



*Energizing Life in Our Communities*

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Bonneville Power Administration  
905 NE 11<sup>th</sup> Ave  
Portland, OR 97232

Submitted via email: [post2028@bpa.gov](mailto:post2028@bpa.gov); Power Account Executive; Administrator John Hairston

### **Comments of Snohomish County PUD on Provider of Choice Phase 1 Workshop: Conservation September 8, 2022**

Snohomish County PUD (Snohomish) appreciates the opportunity to comment on BPA's September 8, 2022, Provider of Choice Conservation Workshop. It is clear that BPA staff spent considerable time and effort preparing the September 8<sup>th</sup> materials in an effort to contextualize regional conservation from both the BPA and customer perspective. It is also clear that BPA appreciates the important role conservation has played in the years the contract has been in place, and the important role it must play in the future.

The principal purposes of Snohomish's comments are to:

1. *Ensure that the treatment of conservation in the Post-2028 context is consistent with the important Regional Dialogue policies customers agreed to, and*
2. *Ensure that appropriate measurement of conservation is considered in that context.*

#### **1. BPA should ensure the treatment of conservation is consistent with Tiered Rates Methodology policy and Regional Dialogue expectations**

In order to properly prepare for the future, BPA and customers must consider our existing framework, the underlying policy conditions for its structure, and the incentives the framework creates. Key among those policy considerations is the treatment of conservation, and the effect it may have on the amount of energy a customer may purchase at Tier 1 rates as well as whether the treatment provides the appropriate economic incentives to continue pursuing all available cost-effective conservation.

At the time of Regional Dialogue (RD) development, the concept of tiered rates was novel. The core of Tiered Rates relies on the concept that while BPA is statutorily obligated to serve the full Net Requirements of its customers, the rate charged for that service could be bifurcated. Each utility would have an amount of load that is eligible to be served at-cost under Tier 1 rates – anything beyond that amount is served at a market-based Tier 2 rate. This structure was established with the sole purpose of putting responsibility for load growth upon each individual customer, in turn preserving the value and benefit of the Federal system for all preference customers. Tiered rates was a rejection of melded rates

that spread the cost of load growth across all customers<sup>1</sup>, contributing to BPA financial crises and rate increases,<sup>2</sup> and sought to provide an alternative for some utilities effectively subsidizing the cost of load growth at other utilities.

The economic incentives created by tiered rates and high water marks were an important driver in BPA's decision to adopt a tiered rates structure for the current contract.<sup>3</sup> Tiered Rates endeavored to put Tier 2 BPA load service or utility resource development on the margin, and compel customers to make a choice whether BPA Tier 2 load service or individual resource development would best serve it. If customers could successfully temper load growth, or develop other non-federal resources, they would avoid exposure to Tier 2 rates. Throughout the course of the Regional Dialogue contract, customers have responded to these incentives and made those choices understanding the trade-offs associated with them in the context of Tiered Rates.

With respect to conservation, BPA was clear that even where state portfolio standards are adopted, and even if the utility is below its high water mark, the existence of tiered BPA rates remained a powerful incentive. BPA stated in the Long-Term Regional Dialogue Final Policy that "[t]his incentive from tiered rates adds to the incentive created by state portfolio standards. Even if [utilities] initially face only Tier 1 rates, there is still significant incentive to conserve since conservation achieved would serve to lengthen the time before a customer's net requirement load exceeds its HWM, which is when the customer would face marginal cost power rates."<sup>4</sup> If BPA completely resets utility high water marks each contract, then the incentive to maintain load below the utility's high water mark only extends to the end of the current contract, and not beyond.

BPA and public power have determined that the Tiered Rates Methodology policy has regional value and should be an enduring component of the next contract, and as a result, the underlying principles which support a tiered rate framework do not change. In order for this policy to bridge the current contract and the future one, the resource investments made knowingly by utilities to avoid Tier 2 rate exposure in the current contract must be appropriately recognized in the next contract.

