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TACOMA PUBLIC UTILITIES

August 10, 2022

Via email: [Post2028@BPA.Gov](mailto:Post2028@BPA.Gov)

John Hairston, Administrator  
Bonneville Power Administration  
P.O. Box 3621  
Portland, OR 97208-3621

Re: Provider of Choice Concept Paper of July 2022

Dear John,

Thank you for the opportunity to submit comments on Bonneville's Provider of Choice Concept Paper of July 22 and following the special Peak Net Requirement implementation workshop held on August 4, 2022. These comments supplement and incorporate the comments submitted by the Slice Customer Group on August 10, 2022, along with the Public Power Post-2028 Concept Paper submitted on March 30, 2022.

**Requested Action 1 – Peak Net Requirements:** The August 4, 2022, workshop focused on the impact of Peak Net Requirements on Slice customers. As became evident during the meeting and in customer comments leading up to the meeting, we believe that the Peak Net Requirements concept was released prematurely and does not adequately consider impacts on customers' ability to manage peak capacity and energy needs to reliably serve load at a reasonable cost. Tacoma Power strongly encourages Bonneville to supplement the Provider of Choice Concept Paper as soon as possible by removing the Peak Net Requirements calculation until the concept and its implementation can be workshopped to the point where Bonneville can issue a proposal for comment that supports customers' ability to manage peak capacity and energy needs, preserves the historic equity balance between products, and allows capacity purchased from Bonneville to be considered for resource adequacy.

**Requested Action 2 – Contract High Water Marks:** Interrelated with the Peak Net Requirements calculation is Bonneville's proposal to reset Contract High Water Marks. Bonneville's proposal for a Contract High Water Mark reset based upon 2026 net requirements could inappropriately reward utilities who have not and are not investing in non-Federal resources, or conservation, by reallocating to them access to Tier-1 power. This is contrary to the main intent and principles of the Tiered Rates Methodology. We do appreciate and acknowledge Bonneville's proposed "Regional Dialogue load growth" adjustments as a means to address this potential inequitable result. Additional workshops are necessary to analyze and refine a Contract High Water Mark proposal for customer discussion and comment.

## Peak Net Requirements Calculation

**Peak Net Requirements – Concerns from the Provider of Choice Paper:** Tacoma Power has significant concerns with the proposed calculation of Peak Net Requirements as described in the Provider of Choice Concept Paper of July 2022. The proposed Peak Net Requirements calculation:

- will cause customers to be structurally capacity and energy deficit,
- will violate statutory service obligations,
- is not consistent with Provider of Choice goals and principles, and
- creates uncertainty around when, or if, it would be triggered precludes relying on capacity purchased from Bonneville when assessing resource adequacy and may complicate participation in the Western Resource Adequacy Program.

**Limiting purchases based on the proposed Peak Net Requirements calculation will cause partial-requirements customers to be structurally capacity deficit.** The Peak Net Requirements calculation proposes using a 1-in-2 hourly monthly system peak to define capacity needs then subtracts dedicated resource qualifying capacity contributions and the flat monthly Block and then limits the capacity Bonneville will provide to the difference. This means a partial requirements customer will have insufficient capacity to meet monthly peak loads 50% of the time, and thereby fail Western Resource Adequacy Program capacity metrics and Tacoma's more comprehensive Integrated Resource Plan adequacy standard.

**Limiting purchases based on the proposed Peak Net Requirements calculation will cause partial-requirements customers to be structurally energy deficit.** Limiting the provision of capacity in the manner described above will also result in Bonneville supplying insufficient energy to meet firm, annual and monthly energy requirements under low hydrological conditions. The current critical water planning framework for determining energy net requirements must stay intact.

**The Peak Net Requirements calculation will cause Bonneville to violate its statutory service obligations.** The failure of the Peak Net Requirements calculation to address capacity and energy needs, as discussed above, will result in Bonneville violating its obligations under the Northwest Power Act, section 5(b). This problem will be exacerbated when a preference customer attempts to remedy structural capacity deficits by constructing new generating capacity. It will then be obligated to declare the new capacity as a new resource to serve load, which may well result in a further reduction of preference power allocation. The Peak Net Requirements calculation forces a preference customer to effectively relinquish its preference rights.

