

# ABOVE HIGH-WATER MARK POST-2028 CONSIDERATIONS

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December 14, 2022

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# AHWM Group

- ❑ BPA Preference Customers with current AHWM obligations (many of which will likely have this exposure in the next BPA Power contract).
- ❑ Collective vision that represents our respective communities' interests.
- ❑ Sense of urgency to begin discussing issues with greater focus and depth.
  - *How can we agree on Tier 1 terms without fully understanding Tier 2 terms?*
- ❑ Goal of advancing discussions that will result in fair, equitable and cost-effective products and services to meet needs of the AHWM Group AND needs of other stakeholders.

# AHWM Group Letter, Dec 5<sup>th</sup>, 2022

## Supporters

Benton PUD  
Big Bend Electric Cooperative  
Blachly-Lane Electric Co-op  
Central Electric Coop  
City of Bonners Ferry  
City of Forest Grove  
City of Heyburn  
City of Richland  
Clearwater Power Company  
Columbia Basin Electric Cooperative  
Columbia REA

Consumers Power Inc  
Emerald PUD  
Fall River Rural Electric Cooperative  
Flathead Electric Cooperative  
Grant County PUD  
Harney Electric Cooperative  
Hood River Electric Cooperative  
Inland Power and Light Company  
Kootenai Electric Cooperative  
Lincoln Electric Co-op Inc  
Lower Valley Energy Inc  
Midstate Electric Cooperative, Inc

Missoula Electric Cooperative, Inc  
Northern Lights, Inc  
Northern Wasco County PUD  
Okanogan County Electric Inc  
Pacific Northwest Generating  
Cooperative  
Ravalli Electric Co-op  
Surprise Valley Electrification Corp  
Umatilla Electric Cooperative  
United Electric Co-op Inc  
Vigilante Electric Co-op Inc  
Wells Rural Electric Company

Represent thirty-five BPA Preference Customers and nearly 80% of current AHWM load obligations

# General Manger Remarks

Roger Kline, Northern Wasco County PUD

Doug Elliott, Kootenai Electric Cooperative

Mark Johnson, Flathead Electric Cooperative

# Foundational Principle

- ❑ BPA preference customers should receive **cost-based power** from BPA to **serve their full net requirements**.
- ❑ In this context, “cost-based rates” means setting power rates at the **actual cost incurred** and reflects a level necessary to recover total system costs and to assure treasury repayment—AND it also means that when BPA Tier 2 power is resourced from the federal system, the Tier 2 rate should be consistent with the Tier 1 rate.
- ❑ Furthermore, any *incremental Tier 2 resource acquisitions* (beyond the federal system) would then be blended into the Tier 2 rate at actual cost incurred for such acquisitions.

# AHWM Interests

- ❑ Tier 1 augmentation as a means to minimize AHWM exposure at the start of this next contract is widely supported. (This group is interested in further exploring a future Tier 1 system size ranging between 7,500-8,000 aMW.)
- ❑ Looking for more information from BPA regarding resource acquisition strategy for purposes of augmentation, including the ability to leverage the federal system capacity to facilitate augmentation.
- ❑ Non-federal resource integration terms and costs are also of high importance to many AHWM customers that have interest in expanding and diversifying public power's regional resource portfolio, or who may face state regulatory requirements to do so.
- ❑ Timing is critical so that we don't miss the opportunity to leverage time-sensitive federal funding for resource development.

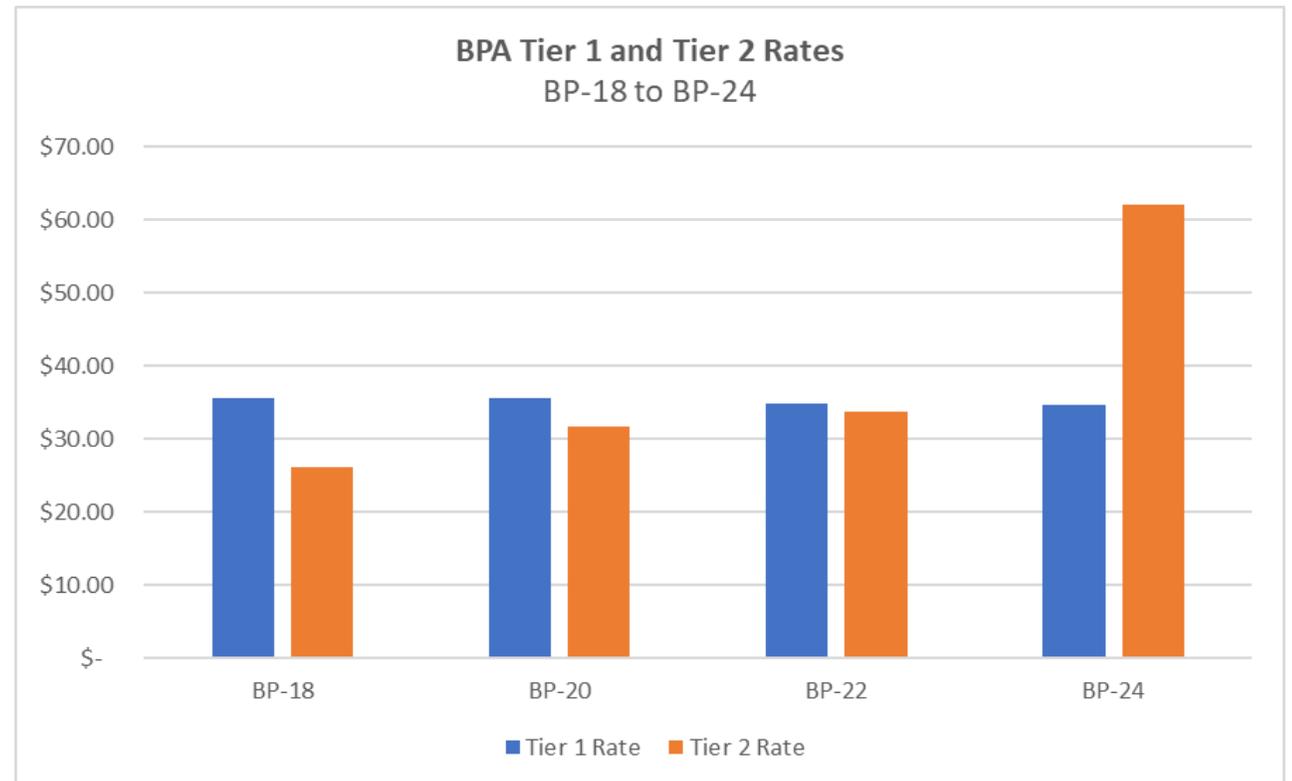
# AHWM Interests (cont'd)