This is not a problem for supply-side resource investments made to serve Tier 2 load growth, as they would not decrement a Tier 1 allocation and those investments would persist into the next contract. This is a problem for conservation investments as there was no choice given as to what load-type these investments would serve. All conservation investments reduced net requirements, even if they were intended to mitigate future load growth by preserving Contract High Water Mark as provided by the contract. Indeed, this is the fundamental reason Snohomish PUD and other utilities invested community funds into conservation. There are no state mandates to acquire nominal conservation volumes in Washington State, nor do utilities react only to BPA incentive volumes as has been erroneously offered in public venues. Rather, as predicted (and intended) by BPA, Snohomish PUD and other utilities responded to the economics of the Regional Dialogue contract and sought to manage future load growth

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<sup>1</sup> See *Bonneville Power Administration Long-Term Regional Dialogue Record of Decision*, July 2007 ("Regional Dialogue ROD"), at 18 ("BPA and many customers believe that a buy and meld approach to rate setting has not encouraged but inhibited infrastructure development in the region by greatly diminishing customers' incentives to invest.")

<sup>2</sup> *Id.*

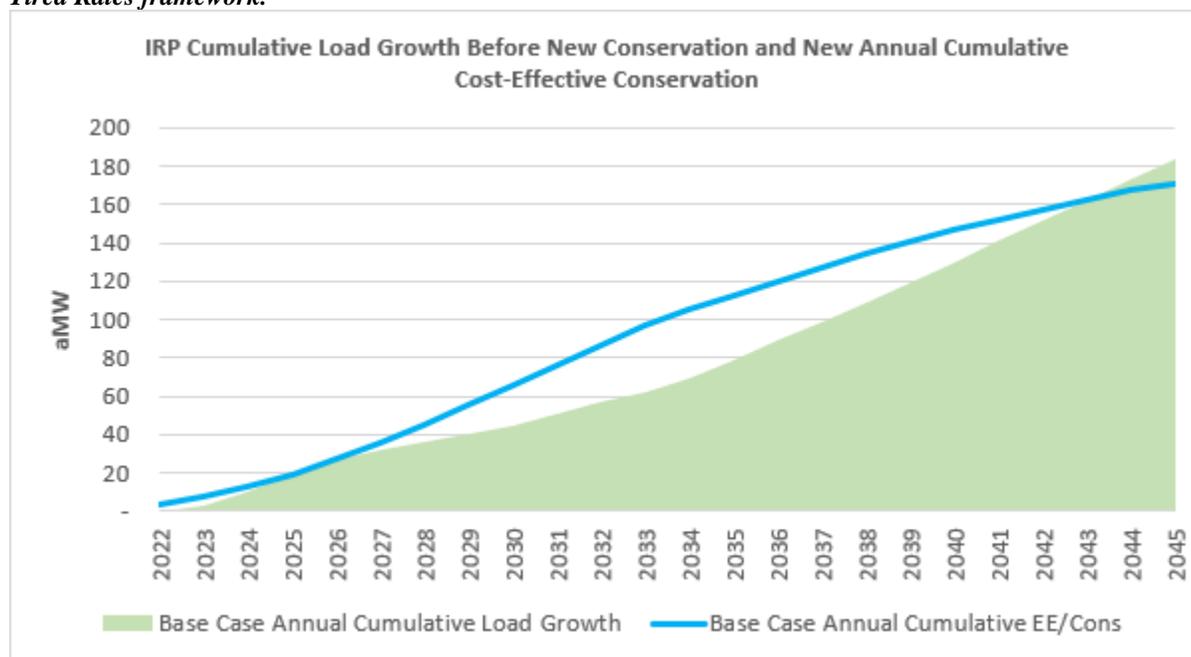
<sup>3</sup> See, e.g., *Bonneville Power Administration Long-Term Regional Dialogue Final Policy*, July 2007 ("Regional Dialogue Policy"), at 6, 14, 30, 31, 39; *Regional Dialogue ROD*, at 13, 18, 73, 186, 188; *Tiered Rate Methodology Rate Case, Administrator's Record of Decision*, November 2008 ("TRM ROD"), at 128.

<sup>4</sup> *Regional Dialogue Policy*, at 30.

to stay within a Tier 1 allocation as provided by the Regional Dialogue contract. That has been the principal driver of Snohomish’s aggressive conservation investment, and must be in the future, for the benefit of the region.

Figure 1 below shows how Snohomish PUD has been proactively planning for load growth mitigation through conservation in its long-term planning efforts. The volume of conservation acquired offsets forecast load growth, which the economic optimization model finds will also maximize supply-side resources deferring and displacing supply-side costs, including Tier 2 service.

