

Bonneville Power Administration
Provider of Choice Policy
March 2024



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1. Introduction

The Bonneville Power Administration (Bonneville) has supplied reliable, affordable and low-carbon wholesale electric power to public power utility and investor-owned utility (IOU) customers serving retail consumers throughout the Pacific Northwest for over 85 years. This proud tradition is rooted in the agency’s enabling legislation, and Bonneville looks forward to building on this legacy in the years ahead.

When requested by an eligible public body or IOU, section 5(b) of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act) directs the Administrator to offer a contract to meet the firm power load of the customer to the extent that such firm power load exceeds the capability of the customer’s resources. Before offering such contracts, Bonneville has historically engaged with regional utilities and interested parties in a regional power sales policy and contract-development process to gain an understanding of their electric power needs and perspectives, which help shape Bonneville’s power marketing policy and future contracts.

Developing the Provider of Choice Policy (Policy) is the first formal step of this effort and represents the culmination of a multi-year regional engagement designed to shape Bonneville’s long-term power sales policy and contracts that will follow the expiration of the current Regional Dialogue contracts in September 2028. Regional engagement to this point has been comprised of an extensive, iterative, structured public process involving customers and interested parties who submitted proposals and provided feedback to Bonneville on a variety of important and challenging issues. Through the Policy and contracts, Bonneville looks to affirm its status as customers’ “Provider of Choice” for years to come.

In 2016, Bonneville launched the Focus 2028¹ effort, which led to the first Provider of Choice discussions. Bonneville held periodic regional conversations to understand the current challenges facing utility customers as well as receive perspectives on these customers’ future needs. Bonneville continued customer outreach with a year of educational sessions with public power that covered the foundational issues that would underpin the Provider of Choice Concept Paper.²

The Provider of Choice Concept Paper, published on July 14, 2022, set forth Bonneville’s initial positions and considerations for Provider of Choice contract policies, products and services. The concept paper preceded a series of policy development workshops that provided grounding in the policy topics, discussed the intent and design of policy elements, and invited deliberation

¹ Focus 2028 was a forum for regional leaders to begin to develop a common understanding of the types of industry changes and strategic choices Bonneville may face to maintain its cost competitiveness and financial strength.

² The Provider of Choice Concept Paper is available at <https://www.bpa.gov/-/media/Aep/power/provider-of-choice/bpa-provider-of-choice-concept-paper-final-july-2022.pdf>.

and proposals. Participants provided informal comments that helped shape the policy development over the course of the year-long process.

Bonneville released a draft Policy on July 20, 2023, and collected comments through October 13, 2023. This Policy reflects Bonneville’s final policy decisions, and the accompanying record of decision (ROD) responds to whether Bonneville adopted commenter requests.

With this Policy in hand, Bonneville will again engage the region in a public process to determine how to implement the Policy and codify these policy decisions in Provider of Choice contracts. Bonneville, in coordination with its power customers, will draft contracts and accompanying documentation and release the contract templates for public comment. The goal is to have all firm power customers request and execute new contracts by the end of calendar year 2025. Bonneville and customers will use the time between contract signing and power deliveries, slated to start October 1, 2028, to ensure a smooth transition between contracts.

Bonneville launched a process in January 2024 to develop the post-2028 rate design for its public rates — the 2029 Public Rate Design Methodology (PRDM) — that will update and replace the current Tiered Rates Methodology (TRM). This process will include a series of educational workshops to establish baseline knowledge of rates as well as explore potential options for changes to the rate design applicable to the Provider of Choice contracts. Bonneville will draft the PRDM with consideration of public input before introducing the methodology in a Northwest Power Act section 7(i) rate proceeding, expected to occur around the time of the BP-26 Rate Case. Bonneville may also consider other policy updates and new or enhanced business systems as needed to support the Provider of Choice contracts.

1.1 Principles and Goals

The Provider of Choice principles and goals are a cornerstone, intended to guide development of this Policy and the subsequent contracts. They convey Bonneville’s aspirations for what future power sales contracts could provide to regional power customers through products and services. They also provide a framework against which Bonneville and the region will assess policy and contract decisions.

1.1.1 Principles

Bonneville’s Provider of Choice principles below guide the Policy and contract development.

- 1. Tier 1 firm power rates are set at the lowest possible rates consistent with sound business principles.** Bonneville sells electric power at cost to its customers and strives to provide competitive rates. This includes considering its business needs and preserving the near and long-term value of the Federal Columbia River Power System (FCRPS) for the region.
- 2. Provider of Choice Policy and contracts are consistent with Bonneville’s statutes.** Bonneville offers contracts to provide power to customers to meet their firm power

load net of their non-federal resources. This principle includes ensuring there are adequate resources to meet Bonneville's contractual load obligations.

- 3. Contracts provide long-term supply of electric power through standardized products and services and transparent processes.** Bonneville develops its Policy and offers and implements standardized contracts transparently.
- 4. Provider of Choice Policy and contracts provide financial stability for Bonneville and support Bonneville's regional obligations and commitments.** Bonneville's Policy and contracts support its financial obligations and objectives, such as its ability to meet all debt obligations. Offerings provide value to customers and the region while minimizing risk for Bonneville and customers.

1.1.2 Goals

The Provider of Choice goals below embody Bonneville's aspirations for the Policy and contracts.