- ❑ Allocation of Tier 1 federal power should align with statute and reflect the interests of all types of customers, including those with AHWM obligations.
- ❑ Cost-based pricing for Tier 2 is widely supported by AHWM customers and is in our view consistent with the intent of federal statute.
- ❑ BPA Tier 2 offering must provide flexibility and certainty— including pricing policy, the type of resources, and term of acquisitions BPA anticipates offering.

# Tier 2 Overview

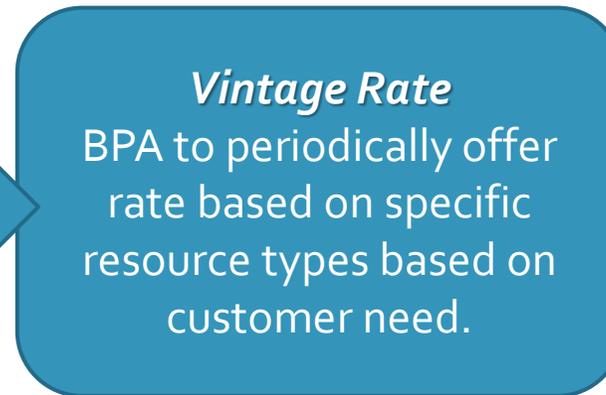
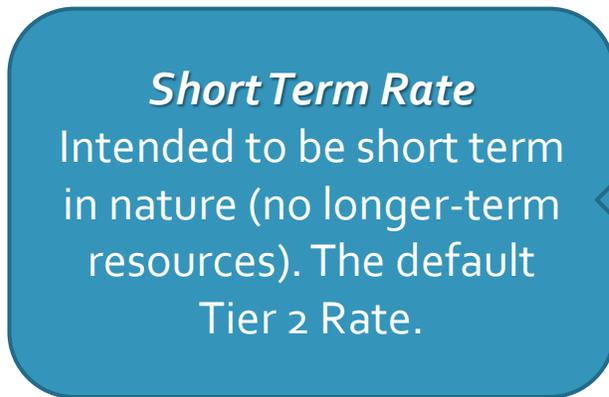
# Context

- There has been a robust discussion and a sense of urgency to define the Tier 2 Rate options and pricing.
- BPA's concept paper proposed:
  - One-time election.
  - Tier 2 managed as a portfolio—BPA would 'acquire resources as needed to serve load growth.'
  - Attempt to make the portfolio low carbon.
  - There would be only one federal Tier 2 service option.
  - Bonneville proposes to convey the environmental attributes to customers that are served with at the Tier 2 rate.
- Tier Two Rates have been market index based since 2018.



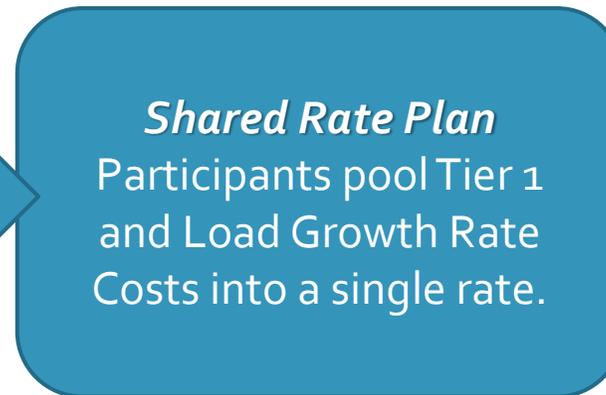
# Regional Dialogue Tier 2 Rates: As Originally Envisioned in 2011

The **most flexible** Tier 2 Rate option with shorter notification deadlines/options.



