



December 22<sup>nd</sup>, 2022

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

**Re: Bonneville Power Administration's Provider of Choice Goals and Principles**

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 October, November, and December 2022 Provider of Choice workshops.

**I. Environmental and Public Interest Principles:**

As shared in our previous comments,<sup>1</sup> 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 reflect the value of the system, and maximize the benefits of the system to the region during the contract term.
- **BPA's products and services should enable transformation, not constrain it.** In addition to clean energy policies in Washington and Oregon, BPA must accommodate a broader effort to decarbonize the regional economy and grow clean energy jobs - including load growth due to electrification, increasing need for access to transmission, integration of non-Federal and customer-side resources, and the need for clean capacity.
- **The need to invest in the demand-side of the system is growing, not shrinking.** Investments in energy efficiency, demand response, flexible load management, and customer-side resources take pressure off the river and reduce the need for new capacity resources. These investments also support community resilience, improve equitable distribution of benefits, and avoid land use conflicts and other natural and cultural resource concerns.

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<sup>1</sup> <https://www.bpa.gov/-/media/Aep/power/provider-of-choice/20220602-nwec-may-2022-workshop.pdf>

**Overall, we are encouraged by what we perceive as a shift in BPA’s thinking, and an openness to evolve beyond the 2007 Regional Dialogue in the Post-2028 contracts.** As discussed at the December 8<sup>th</sup>, 2022 workshop, the intent of the Regional Dialogue principles was primarily to insulate customers from the resource decisions and load growth of other customers. However, it is clear from customer input into this process that other priorities are front and center in this next round of contracts. We are pleased to hear BPA’s openness to “proposals that maximize collective benefits rather than individual protections,” in response to the feedback it has received through this process so far. As BPA continues the policy workshop process in 2023, the next six months will be a critical time for translating this intent into draft policy that meets the Provider of Choice goals.

## **II. Environmental and Public Interest Goals:**

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

- **BPA resources will be emissions-free.** We envision a Northwest electricity system free from greenhouse gas emissions, even as that system grows to power the transportation sector and serves an increased role in heating buildings and industrial processes. A clean, modern BPA system will employ energy storage, enable smart grid technologies, and leverage the full flexibility benefits of an environmentally responsible hydropower system to help integrate growing amounts of clean renewable energy. It is possible for BPA to achieve this goal during the contract term, and we urge BPA to make an explicit effort to do so.
- **The BPA system will be better integrated with the broader Western grid.** A more resilient BPA system that facilitates better coordination among utilities in the region and integration between the region and Western power markets will be better able to quickly and responsibly create new opportunities for renewable energy and deliver clean energy to customers efficiently and affordably. We commend BPA for joining the Western Energy Imbalance Market and the Western Resource Adequacy Program, and encourage it to continue to evaluate other market opportunities that meet public interest outcomes. These should include environmental, economic, and equity outcomes, and improve affordability and reliability.
- **BPA will enable and promote customer-side resources.** BPA’s system and product offerings will empower its customers to maximize energy efficiency in homes and businesses and offer new technologies to enable customers to control their usage and their energy bills. Energy efficiency, demand response, and flexible load will continue to be critical resources for the region during the contract term. The expansion of grid-enabled buildings, electrification, and distributed generation and storage should be encouraged.
- **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.** A

business-as-usual approach to environmental commitments is not sufficient to address the imperative of environmental justice. A clean, modern electricity grid must bring benefits to the environment, to the regional and local economies, to endangered species, and to each one of us who calls the Northwest home.

### III. Specific Comments to Address New and Emerging Issues

In the year since BPA began this process, Congress has taken unprecedented action to support clean energy infrastructure development. The incentives provided in the Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA) 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 remove barriers and disincentives in its initial proposals in order to support meeting state, regional and national objectives.

We also believe that the discussion to date 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 of these important public policy issues in the next phase of workshops.

1. **Tier 1 system augmentation.** After much discussion, it appears that BPA is favorable to increasing the size of the federal system by pursuing its own resource development. Tier 1 system augmentation would be a huge step, and one which the region should not take lightly. However, as discussed at the December 8<sup>th</sup> workshop, Tier 1 system augmentation would have disparate impacts on customers who either don't need additional resources, or have already invested in their own resources, or plan to. **We urge a balanced approach that prioritizes the development of non-federal resources to meet load growth, and maximizes the benefits of federal incentives to the region.** To the extent that BPA intends to procure its own resources to augment the Tier 1 system, the right balance must be found in considering the potential for BPA's customers to acquire clean resources more quickly, competitively, and affordably, and take full advantage of the benefits from federal funding.

