COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP REGARDING SELECT PROVIDER OF CHOICE TOPICS

Date Submitted: March 31, 2023

The utilities that comprise the Western Public Agencies Group ("WPAG")[1] appreciate this opportunity to submit comments in response to the proposals presented by the Bonneville Power Administration ("BPA") and BPA customers at its March 9th, 21st, and 22nd Provider of Choice Workshops regarding Contract High Water Marks ("CWHM"), a load specific economic adjustment, transmission under the Provider of Choice Contracts, Non-Federal Transfer Service, Peak Net Requirements ("PNR"), Low Density Discount ("LDD"), Irrigation Rate Discount ("IRD"), and Carbon.

1. **CHWM Calculation**. WPAG restates its support for BPA's proposed framework for calculating new CHWMs for the Provider of Choice Contracts, including application of the headroom, conservation (50%), load growth (25%), and returning load adjustments as proposed by BPA. BPA's proposal will help ensure that the existing Tier 1 System is largely put to its highest and best use on day one of the new contract.

WPAG does not support increasing the load growth or conservation adjustments above the amounts identified in BPA's proposal because the size of the existing Tier 1 System is limited and, at a certain point, increasing the load growth or conservation adjustments would require an offsetting scale down of the final Provider of Choice CHWMs, Tier 1 augmentation that is not shared equitably across all customers, or both. BPA's proposed framework currently includes significant upward CHWM adjustments for conservation (forecasted at 101 aMW), load growth (forecasted at 127 aMW), and returning load (forecasted at 187 aMW) without including any projected Tier 1 augmentation. This remarkable and delicately balanced outcome is achieved through the combination of using FY 2023 as the index year and BPA's proposed "headroom adjustment," which together result in approximately 516 aMW[2] of FY 2023 Tier 1 headroom being reallocated from approximately 60 flat/declining utilities to the benefit of conserving, growing, and returning utilities for the above purposes.

WPAG has 13 members who currently have Tier 1 headroom totaling 155 aMW. Most of that headroom is held by three utilities: EWEB (23 aMW), the City of Port Angeles (42 aMW), and Cowlitz PUD (72 aMW). While some of that collective headroom is due to achieved conservation, most of it can be attributed to lost economic activity and lost family wage jobs in the

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[1] WPAG includes the following utilities: Benton Rural Electric Association, Eugene Water and Electric Board, Umatilla Electric Cooperative, the Cities of Port Angeles, Ellensburg and Milton, Washington, the Towns of Eatonville and Steilacoom, Washington, Elmhurst Mutual Power and Light Company, Lakeview Light & Power, Ohop Mutual Light Company, Parkland Light and Water Company, Public Utility Districts No. 1 of Clallam, Clark, Cowlitz, Grays Harbor, Jefferson, Kittitas, Lewis, Mason and Skamania Counties, Washington, Public Utility District No. 3 of Mason County, Washington and Public Utility District No. 2 of Pacific County, Washington.

[2] BPA's presentation identified a total headroom adjustment of approximately 570 aMW. However, our understanding is that this amount will be reduced due to expected resource un-dedications by Seattle and Tacoma in FY 2026.

communities those three utilities serve (e.g., from the closing of a mill or the loss of a shift at an operating mill). In addition to representing load lost since the beginning of the Regional Dialogue Contract, the headroom currently held by these utilities, and others like them, also presents the communities they serve with an opportunity to incent renewed or new economic activity with low-cost Tier 1 power to restore or replace what is gone. However, under BPA's proposal to reset CHWMs, these utilities will lose most if not all their Tier 1 headroom to be redistributed to other utilities in the region, and with it will go their opportunity to use it for the good of their communities.

This is a tremendous sacrifice for the benefit of the region that is ignored by proposals to increase the load growth adjustment above the amount proposed by BPA. BPA's recent rates analysis demonstrates that such proposals will increase the Tier 1 Rates paid by headroom losing utilities at the start of the next contract with no corresponding benefit to them or the communities they serve. It is both inequitable and contrary to the principles of tiered rates to ask such utilities and struggling communities to effectively pay twice: First, by forgoing their current headroom to be redistributed to others; and, Second, by paying higher Tier 1 Rates to augment the Tier 1 System to provide a greater load growth adjustment to others and from which they will receive no benefit. However, that is exactly what proposals to increase the load growth adjustment are asking such utilities and communities to do.

