

February 9, 2023

John Hairston, Administrator
Bonneville Power Administration

RE: PPC Comments on Provider of Choice Process

Introduction

The Public Power Council (PPC) appreciates this opportunity to provide comments regarding the development of post-2028 contract and product options (i.e. BPA’s “Provider of Choice” process). PPC is the broadest trade association of Northwest public power, representing the full diversity of utilities with preference rights to purchase wholesale power and transmission services from BPA.

PPC members rely on these services to provide reliable, economic, and environmentally responsible power supply to the communities and businesses they serve at cost. PPC members provide the majority of the funding that supports BPA’s operations and obligations to repay the federal and private investments in the federal system. This includes final “take or pay” responsibility for costs of the power system under long-term contracts.

The issues presented in the Provider of Choice process are of paramount importance. PPC is particularly focused on the upcoming milestone of BPA’s planned draft policy decision in July. To ensure productive outcomes and timely feedback to BPA, PPC has recently focused on three tenets:

- 1) Public power executives actively driving post-2028 discussions, proposals, and decisions,
- 2) Public power working to ensure no utilities are left out of critical 2028 discussions/decisions (e.g., small groups should avoid “deciding” issues for the broader public power without others having a chance to take part), and;
- 3) Merging/aligning the public power post-2028 path with BPA’s Provider of Choice process.

PPC engaged a diverse cross section of public power leaders to form an “Executive Sponsor Team” with the goal of having open, honest and constructive discussions on the “art of the possible” regarding post-2028 compromises. The group includes a geographically diverse array of customers spanning utility models and sizes, including Load Following, Block and Slice/Block customers, as well as members of PNGC, NRU, WPAG, and other groups. It is a deliberative rather than decisional group, and as planned brought its recommendations back to the PPC Executive Committee and broader public power community for their consideration.

This group dedicated extensive energy to discussions over four all-day working sessions in December and January to find areas of alignment among public power. Additionally, PPC provided a forum for all public power interests to express views and provide proposals for consideration. The group ultimately brought a proposed framework back to the PPC Executive Committee and membership for consideration at PPC’s February meetings.

After extensive discussion and deliberation, the PPC Executive Committee unanimously approved moving forward with the framework. In general, there are many more areas of alignment within public power on post-2028 issues than divergence. Where there are differences, in some cases a range of sideboards have been identified and in a few limited cases individual entities or groups may continue to pursue independent advocacy with BPA.

As an overall matter, PPC supports the ongoing implementation of a tiered rates construct in the next contract period. The principles and goals outlined in the broadly supported Public Power Post-2028 Concept Paper remain generally applicable.¹ The combination of framework elements explained below must be considered collectively to achieve balanced outcomes that meet policy goals, are durable for years ahead, and are broadly acceptable to public power.

The remainder of these comments focus on the following specific issue areas.

System Size

There has been considerable divergence among public power on issues related to system size. At this time, PPC supports exploration of fixed Tier 1 system sizes ranging from 7,000 to 7,500 aMW. If significant new information or changes in resource output come

¹ <https://www.ppcpdx.org/wp-content/uploads/FINAL-Post-2028-Concept-Paper-3-30-22.pdf>

to light before or during the contract duration, reexamination of this range may be needed.

Augmentation

PPC supports cost effective augmentation needed to support the fixed system size that is selected. Augmentation above the level of base system output should be allocated on a pro-rata basis. This will provide equitable sharing of costs and benefits of Tier 1 augmentation. PPC notes that limited amounts of augmentation in Tier 1 is consistent with a tiered rates construct and may be beneficial in achieving the goal of broad acceptability among public power.

Based on the best available information at this time, the Extended Power Uprate project for Columbia Generating Station presents an especially attractive Tier 1 augmentation opportunity. PPC supports full exploration of this possibility and inclusion of the output in Tier 1 if the project proceeds.

System Allocation

BPA's most recent allocation proposal generally appears headed in a direction that could be broadly acceptable to public power. Specifically, it provides consideration for differently situated utilities including those with significant growth, flat loads, high conservation achievement, returning loads, and resource loss.