**Example of how the Peak Net Requirements calculation concerns identified above impact utilities like Tacoma Power that own and operate hydroelectric resources.** Tacoma Power's non-Federal resources consist primarily of hydroelectric projects. In the context of hydroelectric generation, Tacoma Power must ensure it has enough energy and capacity to meet customer needs even under poor water conditions. Tacoma Power counts on access to Federal generation from Bonneville to meet those needs. However, Bonneville's proposed Peak Net Requirements calculation restricts access to Federal capacity and energy based on the false assumption that Tacoma Power would be able to operate as if it were experiencing favorable water conditions even when faced with critical water conditions. Under this restricted Peak Net Requirements calculation, Tacoma Power would be short of capacity and/or energy and would need to secure additional resources to ensure its customers' needs are met. Additionally, Tacoma Power's acquisition of replacement resource(s) may be considered by

Bonneville as new non-Federal resource(s) and further restrict Tacoma Power's access to Federal Power, thereby creating a further deficit. This construct is not workable and results in Bonneville not serving Tacoma Power's firm energy and capacity needs.

**Peak Net Requirements – Bonneville's Explanations:** On August 4, 2022, Bonneville held a workshop with its partial-requirements customers. At that workshop Bonneville articulated several modifications to the Peak Net Requirements concept that need to be documented, and/or discussed further. The following is what Tacoma Power understood from the discussion.

1. Bonneville acknowledged that the Peak Net Requirements explanation in the Provider of Choice Concept Paper was an initial concept – and that a lot more work was needed to issue a concrete proposal.
2. Bonneville does not intend to violate its current critical water energy net requirements framework under any Peak Net Requirements construct.
3. Bonneville intends to keep a *status quo* for flat annual Block, Flat monthly Block, and diurnal monthly Block. Bonneville also indicated a *status quo* for the Block with Shaping Capacity and Slice/Block products, but with Peak Net Requirements restrictions, if needed, to serve other 5(b) loads, based upon rate period or annual forecasts. However, more work is needed to develop the details describing the circumstances where it would be applied.
4. Bonneville staff indicated that Peak Net Requirements would be implemented on a planning basis in months where there was a need to restrict any Slice customers "excess" capacity (or Slice Right to Power) based upon Bonneville's needs to serve other 5(b) loads. However, the time period associated with the planning basis, and whether the time period associated with the planning basis would provide adequate time for customers to develop or acquire replacement resources are unknown. More fundamentally, it fails to recognize that Bonneville will not be serving Tacoma Power's firm energy and capacity needs.

**Peak Net Requirements – Additional Comments:** Tacoma Power has the following additional concerns with Peak Net Requirements:

**Operational:** We are concerned about our ability to operate a Balancing Authority if Bonneville has a unilateral right to recall capacity. In order to ensure we maintain resource adequacy, it is likely that we would have to augment our portfolio at significant cost to our retail customers. In addition, we are concerned that the current Slice product is not architected to accommodate a Peak Net Requirements constraint.

**Energy Adequacy:** We remain concerned that Peak Net Requirements will cause our energy net requirements to not be met.

**Western Resource Adequacy Program Participation:** Capacity recall provisions would complicate Western Resource Adequacy Program participation for Slice-Block customers. Capacity recall could impair Slice customers' ability to qualify Slice as capacity or lead to lower resource qualifying capacity contributions. It could also create challenges in the operational program limiting Slice customers' ability to supply capacity to neighboring utilities in stressed system conditions – which would increase the risk of incurring large non-compliance payments.

**Equity Concerns:** The implementation of Peak Net Requirement harms the equity between products that Bonneville intended to achieve with the Regional Dialogue contracts. In the Regional Dialogue, Bonneville intended to equitably allocate access to Federal power regardless of the product that was purchased. The application of Peak Net Requirements degrades the products the calculation is applied to. We are concerned that these changes will effectively eliminate Slice as a viable product. That outcome is extreme and unnecessary and as a result, Tacoma Power is interested in exploring a Load Following product option.

**Peak Net Requirements – Implementation details must be developed to have a proposal that can be evaluated:** As is evident from the workshop discussions summarized above, the implementation details associated with Peak Net Requirements are essential for evaluating and commenting on the proposal and its calculations. Without understanding Bonneville’s proposed implementation, the concept is too vague to provide meaningful comments.