Furthermore, we greatly appreciate BPA's recently released rates analysis comparing its CHWM proposal to the NRU proposal. Contrary to the model submitted by NRU on February 8th, which indicated that the Tier 1 Rate would be lower under NRU's proposal compared to BPA's proposal at the start of the next contract, BPA's analysis demonstrates just the opposite, i.e., that the Tier 1 Rate at the start of the next contract will be more than $0.75/MWh lower under BPA's proposal than under NRU's.[3] This is likely due to a variety of factors, including, importantly, NRU's assumption that BPA would augment the system up to the full 7,500 aMW NRU proposes effective the first day of the next contract and then sell the resulting firm surplus at $60+/MWh. This assumption results in a sizeable secondary credit that lowers the Tier 1 Rate under NRU's analysis. However, it is not reflective of how BPA has stated it would actually augment the system on an as-needed basis during the term of the contract rather than all at once at the very start. Accordingly, NRU's analysis incorporates a larger, day-one secondary credit for its proposal than is likely to be realized if the proposal were to be adopted.

In addition, we note that NRU's model included the proposed CGS uprate in its analysis of its own proposal but excluded it from its analysis of BPA's proposal. This disparate treatment means that NRU's comparison between the total effective rates paid by utilities (i.e., Tier 1 plus Tier 2) under NRU's proposal with the total effective rates for such utilities under BPA's proposal

[3] We note that BPA's proposal will itself result in a day-one Tier 1 Rate increase of approximately $0.84/MWh (approximately 2.5%) compared to a roll-over of the current rate construct due, at least in main part, to the reduction in firm surplus available from the Tier 1 System following the resetting of CHWMs. This means that the NRU proposal would result in at least $1.59/MWh increase to the Tier 1 Rate compared to the current rate construct, which is an approximate 5% increase—twice as much as increase under BPA's proposal.

is not an apples-to-apples comparison.[4] This contrasts with BPA's analysis, which excludes the CGS uprate in its modeling of both alternatives. BPA could have just as easily included the uprate in both alternatives for modeling purposes, but the important thing is that it treated the uprate the same for both. This allows for the requisite apples-to-apples comparison between the two alternatives, which notably shows that 85 out of 135 power customers would pay a lower effective rate under BPA's proposal than under NRU's proposal at the start of the contract, including all 60 customers who would lose headroom under BPA's proposed headroom adjustment. In any event, we are appreciative of BPA's careful consideration of this matter and its helpful analysis, and believe it further demonstrates that BPA's proposal is the more equitable of the two proposals.

For the above reasons, BPA should reject proposals to increase the load growth adjustment above the amount currently proposed by BPA. In the event public power and BPA agree to augment the Tier 1 System above what is needed to meet the sum of the recalculated CHWMs, the benefits of such augmentation must be shared pro rata so that all utilities who pay for the augmentation in their Tier 1 Rates receive a corresponding benefit from the same. Under such circumstances, and as stated in our comments submitted on February 10, 2023, WPAG remains open to and supportive of augmenting the Tier 1 System up to 7,250 aMW so that flat/declining utilities would have some headroom and growing utilities would have even less above-RHMW load at the start of the next contract.

2. **Load Specific Economic Adjustment**. For many of the same reasons discussed above regarding the difficulties posed by BPA's proposal to reset CHWMs for utilities who currently have headroom, WPAG appreciates BPA's willingness to consider a load-specific economic adjustment to CHWMs as discussed at the workshop on March 9th. Unusual economic conditions during FY 2023 associated with record natural gas prices, supply chain disruptions, atypical inflationary pressures, and labor strikes have unduly impacted a limited number of well-established legacy loads. These circumstances are unique and anticipated to be transitory in nature and it is reasonable for BPA to include an adjustment to take these conditions into account when calculating final Provider of Choice CHWMs. This is particularly true given that BPA proposes to use FY 2023, i.e., the very year when the effects of these unique conditions on certain loads have been most acute, to establish the Provider of Choice CHWMs. Under such circumstances, providing a limited opportunity to reasonably adjust the final Provider of Choice CHWMs to reflect the level of such loads seen during more normal conditions under the Regional Dialogue Contracts is warranted.

For these reasons, WPAG supports the Load-Specific Economic Adjustment Proposal proposed by Cowlitz PUD and attached hereto as Attachment 1. We do, however, recommend that BPA use the lower 10% thresholds identified in footnotes 2 and 3 of Cowlitz PUD's proposal for the Small Customer Adjustment. In our discussions regarding the proposal, there was a shared concern among WPAG's members that the 20% thresholds currently identified may be too high for some utilities with sizeable retail loads that do not meet the thresholds but (i) are still significant for both the utility and the community they serve and (ii) are or were curtailed during FY 2023 due one or more of the factors identified above. We further request that BPA work with smaller

[4] The resource stacks for both alternatives should be the same. It is the treatment of a given resource as a Tier 1 or Tier 2 resource for rate allocation purposes that should be different between the two.

customers to ensure that they too can benefit from the Load-Specific Economic Adjustment Proposal to the extent the above suggested changes are insufficient.

