



Provider of Choice: Foundational Interests and Carbon Continued

PPC Rates and Contracts

November 9, 2021

PROVIDER OF CHOICE

— POST-2028 —



Agenda

- Foundational Principles/Interests
- Feedback on October 12th Transfer Services and Transmission Discussion
- Carbon Conversation Continued
- Next steps



Foundational Interests



Today's discussion on interests & the 6 steps

Today we revisit the foundational interests for Provider of Choice. They've played a role—sometimes overtly and often in the background—in all of the conversations we've had over the course of 2021. The foundational interests will be the criteria against which we weigh our policy and contract decisions against for Provider of Choice. We look forward to understanding how thinking regarding the interests has evolved for customers as we look ahead and discuss the goals for post-2028.



2020 customer engagement on interests

Late 2020, after AEs reached out and had conversations with customers on post-2028, BPA shared a [Summary Paper](#), reflecting what BPA heard from customers during the 2020 customer engagement.

On the interests:

“Most of the underlying interests and principles that provided the foundation of the Regional Dialogue contracts remain valid, prescient and relevant. Customers placed particular emphasis on:

- lowest Tier 1 costs and Tier 1 rates,
- customer/regional support and equity,
- and promote infrastructure development.”

BPA is not necessarily endorsing the retention of these interests post-2028. BPA is seeking preference customer input in what the interests should be, informing the Concept Paper.



Lowest Tier 1 Costs and Rates

Lowest Tier 1 Costs and Tier 1 Rates

- Through its contracts, rate structure, and policies, BPA uses the Federal Base System (FBS) as a firm power supply for customers and works to avoid dilution of the value of the existing FBS so as to produce the lowest possible Tier 1 rate while maintaining BPA's strategic emphasis on competitiveness and cost control and meeting BPA's stewardship obligations.

Principles embedded

- Maximize the value of the existing system by avoiding dilution and maintaining an emphasis on competitiveness.
- Long term firm power supply at lowest possible costs, consistent with sound business principles and stewardship obligations.

Tensions

- As discussed, BPA's costs are significantly driven by factors beyond BPA's control.

Customer/Regional Support and Equity

Customer/Regional Support and Equity

- BPA power marketing policy, as implemented through its contracts and rate design, maximizes the value of the FBS for BPA's regional firm power customers, fosters transparency in its development and administration, and promotes an equivalent value proposition among the different product offerings.

Principles embedded

- Customers receive value and support the contracts and rate design because they were involved in the development.
- Maximize value of existing system for all regional firm power customers.
- Transparency as a means toward building trust and support for contracts.
- Equivalent value proposition

Promote Infrastructure Development

Promote Infrastructure Development Consistent with the Northwest Power Act

- BPA's contracts, rate structure, and policies afford BPA and its customers the flexibility to prudently invest in resources, technologies and the infrastructure to ensure an adequate firm power supply needed to serve load and promote price stability.

Principles embedded

- Supports customer choice to invest in resources, technologies and infrastructure.
- Supports customer serving Above-RHWM load and load growth.

Tensions

- With some states having carbon mandates, will customers be more/less inclined to purchase from BPA at Tier 2 rates?
- How do products/services align with emergent Resource Adequacy program goals and requirements?

Durability/Stability/Enforceability

Durability/Stability/Contract Enforceability

- BPA's contracts establish long-term power supply, avoid unintended cost shifts between products and services, and where possible, apply uniform terms, conditions and transparent processes to minimize disputes and conflicts while maximizing ease of contract administration and shared accountability.

Principles embedded

- Thoughtfully, purposefully crafted contracts that have longevity.
- By avoiding unintended cost shifts, contracts provide an equivalent value proposition (no winners or losers) between the products and services.
- Standardized contracts, 'no favored nations' approach.
- Strive for efficiency in the day-to-day contract administration.

Certainty of Obligations for All Parties

Certainty of Obligations for All Parties

- Long term contracts, rate structure, and policies clarify BPA and customer power supply rights and obligations to reliably sustain the Northwest economy and promote the long-term financial health of BPA and its customers.

Principles embedded

- Long-term certainty
- Clarity about rights and obligations
- Acknowledges the importance of Provider of Choice in customers' communities

Consistent with Stewardship Obligations

Consistency with BPA Stewardship Obligations

- BPA maintains a strong legacy in meeting stewardship obligations in support of fish and wildlife and acquiring cost-effective conservation, while operating consistent with sound business principles and adherence to strategic goals.