Noting BPA's limited recent experience with resource acquisition, we therefore recommend that BPA follow industry best practices for resource planning and procurement in the region - meaning that BPA should consider all commercially available demand- and supply-side resources - with a special focus on energy storage, renewable/hybrid systems, and customer-side resources (energy efficiency, demand response, distributed energy resources). Energy storage is an especially promising supply-side resource for BPA, since it can be co-located with existing dam and

transmission infrastructure. **We would support BPA moving forward with an ambitious energy storage procurement program, combined with increased investments in demand response and energy efficiency.**

We are skeptical that the resource selection methodology presented at the December 1, 2022 workshop is sufficient for identifying the optimal mix of resources, given its limited scope, and its exclusion of demand-side resources from the analysis entirely.<sup>2</sup> If BPA chooses to proceed, it should conduct a much more thorough integrated system plan not limited to growing the size of the federal system, but also focused on developing a portfolio of resources that would leverage the flexibility and capacity value of the existing system - to maximize the overall value of the Tier 1 product to customers. We also recommend that BPA consider hiring an independent evaluator to guide BPA through this process, or outsource its resource selection process to an independent third party with experience procuring resources in today's competitive market that can facilitate a fair, competitive, and transparent process.

2. **Facilitating customer access to federal incentives (IIJA/IRA):** Unlike during the development of the Regional Dialogue contracts, today there are strong market signals for utilities to develop their own resources. In addition, the region has an unprecedented opportunity to leverage federal incentives through the IIJA and IRA to expedite and reduce the costs of our clean energy transition. However, **BPA's current approach creates barriers and disincentives to customers accessing federal incentives and funding in the period between now and when the contract goes into effect, and during the contract term.**

These disincentives, if carried forward into the Post-2028 contracts, will create an unbalanced approach to resource development in the region – with BPA potentially controlling a greater share of regional resource development than it should, leading to unbalanced regional clean energy development. If not addressed, this will create lost opportunities for savings, clean energy jobs, and deployment of innovative technologies that will speed up our clean energy transition - especially energy storage. Missing out on near-term incentives will make our clean energy transition more expensive. We recommend the following changes to rebalance BPA's current approach:

- a. **BPA should reject its proposal in the concept paper to move all current non-federal "specified resources" to existing "dedicated" resources, applied against customers' CHWM in the Post-2028 contracts.** This provision would effectively shut down customer development of non-federal resources between now and 2026, as customers are incentivized to avoid any actions that would reduce their Post-2028 CHWM. We view this provision as inconsistent with BPA's goal to support customers meeting national and regional objectives.

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<sup>2</sup> <https://www.bpa.gov/-/media/Aep/power/provider-of-choice/20221201-resource-acquisition-costs.pdf>

b. **BPA should shift its baseline year for calculating CHWM from 2026 to 2022.**

Basing the CHWM calculation on a 2026 baseline creates active disincentives for non-Federal resources and energy efficiency between now and 2026. If this provision goes into effect, customers are incentivized to avoid increasing their own investments in energy efficiency, energy storage, and renewables, in order to preserve their “share” of BPA Tier 1 product. This would violate BPA’s own core principle of having contracts that support customers in meeting national and regional objectives, and having regionally supported Provider of Choice policy and contracts.

At a time when the nation and the region are aligned in our goals to pursue clean energy resource development as quickly and cost-effectively as possible, BPA must be aligned with those goals as well. While these two small proposed changes alone will not fully ensure this alignment, we urge BPA to take a step in the right direction by removing these two significant and obvious barriers from consideration during policy development.

3. **Removing disincentives for self-funded EE:** BPA’s self-imposed limitations on what EE is reportable undermines community needs and risks devaluing customer investments in the Post-2028 contracts. Ideally, **BPA should remove these limitations and give customers credit for all audited self-funded EE under the Regional Dialogue contracts and going forward.** The value of self-funded EE to BPA customers is indisputable. In FY 2022, BPA’s power revenues exceeded the RDC threshold at \$641.3 million, triggering the RDC distribution cap of \$500 million. This windfall is a boon to the region, and was made possible, in part, by the substantial investments that the Northwest has made in energy efficiency over many decades.

BPA is currently failing to meet its energy efficiency obligations to the region.<sup>3</sup> As has been clear for many years, a substantial fraction of potential energy efficiency investments become lost opportunities if not acquired when available. This month, we are faced with the reality that customer exposure to high market prices could have been reduced if BPA had met its EE targets under the NW Power and Conservation Council’s 7<sup>th</sup> Power Plan. Some BPA customers have stepped up to fill this void, ensuring that the benefits of energy efficiency are realized. As cited in BPA’s own Integrated Program Review, these benefits include: reducing consumer costs; providing local economic, employment and community benefits; reducing the need for new resources; reducing grid congestion during super-peak periods; providing more hydrosystem flexibility;

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<sup>3</sup> BPA’s conservation achievement fell far short of the Council’s 7th Plan targets. The most recent annual review by the Northwest Power and Conservation Council (for 2016-2020) indicated that BPA’s shortfall was 30% (150 aMW) below target levels, while investor-owned utilities exceeded their respective target by 10 percent.

reducing market price risk; and supporting the development of other clean energy resources.

