
# Public Rate Design Methodology (PRDM)

## Workshop #1: Background, Cleanup & Rate Foundations

**Meeting 10AM – 4PM**

January 9, 2024

Scott Reed, Policy Lead

RATE METHODOLOGY POST 2028

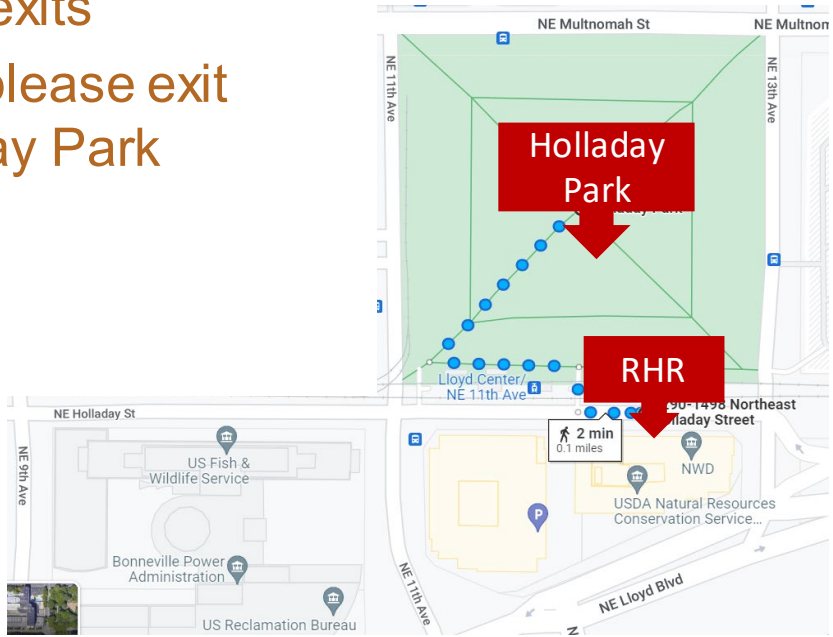
# Agenda

| Time Start | Time End | Topic | Presenter(s) |
|---|---|---|---|
| 10 am | 10:10 | Welcome, Safety, Agenda | Scott Reed, Policy Lead PRDM |
| 10:10 | 10:15 | Introductory Kickoff | Kim Thompson, VP Northwest Requirements Marketing |
| 10:15 | 10:25 | Approach, Timeline, Processes | Scott Reed |
| 10:25 | 12:00 | Background Education:<br>Statutory Context & Review by Chapter | Scott Reed<br>Daniel Fisher, Power Rates Manager<br>Rich Greene, LP Attorney |
| 12:00 | 1:00 | LUNCH BREAK | |
| 1:00 | 1:30 | Background Education Continued | |
| 1:30 | 1:45 | Cleanup – Chapters 1, 7 | Scott Reed |
| 1:45 | 2:00 | BREAK | |
| 2:00 | 2:30 | Cleanup – Chapter 11 | Neal Gschwend, LP Attorney |
| 2:30 | 3:15 | Unit Foundations | Scott Reed<br>Daniel Fisher |
| 3:15 | 4:00 | Work Group Planning and Next Steps | All |

Note: times are approximate

# Safety Moment

- Rates Hearing Room has two exits
- In the even an alarm sounds, please exit the building and meet at Holiday Park across the street



# Plan & Process

# Bonneville's Public Rate Design

- Bonneville is replacing the Tiered Rates Methodology (expiring September 2028) with the 2029 Public Rate Design Methodology (October 2028, FY2029)

- Bonneville's 2029 Public Rate Design Methodology is a stand-alone document that works in concert with our power sales contracts (PoC) and each rate setting process (starting with the 7(i) process used to set rates for the BP-29 rate period)

- The PRDM defines the **core** rate methodology applicable to public customers that purchase priority firm power under a tiered rates construct. Non-core rate adjustments, charges, special provisions as well as the rate design applicable to products and services not included in the PRDM would be established in each 7(i) process or in other PRDM-like documents.