- 1. Provider of Choice Policy and contracts are regionally supported.** Bonneville's regional firm power customers and the region generally support the Policy and contracts offered by Bonneville. The region will be engaged throughout the transparent process and regular input will ensure Bonneville meets this goal.
- 2. The Federal Base System is fully subscribed to supply customers' net requirements.** Bonneville offers attractive products and services at competitive rates.
- 3. Product and service offerings are equitable.** Bonneville's product offerings balance benefits, costs and risks while recognizing differences in customers' needs and interests.
- 4. Contracts offer customers flexibility to invest in and integrate non-federal resources.** Bonneville will look for opportunities to accommodate the use and integration of customers' non-federal resources as part of power sales contracts and support customers meeting their firm power supply needs while limiting risk and cost increases to applicable power rates.
- 5. Contracts support customers meeting national and regional objectives.** Bonneville supports customers in meeting their applicable compliance requirements. Current and emerging issues to be considered include clean energy policies, distribution of environmental attributes, emerging markets and electrification.
- 6. Contracts are administratively straightforward and implementable.** Bonneville's contracts simplify the implementation of products and services in a way that minimizes administrative complexity and costs while taking into consideration customers' needs.

7. Provider of Choice Policy and contracts build on a long history of stewardship and regional relationships. Bonneville values its relationships and commitments in the Pacific Northwest.

1.2 Emerging Landscape

Over the course of the Provider of Choice contract period, the energy landscape is expected to experience shifts driven in part by new federal or state laws and regulations that require decarbonization and electrification, as well as by regional market development. During this time, the Policy and contracts must provide certainty that Bonneville will continue to deliver reliable power to its customers while remaining adaptive to future needs. The Policy addresses known areas of emerging industry changes and foreseeable impacts to load service during the Provider of Choice contract period, a few of which are highlighted below. However, given the evolving nature of these changes, uncertainties remain and not all impacts are foreseeable at this time.

1.2.1 Western Resource Adequacy Program

As the region's forecasts of load and resource mix changed, resource adequacy emerged as a critical focus area. The region created a voluntary program, the Western Resource Adequacy Program (WRAP), designed to leverage load and resource diversity and deliver resource adequacy efficiencies to participants. In late 2022, Bonneville decided to join the binding phase of the WRAP, which ensures that utilities plan and bring enough power to meet their own needs and helps the region avoid generation shortfalls. As a WRAP participant, Bonneville has agreed to specific planning obligations, such as ensuring that a planning contingency reserve is available on a forward showing basis. WRAP participants are working to develop business practices and implementation details around the program. As details emerge during the upcoming policy implementation and contract development phase, Bonneville will need to consider adjustments to its product and service offerings, including defining non-federal resource data requirements and planning obligations for products. These details are identified in the Policy where known.

1.2.2 Day-ahead Market

Western utilities are actively engaged in discussions regarding the formation of regional day-ahead markets³ in two processes: the California Independent System Operator's Extended Day-ahead Market initiative and the Southwest Power Pool's Markets+ process. Bonneville is conducting an evaluation on whether it should join a day-ahead market, and if so, which market would be the best fit for Bonneville. Regardless of whether Bonneville decides to join one of the day-ahead markets, it is likely that other balancing authorities in the region will do so, and load that Bonneville serves may be located in those balancing authority areas and subject to third-

³ A day-ahead market would optimize a participant's loads, resources and transmission within the market footprint using a security constrained unit commitment and economic dispatch on a day-ahead basis with hourly granularity. A potential day-ahead market is expected to have a much larger volume of transactions than a real-time market.

party transmission provider tariffs. For these reasons, Bonneville intends to design its Provider of Choice products and contracts to be compatible with day-ahead market designs to ensure the ability of Bonneville and its customers to adapt to this aspect of the changing energy landscape. Among areas for discussion will be scheduling timelines and how power to public power customers is delivered under a day-ahead market construct. Bonneville will consider whether to join a day-ahead market, including which market, in a separate public process.

1.2.3 Regional Transmission Organization

Similarly, discussions are emerging among Western utilities regarding a potential West-wide Regional Transmission Organization (RTO). However, as of issuing this Policy there is currently no formal process dedicated to the design and establishment of an RTO. Future development of an RTO could impact the Provider of Choice contracts even if Bonneville is not a direct participant. Should an RTO process develop during the policy implementation and contract development phase, Bonneville would consider how offerings are compatible with an RTO. Bonneville would consider any potential changes at a later date in a separate public process.

1.2.4 Decarbonization

National, state, and local efforts to shift toward carbon-free resources are also changing the landscape of the energy industry. Some states in the Pacific Northwest are driving such changes with laws directed at reducing greenhouse gas (GHG) emissions, increasing the use of renewables, and electrifying transportation and other sectors traditionally dependent on fossil fuels. These policies and directives will persist and continue to evolve in the coming decades. Bonneville recognizes that it has a role to play in industry efforts to decarbonize and understands the importance of supporting customers that have state emission reduction mandates and local priorities. Bonneville highlighted its goals related to supporting decarbonization efforts in the 2024–2028 Strategic Plan⁴ released in August 2023.

1.2.5 Load Growth

The region anticipates high levels of load growth from electrification and in the number of large loads over the Provider of Choice contract period. Electrification refers to the increase in load served with electricity as the result of efforts to reduce GHG emissions. This is fueled by laws and regulations as well as by market forces. Substantial electrification would result in increased load for electric utilities, likely with an expectation that load is served by carbon-free resources.

In addition to electrification, in recent years a number of single large loads have located in the region, with this trend expected to accelerate into the next contract period. This load growth has largely been driven by server farms, which may or may not become designated as new large

⁴ The 2024-2028 Strategic Plan is available at: <https://www.bpa.gov/-/media/Aep/about/who-we-are/strategic-plan/2024-2028-strategic-plan.pdf>.

single loads⁵ (NLSLs). If customers elect for Bonneville to serve these increasing loads, Bonneville may need to consider how it will acquire resources to do so, assuming the system is fully subscribed.

2. Provider of Choice Foundational Service Elements

Bonneville's products and service offerings form the essential building blocks of the Provider of Choice Policy and contracts. The following sections describe how Bonneville will provide service to utilities. This includes specific elements that apply to public power customers who are eligible to purchase power at a Priority Firm (PF) rate, sometimes referenced as PF customers in this Policy.