**Figure 1. Snohomish PUD’s 2021 IRP sought to proactively acquire conservation to offset load growth in response to the Tired Rates framework.<sup>5</sup>**



As a result of the significant investments utilities have made in response to the intended economic incentives for resource investment, conservation adjustments cannot be considered outside of the other components of the Contract High Water Mark allocation methodology. They must be considered alongside the load growth that occurred within the Regional Dialogue contract and reflect the investments made by utilities to deliberately manage their Contract High Water Mark allocations and avoid Tier 2 rate service in response to the contract environment. The scenarios presented during the September 8<sup>th</sup> workshop included an assumption that all load growth from the Regional Dialogue contract would be considered in the Contract High Water Mark allocation, while considering only fractional amounts of achieved conservation that represented deliberate investments to avoid Tier 2 rates. This is not appropriate, and would effectively result in melded rates in the first year of the contract by reallocating the Tier 1 allocation that was managed through conservation investments by some utilities, to other utilities experiencing load growth, should total Net Requirements exceed system size. Instead, BPA must identify a conservation adjustment that balances those investments with limited RD load growth to ensure that the Tiered Rates Methodology bridges the current contract to the next one.

<sup>5</sup> Snohomish PUD. “2021 IRP”. Pg. 14.

Conservation has been the single most effective tool the region has relied upon through Regional Dialogue to protect the value of the Tier 1 system. Conservation insulated BPA from making costly Tier 2 resource investments, mitigating rate pressure on all customers and easing the demands upon the Tier 1 system. Further, these conservation investments persist over time; resource acquisitions will continue to be deferred into the Provider of Choice timeframe, further protecting the Tier 1 system. Customers must see their Regional Dialogue conservation investments recognized in Provider of Choice.

While recognition of conservation investments in the Contract High Water Mark (CHWM) calculation is one tool that helps continue the underlying principles of a tiered rate framework, it is not the only tool. BPA has correctly identified in its Concept Paper that limiting load growth in the CHWM calculation is a potential backstop could also help protect the Tier 1 system. Limiting all load growth is likely the most appropriate policy decision, but Snohomish recognizes that 50% could be a reasonable compromise that meets customer needs while still providing protection to the Tier 1 system.

**2. BPA should ensure the appropriate measurement of conservation is considered - conservation data presented by BPA represents a fraction of customer conservation achievements**

Regardless of the level of load growth limitation, conservation adjustments to the CHWM methodology must accomplish two goals: they must properly account for all load growth mitigation achieved by utilities in line with Regional Dialogue policy objectives, and they must reasonably incentivize continuing conservation into the Provider of Choice timeframe. If BPA does make adjustments to the CHWM methodology based on conservation, it must consider all conservation achievements by utilities – not just those specifically reimbursed by BPA’s Energy Efficiency Incentive (EEI) funding. Achieved conservation benefits the Tier 1 system equally, regardless of its funding structure. Recognizing the totality of this benefit, both historically and prospectively, should be a foundational element of BPA’s CHWM methodology.

Snohomish offers the following comments in support of these policy objectives, which are anchored on three key points:

**A)** BPA should recognize all historic conservation in Provider of Choice Contract High Water Mark (CHWM) calculations if any RD load growth is to be incorporated a CHWM calculation;

**B)** BPA should include unreported conservation achievements for consideration in Provider of Choice contracts; and

**C)** If a conservation adjustment mechanism cannot be found to appropriately reflect the RD construct, limiting eligible load growth that occurred through the RD contract may be an acceptable alternative.

***A. Provider of Choice contracts should recognize past and future conservation by BPA preference customers***

One cannot argue the benefits of conservation in the Pacific Northwest — it is the cheapest resource, mitigates load growth, meets the region’s decarbonization objective by reducing market purchases, and stretches BPA’s capacity during peak winter months. These benefits extend to all utilities within the

region, not just the utility that acquired the conservation. The region will continue to reap the benefits of conservation if past and future conservation is incentivized in the new contracts.

As noted above, one of the goals underlying the Long-Term Regional Dialogue contracts was to advance the achievement of conservation and renewable resources. “Tiered rates and HWMs create powerful economic incentives for customers to develop these resources.”<sup>6</sup> BPA’s expectation in the Long-Term Regional Dialogue Final Policy was that “utility initiatives in response to these incentives [will] be a very significant source of conservation savings.”<sup>7</sup>

Over the course of the Regional Dialogue contracts these incentives worked, with Preference Customers making significant conservation investments. These investments have benefited both BPA and the region. Since the start of the Regional Dialogue contracts, Snohomish has invested over \$147 million to acquire more than 115 aMW of conservation, with plans to do more.