Principles embedded

- Stewardship obligations are legal obligations.
- Aligned with BPA's mission, vision and strategic plan.
- Acknowledged as a factor/cost driver in power rates.
- BPA's commitment to its legacy of investing in our region's environmental and conservation goals.

Legality

Legality

- Contracts offered by BPA are consistent with BPA's statutory authority and are not intended to restrict the ability of customers to act in accordance with applicable federal or state requirements.

Principles Embedded

- Mutual acknowledgement that BPA and customers have legal parameters they have to operate within.

Tensions

- Attempts to apply fresh legal interpretations of long-standing statutes.
- This is a given; some feel it isn't necessary to state as an interest.
- Federal and state requirements change; carbon legislation is particularly dynamic.

Simplicity

Simplicity

- BPA's contracts, rate structure and policies are intended to be administratively straightforward and practicable, seeking efficiencies and improvements where feasible without causing material harm to other interests.

Principles embedded

- Strive to simplify, be efficient, not administratively burdensome.

Tensions

- Subjective
- We operate in an increasingly complicated industry; unrealistic goal?
- Simpler contracts and rates may mean fewer products and services, fewer options, more standardization, broader sharing of costs. Counter to some other interests.

Advance National/Regional Objectives

Advancement of National and Regional Objectives

- BPA's contracts, rate structure and policies may assist in meeting broader national and regional goals and initiatives including system reliability and carbon reduction.

Principles embedded

- Investment and support for infrastructure development and carbon reduction
- Acknowledgement that BPA is part of the Federal government and Dept. of Energy, subject to policy and administration changes, and beholden to advance national directives.

Tensions

- Carbon, resource adequacy, emerging markets will play a significant role in Provider of Choice discussions.
- Elevate carbon as a stand-alone interest to recognize its significant influence over policy direction?



Thoughts? Feedback?





Oct. 12 Transfer Service and Transmission Discussion Feedback



High-level response

Transfer service and transmission issues are complex topics that implicate multiple parties and stakeholders. BPA appreciates the comments put forth by the customers on this topic.

At a high-level, BPA would like to reiterate that it does not have leanings or decisions at this time on transfer service and transmission issues (or on any topics BPA presented in 2021). These complex issues will need to be further discussed and evaluated prior to BPA developing a policy leaning.

In addition, fully resolving the concerns identified will necessitate working through multiple avenues and forums, whether through internal deliberations and discussion through the Post 2028 public process, or addressing an issue through a more appropriate forum.

Summary of Comments Received on Oct. 12 Transfer & Transmission Discussion	BPA's Response
<p>Federal/Non-federal and transfer costs/avoided expense</p>	
<p>Two commenters support BPA maintaining transfer service post-2028 largely as it functions today under the Regional Dialogue construct for federal and non-federal power deliveries, while one of the two added, 'provided that BPA does so in a manner that seeks balance with other shared objectives such as keeping rates as low as possible.' Another commenter shares the sentiment but states they are supportive of maintaining or enhancing the current level of service provided particularly given the number of customers served by transfer; this same commenter wanted stronger assurance of commitment from BPA than its statement on Oct. 12 that "BPA should continue to provide some level of transfer service support."</p>	<p>Thank you for the comments. BPA's discussions at the PPC forums over the course of 2021 have been pre-decisional, brainstorming discussions. BPA is not in a place in its process to put forth policy positions regarding what level of transfer service it supports—that is why we indicated some level of support but also did not state a definitive position.</p> <p>Before putting out a policy position, BPA believes more discussion needs to be had about: 1. the principles and trade-offs that will be used as criteria for such policy decisions and 2. the level of support from customers, particularly non-transfer service customers, for continuation or modification of transfer service. We look forward to further discussions on these important issues.</p>
<p>One commenter provided their thoughts on the overall Provider of Choice policy goal related to non-federal resources, stating that they believe the policy goals expressed in Regional Dialogue to encourage non-federal resources remain relevant, which supports the need to provide transfer service for both federal and non-federal resources.</p>	<p>Thank you for the comment. We look forward to further discussion and weighing of the guiding principles related to transfer service policy direction. We also look forward to monitoring the progress public power makes as they collaborate and hopefully align around guiding principles, with the goal of putting forth a united leaning related to transfer service support in its Concept Paper.</p>
<p>One customer expressed support for the 'appropriateness and desire' for BPA to offer transfer service support for non-federal resources serving Above RHWL loads, stating that such support: (1) is consistent with BPA's core mission to help rural communities and (2) will assist rural communities alleviate transmission constraints and meet carbon goals by building new renewable resources.</p>	



