

COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP REGARDING BPA's PROVIDER OF CHOICE CONCEPT PAPER

Submitted: August 10, 2022

I. INTRODUCTION

The Western Public Agencies Group (“WPAG”) includes 24 utilities¹ located in Oregon and Washington both east and west of the Cascades. Our membership ranges from some of the Bonneville Power Administration’s (“BPA”) smallest load following customers to some of its largest and most sophisticated Slice/Block customers. Some WPAG utilities are BPA full requirements customers, while others own and/or operate their own resources that they either use to serve their loads and/or sell to third parties. The WPAG utilities collectively make up approximately 29 percent of BPA’s Tier 1 load.

Given the diversity of our group and the varied environments we each operate in, there are very few (if any) (i) BPA programs that at least one WPAG does not participate in or touch upon, and (ii) BPA power or transmission rates that at least one WPAG utility does not pay. In a real sense, we are a microcosm of BPA’s larger preference customer base. Our success as a group depends on transparency, collaboration, and an emphasis on seeking equitable outcomes. We also acknowledge and accept, however, the agency of each individual WPAG member to be able to advocate on its own behalf when it determines it necessary to protect its own unique interests.

It is through the above lens of transparency, collaboration, and equity that WPAG appreciates and welcomes the opportunity to provide the comments below in response to BPA’s Provider of Choice Concept Paper (“BPA’s Concept Paper” or the “Concept Paper”).

II. GENERAL COMMENTS

WPAG is appreciative of the thought and effort that BPA clearly put into its Concept Paper. While we do not agree with all of BPA’s initial positions, we also acknowledge that it is an opening proposal that will serve as a strong starting point for future discussions and is intended as an invitation for feedback and iteration. Below are our initial reactions to a select number of issues/positions identified in BPA’s Concept Paper. We reserve the right to amend our positions and/or change our thinking as the Provider of Choice process unfolds and we learn more in the workshops.

¹ The utilities comprising WPAG include Benton Rural Electric Association, Eugene Water and Electric Board, Umatilla Electric Cooperative, the Cities of Port Angeles, Ellensburg and Milton, Washington, the Towns of Eatonville and Steilacoom, Washington, Alder Mutual Light Company, Elmhurst Mutual Power and Light Company, Lakeview Light & Power, Ohop Mutual Light Company, Parkland Light and Water Company, Public Utility Districts No. 1 of Clallam, Clark, Cowlitz, Grays Harbor, Jefferson, Kittitas, Lewis, Mason and Skamania Counties, Washington, Public Utility District No. 3 of Mason County, Washington and Public Utility District No. 2 of Pacific County, Washington.

III. SPECIFIC COMMENTS

1. **Basic Contract Framework and Cost Management.** WPAG is generally supportive of BPA’s proposal for long-term standardized contracts and appreciates BPA’s willingness to explore a 19-year rather than a 20-year contract term to account for the significant changes Washington utilities will face beginning January 1, 2045 when they must be completely carbon-free under CETA.

We do, however, recommend that BPA and its customers explore alternatives to the take-or-pay/flat monthly charges construct of the current contracts and Tiered Rate Methodology (“TRM”), which BPA proposes to continue and place preference customers at the mercy of BPA’s cost and rate decisions with no recourse to lower their BPA costs. BPA and preference customers should instead consider products and rate designs that connect the amount of power used to the amount of the payment made to hold BPA better accountable and as a possible way to better incent energy efficiency and load management activities by customers.

In the event BPA and customers ultimately decide to move forward with a long-term take-or-pay construct, there will need to be renewed focus on identifying additional mechanisms to reduce the considerable cost and price risk that such an approach imposes on customers. Although in its Concept Paper BPA largely rejected customer proposals to discuss longer-term contracts with contractual off-ramps that would allow preference customers to reduce their load on BPA and/or provisions that place sideboards on the nature and magnitude of new costs BPA may propose to incur and recover through power rates, WPAG still believes that such options must be part of the upcoming policy workshops to ensure a mutually acceptable balancing of risk between BPA and its customers.

To the above end, we are supportive of further discussing BPA’s proposed “replacement required” off-ramp whereby customers could terminate their power sales agreement without being subject to the take-or-pay provisions if they found another preference customer that is willing to assume their BPA contract purchase obligation. Provided it can be done in an equitable manner, we think this proposal has the potential to facilitate non-federal resource development by BPA’s preference customers, reallocate Tier 1 power to *preference customers* who want it, and keep BPA whole from a revenue perspective. Such potential Win-Win-Win opportunities are rare and should be eagerly seized upon for further development. We propose that BPA also consider a partial “replacement required” off-ramp whereby customers could assign a portion of their Tier 1 allocation to another willing customer rather than terminating their entire contract altogether as it appears would be required under BPA’s initial proposal.

