PNGC's Position on "Core 4" and Ancillary Topics regarding Post-2028 Contract

Because any successful post-2028 contract negotiation must be based on a comprehensive framework and not be constructed in a "piecemeal" fashion, PNGC submitted its 3/31/22 Concept Paper comprehensive framework. However, there are four major issues that we call the "Core 4" that are so significant that it is important to establish these in the working framework as a starting point. If the Core 4 cannot be established early it will be difficult, if not impossible, to move onto the other issues and terms of a post-2028 contract.

- **Overarching goal**: PNGC's proposals on the Core 4 are consistent with all the statutes and contract law. Access to BPA to meet net requirements at cost-based rates is our fundamental proposition and our proposal is to have enough power to meet everyone's needs to avoid the unwise and unnecessary "dogfight" over allocation of scarcity.

- The Core 4 are so interrelated that PNGC thinks it is virtually impossible to consider one of the issues alone without considering all four together. The Core 4 are:
    - **#1 System Size** (How big is the BPA Tier 1 system?)
    - **#2 Allocation** (How is the BPA Tier 1 system allocated?)
    - **#3 Augmentation** (Do we add to the BPA Tier 1 system at the start of a new contract?)
    - **#4 Basic Rate Design** (What has become the "Tier 1 and Tier 2" rate construct and defined capacity allocation)

- While we think some aspects of the current contract are working and should be preserved there are things that must be addressed and fixed.

- **Here are PNGC's proposals on the Core 4:**
    - **#1 System Size**: BPA's Tier 1 system should be large enough to serve the net requirements (capacity and energy), at least at the start of the contract. This is similar to how the RD contract was handled.

    - **#2 Allocation:** The Tier 1 system must be allocated so all preference customers have the same opportunity to have the same percentage of their net requirements met by the Tier 1 system. There should be no "haves" and "have nots" at the starting line. For example, we support an outcome that could meet 90%, 100%, or even 110% of net requirements if all customers have the same opportunity to receive the same percentage. *See our additional comments below about our position*. Most of public power is now onboard with a general reset of allocation of the Tier 1 system based on current conditions and are relieved at that. However, we also know that there is talk about creating headroom in the

CHWM for things like conservation (potentially including all the conservation done over the course of the current contract being allocated back to utilities as if it were never done), the possibility that a lost load may rematerialize (CTCF loads), as well as a simple adder for headroom to grow into. We this it is imperative that BPA plans to give public power clear direction on its approach in its July concept paper.

- **#3 Augmentation**: We think BPA should augment the Tier 1 system to meet the total need that is driven by #1 and #2 of the Core 4 and these costs are blended with the balance of the existing federal base system to become Tier 1. PNGC's analysis shows that the BPA system can be augmented, potentially up to 500-800 aMW, with small rate impacts (in some cases a positive impact to busbar costs) on Tier 1 rates. *See our additional comments below about our analysis.* The products available in the current contract, such as Resource Support Service (RSS) for new generation, serve as a fundamental barrier to development of new resources. The result is that while BPA can leverage the existing federal system to integrate new resources with non-material impact on BPA Tier 1 rates, if a customer attempts to integrate those same resources under the RSS product (paying marginal capacity costs) it becomes uneconomic. As the market continues to evolve, BPA customers need cost-based RSS products and clear direction from BPA in July of what options are being considered as resource options to meet net requirements. Some questions on Augmentation include:
  - Will BPA look at blending augmentation costs with the Tier 1 system for the start of the contract?
  - Will BPA resource planning work with customers and complete the necessary modeling and analysis to tell customers what type of resources are needed, beneficial siting locations for the BPA system, as well as the volume of VERs that can be absorbed by the system?
  - Will BPA be open to billing credit approach, as was done before the RD contract? Billing credits allow certain public power entities to develop resources and turn them over for operation and optimization by BPA.
  - Would BPA consider a "buying pool" for future augmentation to meet Tier 2 needs as the contract progresses? If so, we believe BPA should plan to leverage the flexibility of the federal system *at actual cost* to incorporate this need.

The overall theme underlying the heart of the entire augmentation question is **capacity**. When talking about new VER resources, capacity makes the wheels turn. In other words, BPA's flexible capacity should be used to integrate new resources in the region, rather than sold off to the highest bidder. We believe offering cost-based capacity to preference customers is the intended and highest

and best use of the BPA system, rather than maximizing revenue through sales out of the region.

- **#4 Basic Rate Design**: PNGC is generally supportive of maintaining the Tier 1/Tier 2 framework based on an assumption that the other Core 4 issues are dealt with fairly as we have proposed AND that some needed changes are made. First, all BPA rates including Tier 2 should be based on traditional cost-based rates and not theoretical costs, opportunity costs, or market-based costs (unless those market costs are actual costs incurred). Second, we think BPA customers with AWHM load should be able to access federal surplus, at actual cost-based rates, when it is available. PNGC thinks it might be necessary to implement a three-tier rate design that preserves the basic intent of the current two-tier design while allowing preference customers to buy from BPA at true cost-based rates when surplus power is available, which is our statutory right. The current two-tier system gives customers firm supply at critical water and everything else jumps to marginal costs. There must be some middle ground between critical water and marginal rates, albeit at a less firm delivery certainty. Tier 2 could be a conditional firm source of power, provided at cost when available. Their 3 would be truly "on the margin". Lastly, capacity needs to be addressed in this contract. An allocation of peak net requirements would provide clarity to everyone on how the system is being used by preference power and better promote cost of service principles. Capacity from the federal system, however, should also be provided at actual embedded costs to the extent it is being provided by the federal system. We believe there is a "too bright" line right now between Tier 1 and Tier 2 costs. We understand why public power (and BPA) are wed to the Tiered rate structure. While it has solved many problems and added certainty to some of the stakeholders, it has created new uncertainties for others.