Summary of Comments Received on Oct. 12 Transfer & Transmission Discussion	BPA's Response
Federal/Non-federal and transfer costs/avoided expense, continued	
<p>One commenter appreciated BPA's Oct. 12th presentation on the benefits of transfer service to all BPA customers, and further states that it completed its own comprehensive quantitative study on the financial benefits of transfer service. According to its study, this commenter states that BPA has avoided approximately \$3.9B in capital outlays from using transfer service in lieu of constructing transmission lines and substations to directly connect all transfer customers to the BPA transmission system. They also maintain that, annually, BPA saves approximately \$333M per year in avoided expense, which, after direct transfer costs are factored in, results in a net savings to the agency of \$236.8M each year. Another commenter concurs that transfer service exists because it is a cheaper way to fulfill its obligation of getting Federal power to preference customers than building; and, regarding such obligation, the commenter also states that "it's the law for BPA to get Federal power to preference customers".</p>	<p>Thank you for the comment. BPA has a long history of delivering federal power to preference customers through means that are cost effective.</p> <p>However, BPA should note that as BPA covered in its September 14th background session on transfer service, BPA is authorized, but not obligated, to acquire transfer service to deliver Federal power to its customer's loads. The extent and details of such service is a contractual matter and remains one of the issues that BPA and its customers must discuss through the forthcoming public policy development process.</p>
<p>To the extent BPA's transfer service responsibilities have resulted in constraints on the physical system, one commenter states that remediation needs to be borne by all preference customers that have benefitted from lower transfer costs (in reference to avoided costs/otherwise having to build—see comments immediately above).</p>	<p>Thank you for the comment.</p>



Summary of Comments Received on Oct. 12 Transfer & Transmission Discussion	BPA's Response
Overall principles/quality of service	
<p>Regarding slide 8 of the Oct. 12 presentation, which introduced the idea of trade-offs between the various interests that will underscore future decisions related to transfer service, one commenter suggests that BPA apply an “equity lens” in developing Post-2028 transfer service policy not just between transfer and non-transfer customers as it relates to UDS and GTA policy, but also more generally across direct connect and transfer service customers as it relates to:</p> <ul style="list-style-type: none"> • Equity between partial requirement and full requirement/load following preference customer transmission service obligations for Tier-1 and Tier-2 service elections (federal and non-federal resources); • Equal and correct incentives for all utilities related to transmission cost responsibility for locating new non-federal resources to serve load. • 	<p>Thank you for the thoughtful comments related to the principles, trade-offs, and quality of service. We look forward to further discussion about how customers will weigh the various interests being considered or if new interests will emerge. We are also hopeful that customer organizations will be able to align around guiding principles that will help advance our understanding of the objectives customers will want to achieve in the next round of contracts. In particular, we are interested in seeing how the public customer groups will balance the need for cost controls and competitiveness, a common theme we have heard in many comments, with the desire for BPA to continue to provide unique arrangements like transfer service – a type of service that no other alternative provider would typically include in its product. We encourage public power representatives to discuss these issues as they gather to collaborate and develop a concept paper in the coming months.</p>
<p>Another commenter also provided feedback on slide 8 of the Oct. 12 presentation (see above). This commenter states that they generally agree with the transfer service principles/interests, including low rates, non-federal resource development, etc., as well as the need to balance those interests. However, they also recommend that BPA include the principles of fairness and equity, comparability, and flexibility in the transfer service discussion. They state that transfer service for federal and non-federal power deliveries is consistent with BPA's statutory obligation to encourage the widest possible diversified use of electricity at the lowest possible rates.</p>	<p>BPA has concerns that equivalent treatment is not an achievable standard for transfer service. We look forward to exploring alternative standards that would serve to reinforce BPA's commitment to quality of service. BPA is not opposed to a principle regarding quality of service, but believes such principle must be guided by good utility practice.</p>
<p>One commenter “strongly believes” that BPA must provide equivalent treatment to both directly-connected preference customers and preference customers served by transfer.</p>	