# History and Vision

- We believe the historical public alignment around the Tiered Rate Methodology will serve as a solid foundation for PRDM.
- This process will be collaborative, aimed at delivering a broadly supported draft methodology by the end of summer.
- The goal is to produce a methodology that customers can evaluate in tandem with Bonneville's product offerings in advance of signing power sales contracts.
- Our draft methodology will serve as our initial proposal which will be formally vetted in a section 7(i) hearing conducted in parallel with the BP-26 7(i) rate process. The PRDM effective date will be October 2028.
- The early affirmation of the PRDM will provide customers some additional rate design certainty before being asked to sign contracts. It will also provide a second 7(i) opportunity (BP-29) to address any unintended consequences and populate any unfilled sections in the PRDM before its October 1, 2028, effective date.
- Our approach to the revision will roughly follow this path: education, review alternatives, evaluation, and decision.
- Our Intent is to design a robust and economically sound methodology and then circle back to consider whether/how to approach any potential rate shock mitigation that methodology may create.

# Approach

- Project Approach:
  - Work collaboratively with regional stakeholders to develop a durable and reasonable rate methodology consistent with governing statutes
  - Purpose of Workshops: explain intent of each chapter, discuss potential changes and alternatives, gather feedback and develop design
  - Purpose of Working Sessions: focused and technical examination of alternatives, gather feedback and explore impacts, flesh out design
  - Report out Working Session findings and analysis to the larger audience to gain broader perspective and support
  - Document Working Session and Workshop conclusions will inform a first draft PRDM document available for review in August
  - Review and address comments and prepare second draft in November
  - Second draft will become BPA's initial proposal for 7(i)

- Approach to Workshops
  - Scheduled now; led and facilitated by BPA

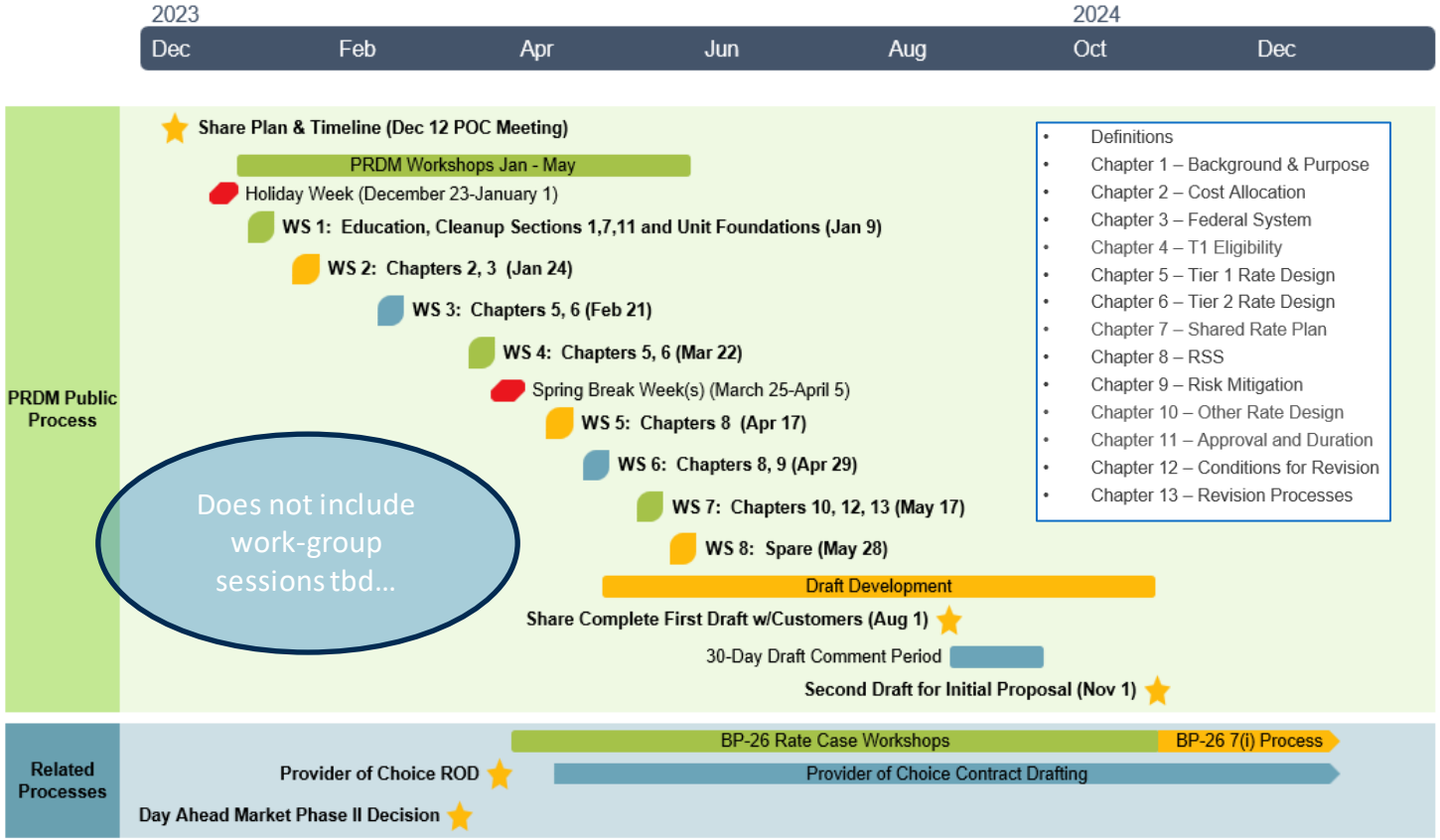
- Approach to Working Sessions
  - led by BPA, TBD