PPC members were not able to come to consensus on the treatment of self-funded conservation outside the BPA program, in which a subset of customers have made significant investment. There was also discussion but not consensus on the use of non-firm secondary energy or revenues to support Above High Water Mark load service. Entities or groups will continue to make their separate arguments to BPA on these issues.

PPC members have expressed interest in exploring the potential for comparable treatment of generating resources and conservation in Tier 1 allocation. Another area for further exploration as part of a balanced package is the treatment of Tier 1 firm surplus, including potential pricing at Tier 1 when used to serve Tier 2.

Tier 2 Options

There is broad recognition among public power of the need for additional energy and capacity resource development beyond the capability of the Tier 1 system. The changing

energy landscape resulting from policy changes, resource retirements, and economic developments is well known.

PPC believes that one Tier 2 option with a single opt in at the beginning of the contract will not meet customer needs. A “Load Growth” pool is an important option but must be accompanied by additional offerings such as periodic “Vintage” offerings and a short-term rate.

While PPC believes a short-term rate option is needed, this is in the context of recognizing the need for specified resource development. For cost, risk, and compliance reasons, PPC shares the sentiment that reliance on unspecified market purchases for long-term load service is unlikely to be prudent for the post-2028 contract period. A short-term option, perhaps based on a pass-through of an index, may be a necessary tool to help facilitate non-federal resource development whose development timeline does not line up with rate periods for example.

More broadly, PPC members want clear commercial terms that ensure accountability in Tier 2 options. This means living with reasonable timelines and financial commitments needed to support BPA’s acquisition of resources to serve net requirement beyond the capability of the Tier 1 system. It also means utilities accepting and seeing through the consequences of their resource decisions throughout the duration of the contract.

Non-federal Resource Integration

Similar to the importance of Tier 2 options, PPC wishes to emphasize the importance of policies around integration of non-federal resources. These policies, products, and rates will play a key role in the success of non-federal resource development. This includes Resource Support Services and definition of “behind the meter” resources. Careful balances between efficiency and equity will need to be considered and PPC supports getting into depth as soon as possible.

The integration of New Large Single Loads (NLSLs) is an important consideration for some customers. PPC supports exploring potential efficiencies in the NLSL policies and practices that do not create cost shifts.

Fair and Equitable “Base Year”

Following some initial concern and questions, PPC believes using FY 2023 as a “base year” may be workable and hold several benefits, especially relative planning certainty around Tier 1 allocations. It will, however, be crucial to examine the potential for

normalizing adjustments for factors such as economic conditions, specific large loads, weather, irrigation and other factors.

Consideration for Small Utilities

PPC is supportive of efforts to shield very small utilities from disproportionate impacts of a tiered rates structure. The general scope and magnitude of BPA's current proposal are appropriate. One potential area for further exploration would be to ensure that similarly sized utilities do not receive vastly different treatment (for example a 5.1 and 4.9 aMW utility).

Set Aside for Tribal and New Public Utilities

PPC supports limited "set aside" of Tier 1 for tribal and new preference utilities. In particular, PPC supports 40 aMW set aside for tribal utilities for the duration of the Provider of Choice contract.

Transfer Service

PPC recognizes that transfer service is an essential element for much of public power, BPA, and the region at large. Especially in light of the potential need for large amounts of non-federal resource development, PPC supports exploring comparable treatment of transfer service for AHWM service for both federal and non-federal resources. Including only federal Tier 2 service would have the potential to simply preclude non-federal resource development for many utilities without limiting costs.

PPC supports ongoing initiatives to seek creative solutions to both increase the quality of transfer service and reduce costs.

Rate Discounts

PPC supports continuation of the Irrigation Rate Discount and Low Density Discount mechanisms in generally similar scope and scale for the post-2028 contract period. These rate mechanisms are extremely important to the utilities that they affect and are important to include in a broadly acceptable package. PPC members have also expressed a desire to explore potential refinements for implementation.

