

**Provider of Choice Workshop Transcript of Executive Opening Remarks
July 21, 2022 Virtual Meeting**

John Hairston:

All right, good morning everyone, and just want to thank everyone for joining us for what I believe is going to be a very productive day and a meeting.

We're here of course, to talk about proposal for the next round of long term power sale contracts and I need to apologize in advance; I know there's a long day of work ahead of us in this workshop.

After I give my remarks, I'm going to have to jump off into a mediation on the, with, for our extended extension of our stay. So just want to apologize in advance for providing comments and having to run straight to that mediation.

But, you know, just to start off, I just want folks to think about when we develop the current Regional Dialogue contracts back in the early 2000s we were, if you think about it, we were using flip phones with keyboards. Most of us were still listed in the music on CDs, and none of us had ever tweeted anything in our lives. And I suspect most of you were probably in other points of your career as I was, and still even maybe pursuing your education.

So, I guess the point is the opportunity to set long term power policies doesn't come around very often in our decision to, you know, make these types of policies are important and we must consider

Um, not only, you know what the world looks like today
But, you know, what it will look like in the future and what our forecast of needs will be for that future. The impacts of these decisions we make in this form will reach far and wide.

And if you haven't participated in the Provider of Choice process up to this point, this may be your first time digging into some of these issues. And some of these topics might seem foreign.
Um, some topics are incredibly complex, I'll admit.

With the myriad of interdependencies, um, but trust me, you know, we're going to, you know, be going about this at different levels of understanding.

You know, we're going to agree on some of these issues and disagree on others and, you know, from my perspective, that's okay. We're here to level set and to improve our shared understanding of all of these issues.

And most importantly, I want you to know that Bonneville is committed to giving you the information you need to make informed decisions to form your opinions and positions and to ensure that you can fully participate and contribute to these discussions in the months ahead as well, as the years ahead. Now I'll know that the, that most of our discussions will center on our priority from power sales to Bonneville's preference customers.



Now, this is based on the current footprint of customers that we serve under the Regional Dialogue contracts that are in place today. But I understand there is interest in other products and rates such as services to investor utilities and is open to these conversations as we delve into policy workshops and we will lay out a plan to address those needs and concerns.

So, let me set the stage for what I think we want to accomplish during this policy development phase. Now first, we want to be clear eyed about where the industry is heading by 2028 the region will very possibly have established a resource adequacy program. Now, this would set a common set of metrics to ensure participants bring enough power to meet their own needs and help the region avoid power supply shortfalls.

Now, Bonneville must consider how we can help our customers meet their resource adequacy requirements under such a program.

And by 2028, our region may have developed a day ahead market and that could impact our power sale contracts even if BPA doesn't become a direct market participant. The same goes for a regional transmission operator or an RTO.

And by 2028, the Northwest will be further along in decarbonization efforts. In fact, Washington State must eliminate coal by 2026.

And we'll have less dispatchable generation in the region, and the firm capacity of the federal hydropower system will be even more valuable as we progress.

Now, system sales today are about 95% carbon free on average with the only carbon content coming from, unspecified market purchases, but there is an interest in reducing the carbon content of these purchases, or even allowing customers to purchase 100 carbon free power from Bonneville. I understand that there is a lot to consider and a lot to weigh as we evaluate these options during this public process.

I also recognize that the Federal Columbia River Power System is uniquely capable of providing flexible, low cost, reliable, carbon free power, and as such BPA is committed to discussions concerning what our role should be in the region's drive to decarbonization.

Now I also realize it's hard to predict what else might--we might be facing in 2028, so accordingly, our policies, product offerings, rate methodology will need to be flexible enough to help us navigate whatever the future may bring.

Now, however, as we look ahead, it's also useful to look at where we've been. We've learned a lot in the implementation of the Regional Dialogue contract, and we've tried to capture those lessons learned--Both of what worked well, and what we can do better in our concept paper. Now the concept paper represents several years of listening to customers to understand your needs and interest.

We heard that the product offering and rate methodology for our current contracts generally work well, and for that reason, the Provider of Choice concept paper proposals maintain key elements of the current contracts.

Now one foundational element that we propose to maintain is tiered rates, and this methodology has worked as we intended to preserve the low cost benefits of the existing system.

It gives customers guaranteed access to their share of low cost, Tier 1 power, and then gives them options to meet their additional power needs. Now, question related to tiered rates and the determination of how much tier 1 power is allocated among customers is: How do we set system size?

Now, we realize this is a core issue that invokes strong opinions.

Increasing the size of the tier 1 system would increase customers, guaranteed access to resources at the tier 1 rate, but it could require BPA to make more power purchases in the future. Now that would increase cost and could start to resemble the buy and meld construct we used in the past where the cost of purchasing power to meet customer's load growth diluted the value of the low cost federal system.

Bonneville is proposing to set the system size at 7,000 average megawatts, which falls in the range of the system size as it's fluctuated during Regional Dialogue.

And there's obviously many points to consider and trust me BPA is open to you--to your input and ideas on this topic.

Now, another notable area we address in the concept paper is related to contract high watermarks.

