

May 19, 2023

Submitted via email.

Suzanne Cooper
Senior Vice President, Power Services

Kim Thompson
Vice President, Northwest Requirements Marketing

Bonneville Power Administration
Portland, OR 97232

Dear Suzanne and Kim:

Re: AHWM-Group Comments on BPA's current proposal

Overview

The AHWM-Group (AHWM-G), a collection of utilities that currently have AHWM exposure under the Regional Dialogue Contract, hereby submits comments in response to the candid discussions that took place during BPA's Provider of Choice Regional Workshops this past April. As a point of observation, the AHWM-G encourages BPA to consider modeling both the format and conversational tone of these most recent regional workshops for future customer engagement. To date, the Provider of Choice (PoC) workshops have largely been devoid of conversations that allow communities to engage and express concerns or support over BPA policy decisions. Instead, utility professionals from around the region have been debating the "merits" of tiered rate methodologies, or other obscure policies, without seeking greater understanding of the barriers communities face and thus missing out on opportunities to develop a truly equitable outcome. It is our duty as public servants to establish public processes that allow for meaningful community engagement to shape future policies. Otherwise, we risk making decisions and creating policies that will have disproportionate impacts to underrepresented and smaller communities across the region.

The AHWM-G continues to impress upon BPA the importance of developing and implementing PoC policies that minimize disproportionate impacts across its customers. As we evaluate BPA's PoC policy proposal, it has become apparent that several smaller rural communities will in fact be disproportionately impacted and prevent both economic growth and financial prosperity, which is counter to Congressional intent. The AHWM-G remains concerned that discussions have not fully worked through needed policy positions addressing the terms of Tier 2 service, non-federal resource integration, and access to transmission, including the treatment of transfer service. These specific policies may appear as 'fringe issues' for some preference customers, but they are at the forefront of our concerns because of the impacts on our communities.

The AHWM-G would like to take a moment to express our continued support for the original Northwest Requirements Utilities policy proposal package that included a 7500-aMW system size, a CHWM allocation reset, a 50% Load Growth adjustment, and a resource augmentation strategy, which NRU submitted to the Bonneville Power Administration on February 8, 2023. The NRU Proposal framework includes reasonable adjustments that help to strike a more balanced outcome across all stakeholders and provides more specific guidance on several issues that will be critical to public power in the post-2028 era. We would also like to reiterate that our endorsement of the NRU proposal reflects a considerable compromise on the part of utilities facing significant load growth.

Policy Considerations for the DRAFT Policy ROD

The group's policy perspective has not waned from the concerns expressed in our letter dated March 3rd, 2023, which was sent to Administrator Hairston, Ms. Cooper, and Ms. Thompson. If BPA is seeking to develop an equitable and durable PoC policy framework in the post-2028 era contract, BPA must fundamentally address the following issues (selected excerpts from March 3rd letter):

Tier 2 Flexibility and Election Options

We think more flexibility is necessary to provide workable policies related to both AHWM service terms and proposed pricing options. We think the following points are critical to providing the flexibility and optionality to support utilities that will continue to face AHWM load service obligations into the future. The AHWM-G does support the changes to BPA's proposal that now include multiple Tier 2 purchase options (i.e., short-term and long-term options, as well as the ability to change selections over the course of the contract) in support of future resource integration options. However, we remain convinced that BPA and other preference customers will be unharmed by allowing more flexible options to switch between the long-term pool and the flexible path. If financial commitments are honored, there is no good reason to keep customers from changing forward looking elections.

We also firmly believe that providing more options for customers to serve load growth will not deter non-federal resource development. Public power has no choice but to develop new resources to help meet the regions forecasted load growth. Our biggest concerns regarding the revised proposal remain grounded in two elements. First, it appears that BPA is biasing its customers choices toward a BPA-provided AHWM path by forcing them to make a decision for 20-years at the beginning of the contract, before terms and costs are known, and further by allowing CHWM headroom pooling at cost for only its preferred offering, the long-term, BPA provided option. We think that broader applicability of CHWM pooling is warranted, public power has been uniformly behind the concept, and any time BPA biases AHWM customer decisions in favor of BPA provided offerings, we see this as being in direct conflict with its stated policy objective of encouraging non-federal resource development. More flexibility in options and direct comparability, or outright support, for non-federal resource development is necessary to result in non-federal resource development in the post-2028 era contracts.

