

April 13, 2023

RE: BPA Provider of Choice Workshops and Peak Net Requirements Methodology

EWEB thanks BPA for providing several venues to focus on issues important to EWEB and other customers, like the Peak Net Requirements (PNR). We recognize this is a difficult, nuanced issue to navigate and look forward to continuing the conversations through the summer, fall, and into the 2024 product discussions.

Peak Net Requirements (PNR) Summary Comments

EWEB has participated in the PNR task force and voiced concerns about the proposed PNR metric and BPA's process to date. EWEB is not fundamentally opposed to BPA defining and implementing a PNR methodology and policy. In fact, we have interests that could be addressed through a prudent PNR definition. However, BPA's current PNR proposal gives question to the future viability and equitable treatment of planned products from BPA. We believe that a PNR definition and product approach is needed that aligns with customer needs, future energy system dynamics such as organized markets and RA obligations, that maintains equity between products with implementation and rate design, and that does not result in disproportionate impact on customers' ability to meet peak needs.

EWEB appreciates BPA's reassurance that customers will be no worse off than they are today, although we see this as a minimum condition. As BPA prepares the draft policy ROD, we encourage the agency to provide flexibility and options that leave the door open for future discussion and changes in the PNR methodology and policy direction. We look forward to working with BPA and our regional partners to further explore solutions to this complex issue that work for everyone.

EWEB's requests for PNR

1. Pull PNR definition from the draft Policy and move it to a clearly defined process and timeline (what is in scope and out of scope) that includes additional PNR exploration and conversations.
2. Language around PNR in the draft policy ROD should provide for future flexibility and potential change of direction if we find ourselves in an undesirable position with implementation or rate design.
3. Emphasis on equitable outcomes across all products resulting in ability for all customers to meet peak needs.
4. Define PNR consistent with prudent/standard planning practices.
5. Develop new products or product enhancements compatible with organized markets, to meet planning needs, and provide planning certainty for BPA.
6. Barring improvements to existing products, BPA should maintain, at a minimum, the viability of existing products.

Finding a regional solution to PNR, consistent with established principles, is one of EWEB's top priorities in the Post 2028 contract discussions.

EWEB is attentive to the PNR definition because we believe that it could substantially impact our ability to meet our customers' needs, comply with resource adequacy requirements, and participate in organized markets as a planned product customer. We understand that BPA has broad authority to interpret its statute and wish to find a solution that creates products that are equitable and workable for all customers. EWEB's interests include:

1. **Maintain options to offer supplemental PF products.** As proposed, the PNR metric would limit planned product customers' ability to purchase PF capacity from BPA to meet our planning obligations and participate in markets.
2. **Provide equal access to BPA's Capacity.** EWEB expects that in the coming decade, planning and peaking capacity will become increasingly rare and valuable. Creating disjointed access to this capacity between product types and customer groups could lead to substantial product imbalances and lead to customers abandoning planned products. Alternately, considerable rate treatment would be required to rebalance products.
3. **Maintain ability to plan for EWEB's peak loads.** PNR mechanisms that move beyond the planning period into operational timeframes are likely unworkable. As with BPA, customers need to have planning certainty that the capacity we are relying upon for load service will be there when needed. If BPA proposes to implement a PNR methodology for planned products with operational callback mechanisms that do not account for a customer's actual load and resource balance or adequacy obligations, customers would not be able to take those products.
4. **Incentivize demand side resources.** EWEB sees substantial value in future demand side programs for mitigating peak loads. These programs are effectively dedicated to load, as they reduce our peak demand. However, with BPA's current proposal, EWEB could not meet RA obligations using demand response, as a reduction in our peak load would reduce our net requirement from BPA and we would still have a resource gap to be compliant with WRAP.

EWEB encourages BPA to view Net Requirements as a function of customer needs as opposed to an allocation tool.

BPA has focused on defining PNR with a lens towards mitigating potential misalignments of capacity under the existing Slice product. However, EWEB believes that the potential impact and implications of PNR are substantially greater than this. At its core, a net requirement calculation cuts to the heart of BPA's obligations to provide service for preference customers and is likely to profoundly shape future products and rates. Given the lack of details in BPA's existing proposals, customers have attempted to outline the ways in which the proposed PNR definition creates concerns and could lead to undesired outcomes.