Products

PPC supports offering a range of load following and “partial requirements” products. Fundamentally the Provider of Choice products must meet the energy and capacity net requirements of BPA’s preference power customers. This includes utilities with various amounts and types of non-federal resources, different load shapes, balancing authorities, and other factors. We urge BPA to carefully consider customer requests for enhancements to existing products, work collaboratively on new ones, and resolve challenges such as peak net requirements methodology and implementation. Customers should at least be no worse off than in their current products choices, whether Load Following, Block, or Slice/Block.

Products are where the “rubber meets the road” in these contracts and customers need relative around their options as part of the policy process this year.

While detailed rate design is for a later phase, PPC supports the concept of equitable rate treatment across product types. This should result in a product portfolio where value is balanced across product types based on the services received.

Also, it is essential that policy, product, and rate designs ensure that the full value of the secondary or surplus energy and capacity accrue to the preference customers that are supporting the system with long-term take or pay contracts.

PPC also supports exploring reasonable opportunities for product switching during the course of the contract.

Service for Federal Loads

The current Regional Dialogue contracts provide Tier 1 service for a variety of federal loads such Department of Energy and Department of Defense facilities. PPC supports exploration of creative solutions to provide alternative service to some or all of these loads outside of Tier 1 in ways that support regional and national policy goals. For example, Grant PUD is pursuing potential development of an advanced small modular nuclear reactor (SMR) that could be an option for serving Department of Energy vitrification load - thereby both helping achieve Administration goals of SMR development and freeing up Tier 1 system for other load service. We look forward to working collaboratively with BPA and the relevant agencies as these opportunities emerge.

Risk and Financial Policies

PPC supports exploring contractual mechanisms to achieve greater certainty regarding financial and risk policies. Some degree of adaptability is needed, but the imposition of significant new costs related to financial policies during the course of this contract has been an ongoing source of frustration for customers.

Asset Management and Cost Control Issues

PPC members are committed to the long-term reliability and efficiency of the assets Federal Columbia River Power System (FCRPS). In taking on the obligation for long-term take or pay contracts, customers deserve both transparency and a voice in the decisions and costs needed to support the operation, maintenance, and investment decisions supporting the operation of the system. During the course of the Regional Dialogue contract period, asset and cost management efforts have achieved mixed success. PPC believes that additional contractual and policy commitments in these areas would be to the benefit of BPA and customers in the next contract.

Contract Length

PPC members support a long-term contract offering to provide reasonable certainty for both BPA and customers. The specific timeframe of the Provider of Choice contract should be considered carefully in terms of its relationship to major resource decisions such as the Columbia Generating Station operating license and customer compliance obligations.

Market Compatibility

PPC recognizes that several initiatives are underway throughout the west to potentially expand organized markets. Ensuring that the Provider of Choice contracts are adaptable to these changing circumstances is essential.

Adaptability to Major Changes

The elements of the package framework in these comments are inherently interconnected. There is a possibility that the resource output or costs of the FCRPS could change so drastically that it could necessitate a fundamental rework. This could occur with resource output changes in either direction. PPC believes that some mechanisms to handle these types of circumstances must be addressed in the contracts.

Carbon Issues

Northwest public power is subject to increasingly prescriptive responsibilities to decarbonize their portfolios. This includes state mandates but also direction from their locally elected governing bodies. A key value of the Tier 1 portfolio is its extremely low carbon content. This value should be preserved along with additional product options that meet customer needs with regard to carbon. PPC also believes that further consideration of the customer Reallocation proposal is warranted. It is essential to work together to develop carbon free options that have benefits for all preference customers.

Transmission Access

Although not strictly related to power contracts, PPC wishes to emphasize the crucial role that transmission access will play in the next contract period. Generating resources are only as good as the ability to transmit to load. PPC members look forward to working closely with BPA to ensure that transmission planning and asset management have the resources and support needed for success.

Thank you for your consideration of these comments.

Sincerely,



Scott Simms
CEO & Executive Director
Public Power Council