3. **Transmission**. WPAG appreciates BPA-Transmission's engagement in the Provider of Choice workshops. BPA-Transmission's presentation on March 22 provided an overview of its status quo policy and procedures for NT customers using non-federal resources to serve load, but the presentation unfortunately gave no indication of what core issues must be addressed in the post-2028 era and what potential policies or business practices must be modified to create a successful transition away from the current Regional Dialogue contracts. In fact, BPA presented several current practices that it has no intention of carrying forward.

Thus, we urge BPA-Transmission to use the time during the Provider of Choice Policy Record of Decision ("ROD") process to be ready this fall to address the following Provider of Choice transmission implementation issues and elicit customer feedback:

- How BPA-Transmission intends to employ BPA's NT Memorandum of Agreement to secure firm transmission to deliver specific generating non-federal resources used to serve Tier 2 customers.

- Identify how the policies, timelines, and procedures to be codified in the various Provider of Choice records of decision will align with BPA's Load and Resource Consolidation Tool ("LaRC") process.

- How BPA is working both internally and with other transmission providers in the region to ensure the timely development of the gigawatts of high voltage transfer capability that will be necessary to meet the aggregated requirements of state renewable portfolio standards, greenhouse gas regulations, electrification plans (transportation and buildings), and growing industrial loads.

We also encourage BPA to use the Provider of Choice Policy ROD to establish "incentivizing local resource development to alleviate regional transmission constraints" as a key policy for BPA-Transmission under Provider of Choice. More resources sited closer to loads will ultimately alleviate pressure for larger regional transmission builds, which will save both BPA and customers time and money over the long run. Once established in the Policy ROD, BPA and customers should discuss various means to implement the policy including, for example, potential enhancements to the Short Distance Discounts for both the NT and PTP products and potential options to fast-track the interconnection process for resources to be located next to the loads they are intended to serve.

4. **Transfer Service**. At its March 9th workshop, BPA revised its proposal for transfer service from not allowing any transfer service for non-federal resources to now allow transfer service for non-federal resources provided they are located in the balancing authority area ("BAA") where the transfer load is located. In its presentation, BPA cited several benefits of its revised proposal including that:

- Local resources should alleviate transmission congestion between the FCRPS and transfer loads.

- Long term physical resources will allow BPA and the transmission providers to more effectively plan for service over time.

- Physical resources would count for meeting resource adequacy requirements.

- The proposed approach comports well with open access resource designation requirements.

- The proposed approach would allow customers to engage on local initiatives and acquire resources that align with community goals.

WPAG acknowledges and agrees that BPA's revised proposal is an improvement over its initial proposal to not include any non-federal transfer service for Provider of Choice. However, we also recommend that BPA further amend its proposal to include non-federal resources used by transfer customers that are in BPA's BAA, provided that the host BAA where the acquiring transfer customer is located is adjacent to BPA's BAA. From a cost perspective, allowing non-federal resources located in BPA's BAA to be eligible for transfer service will not increase the cost of transfer service included in rates vis-à-vis the cost of transfer service under BPA's proposal. This is because (i) transfer customers are responsible for the cost of transmission across BPA's transmission system; and (ii) transfer service is generally provided using NT transmission service under the host BAA's Open Access Transmission Tariff, which service is charged based on monthly peak load rather than the location of the designated network resource(s) serving such load. In addition, because most if not all of BPA's transfer customers are also BPA NT transmission customers, they will still be paying BPA transmission for BPA NT service based on their respective monthly peak loads, even the portions of such peak loads that are served by non-federal resources located in the host BAA rather than within BPA's BAA. This is effectively a subsidy from such transfer customers to BPA's other transmission customers because such transfer customers would be paying BPA for transmission service for their non-federal resources that, due to BPA's transfer service policy, are not and could not practically be located on BPA's transmission system.