2. **Provider of Choice Product Offerings.** WPAG is supportive of BPA’s proposal to continue offering the Load Following, Slice/Block and Block products for the Provider of Choice Contracts and looks forward to working with BPA to identify and develop enhancements to the products so that BPA’s customers can better meet the challenges they will face during the post-2028 period. While some of WPAG’s members are likely to continue with BPA’s Load Following product for post-2028, others are likely to seriously consider both the Load Following and Slice/Block products as potential options and will not make a final election until 2025 when the Provider of Choice contracts are to be signed. For this reason, WPAG seeks to work with BPA

and other customers to ensure that BPA offers (i) a balanced suite of products that offers approximate equivalent value between products; (ii) clear definitions of the risks, benefits, and responsibilities for each product; (iii) products designed to help preference customers meet the resource adequacy, carbon compliance, and other challenges they will face in the post-2028 operating environment; and (iv) transparency as to how proposed changes to one or more of BPA's products will impact both the product that is proposed to be changed and BPA's other products. For example, and as further discussed below, WPAG is keenly interested in not only how BPA's proposal to include a peak net requirement calculation for the Slice/Block product will impact the Slice/Block product, but also how it would impact the Block and Load/Following products. Additionally, WPAG is also interested in how BPA's proposal to change how capacity is priced for the Provider of Choice Contract would impact the rates paid not just by Load Following customers but all of BPA's customers.

3. **Non-Federal Resources Development.** WPAG is supportive of BPA's proposal to include providing additional non-federal resource flexibility as one of its Provider of Choice goals as well as its openness to consider proposals to:

- Provide customers with the flexibility to dedicate a certain amount of generation resources to offset and serve load that would otherwise be eligible for service at the Tier 1 Rate;
- Increase the minimum threshold to at least 1 MW for a customer's non-federal resource to be included and tracked in its power sales contract; and
- Simplify its approach to Resource Support Services ("RSS") and have RSS only apply to larger resources.

An additional area to explore that may support non-federal resource development is the potential use of 6(h) billing credits in those circumstances where a customer agrees to a reduction of its CHWM in exchange for billing credits from BPA and where such agreement eliminates or reduces BPA's obligation to acquire additional resources for purposes of augmenting the Tier 1 System. Such an option may be desirable in a circumstance where BPA and customers agree to a maximum Tier 1 System size that exceeds the sum of the net requirements load placed on BPA at the start of the contracts to, for example, provide every utility with some "day-1" Tier 1 headroom. We look forward to discussing this potential option more in the upcoming workshops.

4. **Capacity and Peak Net Requirements.** BPA's Concept Paper includes at least two significant proposals focused on capacity. The first is BPA's proposal to include a peak net requirements calculation for the Slice/Block product in the next contract. The second is BPA's proposal to fundamentally change how it charges for capacity by unbundling the cost of capacity from the monthly customer charge and instead charge for capacity based on the total amount of power purchased from BPA during a defined period.

BPA received swift objections to the first proposal from some of its current Slice/Block customers out of a concern that it would fundamentally undermine the value of the product; unfairly disrupt the careful balance with BPA's other product choices, most specifically the Load

Following product; and generally make the Slice/Block unviable post-2028. Indeed, the reaction was so severe that BPA has already taken steps to form a peak net requirements task force, a development that WPAG supports and looks forward to participating in.

On the other hand, to date, there has been little if any discussion on BPA's proposal to change how it prices and charges for capacity. However, depending how the new demand rate is set and to which peak period it would apply, BPA's second capacity-based proposal has the potential to shift hundreds of millions of dollars per year out of the monthly customer charge and significantly impact the total BPA power bills of some BPA Load Following customers, particularly those with low system load-factors, in ways that they may find objectionable.

WPAG strongly desires for BPA to provide balanced product offerings and is fully supportive of BPA's formation of a task force to examine the potential impacts of its peak net requirements proposal on the Slice/Block product, as well as possible product and rate design adjustments to assure that the Slice/Block product remains balanced from a value perspective with BPA's other products. However, such work must also consider how BPA's other proposals would change BPA's other product offerings, e.g., how BPA's capacity pricing proposal will impact the Load Following product as well as the "balance" between Load Following and other products. Given the interrelated nature of BPA's products, services, and rates, such a holistic approach will be a necessity as BPA and customers propose changes to BPA's products and services, all of which are likely to look different from the current offerings under the Regional Dialogue Contracts.

5. **Tier 1 System Size and Allocation.** Tier 1 System size and allocation will likely be two of the most difficult issues to resolve for the Provider of Choice Contracts and, for this reason, BPA is smart to put them first in the sequencing of its workshops. While BPA proposes to conduct its workshops virtually, at least initially, our experience in discussing system size and allocation over the last two years, both within our group and with the rest of public power, is that they do not lend themselves to virtual meetings and that our greatest successes in discussing them have come during in-person meetings. Accordingly, we recommend that BPA be flexible in its selected meeting formats and be prepared to change course if warranted by poor or insufficient progress or participation. Notwithstanding the above, and regardless of the setting, WPAG looks forward to working with BPA and other customers to identify a holistic system size and allocation proposal that meets the principles and goals of both Public Power's and BPA's Concept Papers, including the goal of broad support among BPA's preference customers, and believes that both papers collectively provide a good starting point for what we expect to be a very robust discussion. WPAG continues to work with other preference customer groups and utilities on a refined system size and allocation alternative that we intend to ultimately present together to BPA for its consideration.