Additional Talking Points for Detail and to Address Misconceptions of PNGC's Concept Paper Framework:

- **"Taking away" headroom issue**: PNGC is not trying to "take away" anyone's "headroom" after 2028. First, there is no statutory or contractual arguments for preservation of headroom in perpetuity. Our proposal is that all customers have the exact same opportunity for "headroom" at the 2028 starting line of a new contract. If someone wants 10% headroom then we think all customers should have that same opportunity, period. We do think it might be wise to modify the rate structure to encourage rational use of headroom so that it is not "free." Free resources are overconsumed and there is an actual cost to capacity held for growth. Again, we see this as a fairness and efficiency issue. Our proposal is not a proposal to "take away" headroom but one of fairness and a level playing field.

- **Augmentation Issue:** PNGC's analysis shows that we can augment the BPA system to meet all net requirements (even including some headroom for everyone) with non-material impact on Tier 1 rates. Some have raised concerns about BPA being in the procurement business and that the intent of the current contract was for customers to develop their own resources. The problem with the current contract construct is that the terms and conditions do not work and serve as a fundamental barrier to development of new resources. As PNGC's analysis shows we can have BPA integrate new resources with non-material impact on BPA Tier 1 rates. However, if a customer attempts to integrate those same resources under the current contract construct it is grossly uneconomic. PNGC sees multiple solutions to this problem, which are:
    - BPA augments (our main proposal)
    - BPA resource analysis. BPA needs to complete this analysis (Resource type, location, and volume that best fits the current BPA system) regardless of who augments the system
    - Change terms and conditions for integration of customer resources to create the same outcome as if BPA acquired the new resources itself. Our 3/31/22 concept paper has two proposals for this (rate changes and new product)
    - Allow the customer to develop resources and "exchange" them with BPA under a "billing credit" approach. Customers (rather than BPA) would be responsible for developing new resources, but they would then be pooled into the BPA Tier 1 system like they were a BPA developed resource.

Here are a few other items that are being kicked around right now and up for discussion Wednesday at PPC:

- Headroom – should everyone have some? If so, we will need some amount of Tier 1 system augmentation. Currently there is a proposal to consider providing headroom for everyone. Our position remains that are fine with a headroom concept as long as it is equally applied across public power since we all have the same right to the federal system. We think augmentation needs to result in a blended Tier 1 rate.
- Conservation – should there be a credit/addition to your net requirement (headroom) for the conservation that's been done? How far back that would go is an open topic. I-5s are fighting hard to maximize their allocation. They are talking about going all the way back through the RD contract beginning to "add back" conservation, including voluntary self-funding above their BPA obligation. We believe this is a veiled attempt to create Tier 1 headroom since no one wants to be anti-conservation. All BPA customers have been executing conservation through BPA via the statutory mandate it holds, and the extra conservation done by some utilities has been done for reasons of governing

body policy directives and/or because it was economic for the utilities doing it. They have had the chance to benefit through the entirety of this contract period. We do not believe future conservation efforts would be jeopardized if they are not rewarded by an additional Tier 1 allocation above their current net requirements.

- Committed to and Contracted for Loads (CTCF) – another strong sentiment by some utilities is that if they lost loads, they want a free option to access Tier 1 power to serve it in the event it should return. While there is some sympathy to this ask for small communities, it also begs the question of why their economic development is more important than that of areas with new prospects that are emerging in other areas. It seems there should be a shelf life to these "rights" as well, subject to any statutory carve-outs. We have also asserted that those reserving any form of headroom as an option for future potential use at cost, ought to be paying a reservation cost to hold that option.

Not currently up for discussion on Wednesday, but key interests of ours:

- Access to the federal system for non-federal power integration *at embedded cost.*
- Transfer service needs to be codified in the contract until there is a RTO to replace it. We also believe non-federal power used to meet net requirements should still be eligible for transfer in the next contract.
- Preserving existing discounts (irrigation and low density).
- The "no cost shifting" mantra is a red herring. Rate design has to be updated periodically to be consistent with cost-based ratemaking principles. When this happens, there are cost shifts. Additionally, new policy decisions can result in cost shifts. They key is to manage the rate impacts over time, just as all the distribution utilities do for their members. Having rolling averages as the basis for load based benchmarks (such as net requirements and CDQs) and blended rates based on the percentage of federal system power and non-federal system power as a Tier 2 price basis are two ways rate impacts can be managed. Phasing in large rate impacts is another.

Additional thoughts regarding non-federal power:

- We understand that having new renewables added to the PNW generation fleet is a policy directive for many stakeholders. To the extent that BPA is looking to have non-federal power added, we believe there needs to be reform to RSS charges to reflect the actual cost of integrating new resources rather than creating barriers through a non-economic and theoretical price. Existing generation doesn't pay these costs under the current contract, nor does Slice pay marginal costs for demand, so why are we penalizing new generation when it is something we know we all need? This is especially important given the new pressures coming in from RA and the ask from Slicers that BPA cover their peak.

Net-net, we know that our views are not always going to prevail, so our primary ask is that BPA address the big issues swirling around out there sooner rather than later so that we can reduce uncertainty and begin to prepare for the future, rather than swirling in a vacuum of information.