2.1 Net Requirements

Section 5(b)(1) of the Northwest Power Act obligates Bonneville to offer a contract for the sale of power to a requesting eligible customer to serve its firm power load that is not otherwise served by the customer's resources. The amount of firm requirements power a customer is able to purchase is referred to as the customer's net requirements. Bonneville performs a net requirements calculation for each requesting customer to determine the amount of electric power the Administrator is obligated to sell regardless of the product a customer selects.

Bonneville will adopt net requirements calculations that are durable and sustainable for the Provider of Choice contracts while also accounting for customer use of a diverse set of non-federal resources. The calculations will determine the customer's total retail load (TRL) as well as the firm energy and peaking capabilities of its dedicated resources.⁶ Bonneville's calculations will leverage standard planning considerations and definitions wherever possible. The net requirements calculations will address the diverse fuel types of resources used by utilities to account for the specific resource's peaking capabilities.

2.1.1 Energy Net Requirements

Bonneville will calculate energy net requirements on an annual average basis based on two components. The first component is determining a customer's TRL using a customer's forecast 50th percentile load (also referred to as P50), which establishes a customer's average annual load. The second component is determining the forecast firm energy output from a customer's dedicated resources, if any, on an annual basis.

Bonneville will establish a methodology to determine the firm capability of different non-federal resource types. For instance, consistent with current practice, Bonneville may apply one

⁵ Section 3(13) of the Northwest Power Act defines a NLSL as any new load or expansion of an existing load at a single facility which is not a Contracted For/Committed To load and will result in an increase in power requirements by 10 aMW or more in any consecutive 12-month period.

⁶ Dedicated resources refer to customer's 5(b)(1)(A) and 5(b)(1)(B) resources that are required to serve load, or the customer has determined will be used to serve load. The Northwest Power Act requires a customer to continue to use these resources to serve load until such resources are discontinued because of obsolescence, retirement, loss of the resource, loss of contract right or with the Administrator's consent.

approach for determining the firm energy capability of an intermittent non-federal resource and another approach for determining the firm energy capability of a non-federal hydropower dam. Bonneville will include the firm resource amounts in an exhibit to the customers' Provider of Choice contracts.

The energy net requirements calculation is as follows:

$$\text{Energy Net Requirements} = \text{Total Retail Load} - \text{Dedicated Resources}$$

2.1.2 Peak Net Requirements

Bonneville's annual peak net requirements calculation will establish the monthly peaking capability of a customer's dedicated resources for purposes of serving net requirements load. Bonneville will implement a peak net requirements calculation during the Provider of Choice contract period due to the potential for significant future load growth in the region and anticipated capacity constraints.

Similar to calculating energy net requirements, Bonneville will calculate two components in the peak net requirements calculation. The first component of peak net requirements is determining the customer's monthly TRL peak using a customer's forecast monthly P50 peak hour load.

The second component of the peak net requirements calculation is determining the peaking capability of the customer's dedicated resources. The WRAP provides a standardized, regionally supported methodology for the planning obligation that a load responsible entity⁷ assumes if they choose to participate in the program. While WRAP participation is voluntary, it provides a common planning methodology known as Qualified Capacity Contribution (QCC) to determine a resource's capacity. WRAP defines QCC as "the megawatt quantity of capacity provided by a resource, contract or portfolio" Part II of the WRAP Tariff⁸ provides information on the assumptions and methodologies specific to various resource types. Bonneville will use the WRAP's QCC methodology or its successor, with modifications described below, for determining customers' dedicated resource peaking capability for the Provider of Choice contracts regardless of a customer's decision to participate in WRAP.

⁷ A load responsible entity is defined by the WRAP as an entity that (i) owns, controls, and/or purchases capacity resources, or is a Federal Power Marketing Administration or a Canadian Power Marketing Entity, and (ii) has the obligation, either through statute, rule, contract, or otherwise, to meet energy or system loads at all hours.

⁸ The current WRAP Tariff is available at https://www.westernpowerpool.org/private-media/documents/WRAP_Tariff_12-12-22_W0327945x8DF47_2.pdf.

The peak net requirements calculation is as follows:

Peak Net Requirements

= Peak TRL – Dedicated Resource Peaking Capability

or = Monthly Peak P50 Load – WRAP QCC

Bonneville acknowledges there is a need to clearly articulate product design changes resulting from defining the peaking capability of customer's non-federal resources. Bonneville will ensure that the amount of power determined by a customer's energy net requirements will not be reduced due to peak net requirements implementation. Bonneville will implement peak net requirements in concert with other product and landscape changes described in Section 1. Bonneville believes that a holistic conversation will ultimately lead to a pragmatic and administratively straightforward approach for implementation of peak net requirements. Implementation details will be discussed during the policy implementation and contract development phase. Bonneville will also discuss peak net requirements in the PRDM process to identify and address any rate implications.

Finally, Bonneville recognizes that the WRAP designed the QCC methodology for short duration events and not sustained operations; this will be an important factor to consider in the Provider of Choice policy implementation and contract development phase.

2.2 Tiered Rate Construct

Bonneville will continue to tier PF rates for sales of firm requirements power under the Provider of Choice contracts. The tiered rate construct is an allocation of costs not an allocation of power. The tiered rate design will consist of two tiers of firm requirements power available to be purchased at PF rates.

Under the two-tier rate design and Provider of Choice contracts, customers will be entitled to purchase firm power to serve PF-eligible load up to a contractually defined amount, referred to as the customer's Contract High Water Mark (CHWM), at the applicable PF Tier 1 rate. See Section 2.4 for more details on how Bonneville will determine customer CHWMs. Customers will also be entitled to purchase firm power for any PF-eligible load above a customer's CHWM, referred to as the customer's Above-Contract High Water Mark (Above-CHWM) load. A customer may elect to serve their Above-CHWM load either with firm power from Bonneville at a PF Tier 2 rate, from dedicated resources, or from a combination of the two. A customer's service election for Above-CHWM load will be reflected in the Provider of Choice contract. See Section 3.5 for more details about the election process and options available for Above-CHWM load.