# Landscape

- Expected Concurrent and Related Workstreams
  - Provider of Choice (PoC) Policy ROD (Spring 2024)
  - Day-Ahead Market Phase II Decision (Spring 2024)
  - BP-26 Rate Case Workshops (Starting March-April 2024)
  - TC-26 Rate Case Workshops (Starting March-April 2024)
  - Formal BP-26 7(i) Rate Proceedings (starting November 2024)

- While the PRDM workshops are focused on rate methodology specifics, our core team is communicating regularly with these parallel efforts. We may invite particular SMEs to our workshops or workgroups as necessary to assist with targeted and interrelated questions – but our focus will be on the rate methodology.

# Timeline


2023
2024
Dec
Feb
Apr
Jun
Aug
Oct
Dec
PRDM Public Process
Share Plan & Timeline (Dec 12 POC Meeting)
PRDM Workshops Jan - May
Holiday Week (December 23-January 1)
WS 1: Education, Cleanup Sections 1,7,11 and Unit Foundations (Jan 9)
WS 2: Chapters 2, 3 (Jan 24)
WS 3: Chapters 5, 6 (Feb 21)
WS 4: Chapters 5, 6 (Mar 22)
Spring Break Week(s) (March 25-April 5)
WS 5: Chapters 8 (Apr 17)
WS 6: Chapters 8, 9 (Apr 29)
WS 7: Chapters 10, 12, 13 (May 17)
WS 8: Spare (May 28)
Draft Development
Share Complete First Draft w/Customers (Aug 1)
30-Day Draft Comment Period
Second Draft for Initial Proposal (Nov 1)
Does not include work-group sessions tbd…
Definitions
Chapter 1 – Background & Purpose
Chapter 2 – Cost Allocation
Chapter 3 – Federal System
Chapter 4 – T1 Eligibility
Chapter 5 – Tier 1 Rate Design
Chapter 6 – Tier 2 Rate Design
Chapter 7 – Shared Rate Plan
Chapter 8 – RSS
Chapter 9 – Risk Mitigation
Chapter 10 – Other Rate Design
Chapter 11 – Approval and Duration
Chapter 12 – Conditions for Revision
Chapter 13 – Revision Processes
Related Processes
BP-26 Rate Case Workshops
BP-26 7(i) Process
Provider of Choice ROD
Provider of Choice Contract Drafting
Day Ahead Market Phase II Decision

# Background Education

# Statutory Context

- Section 7(b) of the Northwest Power Act requires BPA to establish "a rate or rates" for the sale of electric power to meet preference customers' "general requirements."
- Costs of serving this load begins with Federal Base System Resources, then exchange resources, then "other resources."
- For many years, BPA set a single 7(b) rate to recover resource costs to serve preference customers' entire "general requirements."
- Tiered Rates construct provides a framework for BPA to serve "general requirements" of preference customers under multiple 7(b) rates.
  - Tiered Rates permissible pursuant to section 7(b) (refers to "rate or rates") and BPA's rate design authority under section 7(e).