In short, if BPA is to recognize RD contract load growth of any fraction in the CHWM allocation methodology, it should also recognize load growth mitigation over the same period in order to not create a subsidization of utilities that did not manage their load growth during the RD contract by those utilities that did. Such treatment also recognizes that the load growth mitigation was accomplished in direct response to the incentives BPA intentionally included in the current power contracts and associated rate constructs. Should BPA fail to recognize conservation investments over the same period as load growth in the CHWM allocation methodology they will send a strong signal to the region in the next contract. That signal will be that the conservation investments you make to mitigate load growth will count at less than a 1:1 ratio as letting your load grow when *the next contract* is considered.

***B. Provider of Choice contracts must account for the disconnect between BPA’s Conservation Program data and actual achieved conservation in its conservation achievement measurements***

From a policy perspective, achieving conservation -any conservation- should never be penalized, but rather encouraged, as it ensures the region maintains an “adequate, efficient, economical and reliable power system”.<sup>8</sup> However, the data BPA has presented on conservation represents a fraction of achieved and forecast conservation. The causation of this disconnect is the reliance on BPA’s Conservation Program reported data, which has not historically been widely used by BPA customers to report all conservation achievements, and for which there are various reasonable alternatives.

There are several reasons why conservation achievements have not been reported to BPA through the Conservation program, and why the observed conservation achievement data, provided in Figure 2 show that BPA’s forecast of 2012-2026 Total Conservation Achievements is significantly less than even 2011-2021 audited achievements by nearly every audited BPA customer in Washington State. These reasons are: 1) There was no incentive to report some volumes of eligible conservation to BPA above what could aid in reimbursement, but there has historically been administrative burden; 2) The pace of BPA and RTF adding new measures to conservation measure lists took several years and was behind the

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<sup>6</sup> *Regional Dialogue Policy*, at 6.

<sup>7</sup> *Id.*

<sup>8</sup>Northwest Power Act, §2(2), 94 Stat. 2697

pace that individual utilities could develop resulting in significant volumes of attainable non-reportable conservation – which is ultimately audited through the Washington State process for EIA compliance anyway; 3) There has been no benefit to voluntary reporting of non-reportable savings, but because of the administrative burden it was not done for many utilities; 4) BPA process requirements for some eligible measures resulted in unreasonable added costs for otherwise practical measures, making completion of eligible measures not-reportable to BPA but still achieved and reported to Washington State.<sup>9</sup>

All of Snohomish’s conservation achievements, including those outside of the BPA Conservation Program, have contributed to meeting the Northwest Power and Conservation Council’s regional conservation goal and extending the capabilities of the BPA Tier 1 system. In fact, Snohomish’s conservation achievements outside of BPA have routinely been provided through the RTF’s practical annual reporting process, which is one potential alternative source of actual achievement data. As such, Snohomish believes all of a utility’s conservation activity should be considered in its Provider of Choice CHWM calculation.

Snohomish is required by the Washington State Energy Independence Act (EIA) to report these targets/achievements to its Board of Commissioners. This is another potential alternative source of actual achievement data. **Snohomish reviewed and compiled audited conservation achievements for all Washington utilities subject to mandatory reporting and found that BPA’s workshop numbers represented roughly 40.8% of the total conservation achievements that would be expected over the period.** Figure 2 shows this mismatch by utility.

In short, BPA’s accounting of only BPA-reported conservation misses a significant portion of audited, realized conservation, and is not a good reflection of all conservation, or all self-funded conservation, that utilities have achieved.

*Figure 2. Comparison of EIA reported conservation savings with BPA’s September 8<sup>th</sup> POC Workshop Data.<sup>10</sup>*

Utilities	2011 - 2021 EIA audited savings	2011-2026 Forecast from EIA audited savings	9/8 Workshop BPA 2012-2026 Forecast	9/8 BPA Workshop 2012-2026 forecast as % of 2011-2026 EIA audited EE forecast
Benton	18.23	26.03	21.85	83.9%
Chelan	21.57	31.69	0.00	0.0%
Clallam	9.76	13.92	6.14	44.1%
Clark	81.20	119.42	60.09	50.3%
Cowlitz	76.75	111.84	57.90	51.8%
Franklin	1.83	2.35	8.49	360.7%

<sup>9</sup> An example of this is the requirement for Performance Tested Comfort Systems certification for heat pump installations, which can add over \$1,000 in project costs. Snohomish PUD does not require this in order to keep customer retrofit costs low.