Summary of Comments Received on Oct. 12 Transfer & Transmission Discussion	BPA's Response
Overall principles/quality of service, continued	
<p>One commenter states that BPA historically sought to achieve fairness and equity by providing transfer customers service that is comparable to that enjoyed by their directly connected counterparts. This does not mean each and every customer receives the absolute same service, but instead that BPA provide a level of parity between its directly connected power customers and its transfer service power customers so that they, and the consumers they serve, are on a level playing field with one another when it comes to transmission service.</p>	<p>See BPA's response above, in prior slide.</p>
<p>Regarding the quality of service principles on slide 10 of the Oct. 12 presentation, one commenter recommends BPA include the following additional quality of service related principles for future discussion:</p> <ul style="list-style-type: none"> - Ensure meaningful and effective communication protocols between BPA, the transfer service provider, and the transfer customer. - Take a proactive role in the planning processes of transfer service providers for local transmission facilities to adequately and timely meet transfer customer load growth. 	
<p>One commenter wrote in support of the quality of service principles, stating that they appear appropriate. The commenter also supports the efforts of BPA to coordinate between both transfer service providers and preference customers to create a best plan of service to provide and maintain reliable transmission service for customers not directly interconnected with the BPA transmission network.</p>	
<p>One commenter states that the best plan of service for each transfer customer will be different based on the customer's own unique circumstances as well as external factors, including geographic limitations, cost limitations, transmission congestion, market factors, carbon legislation, and resource adequacy. Because these factors present significant challenges, BPA must retain the flexibility to work out each individual transfer customer's best plan of service on a case-by-case basis in a manner that best takes into account and balances the other transfer service principles, including fairness and equity, comparability, and lowest possible rates.</p>	



Summary of Comments Received on Oct. 12 Transfer & Transmission Discussion	BPA's Response
Transmission/Functionalization of costs	
<p>One customer commented that they believe moving the PNW to a full RTO is the best way to alleviate transmission constraints and offered other considerations to help alleviate transmission constraints until such time, including revisiting the current requirement of having to bring power to a BPA POD before delivering to load, requiring multiple wheels.</p>	<p>Thank you for your comment. These are concepts that public power and Bonneville will be engaging on a regional level. BPA also agrees that the possibility of the region forming an RTO during the term of the Provider of Choice agreements is a factor, and as we learn more, the potential development of an RTO should be accounted for in the policies and contracts developed for the post-2028 period.</p>
<p>One customer commented that they believe moving the PNW to a full RTO is the best way to establish a long-term cost allocation paradigm for transmission costs. Additionally, this customer noted that there are several examples that demonstrate how a transition to postage stamp rates can be accomplished while minimizing the burden of cost shifts.</p>	
<p>Given BPA's competitiveness concerns and both parties' equity concerns with regards to transfer service costs, one commenter asked BPA to consider opening a discussion on the functionalization of transfer service costs to Transmission Services. For instance, the commenter poses the question should new (or even some level of existing) transfer service costs be functionalized as transmission costs as well as the allocation of costs.</p>	<p>Thank you for your comment. The functionalization and allocation of transfer service costs post-2028 is ultimately a rates issue that would require a broader regional discussion with additional stakeholders that are not currently engaged in the Provider of Choice forum. Thus, BPA does not believe it would be prudent to initiate a discussion of the questions raised in the comments in this forum and at this time. Because functionalization of costs is a rates issue, discussion of any proposed change to the functionalization of transfer service costs would be more appropriate in pre-rate case workshops and, ultimately, in the rate case.</p>
<p>One commenter states that based on cost causation principles and FERC open access requirements implemented in 1996, transfer service should arguably be functionalized as a transmission cost.</p>	
<p>Sharing an opposing vantage point, a different commenter states that while there is rationale for including transfer service costs in transmission rates, they believe that moving the costs could result in an inequitable allocation of these costs to a sub-set of preference customers unless costs are allocated to all transmission customers.</p>	





Renewable Energy Certificates and Carbon Options (continued from September 28th)

PROVIDER OF CHOICE

— POST-2028 —



Today's carbon discussion & the 6 steps

Today we follow up on the conversation on September 28. We share BPA's evaluation of a carbon option suggested by public power on September 28 (a "netting" concept), and follow up in more detail on any customer questions regarding options presented.



Carbon Option 8: Fuel Mix that Nets Unspecified Transactions

- BPA is adding this carbon option based on the suggestion from Public Power in their presentation at the September 28th workshop: “Accounting method... that nets unspecified acquisitions made by Bonneville with unspecified sales during a reasonable reporting period (i.e., carbon in = carbon out)...”
- Under BPA’s interpretation of this presented option, BPA would make available additional data on its fuel mix to enable customers to net unspecified purchases against unspecified sales over a given timeframe.
 - The data for the fuel mix would be disclosed annually (as is done today). The granularity for unspecified transaction data and netting (e.g. hourly, monthly) needs to be discussed further in terms of what provides value to customers and is not overly burdensome for BPA.
 - Customers could choose to opt to use or not use the additional data in demonstrating compliance with state programs or reporting their fuel mix.
- BPA views this as a potential additional service.
- Operations would not be changing. BPA would still make balancing purchases. Absent pairing this with another option (like greening up the system), there would be no change in the volume of unspecified purchases BPA makes.