The tiered rate design does not alter Bonneville's statutory obligation to offer contracts to meet a customer's firm power load net of its resources. Rather, tiered rates differentiate the costs and risks associated with different resources and give customers opportunities to serve a portion of their load with non-federal resources.

There are three foundational tenets of adopting a tiered rate design. Tiered rates:

1. Protect the value of the existing federal system from unbound acquisition costs;
2. Enable customer resource choice for meeting load growth; and
3. Insulate customers from costs associated with other customers' resource choices.

Bonneville will continue to use a tiered rate construct for the Provider of Choice contracts. However, a section 7(i) rate process must be conducted to establish the details of the associated rate methodology. Bonneville will further define and establish the rate design in the PRDM, which will be followed by a separate 7(i) process to set the rates that will be effective at the commencement of contract purchases.

2.3 Serving Load

The Northwest Power Act requires Bonneville, when requested, to offer contracts to meet eligible Pacific Northwest utilities' firm power load net of their resources. Bonneville remains committed to serving all contractual load obligations. However, existing federal resources are finite. Determining how much power is available to customers at a PF Tier 1 rate, which recovers the costs associated with what is known as the Tier 1 system size under Regional Dialogue, and how system costs are allocated among customers is fundamental to tiered rates. The region has placed an emphasis on the development of non-federal resources and strategies to enable a carbon-free future for some utilities. The following section describes how Bonneville plans to track costs associated with resources under the tiered rate construct, including if resource acquisition is required, and how non-federal resources fit in the construct.

2.3.1 Power at Priority Firm Tier 1 Rates

Bonneville will set the amount of power a customer is eligible to purchase at a PF Tier 1 rate constant for the duration of the Provider of Choice contract. This fixed value is referred to as a customer's CHWM. The total amount of power that will be available to purchase at a PF Tier 1 rate will be determined by the sum of all customer CHWMs, as determined by the CHWM calculation described in Section 2.4.1, and may only be adjusted pursuant to the subsequent CHWM adjustment categories discussed in Section 2.4.2.

Under the Regional Dialogue contracts, Bonneville recalculated the amount of power eligible to be purchased at a PF Tier 1 rate each rate period, based on the then-current capability of a defined set of federal resources. Bonneville performed this recalculation to limit the amount of acquisition costs included in the Tier 1 cost pool. By fixing the total amount of power available at a PF Tier 1 rate at the outset of the Provider of Choice contracts, Bonneville will reduce the Tier 1 load service uncertainty compared to the Regional Dialogue approach. Bonneville views the fixed approach as a reasonable and practical tradeoff that will aid resource planning for both Bonneville and its customers. This approach is intended to provide a stable and dependable load service obligation priced at PF Tier 1 rates for Bonneville and its customers

despite inventory-impacting updates that will take place during the contract term, such as changes in forecast firm resource output, new contract purchases, existing contract expirations, and changes in system obligations.

Under the Provider of Choice fixed approach, if Bonneville's load obligation served at a PF Tier 1 rate exceeds the firm capability of its resources, Bonneville would acquire additional resources and allocate the cost of those resources through the rate setting process for its Tier 1 cost pool. How Bonneville would acquire resources is discussed in Section 2.3.2. Conversely, if Bonneville's firm capability is greater than the amount of power sold at a PF Tier 1 rate, Bonneville would use the excess firm capability to meet its other firm power obligations including sales of power at PF Tier 2 rates, and then any remaining firm inventory would be sold as firm surplus power. Bonneville will determine the rate at which that firm capability is sold through the PRDM and each rate setting process. See Above-CHWM load service, Section 3.5, for a description of how Bonneville intends to allocate the cost of firm inventory to the Long-Term Tier 2 rate when certain conditions exist. Bonneville will determine the total amount of power that is available to be purchased at a PF Tier 1 rate as a function of the CHWM calculation, discussed in Section 2.4.1.

2.3.2 Augmentation

If Bonneville's firm load obligations exceed its firm resource capability, then Bonneville will acquire additional resources to meet that obligation. Bonneville will develop a resource acquisition strategy that leverages Bonneville's Resource Program,⁹ consistent with guidance from the Northwest Power and Conservation Council's¹⁰ (Council) power plan, to determine the best strategy to meet forecast needs as they arise. Bonneville may acquire resources through market purchases or through acquisition of the rights to the output or capability of specific generating resources. Bonneville determines its need to acquire resources by studying load forecasts, resource availability, and projected acquisition timelines. Bonneville may need to acquire significantly more resource capability to meet firm load service obligations based on the load shape and the resource profile details. When making resource acquisitions, Bonneville will strive to acquire cost-effective carbon-free resources that complement the existing federal system, discussed more in Section 7.

Bonneville's 2024 Resource Program will employ sensitivities to its analysis that explore some of the implications of this Policy. Sensitivities may include looking at expected load shapes under electrification as well as an increase in load obligation placed on Bonneville. Bonneville will evaluate how that could impact Bonneville's resource acquisition decisions. While Bonneville will not have assurance of the load obligation that will be placed on it until contracts

⁹ More information on Bonneville's Resource Program is available at <https://www.bpa.gov/energy-and-services/power/resource-planning>.

¹⁰ More information on the Council and its power plan is available at <https://www.nwccouncil.org/>.

are signed in 2025, the 2024 Resource Program will provide additional information on potential future outcomes.

If Bonneville acquires a major resource with a planned capability greater than 50 average megawatts (aMW) for a period of greater than five years, it must follow the statutory section 6(c) process prescribed by the Northwest Power Act and Bonneville's 6(c) Policy. Section 6(c) of the Northwest Power Act requires the Administrator to conduct a public process, including hearings on any Bonneville proposed contract to acquire a major resource. This process can be time-consuming and complex. Bonneville believes that long-term commitments regarding which party will take on the contractual obligation to serve load—Bonneville or the customer—will be increasingly important if significant load growth in the region occurs.