<sup>10</sup> The data was aggregated from publicly available data on the Washington State Department of Commerce’s webpage. <https://www.commerce.wa.gov/growing-the-economy/energy/energy-independence-act/eia-reporting/>

Grant	41.77	59.46	0.52	0.9%
Grays Harbor	11.30	16.26	7.49	46.1%
Inland	9.79	13.53	6.03	44.6%
Lewis	9.96	14.05	5.78	41.1%
Mason3	7.15	10.08	4.00	39.7%
Pen Light	7.12	10.00	4.56	45.6%
SCL	164.68	242.29	93.00	38.4%
Snohomish	116.82	170.97	58.35	34.1%
Tacoma	69.47	101.43	50.54	49.8%

Though no legal mandate exists to achieve nominal levels of conservation, Snohomish has historically exceeded what BPA has reimbursed through EEI funding, simply because Snohomish has the capability to achieve cost-effective conservation in our service territory and because we recognize the benefits of conservation to the region and to our ability to delay exposure to Tier 2. Because this conservation goes above and beyond Bonneville’s energy savings allocation, it may not meet all requirements for reimbursement through the EEI Implementation Manual. Though BPA may not approve these savings for conservation acquisition reimbursement, they are claimed and recorded for EIA compliance, and verified via state audit, and they result in an actual, quantifiable reduction in the demand Snohomish places on BPA.

In order to fully recognize the value that conservation provides both to BPA and the region, the Provider of Choice CHWM calculation must include investments not reported to BPA due to administrative misalignment with BPA guidelines. Snohomish investments have provided our customers access to conservation programs that would not have been otherwise available under BPA guidelines, affording economic and energy savings benefits to our communities and to the region. For those investments to be unrecognized, or for the value to flow to other utilities that did not invest in conservation, would contradict sound utility business principles and BPA’s own Provider of Choice objectives and would undermine the incentives used to justify adoption of tiered rates and high water marks. Further, it would undermine the basic economic foundations upon which conservation investments are made.

A critical component of BPA’s value to the region in the post-2028 period is its ability to adapt to local needs in the same way that it seeks to adapt to the changing sector landscape brought about by evolving regional policies. It is imperative for Bonneville to ensure that all customer conservation investments are properly recognized in Provider of Choice contracts.

**C. If an appropriate conservation adjustment mechanism cannot be found to appropriately reflect the RD construct, limiting eligible load growth that occurred through the RD contract may be an acceptable alternative.**

Snohomish PUD continues to work with our peers, and the Public Power Council in good faith to identify Post-2028 concepts that can help BPA customers successfully prepare for the future. We value solutions-oriented and principles-oriented approaches that help achieve shared goals. Snohomish PUD will continue to participate in those efforts and engage in good faith in the Provider of Choice process to find pragmatic solutions that address regional policy goals and customer needs.

However, while recognition of conservation investments in the Contract High Water Mark (CHWM) calculation is one tool that helps continue the underlying principles of a tiered rate framework, it is not the only tool. Should a conservation adjustment not be identified that is principled, and broadly acceptable, BPA has correctly identified that limiting load growth in the CHWM calculation is a potential practical backstop that could also help protect the Tier 1 system and serve many of the same purposes. Limiting all load growth is likely the most appropriate policy decision, but Snohomish recognizes that 50% could be a reasonable compromise that meets customer needs while still providing protection to the Tier 1 system.

Snohomish acknowledges the amount of work that BPA Staff has put into this process. We look forward to continuing to work with BPA positively, professionally, and collaboratively on these issues in future phases of engagement. We value our relationships with BPA and its staff and seek to serve as partners in finding thoughtful solutions for our region, and our community. If you have any questions about our comments or would like further context for our comments, please do not hesitate to contact us.

Sincerely,

Jason Zyskowski  
Assistant General Manager  
Facilities, Generation, Power, Rates and Transmission Management  
Snohomish PUD