5. **Peak Net Requirements**. BPA and customers need more dialogue like the discussions had during last week's customer led presentations regarding BPA's proposal to establish a peak net requirement methodology. There are still many questions and concerns among BPA's customers as to how the agency intends to use the proposed methodology and what such applications will mean for both its planning (i.e., Slice/Block and Block) and Load Following products and customers. WPAG was encouraged to learn that BPA intends to revisit the topic at the April 20th workshop in Portland. Given the energy and concern around peak net requirements, WPAG further recommends that BPA considering peeling the issue out of the draft Policy ROD to be issued in July and instead, for the time being, place it on a separate track for additional workshops with customers. BPA can subsequently remerge peak net requirements with the other Provider of Choice policy topics prior to issuing the final Policy ROD early next year. In any event, at the April 20th meeting, WPAG is looking forward to seeing BPA's responses to the

questions it submitted regarding peak net requirements in its March 3, 2023 Provider of Choice Comments as well as the following additional questions:

(i) Is it possible for BPA to provide the Slice/Block product during the Provider of Choice Contract without any changes from the Slice/Block product offered under Regional Dialogue?

(ii) If a planned product customer is forecasted to be short of its calculated peak net requirement for a given month, will BPA make a 5(b) capacity-based product available to such customer up to its calculated peak net requirement?

(iii) If a planned product customer is forecasted to be at or above its calculated peak net requirement for a given month, but below the planning reserve margin assigned to it under WRAP, is there a non-5(b) capacity-product that BPA could offer to such customer under the Provider of Choice Contract, or under a separate construct, if available?

(iv) Does BPA intend to use its proposed peak net requirements methodology to tier capacity for purposes of applying the demand rate and, if so, how?

6. **Low Density Discount**. WPAG supports BPA's proposal to continue to provide the low density discount ("LDD") program and appreciates BPA's consideration of customer feedback encouraging the application of LDD criteria to ensure stable and gradual rate changes for LDD utilities. BPA suggests that it could propose to determine eligibility and discount levels on a rate period versus annual basis, which would serve to inform customers of eligibility and discount levels well in advance of their implementation. BPA also notes that this may eliminate the need for an LDD Phase-In Adjustment. WPAG supports BPA's proposal to move to a rate period versus annual eligibility and discount level setting process, however, we believe this should be another tool in the toolbox to encourage gradual rate changes, rather than a replacement of the Phase-In Adjustment which is intended to allow for more gradual increases and decreases to the LDD discount.

In addition to ensuring stable and gradual rate changes, WPAG recommends that any potential changes to the LDD program should also include reviewing whether 12 customers per pole mile should continue as the threshold for receiving a benefit, or whether something higher should qualify. At a minimum more support is needed for why 12 customers per pole mile is an appropriate threshold for "low density."

WPAG also continues to encourage BPA to review the existing LDD eligibility criteria to determine whether adjustments should be made to account for the fact that BPA's rural, low density preference customers are increasingly locating their distribution facilities underground due to a number of reliability and other concerns, including wildfire mitigation and increasing the useful life of such facilities. WPAG's understanding is that these facilities do not qualify under BPA's current application of the C/M ratio test. During the March 21st presentation, BPA noted while it understood this concern, it did not believe it to be one that applies to significant numbers of low-density discount customers. Notwithstanding, WPAG does not believe it is equitable for any customer to have LDD eligibility impacts due to undergrounding facilities. WPAG suggests BPA consider developing a methodology that would account for underground facilities in the C/M ratio.

7. **Irrigation Rate Discount**. WPAG supports BPA's proposal to continue to offer an irrigation benefit under Provider of Choice, with a comparable benefit similar to that under Regional Dialogue. Specifically, WPAG supports BPA's proposal to update irrigation amounts based on a more recent several year average of May-August irrigation (e.g. 2018-2022) in place of May-August 2002-2004 irrigation and for qualifying months to include May-September. This is a common-sense adjustment to incorporate the needs of today's customers, which undoubtedly have changed since the 2002-2004 time period.

With respect to other key elements of the IRD, BPA proposes to address these through the rate methodology process, while also previewing the direction it is proposing to take on key issues such as retaining a set discount for the contract life and program eligibility criteria. BPA indicated that it proposes to retain a percent discount set for the term of the contract and to determine the dollar value of the discount in each rate case. BPA also proposed to update the eligibility criteria and to modify the discount accordingly, based on change in energy amounts. While not included in the slide deck, BPA indicated during its March 21st presentation on IRD its intent to modify eligibility criteria such that:

- A customer must have participated in the IRD under Regional Dialogue **or** 75% of retail load must be placed on BPA **and** May-September irrigation sales must be at least 5% of retail load. If less than 5% of retail load, average MW usage must be more than 7,500 MWh.