EWEB recognizes that a pure PNR definition should be distinct from any discussion of the existing federal system and products. However, many of these issues are intertwined and are informing both BPA's approach and customers' concerns and interests. EWEB is interested in both contexts – what BPA will be able to offer as a PF product, and also by our understanding of the impacts of PNR to access the existing federal system. BPA's current PNR proposal essentially tiers capacity for planned product customers, as it produces a capacity metric below customers' prudent planning needs and would require us to purchase additional non-PF capacity to fill this gap.

EWEB is concerned about inequitable access to federal capacity.

- Defining PNR as less than a customer's full planning need creates disconnects between product types that will require substantial rate treatment to true up.

As a planned product customer under existing products, EWEB waived our right to have BPA consider our capacity and peak needs in current contracts. However, times have changed. In the past, the region's hydro-dominant electric system had sufficient capacity, and energy was the primary constraint

for system reliability. Using critical water calculations was sufficient to ensure we had both sufficient energy and capacity. Now, with climate policies that will result in the retirement of thermal peaking generation and the addition of variable renewable resources to the electric grid, the need for new peaking capacity and the development of physical resources will be key system and cost drivers in the future.

In this context, the WRAP is being advanced to incentivize and support the development of physical resources in a planning horizon, and to spread the cost of this development equitably among participants. Commitment to the WRAP or a similar adequacy program with universal standards and obligations will likely be required to participate in organized markets and ensure access to capacity for *real-time* load service and reliability. Under this new paradigm, equitable access to *planning* capacity will be among customer's primary interests and need.

The distinction between building and paying for resources in the planning horizon and compensating their operation in real-time load events is important. It shows up frequently in discussions of organized market design and demonstration of resource sufficiency or resource adequacy. For example, many planned renewable resources have zero marginal costs for energy production, and real time markets that reflect marginal energy costs do not reflect the true cost of building to reliability needs. This creates a 'missing money' problem for incentivizing system reliability. Under these circumstances, entities that do not plan and build steel in the ground resources in advance of real-time load service 'lean' on other entities to provide the necessary energy and capacity to avoid blackouts during peak events.

Due to these dynamics, entities considering participation in the WRAP, including BPA's customers, see this steel in the ground development as a key cost driver for our future portfolios. In EWEB's recent IRP analysis, meeting a 15% planning reserve margin above our 1-in-2 peak load was the most expensive sensitivity analysis explored, and increased overall portfolio costs by roughly 15%. It is this uncertainty and cost exposure around meeting future planning obligations that has BPA's planned product customers highly concerned. If BPA chooses a PNR methodology that does not include full planning standards, such as those in the WRAP, many planned product customers will likely be exposed to purchasing roughly 20% of their peak needs in 'new' capacity.

Highlighting this risk, there is no existing QCC market against which to benchmark, and with the continued advancement of carbon policies that limit development of carbon-emitting peaking resources, there will not necessarily be market liquidity to purchase QCC capacity. This increase in cost and risk for a *subset* of customers would lead to an imbalance between products. This imbalance will then require either a substantial decrease in costs for planned products, or an increase in costs for load following products, or both.

For decades, all BPA customers, regardless of the product they purchased, have contributed to paying for the costs of the existing federal system. As such, we have all shared in covering the 'steel-in-the-ground' assets that have been the backbone of system reliability in the region. Moving forward, all customers should be able to equitably share in the value of these resources in meeting planning obligations and needs. As discussed above, applying different metrics or approaches to planned product customers and load following customers creates a disconnect in access to this 'QCC' capacity and does not reflect our historical investments.

Taking a planned product from BPA does not change a utility's obligation to its end-use customers to plan and provide reliable service. EWEB encourages BPA to define PNR consistent with standard utility planning practices.