2.3.2.1 Billing Credits

Bonneville will seek to include a provision in the Provider of Choice contracts under which customers agree to waive their ability to request billing credits,¹¹ for both non-federal resources and conservation, mirroring the approach customers supported for the Regional Dialogue contract.

Under Regional Dialogue, the power eligible to be purchased at a PF Tier 1 rate is equivalent to the firm capability of the existing federal system. Bonneville may need to acquire resources for power accessed at a PF Tier 1 rate under Provider of Choice. Bonneville has multiple ways to acquire these resources, and billing credits would not be the best solution. The tiered rate construct allocates costs of resources used to supply load growth (Above-CHWM load) to the appropriate Tier 2 cost pool. If a customer takes on the obligation to supply Above-CHWM load with non-federal resources it also takes on the cost of that supply. Allowing billing credits would spread the cost of that customer's resource choice across the Tier 1 or Tier 2 cost pools, undermining the foundational tenets of the tiered rate construct. Therefore, it is important for customers to waive the ability to request billing credits in order to prevent one customer's resource choice resulting in a cost impact to other customers.

Furthermore, Bonneville's process to determine the value and implementation of billing credits based on the Northwest Power Act provisions is very complex. Billing credit resources must reduce Bonneville's resource obligation by the amount of actual energy and capacity from the resource that the customer uses to directly serve its retail load. If Bonneville is unable to specify the type of resource eligible for receiving billing credits, defining the alternative cost is not a simple exercise. Bonneville would need to gather market information that might only be available via a competitive acquisition process like a request for offer (RFO). If the billing credit resource serves Above-CHWM load, the customer would not likely realize financial value from

¹¹ As provided for under section 6(h) of the Northwest Power Act, billing credits allow a requesting Bonneville customer to be reimbursed (through credits on its Bonneville power bill) for certain costs related to conservation or resource acquisitions that reduce Bonneville's load obligation.

crafting a billing credit because the alternative cost would likely be equivalent to the PF Tier 2 rate(s), yielding no effective credit to apply.

Billing credits are a byproduct of the 1970s understanding of Bonneville's then-much lower power cost compared to then-alternative generating resource cost. At the time, Bonneville's customers had little incentive to pursue their own, independent use of non-federal resources, due largely to the high cost of resource development compared to Bonneville's lower power rates. In contrast, the tiered rate construct intends to remedy the lack of incentive for a customer to develop resources. Under tiered rates, once a customer's load exceeds its rights to purchase at a PF Tier 1 rate, it faces the cost of acquiring more power, whether from Bonneville at PF Tier 2 rate(s) or by pursuing development of resources. Customers also have other incentives to develop non-federal resources, such as 1) state regulations incenting investments in carbon-free resources and 2) the Inflation Reduction Act or other legislation, which could offer funding to reduce the cost of non-federal resource development. Bonneville's tiered rate construct and these incentives reduce the gap in costs for which billing credits were originally intended and encourage the development of non-federal resources.

To further support customer interest in developing non-federal resources, this Policy includes additional flexibilities and opportunities that did not exist under Regional Dialogue. Bonneville will increase the minimum threshold for requiring non-federal resources to be dedicated in the contract and will provide an allowance for customers to add non-federal resources that offset their Tier 1 take-or-pay obligation, which is discussed in Sections 2.3.3.2 and 2.3.3.1. Both of these measures are intended to support and incentivize customer development of local generating resources. This flexibility extends beyond the customer's continued ability to add non-federal resources to serve Above-CHWM load (Section 2.3.3.3) and provides opportunities for new resource development regardless of whether a utility is growing or has relatively flat loads and wants to preserve its access to a PF Tier 1 rate for future load growth during the Provider of Choice contract period.

Bonneville will also consider customer-owned resources as a source for federal resource acquisition. If Bonneville identifies a need to acquire resources, it will consider issuing an RFO that could provide preference to acquiring customer-owned resources offered by PF-eligible customers. An RFO would allow Bonneville to best match resource acquisitions to its load needs, and would be based upon an evaluation of resource characteristics, such as generation profile, proximity to load and reduction of transmission congestion. Bonneville's acquisition of resources based upon an RFO would ensure the most cost-efficient resource is measured against planning, operational, and policy requirements. The RFO process would provide a meaningful price assessment to ensure that customers (via Bonneville's applicable cost pool) receive the best value in terms of cost and environmental attributes. If Bonneville ultimately acquires a customer resource, all customers would receive the same benefit of cost recovery through an RFO approach similar to how they would have received benefits via billing credits.

Additionally, an RFO approach would create the transparency necessary to realize the equivalent rate-outcome that was envisioned when billing credits were created.

2.3.3 Non-federal Resources

Bonneville recognizes that a key consideration in understanding its load service obligation and resource acquisition strategy is customer acquisition of non-federal resources. A goal of this policy is to offer flexibility to customers to invest in and integrate non-federal resources so customers can meet their firm power supply needs for a portion of their load. Customers have new drivers like state regulations supporting a decarbonized grid and Inflation Reduction Act incentives that encourage non-federal resource development. The following section describes how Bonneville will address non-federal resources under Provider of Choice.

2.3.3.1 PF Tier 1 Non-federal Resource Allowance

Bonneville will provide an allowance for customers to add qualifying non-federal resources to offset load that would have otherwise been served by power priced at a PF Tier 1 rate or would have been subject to take-or-pay provisions. Customers will be allowed to add non-federal resources up to an aggregate nameplate capacity of 5 megawatts (MWs) or 50% of their CHWM, whichever is less. When a customer applies a qualifying non-federal resource under this allowance, it will not reduce their CHWM, but it may reduce the amount of power they are eligible to purchase at a PF Tier 1 rate and may create headroom for the customer unless they have a firm load need such as Above-CHWM load. The non-federal resource allowance will be similar to the Small Non-dispatchable New Resource Treated Equivalently to an Existing Resource Exception (SNEER Exception) adopted under Regional Dialogue that allows Bonneville to treat a customer's small renewable resources like existing resources.

