale of investments and their value to BPA and the region going forward. In the future, BPA should continue to explore the value of intra-regional EE transfers, to ensure that the customers who pay for EE savings are fairly compensated for the benefits to the system.
- **New Large Single Loads.** We note that, at the outset, BPA has reserved 70aMW of Tier 1 to accommodate the planned load from US DOE's vitrification plant at Hanford. We are troubled by BPA's designation of Tier 1 to accommodate a large new federal load, given that BPA has not fully addressed the needs of the region for supporting new large single loads that provide significant economic development benefits and clean manufacturing jobs, or for supplying customers with a carbon-free product. We urge continued discussion with US DOE to determine whether it might be able to serve its own new large single load with other resources, so that the benefits of that Tier 1 power can be put to more beneficial use for the region.
- **Load Growth Adjustment.** NWECC is concerned that the proposed 25% limitation requires further review, in part because load growth can occur for a variety of reasons and utility response can take different forms. While we appreciate the concern about minimizing adverse effects to others, an arbitrary cutoff creates new problems.
- **Scaling Adjustment.** NWECC views this as a logical result of the current Tier 1 construct that envisions only very limited expansion. As we mentioned above, a substantial increase in “off river” clean energy development for Tier 1 would require rethinking many elements in the proposed approach, the importance of doing so will merit the additional effort.
- **Tier 1 System Size, Augmentation and Federal System Changes.** NWECC considers these to be the heart of the primary issue for Provider of Choice: whether to expand the Tier 1 resource pool or to throw all major load growth back to the utilities, with no mechanism for coordination of investment and shared benefits. We continue to urge a coordinated and balanced approach to system augmentation.
- **Small Utility Adjustment.** In NWECC's view, while there are certainly good reasons to provide flexibility for small utilities, with the new limitation to only utilities with under 5 MW of current CHWM, this seems to create an arbitrary and possibly discriminatory barrier for other utilities. Again, we encourage rethinking the Tier 1 concept so that

utility interests individually can be accommodated while supporting rather than impairing a range of new resource actions both individually and jointly that will meet individual utility load growth and provide shared benefits and optimized investments.

Finally, we acknowledge the robust discussion at the workshops concerning the incentives provided in the Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA). These policies will allow our region to advance our clean energy transition more quickly and affordably. It is therefore critical that the Post-2028 contracts maximize the benefits of these policies to the region. Specifically, **BPA must ensure that its contract terms facilitate and support customers' ability to access federal incentives for renewable energy, energy storage, and customer-side resources like energy efficiency.** To this end, BPA must eliminate – or, at the very least, mitigate - barriers and disincentives in its initial proposals in order to meet its own goals for contracts that support customers meeting national and regional objectives, and that are supported by the region. We look forward to continued discussions about how BPA might meet those objectives.

Conclusion:

Thank you for the opportunity to provide feedback on the issues raised in the Provider of Choice workshops in January 2023. We look forward to participating in the next phase of workshops for this effort, and continuing to engage with BPA on these critical issues as you begin to develop draft policy proposals.

Sincerely,

A handwritten signature in black ink, appearing to read "Lauren McCloy". The signature is fluid and cursive, with the first name "Lauren" being larger and more prominent than the last name "McCloy".

Lauren McCloy
Policy Director, NW Energy Coalition

cc: to John Hairston, Michelle Lichtenfels, Sarah Burczak, and Josh Warner