

October 21, 2022

Submitted via email to post2028@bpa.gov

Northwest Requirements Utilities (NRU) submits these comments in response to Bonneville Power Administration's (BPA) Provider of Choice workshops October 12, 2022, reviewing the rate construct approach for post-2028 contracts.

As you know, NRU represents the interests of 56 Load-Following customers located in 7 states across the region that hold Network Transmission contracts with BPA and hold power contracts for almost 30% of BPA's Tier 1 load. Of primary importance to NRU members is BPA's ability to offer an affordable and reliable power supply and transmission that maximizes the value of the Federal system for the benefit of preference customers.

At the October 12 meeting, BPA reviewed the available rate constructs to consider for post-2028 contracts – including a tiered rates structure, a buy and meld structure, or a hybrid of the two – and requested feedback from stakeholders regarding their preferred approach and why. The hybrid approach, as understood by NRU from the workshop discussion, is one in which the amount of power sold at Tier 1 rates is increased either through augmentation or some other means, and utilities exceeding their individual High Water Marks would have the choice to purchase power sold at Tier 2 rates, nonfederal generation, or a combination of both.

NRU appreciates that BPA has asked this question to confirm a preferred approach going forward. Public power has engaged in discussions regarding this very decision and indicated general support for a tiered rates approach. Please see the excerpt below from the March 2022 concept paper indicating support for tiered rates, "*as it may be defined and augmented,*" which may align with the hybrid approach discussed at the workshop:

"Tiered Rates. Public Power proposes that BPA and preference customers use a tiered rates framework as the starting point for this concept paper and subsequent post-2028 contract negotiations. This is due to two main factors. First, Public Power continues to see a benefit to using a tiered rate structure to ensure consistently low rates over time for that portion of a customer's load served by the FBS (as it may be defined and augmented for the post-2028 period). Second, as further discussed below, Public Power believes that a tiered rate structure coupled with an allocation of environmental

attributes presents one of the best opportunities within the post-2028 contracts to (i) ensure that utilities can meet their respective regulatory obligations, (ii) preserve and enhance the low carbon attributes of the Tier 1 System for the benefit of preference customers, and (iii) encourage renewable resource development for purposes of serving preference customer load. For these reasons, the concepts identified below build on and expand on the established tiered rate framework.” (page 5)

In addition, NRU has engaged in discussions with its membership regarding the desired rates construct approach and adopted goals in May 2022 indicating support for retaining a tiered rates system applied to a potentially differently sized system, which may align with the hybrid approach discussed at the workshop. Please see the goals adopted by the NRU Board of Directors below related to Tier 1 system size, augmentation, and allocation, and identified in a letter to Kim Thompson dated May 5, 2022, linked [here](#):

When determining the amount of Tier 1 power that is available for preference customers (“system size”):

- BPA should retain its tiered rate system to make individual utilities responsible for load growth outside of the available Tier 1 product;
- BPA should size the system to enable the lowest forecast reasonable Tier 1 rate over time;
- BPA should increase its Tier 1 sales to preference customers to provide additional rate stability and rate certainty over time; and
- BPA should maximize the federal system through updates to streamflow planning while still ensuring a firm and reliable power supply system.

When considering whether and how to augment or add long-term resources to the federal base system (“augmentation”):

- The federal system should only be augmented as necessary to get to the right system size, as defined above in the system size goals;
- When and if augmenting the federal system, the process should enable customers to have meaningful decision-making participation to guide augmentation decisions;
- Augmentation decisions should be made at the appropriate time; considering and balancing customer interests related to cost and clean energy.

When determining the amount of power each preference customer is entitled to receive at Tier 1 rates (“allocation”):

- BPA should establish an equitable allocation methodology of Tier 1 power that provides benefits for most NRU members and other preference customers, including those with flat, growing or declining load;
- BPA should provide an equitable opportunity for preference customers to gain access to “unused Tier 1 power” (i.e., high water mark power that is not used by a preference customer) to meet utility load needs; and
- Load lost prior to 2010 and that has not yet returned should not factor into Contract High Water Marks for the post-2028 process.

To provide additional reasoning to support the NRU goals adopted in May in response to BPA's request, NRU believes there are a number of benefits associated with retaining a tiered rates structure and a possibly larger system size, outlined below.¹

First, the potential for a larger Tier 1 system utilizing a tiered rates approach is an appropriate compromise between differently situated utilities regarding how to allocate the cost and risk of serving growing loads. NRU believes there is great value in developing an approach that balances the needs of utilities experiencing load growth, no change in their load, or declining load – and indeed is at the heart of BPA assuming the role of “Provider of Choice.” The maximum Tier 1 system size will identify the level at which all preference customers support socializing the costs in Tier 1 rates of load growth experienced throughout the Regional Dialogue contracts, and other factors that may impact utility Contract High Water Mark allocation.

Second, a larger Tier 1 system utilizing a tiered rates approach helps provide rate certainty regarding the Tier 1 rate over the duration of the contracts. And the approach potentially represents a new opportunity for BPA to acquire resources without dramatically increasing overall Tier 1 costs per megawatt-hour due to an overall Tier 1 system size cap. Whether resources can be acquired without dramatically increasing overall Tier 1 costs is an assumption that is dependent on a forthcoming cost analysis of growing the Tier 1 system from BPA. NRU is also amenable to other mechanisms that could accompany a larger Tier 1 system to ensure rate certainty for customers.

Third, a tiered rates approach that is potentially larger provides a policy signal that could provide environmental benefits. Tiered rates is a potential framework for attributing carbon and environmental benefits for the different tiers of power marketed by BPA that may not be available under a buy and meld approach. And, a tiered rates approach provides an economic incentive for utilities to make new investments in conservation and new nonfederal resources. Considering a larger Tier 1 system could also enable utilities to receive recognition (at a level to be determined) for investments made during the Regional Dialogue contracts in conservation and new renewable nonfederal resources.

We appreciate the public process and open dialogue provided by BPA. Thank you for considering these comments.

Sincerely,

/s/ Tashiana Wangler

Tashiana Wangler
Rates and Policies Director

¹For NRU, whether a larger system is supportable is dependent on a forthcoming cost analysis of growing the Tier 1 system from BPA.