# Limitations of Tiered Rates

- Tiered Rates is a discretionary rate methodology
  - NWPA does not require BPA to establish a rate methodology to set section 7(b) rate, but BPA has done so to provide certainty and transparency.
- Tiered Rates Methodology does not affect any other rate directives. E.g.,
  - 7(b)(2) Rate Test or Residential Exchange Program.
  - Calculation of Direct Service Industry rates under 7(c).
  - Sales for New Large Single Loads or Investor-Owned Utilities under Section 7(f) (New Resource (NR) sales).
- Tiered Rates Methodology does not limit the Administrator's authority to develop rates to recover BPA's costs.
  - TRM does not constrain BPA's authority to develop new rates or mechanisms to recover its total system costs, constrain BPA's ability to forecast costs, or limit BPA's ratemaking discretion when developing products and services.
- In general, the Tiered Rates Methodology sought to ensure that Tier 1 Rates did not include costs of serving Publics' Above Rate Period High Water Mark Load.

# Background Education

- Today's overview is aimed at a basic understanding of the document as a whole, explain the purpose of each chapter and how these chapters work together within the whole.

- Future workshops aimed at specific chapters will provide a deeper dive into the thinking and logic of sections within the chapter.

# PRDM, Chapters and Scope

## The Document

- Approximately 150 Pages in length + appendices
- 11 chapters (down from 13?)
- Streamlined and simplified where possible
- Designed to follow the PoC duration

## Scope

- Project will largely follow established chapters
- Modification
- Possible additions to Chapter 10
- Possible additions of other chapters

## 2029 PRDM Chapters

- Definitions
- Chapter 1 – Background & Purpose
- Chapter 2 – Cost Allocation
- Chapter 3 – Federal System
- Chapter 4 – T1 Eligibility
- Chapter 5 – Tier 1 Rate Design
- Chapter 6 – Tier 2 Rate Design
- ~~Chapter 7 – Shared Rate Plan~~ Delete
- Chapter 8 – RSS
- Chapter 9 – Risk Mitigation
- Chapter 10 – Other Rate Design
- ~~Chapter 11 – Approval and Duration~~ – Delete/Move
- Chapter 12 – Conditions for Revision
- Chapter 13 – Revision Processes

# Chapter 1: Background and Purpose

- Section 1.1-1.3, Pages 1-2
  - 1.1 Establishes Rate Period Length
  - 1.2 Defines the Scope of the PRDM in relation to BPA's cost structure, and non-public rates

# Chapter 2: Cost Allocation

- Section 2.1-2.7, Pages 3-15
  - 2.1 Cost Allocation Principles
  - 2.2 Cost Allocation Methodology
  - 2.3 Inclusion of New Expenses & Credits
  - 2.4 Tier 1 (T1) Secondary Energy Credit
  - 2.5 Interest Earned on BPA Fund
  - 2.6 Actions Prior to Allocating Tier 2 (T2) Costs to T1 Cost Pool
  - 2.7 Slice True-Up

# Chapter 3: Federal System Resources

- -Sections 3.1-3.7, Pages 17-30
  - 3.1 T1 System Firm Critical Output
  - 3.2 Augmentation of T1 System Firm Critical Output
  - 3.3 Rate Treatment for Excess Augmentation
  - 3.4 Allocation of Costs for New Federal System Resource Acquisitions
  - 3.5 Augmentation Used for the Slice Product
  - 3.6 Adjustments to Slice Percentages
  - 3.7 Federal System Resources Acquired for T2 Service

# Chapter 4: Eligibility for Tier 1 Rates

- Sections 4.1-4.3, Pages 31-56
  - Contract High Water Mark (CHWM)
  - Rate Period High Water Mark (RHWM)
  - Determination of Above-RHWM Loads

# Chapter 5: Tier 1 Rate Design

- Sections 5.1-5.4, Pages 57-77
  - Customer Charges
  - Load-Shaping Charge
  - Demand Charges
  - Other Charges
  - Billing Determinants, Rates, Credits

# Chapter 6: Tier 2 Rate Design

- Sections 6.1-6.5, Pages 79-84
  - 6.1 Overall T2 Construct
  - 6.2 Setting T2 Amounts
  - 6.3 Cost Basis
  - 6.4 Remarketing of T2 Amounts
  - 6.5 Transferring T2 Vintage or Modifying T2 Load Growth or Short-Term Purchase