### **Contract High Water Mark**

**Contract High Water Mark (System Size and Allocation of Tier 1 Power):** Post-2028 CHWMs is interrelated with Peak Net Requirements discussed above and is a critical issue for Bonneville’s Preference Customers as it establishes the amount Tier 1 power each customer is entitled to purchase during the term of the Provider of Choice contracts. There are two basic “book-end” options: (1) roll forward current Contract High Water Marks, and (2) reset Contract High Water Marks based upon updated Net Requirements. There are certainly valid arguments for each. However, there are also many ways Bonneville, and its customers can refine this issue to achieve an “equitable outcome”. Careful and thoughtful approaches need to be considered and discussed given the important principle and goals under a Tiered Rates Methodology construct and in light of the events that transpired during the Regional Dialogue contracts.

Each customer has experienced different levels of load growth or load loss based upon its circumstances and decisions. For a variety of reasons, customers may have experienced substantial load growth within their service territories, and others have seen stable or declining loads. Customers have decided to invest in more or less conservation and have made decisions regarding non-Federal resource development or elected Tier 2 service to meet their Regional Dialogue above RHWM loads. There are many “lessons learned” under the Regional Dialogue Tiered Rate Methodology and Contract High Water Mark construct that Bonneville and its customers can build upon for the Provider of Choice contract and for consideration in establishing post-2028 CHWMs. Weighing the options and measuring each preference customer’s Contract High Water Mark under various options will be key to a positive and equitable outcome.

**Main principle of Tiered Rate Methodology – subsidization/eliminated melded rates:** The main principle of the Tiered Rate Methodology is to allocate the limited low-cost Tier 1 system among preference customers at the start of the Regional Dialogue contract in an equitable manner. This drew a line in the sand and established the “start date” by which to eliminate any further cross-subsidies between growing and non-growing utilities from the prior Subscription Contract buy-and-meld construct. A strict reset of Contract High Water Mark post-2028 has the potential to undo this critical and important policy decision. If a complete reset is done each new contract term and the Federal system is augmented to meet the full net requirements loads, Bonneville and the region are effectively back to a buy-and-meld construct, rendering the original intent of the Tiered Rate Methodology moot.

**It is not necessary to meet net requirements with Tier 1 rates:** A complete reset of CHWHs without consideration of events that have led to current customer net requirements (Tier 1 and Tier 2 loads) would be short-sighted. Tacoma Power appreciates Bonneville’s concept paper proposal that recognizes the necessary balance to be struck for post-2028 and its proposed options for removing load growth from Regional Dialogue contracts to honor the original intent of the Tiered Rate Methodology and Contract High Watermark construct. Tacoma Power believes Public Power has made good progress toward a Contract High Water Mark compromise that adds back a portion of Regional Dialogue conservation achievements and looks forward to working with and through Bonneville to come to a balanced result on post-2028 CHWMs. Bonneville should support the continuation of that dialogue.

Achieving an equitable compromise on Contract High Water Marks will also require discussion on how to measure the size of the Tier 1 system (i.e. P10/P35, etc.) and the amount of Tier 1 augmentation that may be necessary. To assist in future discussions, Tacoma Power believes a “fixed” system size during the Provider of Choice contract term will help utilities in their own Integrated Resource Planning processes. Tacoma Power currently supports the size of the Tier 1 existing system to be measured under a P10 monthly metric with a modest amount of augmentation and fixed for the Provider of Choice contract term, a combination of the positions described in Section 4.2.1.1 “P10 Firm Monthly” and 4.2.1.2 “Fixed System” of the Provider of Choice Concept Paper, but not necessarily limited to 7,000 aMWs.

### Conclusion

Tacoma Power is committed to constructively working with Bonneville and Public Power to achieve principled and equitable solutions for the Peak Net Requirements and Contract High Water Marks for the term of the Provider of Choice contracts. We also look forward to working on the many other important issues addressed in the Public Power Council and Bonneville concept papers over the next couple of years.

Respectfully submitted,

DocuSigned by:  
By  08/10/2022  
Chris Robinson  
Power Superintendent/COO

cc: Paul Munz, BPA