Tier 2 Service

In order for customers to make an informed decision, BPA must present a 'Long-term Tier 2 Rate' resource strategy and pricing policy, which is missing at this point in the PoC process. The AHWM-G thinks it is imperative to include a Tier 2 pricing policy that indicates the intent behind BPA's approach to pricing Tier 2 service, instead of deferring the conversation until the future PoC rate-making process. We

understand there are process considerations for formal rate making decisions. However, outlining the intent behind the general approach, similar to every other PoC policy position BPA is asserting, will help inform the choices preference customers are being asked to make as well as resource investment opportunities that exist today. Equally important to some, is the policy framework by which resource selection will be determined. Failure to provide alternatives for comparison makes non-federal resource investment decisions very difficult to discern. Fundamentally, customers need to be able to weigh pricing and resourcing options before we can support any Tier 2 framework.

FCRPS Surplus Resources

The AHWM-G seeks accommodation for more reasonable terms under the post-2028 contract to access our statutory rights to serve our net requirements with federal power at cost. It is imperative to find an outcome that presents opportunities for our communities to have access to low-cost federal power for native load service, when it is available, as intended by Congress. The current practice of using revenues from the sale of non-firm surplus power sold at market to subsidize the Tier – 1 rate, while expecting those with AHWM requirements to purchase power at rates several fold higher than the Tier – 1 rate is unconscionably inequitable.

Treatment of Transfer Service

Transfer service continues to be essential for many preference customers today and into the future. BPA's existing implementation of transfer service is a foundational policy throughout BPA's history and conforms to the very essence of a 'delivered product'. The AHWM-G fully supports the key points contained within the Transfer Service Proposal letter that was submitted by Northwest Requirements Utilities, PNGC Power, and Idaho Falls Power on February 24th, 2023. It is critical that BPA continues to provide transfer service for all its customers on a non-discriminatory basis. If BPA's policy objective is to encourage preference customers to develop their own non-federal resources, then it makes sense for BPA to facilitate non-federal resource development through comparable non-federal transfer service provisions. Absent this commitment, AHWM load obligations become virtually impossible for utilities to manage on an economic or reasonable basis, and once again BPA would be biasing AHWM purchases toward BPA-provided generation. While BPA has shown some movement with regard to its policy to roll-back transfer service, we need to see the same terms that exist today in the next contract. This includes the ability to use market purchases at times to meet load. Actual demand-supply balance is never perfectly correlated and markets are relied upon at the margins.

Non-federal Resource Integration

The BPA PoC process provides a perfect opportunity to explore material reform to BPA power and transmission integration services. At a minimum, we think BPA's PoC policy record of decision should contain a guiding statement that "the federal system will be leveraged to encourage and support the development of non-federal resources" to guide future rate/design processes. The monthly diurnal shaping requirement in BPA's existing contract combined with existing renewable technologies require shaping and flattening services which are priced at theoretical marginal costs, render resource investments uneconomic for many utilities, and have contributed to the lack of non-federal resource development.

Finding ways to incentivize, reliable and affordable, renewable and non-emitting resource development may provide the biggest benefit to the region for generations to come. The AHWM-G thinks developing pricing policies around BPA's integration services is also critically important to address as part of the policy record of decision instead of deferring to the PoC rate-making process. Creating certainty now will assist preference customers in making long-term resource decisions that have been made available by recent federal legislation.

Summary

In closing, we appreciate BPA's commitment to finding an equitable and meaningful outcome to the Provider of Choice process. The AHWM-G is also committed to compromise and insists that we eliminate big winners or losers in this process and that preference power should be used to serve preference customers' net requirements at cost when available, as originally intended. We recognize that BPA has shifted from their original policy position, however, given BPA's extreme starting point this movement still produces inequitable results when looked at comprehensively. Absent the policy considerations we propose above, the members of the AHWM-G, or more specifically the customers our utilities serve, end up becoming the losers in this process. This would be both an unacceptable and unequitable outcome that deviates from BPA's mission to be an engine of economic development and financial prosperity for communities large and small.

Our ask is for BPA to develop a policy framework that can minimize policy afterthoughts and unaddressed open items, while still leaving the mechanics of implementing ratemaking to subsequent proceedings. Such an outcome would impose significant economic harm on the many rural communities the AHWM-G utilities serves and will likely raise the ire of their elected representatives.

Thank you for consideration of our input.

Sincerely,

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 Rural Electric Association
Consumers Power Inc
Emerald PUD
Fall River Rural Electric Cooperative
Flathead Electric Cooperative
Harney 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 Cooperative Inc
Surprise Valley Electrification Corp
United Electric Co-op Inc
Vigilante Electric Co-op Inc
Wells Rural Electric Company