# Chapter 7: Shared Rate Plan

- Section 7, Pages 85-87
  - Optional creation of Melded Rate within elected pool of customers

# Chapter 8: RSS and RSC

- Section 8.1-8.6, Pages 89-93
  - 8.1 Diurnal-Flattening Service
  - 8.2 Forced Outage Reserve Service
  - 8.3 Transmission Curtailment Management Service
  - 8.4 Secondary Crediting Service
  - 8.5 Resource-Shaping Charge

# Chapter 9: Risk Mitigation

- Sections 9.1-9.4, Pages 95-96
  - 9.1 Overview of Risk in the TRM
  - 9.2 Risk in T2
  - 9.3 Risk in T1
  - 9.4 Assessment of Aggregate Risk

# Chapter 10: Other Rate Design

- Sections 10.1-10.5, Pages 97-104
  - 10.1 Rates for Unanticipated Load
  - 10.2 Low-Density Discount
  - 10.3 Irrigation Rate Mitigation
  - 10.4 Direct-Service Industry Service
  - 10.5 7(b)(2) Rate Test

# Chapter 11: FERC Approval and Duration

- Section 11, Page 105
  - Chapter was created in the context of new, untested Tiered Rate Construct

# Chapter 12: Revision Criteria

- Sections 12.1-12.5, Pages 107-111
  - 12.1 Revisions to Ensure Cost Recovery or Comply with Court Ruling
  - 12.2 Provisions which May be Revised only to Ensure Cost Recovery or Comply with Court Ruling
  - 12.3 Revision for Unintended Consequences
  - 12.4 Improvements and Enhancements
  - 12.5 Actions Not Considered a Revision

# Chapter 13: Revision Processes

- Sections 13.1-13.9, Pages 113-129
  - 13.1 Processes Generally Applicable to Any Revision
  - 13.2 Process for Section 12.3, Unintended Consequences
  - 13.3 Process for Section 12.4, Improvements or Enhancements
  - 13.4 Process for Section 12.1 and 12.2, Cost Recovery or Court Ruling
  - 13.5 Standard of Decision for Disputes under Sections 13.6 and 13.9
  - 13.6 Disputes Alleging Irreconcilable Conflict with the TRM
  - 13.7 Process for Disputes Before the Hearing Officer Brought under Sections13.4 or 13.6
  - 13.8 Mini-Trial Before the Administrator Regarding Proposed Change
  - 13.9 Process Applicable to Alleged Irreconcilable Conflict with the TRM Outside 7(i) Process
  - 13.10 Dispute Resolution Process for Certain CHWM and RHWM Determinations

# Cleanup:
## Background, Purpose, and Duration

# Cleanup

Proposals for Cleanup and Simplification

- Chapter 1 – modify
  - affirm 2-year rate period
  - add duration Section 1.3
- Chapter 11 – move & delete
  - move duration to Chapter 1
  - delete FERC Approval language
- Chapter 7 – delete
  - delete shared rate plan

# Cleanup: Background and Purpose

- Context of Chapter 1
  - 1.1: Affirm Two-Year Rate Periods
    - Retains balance between certainty and risk
    - Retains status quo and aligns with policy duration
    - Fosters knowledge and skill base
  - Add Section 1.3 to include duration element from Chapter 11

- Discussion and Initial Feedback

# Cleanup: Shared Rate Plan

- Context of Chapter 7
  - This section was offered to subsets of customers who asked to have a melded rate within an isolated pool of customers
  - No one ended up electing this option
  - Option is less compelling now than it was when no knew who would be exposed to above-HWM load and by how much.
  - No one has expressed interest in this option going forward
  - Propose deleting construct and chapter
- Discussion and Initial Feedback