- All customers have the same obligation to provide reliable service, and by proxy the same obligation to plan. Taking a planned product should not preclude a customer being able to rely on BPA to plan for reliable load service in their communities. BPA's proposal to use average peaks does not align with any customer's planning needs or obligations. Instead, BPA should develop a PNR metric that is consistent with prudent utility planning practices and aligns with customers' needs to plan for serving peak loads.

EWEB has heard BPA express that full planning standards should not be included in a PNR calculation because planned product customers have historically dealt with within-year variations in load on their own. The energy net requirement calculation, for example, uses average forecast load for the year. EWEB believes that this interpretation is based on past dynamics where critical/firm energy was the typical system constraint (not capacity or flexibility), and average load reasonably represented the total energy a customer would serve over the course of a year.

Using firm generation for a customer's resources, and average annual load, led to a very low probability that our energy needs would not be met. In terms of numbers, over the past 12 years under the RD contracts, EWEB's standard deviation in annual load has been about 2%, and because we get more generation from our resources in most years than under critical conditions, the small deviation in average load has been covered by 'surplus' water. In other words, it satisfied our planning needs.

However, applying the same approach to PNR by averaging peak loads, and mixing in WRAP methodology, leads to an outcome where our net requirement would not provide enough capacity to meet peak events in a substantial number of years. During the RD contract, in comparison to the 2% standard deviation in average load, our peak loads have had a standard deviation of about 5-6% in the summer and to 8-10% in the winter. BPA's current proposal for PNR would put EWEB's BPA entitlement plus dedicated resource QCC for January at roughly 476 MW (just above our 1-in-2 peak load). Over the past decade, our peak load exceeded 476 MW five times, with two of these exceedances over 45 MW. This shows that if the proposed PNR definition were used for our load service planning, EWEB would have experienced resource shortfalls roughly every other year. In other words, the proposed metric would not be an acceptable outcome for meeting our actual load service requirements.

We understand that BPA considers these within-year peak loads to be a planned product customer's responsibility. While we do not disagree with this assessment of the current situation, system dynamics are changing, and we believe it is reasonable for BPA to consider the PNR definition and planned products in a new light. Additionally, planning for peak loads is inherently about planning for system reliability, and attempting to apply the same methodology that worked for average annual load to peak net requirements can lead to undesired or unequitable outcomes.

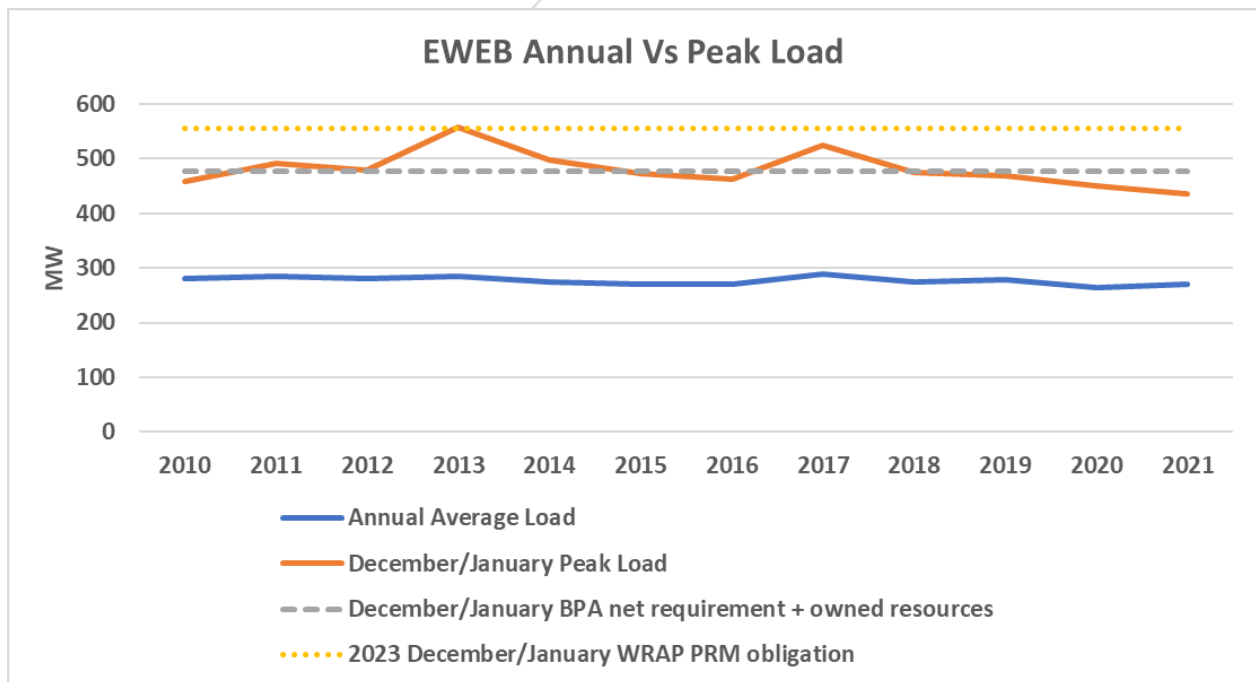
The duty to plan for and provide reliable service does not change when a customer chooses a different product, and it seems reasonable that the customer should still be able to request BPA to meet those needs in a planning horizon rather than in real-time load service. Now that a regional program is being developed (WRAP), we have the opportunity to apply consistent metrics in the planning horizon to all