Our concept paper goes into detail on topics and suggests a recalculation.

Among other elements, we propose a recalculation year, discuss nonfederal resource treatment and propose an approach to handling conservation.

And we also recognize this is an area of high interest and discussions are needed for us to hear where customers would like for us to go.

Now, let me talk about our product and a few key areas where we are proposing to, I would say, stray from the status quo when compared to the Regional Dialogue approach.

Now, I should add here that BPA has certain obligations, like, obligations to supply a customer's net requirements. That is the amount of firm power a customer needs that is not served by its own resources. But we have the discretion in how we fulfill that obligation.

Today, we supply customers, net requirements through three core products. The most popular product we offer today is load following, which means and customer's hourly energy and peak net requirements.

Now, we propose keeping the load following product as is while also exploring flexibilities that will allow customers to add nonfederal resources and we think this will be important for utilities, seeking to meet decarbonization goals and requirements, and we also offer block and slice block products. These give customer's flexibility to manage their own load.

However, this flexibility comes with some risk as customers agree to take on the planning requirements to meet their load needs and operational risks associated with meeting their actual hourly requirements. Now, we are proposing these three concept core products.

We are, well, I would say this while we are proposing these three core products we are proposing an important update for all of them.

Now, today, BPA calculates net requirements based on energy. For Provider of Choice, we are proposing to add a 2nd calculation to reflect capacity and this concept is referred to as peak net requirements.

Now, we identified this potential need for peak net requirements under Regional Dialogue, but never implemented it. And I feel strongly that we can move forward, um, that we really can't move forward with the status quo in part because we expect capacity will become much more scarce and valuable and we need to treat it as such.

And by implementing peak net requirements, we would hold back or hold block and slice customers, um, to clearly define their capacity limits ensuring other customers aren't negatively impacted by others exceeding their share of capacity. Then later today, you'll see how this calculation could work, but we expect to have further conversations in defining this methodology.

Now, the final topic I want to discuss is cost.

Now, we understand the difficulty of locking in long-term contracts when you really don't know the cost that you will need to be recovering in future rates.

Now BPA is committed to maintaining our cost discipline, scrutinizing our spending levels and maintaining transparency and involvement through the public processes that we manage such as the Integrated Program Review.

Now, I've heard requests from some of you to weigh in on cost management strategies, including requests to have larger, a larger voice in decision making on costs and establishing contract off ramps associated with thresholds, such as cost caps.

Now, candidly, I simply can't support anything that would interfere with my authorities or any future administrator authorities in setting costs or recovering costs. BPA fundamentally cannot inhibit our ability to recover costs. And we must retain flexibility to establish prudent program costs. Now that said, there is room to understand our respective objectives concerns and opportunities and I'm confident there was enough room to find a mutually agreeable solution to all of the things that have been raised

around costs. Now, as we go through the rest of today's workshop, I want you to keep in mind that there are several other processes underway that include many Provider of Choice touch points. Another post 2028 process, the Residential Exchange Program begins public workshops later this fall.

In in a separate process, we are close to issuing a new financial plan, which discusses how we will maintain financial strength over the long-term. Now, obviously, that is critical, critically important for us to be able to remain your low cost Provider of Choice.

Now, we are also updating our strategic plan, with the expectation that the new plan will be in effect from 2023 to 2028 or running up to the beginning of our new contract term.

And this will map out our path forward on many issues that could impact contracts issues that could impact system size, cost and markets.

And there will be opportunities to engage in our strategy development in the coming months.

Now, as I mentioned earlier, we continue to evaluate emerging markets.

BPA will coordinate those efforts with the Provider of Choice process and consider how they are interrelated.

And lastly, the regional discussion on the future of the lower Snake dams is ongoing and as I'm sure you're aware there are very many differing viewpoints.

In fact, like I mentioned, I'm going to have to jump off this session to join the mediation session, focused on extending the stay when I've finished my remarks. However, you know, while BPA does not, I would say, support any recommendation to breach these dams. I do respect and appreciate the commitment of everyone in this regional discussions on long term protection and enhancement of salmon and steelhead.

And while there are some uncertainties in the decades ahead, I'm sure we can with confidence know that the demand for low cost dependable clean energy will only increase.

And ultimately, the region as a whole must continue to advance, um, collaborative solutions while also preserving critical and essential services as well, as purposes of the federal dams that the Northwest public and economy and society for that matter, rely on.

Now, I'll close with the final thought on the value of our partnerships and what we can achieve when we work together.

Look, there's only one, Columbia River and one federal hydropower system, but there are many perspectives about how we allocate its benefits.

And as I said earlier, we're at different levels of understanding and at times perspectives, when it comes to all of these issues at play. However, I do appreciate all of you coming together to listen to learn and

contribute to these discussions as we determine the best way to move forward as a region.

The long term contracts we established under Regional Dialogue Have really provided certainty and rate stability to public power customers for many years. And I'm looking forward to building on what we've learned to really ensure that Bonneville remains your low cost Provider of Choice for many years ago.

So I really want to thank you all for attending this workshop today. I think we've got a long road ahead of us but I am really encouraged by just the collaborative relationships we've established.