Carbon Option 8: Fuel Mix that Nets Unspecified Transactions

Evaluation of Key Considerations

Does this work with BPA's single system mix?

Possibly. This could potentially work if BPA is providing the data on its fuel mix and customers are doing the netting for purposes of state compliance. However, from the system sales perspective this could lead to different resulting emissions factors for ACS reporting. BPA has not fully considered the implications of this yet.

Would this help Washington customers comply with CETA?

Unclear. Customers would have flexibility to use this additional data if state regulators allowed its use for demonstrating compliance under CETA. If allowed, BPA is not sure if this level of information would provide additional value to customers in determining CETA compliance. Additionally, BPA is not sure that the allocation of RECs would be sufficient. For example, if RECs were allocated based on BPA's fuel mix (without netting) then customers may not have sufficient RECs to pair with non-emitting resources to be used to meet the 80% standard once customers net unspecified transactions.

Carbon Option 8: Fuel Mix that Nets Unspecified Transactions

Evaluation of Key Considerations

Are there implications for Cap-and-Trade programs?

BPA sells from a single system of resources and therefore must sell ACS power for its sales to be recognized as specified (and not unspecified) under state cap-and-trade programs. How ACS emissions factors are calculated is a function of state policy.

Washington – WA does not consider imported electricity (which has a compliance obligation under the program) to be “electricity imports of unspecified electricity that are netted by exports of unspecified electricity... by the same entity within the same hour.” Assuming this can be used for the ACS calculation, the WA law would allow BPA to net hourly transactions for ACS reporting. However, BPA needs to further consider if this works with its single system mix.

California – CA does not have this specific “within hour netting” provision (except in very specific bilateral exchanges with the same counter party), so the ACS emissions factor would not include netting of all hourly sales and purchases.

This could result in two ACS emissions factors. BPA is not sure at this time if that is consequential.

Are there cost shifts/implications?

No (unless providing the data is administratively burdensome).

Carbon Option 8: Fuel Mix that Nets Unspecified Transactions

Evaluation of Key Considerations

Does this offer flexibility for future evolution of state/national programs?	This would provide customers with another way of using BPA's fuel mix to meet state policy. It is a service that could be discontinued if it was not valuable in the future. This netting approach could pair with other carbon options.
Other? (legal, external perceptions, etc.)	<p>BPA would only provide additional data, it would be up to BPA's Washington customers to decide what to do with that data; BPA would not take responsibility for anything beyond providing the data (backup documentation and auditing risk for the netting would be on the customers that are subject to compliance with Washington's law).</p> <p>Without further analysis and more information on the timeframe for the netting, BPA is not sure how valuable this additional data would be to customers. This would need to be looked at more closely. This is an increase in workload for BPA administratively. The value provided by the additional data would need to be weighed against the workload, which would depend on the granularity of data and other factors.</p>
Overall feasibility?	It is feasible for BPA to provide this data, but BPA has questions about how valuable the data is and whether it would be useful in meeting state program requirements.

Questions? Feedback?



Feedback and upcoming sessions

Provide feedback by November 18 or sooner:

- post2028@bpa.gov
(copy your Power AE)
- Power AEs
- Trade Orgs, as applicable



May 27: 10am-noon	HWM & Tier 1 System Background
June 8: 1-3pm	Non-Federal Resources Background
June 22: 1-3pm	BPA's Statutes, Capacity & Resource Adequacy Background
July 13: 1-3pm	HWM & Tier 1 System Discussion
July 27: 1-3pm	Non-Federal Resources Discussion
August 10: 1-3pm	Carbon Background, Term/Cost Control Background
August 24: 1-3pm	Capacity & Resource Adequacy Discussion
September 14: 1-3pm	Transfer & Transmission Background, EE Background
September 28: 1-4pm	Carbon Discussion
October 12: 1-3pm	Transfer & Transmission Discussion
October 26: 1-3pm	Term/Cost Control Discussion and revisit Interests
November 9: 1-3pm	Foundational Interests and Carbon Continued
November 18: 1-3pm	REP Background
December 7: 1-3pm	Energy Efficiency

Thank you for your time today and your ongoing engagement in post-2028 conversations.