As a preliminary matter, WPAG requests that BPA clarify whether IRD eligibility criteria will be determined in the policy phase of Provider of Choice or during the rate methodology process. On the merits of the eligibility modifications BPA discussed during the workshop, WPAG does not identify any immediate concerns with this proposal, however, we note that the criteria appears to mirror the eligibility criteria under Regional Dialogue, and request that BPA clarify if it is proposing to update eligibility criteria in Provider of Choice, or retain eligibility criteria from Regional Dialogue.

8. **Carbon.** WPAG appreciates BPA's overview on carbon issues at the March 9th workshop and its recognition that carbon free products are of high importance to its customers. While WPAG is disappointed that BPA has not yet identified a feasible option for a 100% carbon free product, WPAG appreciates BPA's stated intent to analyze carbon free resource and purchase options and to pursue cost-effective carbon free options in future acquisitions, including long-term resource acquisition, Tier 1 augmentation, Tier 2 options and balancing purchases.

BPA also stated that it intends to eliminate its current marketing service for renewable energy credits ("REC(s)") on behalf of its customers, given the significant staff time and expertise required to offer this service. WPAG is concerned that this could negatively impact smaller customers who likewise may not have the required staff or expertise required to market RECs. To better understand the impact of this proposal, WPAG requests that BPA provide more detail on the current and future expected cost for BPA to provide REC marketing services, and how many customers currently use this service.

WPAG appreciates BPA’s update on First Jurisdictional Deliverer (“FJD”) under Washington’s cap and invest program. WPAG supports BPA working with individual customers to determine whether they may have an interest in BPA being the FJD for sales to their utility.

Thank you for the opportunity to comment.

Attachment 1

Load-Specific Economic Adjustment Proposal

The purpose of this proposal is to set out a mechanism for determining the amount of FY 2023 load loss that will qualify a utility for an adjustment to its final Provider of Choice ("PoC") Contract High Water Mark ("CHWM"), and how such load loss is determined. This proposal attempts to follow and incorporate the guidelines identified by BPA in the March 9, 2023 PoC workshop. Fiscal Year references in this proposal refer to BPA's Fiscal Year.

1. **Qualify.** A BPA customer will be considered for a CHWM adjustment if, alternatively:

    a. Standard Adjustment. A retail consumer's FY 2023 average metered load is at least 3 aMW[1] less than such retail consumer's highest average load during any consecutive twelve-month period from FY 2012 through FY 2022; or

    b. Small Customer Adjustment. A retail consumer's annual average metered load was 20 percent[2] or more of the serving BPA customer's annual average metered load during any consecutive twelve-month period from FY 2012 through FY 2022 and such retail consumer's FY 2023 average metered load is at least 20 percent lower[3] than the retail consumer's highest average load during any consecutive twelve-month period from FY 2012 through FY 2022.

    c. Adjustments will be provided for all single retail consumers of a BPA customer meeting any of the above thresholds. A BPA customer may also combine, one-time, up to two (2) retail consumers to meet the thresholds under 1.a or 1.b, provided (i) neither of the two (2) retail consumers can meet the threshold on their own, and (ii) it can be demonstrated that both such retail consumers continuously operated during any consecutive three (3) year period from FY 2012 through FY 2023. Such combined retail consumers will also constitute one retail consumer for purposes of 2 and 3.

2. **Adjustments to CHWM**. The Adjustment Amount added to the BPA's customer's PoC CHWM will be the difference between highest average annual metered load for the retail consumer during the consecutive twelve-month period from FY 2012 through FY 2022 determined pursuant to 1.a or 1.b less such retail consumer's FY 2023 average metered load, expressed in aMW.

3. **Retention**. The Adjustment Amounts added to a BPA customer PoC CHWM pursuant to section 2 above will be evaluated to determine the portion, if any, of the Adjustment Amount that will be used to calculate such BPA customer's permanent PoC CHWM. The

[1] Propose using between 3 aMW to 5 aMW. The aMW threshold for Provisional Highwater Marks under the TRM was 5 aMW.
[2] Propose using between 10 to 30 percent.
[3] Propose using between 10 to 30 percent.

amount of each such Adjustment Amount that will be retained for purposes of calculating the BPA customer's permanent PoC CHWM will be the lesser of:

a. the load Adjustment Amount calculated under item 2 above; or

b. the positive difference, if any, between (i) the largest average metered load(s) during any six (6) consecutive months within FY 2024-2025 of the retail consumer load used to calculate the Adjustment Amount and (ii) such retail consumer's FY 2023 average metered load, all of the foregoing expressed in aMW.

4. **Limitation**. Any portion of adjustment(s) made pursuant to the above that causes a BPA customer's final PoC CHWM to exceed its FY 2024 RHWM shall be subject to BPA's proposed 25 percent load growth adjustment.