And, you know, with the idea of what we can really achieve together.

So, I will hand it over to Kim and thank you for your time.

Kim Thompson:

Thank you, John, I'm going to piggyback on John's remarks specifically keying off of his observations that our audience here is diverse and may have varied levels of understanding to build out the foundation of our proposal.

I also want to expand on his reflection of the value of the hydro system and a unique opportunity. Our long term contract development represents.

In my role, I'm accountable for developing new, long term power sales contracts as well as administering today's contracts, including the right making process that goes along with it.

And I'm truly excited for what we're embarking on our policy and contract development is an opportunity to design how we will serve the power needs of our communities in the Northwest into the next couple of decades.

And approaching this, I think about the role we collectively play in contributing to the health of the Pacific Northwest and maintaining a clean affordable energy supply to power our homes, our workplaces and our recreation.

I'm also aware of the significant amount of work. It's going to take to create carefully constructed contracts that create balance.

Create equity among customers.

So, what does Bonneville's concept paper represent?

What does it not represent? And where do we hope to go from here?

The concept paper is informed by customer perspective, but also by Bonneville's core values.

When I first joined Bonneville, I gave an insider's appreciation for how we strive to embody these values of trustworthy stewardship, operational

excellence, safety and collaborative relationships, and carrying out our mission.

And as we approach this Provider of Choice effort, I and my team are guided by these values. This is going to show up by us being clear forthright communicators, being collaborative as we approach decisions, listening to understand others viewpoint, issues, and concerns respectfully seeking mutually beneficial solutions which share value from the federal Columbia River power system for the people of the region.

Now, at this moment, with the concept paper in hand, I know that certain ideas, certain proposals and concepts, we included have provoked reaction, triggered feedback and honestly caused concern for some readers. Um, it may not seem like we've proposed mutually beneficial solutions to some of you.

Our approach in putting forward specifics was purposeful.

I had a wonderful employee years ago, who, I often quote you guys may have already heard this quote. So you'll get tired of it over time. And her thing was always that it's easier to critique than to create.

So, we offered specific approaches in order to provoke reactions to explore impact, assess what balance, fairness and value means And if that assessment reveals gaps Really to surface adjustments and alternatives to regain balanced, fair valued outcomes.

Now, I'm grateful for the engagement and feedback. We've already heard.

Engagement is a gift as this feedback and it's a gift. I hope you'll all continue to give.

Because the concept paper, it's, it's not an end point. It's a point from which we embark if there are concepts that you find troublesome, please lean into them.

Provide your perspective, provide your critique and importantly provide your ideas.

We're designing a policy workshop process to be as responsive as needed to ensure we have important conversations ahead of and to find agreeable solutions.

Remaining collaborative relationship is important. It's critically important. It's how we're going to navigate forward together.

Now, to John's point that our audience here may have very levels of understanding. I beg your intelligence for those of you who know us all really well, but I'm going to break down some concepts and provide foundation. My intent is to keep this high level.

Uh, holistic and hopefully informative. Um, and really the sets the stage for the more detailed conversations we're going to get into during the rest of the workshop.

So, here goes Bonobos, obligated to offer contracts will requested that will meet regional customers from load obligations and that's after adjusting for each customer's own resources. John mentioned this.

It's our net requirement obligation and this, it applies to public body, cooperative and federal agencies in the Northwest. We offer long term contracts. These are our requirement contracts to those customers for up to 20 years.

We serve our customers under statutorily designated rates.

So, new, large, single loads are eligible for service at our new resource, or in our rate, the remaining general requirements for public bodies, cooperatives and federal agencies are eligible to be served at Bonneville's priority firm or PF rate.

We leverage, we leverage the federal Columbia River power system to meet the firm load obligations, established under those contracts. We use from planning to ensure we've got sufficient resources to meet our obligations.

And if that planning reveals a gap between obligation, and our current resource fleet, we've got purchasing authority to acquire resources to acquire power to meet those needs.

Now, our system generally produces more power than the level we use in firm planning and it also often produces more power than our load service obligations. And when this occurs, we market surplus federal power and we do that consistent with our preference obligations.

Today Bonneville has Regional Dialogue contracts with both public power and investor own utilities throughout the Northwest, but under those contracts, only our public power customers have elected the power purchases under those contracts and I'll quickly break down the core concepts from today's Regional Dialogue contract, those power sales agreements, again in order to lay foundation.

Bonneville and the region believed that customer loads would exceed the firm capabilities of the federal base system over the course of the Regional Dialogue contracts. We had some pretty aggressive forecasts for load growth back in those days and we had a decision to make. Bonneville could continue to acquire incremental resources to meet its aggregated obligations, blending costs together between the existing system and those new resources and alternatively, we could ring fence that federal based system's costs and when requested to serve growing load obligations outside of what that base system could supply, we would do so, but we would charge a rate commensurate with acquiring the necessary power.

We refer to this construct as tiered rates. That's what we're proposing to continue into the future and Bonneville recovered the cost of its core system via its tier 1 rate. Made that federal based system from output available to sale to preference customers at a PFPF tier 1 rate.