# Cleanup: FERC Review of PRDM & Duration

- Context of Chapter 11
  - The TRM is a discretionary rate methodology and BPA has no obligation to have it reviewed by FERC. Nor does FERC have jurisdiction to review BPA's power rate methodologies (which address cost allocation among power rate customers).
  - Nonetheless, BPA requested a declaratory order from FERC on the TRM that confirmed that the TRM did not contain any inherit defects that would prevent BPA from recovering its costs.
  - Chapter 11 of TRM contains contingency language in the event FERC disapproved the TRM or approved it for a shorter duration than the contract period.
  - Chapter 11 also contains language describing the duration of the TRM (Oct 1. 2008 – Sept. 30, 2028).
- Revisions to Chapter 11
  - Duration will be updated to reflect the Contract period (October 2028-September 2045) and moved to section 1.3.
  - Remove contingencies in response to FERC review language.
    - BPA does not believe seeking a declaratory order from FERC on the PRDM is needed.
    - BPA has now over 10 years of experience with recovering its costs, paying U.S. Treasury, and receiving FERC approval of power rates under the TRM.
    - Declaratory Order caused confusion regarding finality of TRM and resulted in multiple filings in Ninth Circuit.
    - If BPA is not seeking a FERC declaratory order, then contingencies based on FERC's order are unnecessary.
- Discussion and Initial Feedback

# Rate Foundations: Units and Diurnal Construct

# Rate Units:

- Tier 1 rate design has been based on the Tier One Cost Allocator construct ($/TOCA)
  - TOCA is expressed as a percent of the Tier 1 System and applied to certain $ per % customer rates.
  - We transitioned from a traditional $ per MWh approach to a % per percent of the system to mimic Slice and to make the product billing determinants easier to compare.
  - We can produce the same result by putting everyone on a more traditional $/MWh metric (including Slice).
  - A move to a more traditional measurement equals billing determinant approach that could aid understanding.
  - Could provide simplification across internal and external systems and processes; lowers risk of errors; easier translation to other types of analysis that use $/MWh metrics, and quicker review.
- TOCA is used in many places for many purposes, so we would explore the pros/cons of such a change further – This is just to get thinking wheels turning…
- For example
  - BPA could have:
    - A $/MWh rate applicable to planned Slice amounts. (Planned slice amount = Slice% multiplied by the firm Tier 1 system)
    - Monthly $/MWh rates that apply until a customer's annual net load exceeds its CHWM.
    - Monthly $/MWh market-based rates that apply when a customer's annual net load exceeds its CHWM.
- Discussion & Initial Thoughts

# Diurnal Construct:

- Historically:
  - WSPP (Western Systems Power Pool, circa 1983) HLH/LLH (Heavy and Light Load Hours) defined for physical and financial products in the early 2000s based on the load and resource characteristics of the time.
  - Established a fixed period of hours with an implied premium differential, at a time when energy and capacity were largely viewed together.
  - Aided product compatibility and liquidity (forward monthly, balance of month, day ahead, real time etc.)

- Today:
  - HLH/LLH has been carried into rates methodology and associated credits and charges.
  - Used to send appropriate price signals for energy and capacity.

- Given the changing Landscape, we are open to re-visiting whether and/or how to apply the construct in the 2029 PRDM