To qualify for this allowance, the non-federal resource must be: 1) a new identified customer-owned generating resource, 2) connected to a customer's or a joint operating entity's utility member's distribution system, and 3) dedicated under the customer's Provider of Choice contract. Market purchases, or unspecified resources, will not be eligible for this allowance. Bonneville would not require a customer to purchase and apply resource support services (RSS) to support the non-federal resources that qualify for this allowance, but the customer could be subject to any additional capacity costs created by the addition of such resources. The customer will have a one-time election to choose whether the new non-federal resource will be used to obtain the non-federal resource allowance or to serve Above-CHWM load, assuming the customer has elected the Flexible Above-CHWM path.

The non-federal resource allowance will provide customers flexibility to add certain non-federal resources even if their loads are not growing. However, the limitations to the total allowance granted (aggregate of 5 MWs or 50% of their CHWM, whichever is less) ensure that one customer's resource decisions do not create significant cost shifts in the Tier 1 cost pool. The allowance is specific to each customer. Each utility member within a joint operating entity would have its own allowance; the allowance will not be aggregated for the entity. The

allowance thereby honors the foundational tenets of tiered rates and balances flexibility and costs.

2.3.3.2 Non-federal Resource Minimum Threshold

Bonneville will raise the minimum threshold required for a customer's non-federal resource to be included and tracked in the power sales contracts from a nameplate of 200 kilowatts to 1 MW. There will be no limit to the number of non-federal resources a customer can add under 1 MW and these resources will not be counted towards the allowance described in Section 2.3.3.1. However, customers will continue to be required to comply with any requirements outlined in their transmission contracts, including any metering requirements.

2.3.3.3 Above-CHWM Non-federal Resources

One of the foundational tenets of tiered rates is to give customers choices on how to serve their load growth. Customers will have the flexibility to add non-federal resources as part of their Above-CHWM load service options, regardless of whether they opt for the Long-term Tier 2 path or the Flexible Above-CHWM path. See Section 3.5 for more details on Above-CHWM load service options. Customer use of non-federal resources to serve Above-CHWM load will continue to be subject to data and dedication requirements and could be subject to RSS requirements outlined in Section 2.3.3.5 depending on the firm power product election.

2.3.3.4 Additional Resource Considerations

Bonneville anticipates proposing specific changes to the 5(b)9(c) Policy¹² to reflect the transition from Regional Dialogue to the Provider of Choice Policy and contracts. These changes will be deliberated in a separate public process. Examples of anticipated updates include: 1) determining at which point in time resources considered "New Resources" under Regional Dialogue will be considered "existing resources" for Provider of Choice; 2) whether an existing resource used by another customer to serve its load under a prior contract, such as Regional Dialogue, would be considered a "New Resource;" and 3) considerations resulting from Bonneville's decisions on WRAP and emerging markets. Bonneville intends to recognize that batteries will be treated as behind-the-meter storage facilities that will not affect Provider of Choice CHWMs or net requirements during the Provider of Choice contract period.

2.3.3.5 Resource Support Services

Bonneville believes it is important to maintain cost causation principles when allocating costs associated with integrating and shaping customers' non-federal resources to meet their loads under a tiered rate construct. Bonneville achieves this under Regional Dialogue by requiring customers to purchase RSS and not allocating such costs to either the Tier 1 or Tier 2 cost pools. Bonneville will continue to account for the costs associated with shaping non-federal resources during the Provider of Choice contract period. During the policy implementation and contract

¹² The 5(b)9(c) Policy determines the net requirements of Bonneville's customers. The policy is available at <https://www.bpa.gov/-/media/Aep/power/provider-of-choice/5b9c-rod.pdf>.

development phase as well as the PRDM process, Bonneville will determine whether it will 1) maintain the RSS requirement; 2) require RSS but re-examine how it is assessed; or 3) propose a broader shift in capacity rate design that captures a similar cost-causation outcome.

2.4 Contract High Water Marks

Bonneville will calculate CHWMs to set a PF customer's maximum eligibility to access power priced at a PF Tier 1 rate under the tiered rate construct. CHWMs are unique to each individual PF-eligible customer. Because a joint operating entity's utility composition may change over time, its CHWM will be the combined individual CHWMs of its membership.

Bonneville will establish CHWMs independent of the net requirements calculation. A customer's actual right to purchase power from Bonneville is limited to its net requirements load. While a customer's CHWM may be higher than its net requirements load (known colloquially as headroom), the customer is limited to only purchasing firm power at a PF Tier 1 rate that meets its net requirements load, exclusive of its NLSLs. If a customer's CHWM is lower than its net requirements load, the customer would be eligible to access firm power up to its maximum CHWM eligibility at a PF Tier 1 rate, and any additional firm power would be served according to the customer's Above-CHWM election.

The total amount of power that can be accessed at PF Tier 1 rates, previously known as Tier 1 system size, and CHWMs are interdependent, and decisions in one area will create impacts in the other. Bonneville will use the calculation outlined below to determine CHWMs as well as the total fixed amount of power that will be available to be purchased at a PF Tier 1 rate for the term of the contract. Bonneville will only allow changes to CHWMs that may occur over the life of the contract as outlined in the subsequent CHWM adjustment categories described in Section 2.4.2.