customers. However, if we only use a portion of WRAP PRM, we are no longer being consistent with the methodology, and we create gaps in access to federal power across customer groups and products.

We understand BPA's concerns about providing more federal capacity than a customer needs to serve load and believe that this issue can be resolved through product design and WRAP requirements. BPA should not limit the PNR definition due to concerns about product design. Alternately, by failing to include a PRM (or failing to use 1-in-10 loads or other standard planning metrics) in our net requirement calculation, BPA would ensure that our existing resources plus BPA entitlement would always be insufficient to meet our planning needs in any year, and that as a Slice/Block customer EWEB would be obligated to procure substantial non-federal or non-PF capacity to comply with WRAP or participate in organized markets.

If BPA is concerned that including a planning reserve margin in the PNR metric is inconsistent with a net requirement definition, it would be helpful for customers to understand BPA's thinking on this. Planning reserve margin is an inherent part of the WRAP methodology, but there are other approaches to system planning for reliable service that do not require PRM. Although these alternate approaches would likely create additional and unnecessary logistical hurdles to align with WRAP obligations, EWEB is open to exploring them if it means that there is an option to define PNR consistent with prudent utility planning practices.

The graph below shows comparisons between EWEB's historical average and peak loads, as well as how these compare to BPA's PNR proposal and WRAP requirements. Several takeaways are: 1) EWEB's annual average load is relatively stable, indicating that an average calculation will be reasonably representative, 2) EWEB's December/January peak load is highly variable, and an average does not represent our system needs, 3) BPA's proposed PNR metric creates a gap to our planning obligations that would persist in all months.



EWEB believes diverse product options, including planned products, provide significant value to BPA and the region.

EWEB believes that it is in BPA's and customers' interest to have multiple product offerings. Planned products provide risk and hedging diversity, and reduce the financial reserves that BPA needs to hold. Pushing more customers towards the load following product just so that they can have access to planning capacity from BPA is not a productive outcome.

EWEB encourages BPA to center 2028 contract discussions on developing products compatible with future organized markets.

The development of organized markets will fundamentally alter how energy is transacted in the region. Realizing the benefits of market participation will require BPA to allow loads and resources that have traditionally settled in bilateral transactions to be settled on a market basis. In this context, the definition of BPA's various products begins to shift, as there is no longer a defined link between dispatch and a specific load. Under this paradigm, we need to rethink what it means to be a 'load following' or 'Block/Slice' customer. Ultimately, preference customers' link to BPA will be in the value BPA brings to and realizes from the market on a planning and real-time basis.

EWEB believes that while the PoC process has presumed the continuation of existing products, we may need to take a step back and address the fundamentals of what customers and BPA are trying to accomplish with load following and planned products, and how future products may look similar or different than they do now.

We encourage BPA to create space in the future for such dialogue.