We are therefore troubled by the problems identified by the Puget Sound Utilities in their December 14, 2022 presentation, which appear to demonstrate the perverse incentives created by BPA's failure to give customers credit for self-funded EE.<sup>4</sup> In addition to creating risks affecting BPA's own obligations to acquire the least cost power and reduce end-user bills on a sustained, long-term basis; undermining customers' EE investments could reduce the long-term financial health of BPA, its customers and end-users throughout the region. Furthermore, changes in state and federal energy policies, markets, technology innovation and the impacts of climate change strongly favor a greater effort to acquire energy efficiency.

Providing a conservation adjustment equal to 100% of all self-funded, nonreportable, and reportable EE appears to us to be the most fair treatment to address these issues in the Post-2028 contracts. However, we acknowledge that the impacts of a 100% conservation adjustment would be unpalatable to most customers, and arguably lead to unequitable results. We therefore urge a compromise that would **enable all audited self-funded EE to be considered reportable, with a conservation adjustment amount based on a percentage of all reportable and self-funded conservation**. While this would not meet our goal of enabling customers to realize the full value of past EE investments, it would set the stage for a more comprehensive understanding of the scale of investments and their value to BPA and the region going forward.

If some customers are denied full compensation for clean energy development that provides benefits to all preference customers, mechanisms should be put in place to ensure that it never happens again. 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.

4. **Support new large single loads for clean manufacturing:** BPA is proposing no changes to the contract high water mark calculation to account for new large single loads (NLSLs). BPA states that the Power Act requires NLSL to be served at the New Resource Firm Power Rate. We are perplexed by BPA's lack of imagination on this topic of regional and national importance. We believe it is consistent with BPA's role and authority to support economic development in the Northwest by adopting differential rate treatment for clean manufacturing. As has been widely reported with regard to the attempt to reopen the Alcoa Intalco Works smelter in Ferndale, WA; retaining and

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<sup>4</sup> <https://www.bpa.gov/-/media/Aep/power/provider-of-choice/20221214-puget-sound-utility-provider-of-choice.pdf>

growing clean manufacturing jobs in the U.S. requires access to affordable and clean electricity.<sup>5</sup>

With BPA's leadership, the Northwest would be uniquely positioned to lead in the nation's transition to clean manufacturing. BPA's reluctance to find solutions that would make projects like the reopening of Intalco possible does a disservice to the region. If BPA is unable to navigate its perceived statutory restrictions, we urge BPA to work with its customers to ensure they can offer a blended "economic development" rate that combines the Tier 1 rate with the firm power rate. **BPA could support customers in helping the region meet its economic development goals by developing mechanisms within the Post-2028 contract that hold customers harmless for serving NLSLs that meet certain criteria for clean manufacturing and jobs in the region.** This issue warrants further exploration in 2023.

5. **Supplying carbon-free electricity:** We appreciate that BPA has put forward several options for discussion for addressing carbon and environmental attributes. We support BPA's intent to continue to assess and analyze options for acquiring power produced by carbon-free resources that would reduce reliance on unspecified (spot) market purchases, and to gather additional feedback in the next round of policy workshops in 2023. At this time, we offer some preliminary thoughts on the options presented to date:

- **We support efforts to directly correlate power purchases with Renewable Energy Credits (RECs).** To the extent that that RECs generated by the federal system can follow purchases from the system, we view this treatment as more likely to comply with CETA rules prohibiting double-counting of RECs. This will also provide more transparency in accounting and is more likely to align with regional carbon and clean energy policy as it evolves during the contract term.
- **We also strongly support BPA developing trading floor processes to seek out specified, clean power purchases for balancing load and incorporating a price on carbon emissions in determining the least-cost resource.** This will support customers in reducing their compliance obligation under Washington's Climate Commitment Act, and ensure that the price effect of emissions allowances generated under the program is reflected in market dispatch of resources – a foundation of carbon pricing policy. It would be helpful for BPA, in its next round of discussions of carbon and environmental attributes, to discuss the specific impacts of this program on its proposed product offerings, now that the rules have been finalized.

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<sup>5</sup> <https://www.washingtonpost.com/climate-environment/2022/12/16/biden-wants-green-economy-talks-fail-revive-key-aluminum-plant/>

- **BPA must offer a carbon-free product in the Post-2028 contracts.** Ultimately, we feel that two of the three options that BPA has put forward are not sufficiently robust to ensure that customers will not incur additional compliance costs during the contract term, or to meet growing customer demand for clean energy. It is absolutely critical that BPA offer a carbon-free product. This is not only necessary to ensure that the contracts support customers meeting national and regional objectives, but it is also the least-risk option for customers, as clean energy policies and markets inevitably evolve over the next two decades.

We look forward to continuing to engage with BPA on this issue, including BPA's statutory authority to pursue options, cost allocation and impacts, as well as the overall trade-offs, interactions and risks of these options in the context of the entire Provider of Choice contracts.

**Conclusion:**

Thank you for the opportunity to provide feedback on the issues raised in the Provider of Choice workshops in October - December 2022. 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 a large initial "L" and a long, sweeping tail.

Lauren McCloy  
Policy Director, NW Energy Coalition

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