# Diurnal Construct (continued):

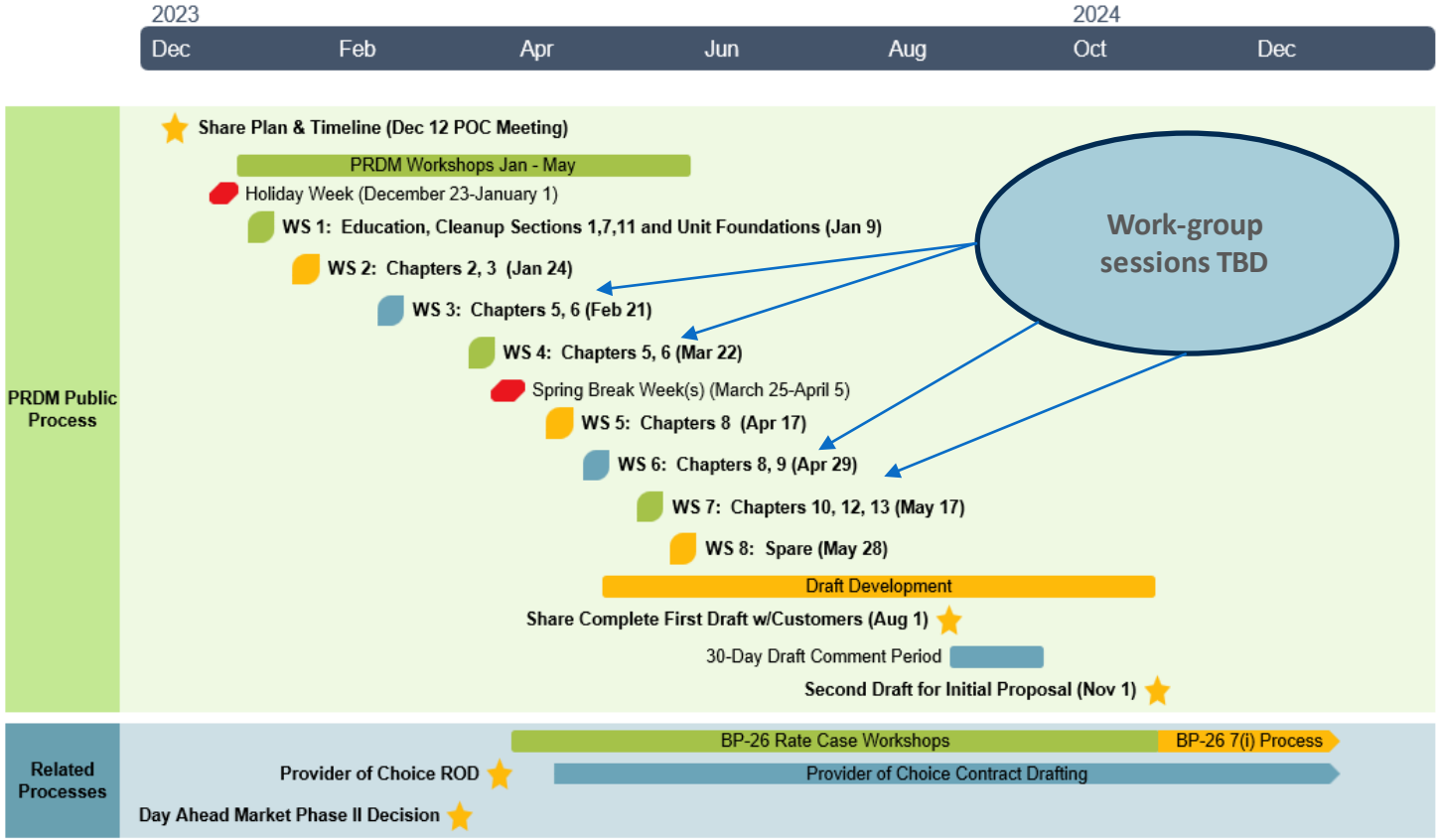
- Landscape:
  - Variable energy resource production, ‘electrification,’ and optimized economic and unit commitment markets (Day Ahead Markets) are starting to alter the reasoning behind standardized HLH and LLH buckets.
  - Industry appears to be shifting more to a capacity basis with more granular measurements of energy.
  - Forward monthly transactions increasingly indexed to a future day ahead or hourly market price.
  - 4-5 current periods (graveyard, morning peak, mid-day, afternoon peak, evening peak)
  - Volume of bi-lateral HLH and LLH transactions, as defined by WSPP, are expected to continue to decline with DAM and changing net load shapes.

- Considerations:
  - PF rates: a single monthly energy rate and a single monthly capacity rate – a customer that took all their power at midnight would pay the same amount as a customer that took all their power at noon.
  - Resource charges/credits (if applicable): a resource that produced all its power in the middle of the day would be credited the same as a resource that produced all its power at night.
  - Product rules: Smoother ramping requirements dictated by access to capacity and not by WSPP defined hours. Ramping requirement includes RSS Products, Block w/Shaping, etc.
  - Or… look at more relevant time-of-day constraints (ie, graveyard, morning, afternoon, evening peaks etc.)
  - Rate impact will need to be carefully measured and potentially mitigated.

- Discussion & Initial Feedback

# Conclusion & Next Steps

# Work Group Planning



# January and February Workshops

**January 24, Workshop #2**

- Chapter 2: Cost Allocations
- Chapter 3: Federal System Resources

**February 21, Workshop #3**

- Chapter 5: Tier 1 Rate Design

2029 PRDM

- Definitions
- Chapter 1 – Background & Purpose
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# Thank you

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