Intended to meet **specific customer needs** (e.g., 100% carbon free).

Provide longer-term fixed pricing that **is less subject to market volatility**.



Allow 'growers' and 'non-growers' to **share risk/benefit** of Tier 2 Rate volatility.

# Regional Dialogue Tier 2 Rates: Current State

BPA's Concept Paper essentially proposes the Load Growth Rate and eliminates other Tier 2 Rate options

*Served by BPA firm surplus, price set based on Mid-C settle prices from first week of Sept and March prior to rate period.*

Mid-C market purchases made if load exceeds firm surplus.

## *Short Term Rate*

Intended to be short term in nature (no longer-term resources). The default Tier 2 Rate.



## *Load Growth Rate*

Long-term commitment for duration of the contract, and BPA manages resource acquisitions over time.

Most customers transitioned to Short Term Rate in mid 2010's. **Load Growth Rate now mirrors Short Term Rate.**

## *Vintage Rate*

Vintage rate used sparingly (flat block, market purchases in the mid-2010's)

*Low use likely caused by low market prices and carbon regulations did not apply to most LF customers.*

'Rules' are also unclear (e.g., defining critical mass, approp. term lengths).

## *Shared Rate Plan*

No customers elected to participate in the SRP.

**More research necessary** to determine why customers did not pursue SRP.

# More on the Short Term and Load Growth Rate

| Theme                 | BP-16 outcomes  |
|-----------------------|---|
| Customer Rate Choices | Most customers in the Load Growth Rate requested the ability to 'opt out' and transition to the Short-Term Rate.  |
| Tier 2 Rate Pricing   | <p>Customers requested that BPA apply firm surplus to Tier 2 Rates and price at market index.</p> <p>BPA began to price the Short-Term Rate and Load Growth Rate in the same manner.</p>  |
| Monday Morning QB     | <p>If BPA followed the same purchase timeline used in BP-16, the Load Growth Rate for BP-24 would have likely been at or below \$30/MWh.</p> <p>Many BPA customers have come to understand the risks associated with reliance on short-term markets for power supply.</p> |

# Tier 2 – Initial Thoughts

# Backdrop of AHWM Customer Resource Elections to Date

Resource development is a long-term, cyclical process

Limited need for new resources in the region during most of RDC contract to date as evidenced by low wholesale market prices.

Circumstances are changing and the economic systems are now ripe for resource development.

Many of BPA's preference customers have not developed resources in the past. Many have not even had exposure to wholesale markets until the current contract.

There is a role for BPA to play to support the first phase of development through support strategies rather than penalty strategies.

# An Alternative For Further Discussion

*"Revive the Tier 2 Rate options as originally defined in Regional Dialogue with additional, customer-driven refinements."*

| Risk/Opportunity   | Example Refinement  |
|--|---|
| Options for AHWM Service   | Revisit RDC Tier 2 options and hold workshop on what worked and what didn't. Work toward needed updates for PoC contract.   |
| Lack of customer input/ lack of follow through on Tier 2 Rate implementation | BPA and customers together define the procurement strategy for each PoC rate (e.g., a dollar cost averaging approach for LGR purchases).<br><br>BPA and customers define the drivers for each rate (e.g., lowest cost vs. non-carbon).                    |
| Election notification deadlines aligned with resource timelines              | Customers who choose shorter rate options should also see the benefit of shorter and more frequent notification deadlines.<br><br>Customers who generally commit to longer term options should have the chance to "opt-in" to each new resource decision. |

# An Alternative For Further Discussion

*"Discuss how to leverage the system we have to create outcomes that maximize opportunity and minimize negative impacts across all of public power."*

| Risk/Opportunity  | Example Refinement   |
|---|--|
| There are additional questions to consider, most notably how BPA system surplus will be allocated going forward | It makes sense to leverage the capacity of the federal system, including amounts above critical firm, to help integrate new preference power resources into the region.<br><br>We would appreciate a regional discussion about how a portion of non-critical federal system output could be leveraged for system augmentation. |
| Diverse customer interests  | We understand that aspects of these decisions consist of a "zero-sum game" solution, which creates tension in discussing needed changes.   |
| Robust and flexible tools are needed to meet an ever-changing future  | Assuming that yesterday's solutions will suffice to solve tomorrow's problems could be a serious miscalculation.<br><br>We need adaptable structures and options to effectively meet the known and unknown challenges and opportunities we will face over the course of the next contract.                                     |

# Closing Thoughts

- ❑ Sharing of concerns and priorities is critically important to the BPA PoC process. This presentation represents the views of many customers with a common perspective on AHWM matters.
- ❑ Recognizing the **many interests** that need to be addressed in the new contract, we can find solutions that address the core needs of individual utilities while still considering what is in the best interest of BPA and public power as a whole.
- ❑ **Comprehensive** and **equitable** solutions will require give and take from all stakeholders to avoid large winners and losers while addressing our collective future challenges.
- ❑ Together, we have a once-in-a-generation opportunity to access federal infrastructure funds to facilitate new resource development. Let's do everything we can to leverage this opportunity.