6. **Carbon and Other Environmental Attributes.** BPA understands that the success of the Provider of Choice Contracts will largely depend on their ability to help BPA's preference customers meet their respective decarbonization goals and obligations. While there remains a lot of work to be done in this area, we are encouraged by BPA's initial thinking on carbon, including its proposals to:

- Assess and analyze options for reducing the carbon content attributed to the Tier 1 System, including evaluating options for acquiring power from carbon-free resources for both balancing load and, potentially, increasing the size of the Tier 1 System and developing trading floor processes to seek out specified, clean power purchases that consider a price for carbon emissions in determining the least-cost resources.
- Separate the carbon content and environmental attributes of power sold at the Tier 2 Rates from the carbon content and environmental attributes of power sold at Tier 1 Rates, which we understand and appreciate to be an incremental evolution of BPA’s current single system approach that has the potential to help utilities better comply with their post-2028 carbon goals and obligations.

In addition, subject to our interest in the potential development of a carbon-free power product discussed below, WPAG is also supportive of BPA’s proposal to convey RECs created by the Tier 1 commensurate with the actual amount of MW/hrs of Tier 1 power purchased by a preference customer. However, we further propose that any additional RECs created by the Tier 1 System beyond those associated with PF sales be allocated to all preference customers based on their respective RHWMs. Like today, preference customers could then elect to use such excess RECs for their own compliance purposes and/or sell or have BPA sell them on their behalf. We do not support, and would strongly object to, any post-2028 allocation of RECs from the Tier 1 System to the investor-owned utilities (“IOUs”).

Public Power’s Concept Paper expressed a desire for a carbon-free product option and provided a carbon reallocation proposal that sought to address this desire while staying within BPA’s statutory requirements. Although BPA did not include a carbon-free product in its Concept Paper, it did express a willingness to explore the possibility and potential design of such an option while also identifying three areas of concern that it believes will need to be addressed (i.e., statutory, CETA, and cost concerns). We appreciate BPA laying out these issues and its stated willingness to continue working towards a carbon-free product. We understand that developing such a product may prove difficult and will ultimately require broad acceptance within public power but commend BPA for its willingness to consider the option.

7. **Conservation**. BPA and its preference customers have reached the point where we need to revisit what qualifies for reimbursement under BPA’s Energy Efficiency Incentive (“EEI”) program to better capture projects that enhance the management and control of load, demand, and shaping. Specifically, we recommend utility scale battery storage be eligible for EEI funding post-2028. This would be consistent with recent trends in the industry, including the Federal Energy Regulatory Commission’s (“FERC”) recent determination that battery storage is not generation and can be used for load management as either demand-response or demand-side management. North Carolina Eastern Municipal Power Agency, 172 FERC P 61249 (2020). While FERC precedent is not binding on BPA, it can be persuasive and is indicative of how energy efficiency is evolving within the industry to include battery storage. Utility sized battery storage projects could be located within preference customer substations or at large customer sites and our recommendation is that they could be funded, at least in part, with redirected post-2028 EEI budgets. Potentially, these utility-scale storage projects could help (i) address the capacity concerns BPA identified in its Concept Paper by mitigating peak demand loads, providing daily

and monthly shaping, enhancing frequency control, and mitigating transmission constraints; and (ii) provide customers with a way to limit their exposure to BPA's proposed changes to how it will price capacity. WPAG respectfully requests the opportunity to make a presentation on the potential qualification of battery storage for EEI funding in the Provider of Choice workshops.

8. **Organized Markets**. While the WPAG utilities have not adopted a group position on BPA's potential participation in organized markets like Markets+ or EDAM, we nonetheless support BPA's proposal to continue its participation in those market development efforts and encourage BPA to take an even more active leadership role in their development. In addition, consistent with Public Power's principle that the Provider of Choice Contracts be "[a]daptable to emerging markets, regulatory changes, and evolving end-user needs",² WPAG seeks to work with BPA to develop a contract that is sufficiently flexible to permit either BPA or individual customers to participate in an organized market if they choose to do so after signing the contract.

9. **Transfer Service**. WPAG supports BPA's proposal to continue to provide transfer service for federal power deliveries. However, we believe that there is still much to discuss regarding the future of the service, including more discussion regarding BPA's proposal to stop rolling-in the cost of transfer service for non-federal deliveries and to no longer use the principle of comparability as it relates to transfer service. The former proposal could undermine the principle to help facilitate non-federal resource development by preference customers, while the potential implications of the latter on load service needs further explanation and discussion.

10. **Low Density and Irrigation Discounts**. WPAG supports BPA's proposal to continue to provide the low density and irrigation discounts.

11. **Residential Exchange Program**. A shared understanding of how BPA will administer the Residential Exchange Program post-2028, and allocate the associated costs, will be critical before preference customers sign the Provider of Choice Contracts. WPAG looks forward to participating in the Residential Exchange process BPA proposes to commence this upcoming Fall.

Thank you for the opportunity to comment.

² Public Power Concept Paper at 1-2, 6.