2.4.1 CHWM Calculation

Bonneville will determine an individual customer's CHWM by using the CHWM calculation and that CHWM will be set for the Provider of Choice contract period. Bonneville will calculate CHWMs in fiscal year (FY) 2026, after contracts are executed, using actual load and resource data. Bonneville will conduct a public process specific to the CHWM calculation with an opportunity for customers to review and provide input on the information being used in the calculation to ensure the process captures accurate information. Bonneville recognizes that details, such as variables in the weather normalization process, will need to be determined in the FY 2026 CHWM calculation process. Bonneville will adopt and apply this CHWM calculation to establish individual customer CHWM's for the Provider of Choice contracts.

Bonneville's CHWM calculation for customers that sign Provider of Choice contracts will be:

$$\begin{aligned} CHWM = & \textit{Base Allowance} - \textit{Headroom Adjustment} + \textit{Conservation Adjustment} \\ & + \textit{New Specified Resource Adjustment} + \textit{Load Growth Adjustment} \\ & + \textit{Propotional Share Adjustment} \end{aligned}$$

The sections below describe the components of the CHWM calculation equation, including what index year CHWMs will be calculated from and what load will be eligible for a CHWM.

2.4.1.1 *Index Year*

Bonneville will use an index year to establish PF-eligible load in the CHWM calculation. The index year will be FY 2023. Bonneville is using FY 2023 as the index year instead of a year closer to FY 2029 because it allows more effective firm resource planning for customers looking to invest in non-federal resources. While Bonneville will calculate CHWMs in FY 2026, customers should have reasonable information to estimate their potential CHWM. Customers will have ample time to determine if they will invest in non-federal resources ahead of Provider of Choice power deliveries commencing in October 2028. The index year of FY 2023 will also allow customers the opportunity to leverage potential funding opportunities including, for example, incentives under the Inflation Reduction Act or Bipartisan Infrastructure Law. Bonneville's use of the FY 2023 index year also eliminates uncertainty about potential economic or technology changes that could occur between FY 2023 and a later year.

2.4.1.2 *PF-Eligible Load*

Bonneville's power sales contracts are based on net requirements load service. The tiered rate construct applies to the portion of net requirements load which is eligible to be served at a PF rate. A key component of the CHWM calculation is how that PF-eligible net requirements, referred to here as PF-eligible load, is calculated. Bonneville will determine PF-eligible load using the energy net requirements methodology, as described in Section 2.1.1, based on three components: TRL, NLSLs, and dedicated resources as shown in the calculation below:

PF eligible load

= Total Retail Load – New Large Single Loads – Dedicated Resources

Total Retail Load

While Bonneville will define TRL during the policy implementation and contract development phase, TRL generally means all of a customer's retail electric power consumption, including electric system losses, with some exceptions based on a customer's unique service territory. Bonneville will weather-normalize FY 2023 TRL using five years of historical load data (FY 2018 through FY 2022).

Bonneville will model the weather-normalization process on the methodology established in Section 4.1.1.3 of the TRM.¹³ Bonneville will use two data sets to weather-normalize each customer's load – monthly FY 2023 data and monthly historical data for FY 2018 through FY 2022. Bonneville will employ different normalization methods for non-irrigation loads, such as residential and commercial loads, and for irrigation loads. If a customer has both types of loads,

¹³ TRM is available at <https://www.bpa.gov/-/media/Aep/power/provider-of-choice/bp-12-a-03.pdf>.

Bonneville will split the loads before the weather-normalization process and then aggregate the loads after the weather-normalization process.

For non-irrigation load, Bonneville will use temperature data obtained from the National Oceanic and Atmospheric Administration weather station nearest to a customer's point(s) of delivery to weather-normalize the non-irrigation load data for each customer. The differences between average daily historical and average daily actual temperatures will determine cumulative levels of above- and below-average temperatures, measured in heating degree days (HDDs) or cooling degree days (CDDs). The HDDs and CDDs will be multiplied by weather coefficient values to result in an electric load adjustment value (in average megawatts) associated with the non-average temperature conditions. Finally, the non-irrigation portion of the FY 2023 load and the HDD and CDD adjustment values will be combined to obtain the weather-normalized load.

For irrigation load, Bonneville will use an adjusted historical load average to weather-normalize the irrigation loads for each utility submitting irrigation load data. Bonneville will calculate a five-year historical load average of each customer's irrigation load for years FY 2018 through FY 2022. Bonneville will adjust the historical load average by the average annual growth rate. Bonneville intends to calculate the difference between the highest recorded annual irrigation loads in calendar year (CY) 2013 through CY 2015 and the highest recorded in CY 2021 through 2023. Bonneville will work with customers to determine the exact measurement periods ahead of the CHWM calculation process. Bonneville will conduct further verification with the customers and either confirm or adjust the growth rate as needed. In any event, this average annual growth rate cannot be negative. Finally, Bonneville will adjust the customer's actual FY 2023 irrigation load to meet the growth rate-adjusted historical load average.

Bonneville will determine the historical average irrigation load based on meter reads for FY 2018 through FY 2022. In order to determine the growth-adjustment factor, Bonneville will also require monthly irrigation load data for the historical period through CY 2023. If Bonneville does not have irrigation data already, customers will be required to submit monthly irrigation load data. Bonneville will specify a deadline for data ahead of the FY 2026 CHWM calculation process.

The only other factor that could change a TRL for purposes of the CHWM calculation is the economic adjustment described below.

[Economic Adjustment to Total Retail Load](#)

Bonneville will allow customers to request a one-time increase to their TRL in the CHWM calculation through an "economic" adjustment. The economic adjustment accounts for economic impacts (i.e., reduction in load due to high inflationary prices) to an individual retail consumer, excluding NLSLs, in FY 2023 that operated below the consumer's highest 12-month consecutive load for the period of FY 2018 through FY 2022 (historical high load). To qualify, a customer must have:

1. A single retail consumer load that in FY 2023 is at least 5 aMW below its historical high load, or
2. The consumer’s lost load in FY 2023 represents a 10% reduction of the customer’s TRL relative to the highest 12-month consecutive TRL from FY 2018 through FY 2022.

The maximum economic adjustment amount would be determined by taking the difference between the historic high load and the consumer’s FY 2023 load. Bonneville would monitor qualifying loads during FY 2024 and FY 2025 to establish the highest 12-month consecutive load, or recovery load. If the recovery load is greater than or equal to the historical high load, the customer would gain the maximum economic adjustment. If the recovery load was higher than its FY 2023 load but lower than its historical high load, the customer would retain a portion of the economic adjustment. If the recovery load was lower than its FY 2023 load, the customer would receive no economic adjustment.

For example, if a load that had historically been running at 20 aMW but in FY 2023 was running at 8 aMW, it would qualify for the economic adjustment. The maximum adjustment that could be granted would be 12 aMW. The total adjustment that would be granted would be as follows:

If the FY 2024/2025 load is:	The adjustment would be:
Less than 8 aMW	Not applicable
Between 8 aMW and 20 aMW	0 to 12 aMW
20 aMW or greater	12 aMW

Customers must notify Bonneville if they believe they have a consumer load that qualifies for the economic adjustment. Customers must identify the load(s) they would like Bonneville to assess and provide information prior to the start of the CHWM process. This information could include load data, potentially hourly, if Bonneville does not have a way to measure the load with its own meters.

Bonneville will not provide an adjustment for any load that is already, or becomes, an NLSL. A Contracted For/Committed To¹⁴ (CF/CT) load, however, could qualify for this adjustment, assuming it fits the parameters outlined here.

New Large Single Loads

Under the Northwest Power Act, NLSLs are not part of a customer’s “general requirements” load, which receives service at the PF rate. If a customer’s TRL includes an NLSL, Bonneville will deduct the FY 2023 load associated with the NLSL from a customer’s weather normalized TRL, regardless of whether the NLSL is served by power priced at the New Resource (NR) rate or by a customer’s dedicated resources.

¹⁴ A Contracted For/Committed To is a load that existed prior to September 1, 1979, that would have otherwise qualified as a NLSL.

Dedicated Resources

Bonneville accounts for customers' dedicated resource capability as a key component of the net requirements calculation. In order to establish PF-eligible load, Bonneville will deduct dedicated resources the customer used to serve its load during the index year. This will include all resources dedicated as "Existing" or "New" resources as well as SNEER Exceptions. Resources that were temporarily removed in FY 2023 will be included in the calculation and treated how they were originally dedicated in Regional Dialogue at pre-removal levels.

Bonneville will not deduct from a customer's TRL unspecified resources in the Provider of Choice CHWM calculation. This follows section 5(b)(1) of the Northwest Power Act, which provides that a customer may remove a dedicated resource and not receive a decrement to its net requirements if that resource will be discontinued because of "obsolescence, retirement, loss of resource, or loss of contract rights." Under the Regional Dialogue contract, customers have no obligation to apply "Unspecified Resource Amounts" beyond the expiration of the Regional Dialogue contracts.

Bonneville acknowledges that some customers may request a permanent removal of a specified resource, as it is defined in the Regional Dialogue contracts and consistent with Bonneville's 5(b)9(c) Policy before the expiration of the Regional Dialogue contracts on September 30, 2028. If a customer intends to pursue a permanent resource removal, Bonneville will consider removing that resource from the PF-eligible load determination for the CHWM calculation. Interested customers must submit their request via a process ahead of or at the time of the Provider of Choice CHWM calculation. The resource removal must meet the eligibility criteria established under the Northwest Power Act to be removed and the Administrator must approve a resource removal request. If the Administrator grants a permanent resource removal, the removed resource will not be included in the Provider of Choice CHWM calculation.

Resources that are less than 1 MW will not need to apply for resource removal based on the policy to raise the non-federal minimum threshold for resources tracked in the Provider of Choice contract, as described in Section 2.3.3.2. Bonneville will not include these resources in the Provider of Choice CHWM calculation.

2.4.1.3 Base Allowance

Bonneville will begin the Provider of Choice CHWM calculation with a base allowance from which all adjustments are added or subtracted. A customer's base allowance is equal to its Rate-Period High Water Mark (RHWM) established in the 2024 RHWM process¹⁵.

¹⁵ Final 2024 RHWMs are available at <https://www.bpa.gov/-/media/Aep/rates-tariff/rhwm/FY-2024-2025-RHWM-Process/Final-2024-RHWM-Outputs-08312022.xlsx>.

In FY 2022, Bonneville conducted a public process to propose a change to how Bonneville evaluates critical, or firm, water¹⁶ and adopted the firm monthly 10th percentiles (P10) to define firm output of the FCRPS. Bonneville will use 2024 RHWMs, instead of 2022 RHWMs, and a FY 2023 index year, as outlined in Section 2.4.1.1. Because the 2024 RHWM process took into account the shift to the new firm monthly P10 methodology, Bonneville believes it is prudent to use the 2024 RHWMs when setting new CHWMs.

2.4.1.4 Headroom Adjustment

Bonneville will apply a headroom adjustment to customers whose PF-eligible load is lower than their base allowance. To determine the headroom adjustment, Bonneville will subtract the difference from the base allowance so that a customer's new starting point is its PF-eligible load in the index year. In other words, if a customer's PF-eligible load in FY 2023 is lower than its 2024 RHWM, Bonneville will adjust the customer's starting point for the Provider of Choice CHWM to its FY 2023 PF-eligible load instead of its 2024 RHWM.

A customer could have headroom under Regional Dialogue for two reasons: load loss and conservation. Bonneville maintains that headroom should only exist when establishing CHWMs for the Provider of Choice contracts if there is a policy driver behind it, such as to encourage conservation. Bonneville does not have an obligation to preserve any headroom that exists under Regional Dialogue. In the framework of a tiered rate construct, Bonneville believes the FY 2023 index year and FY 2024 base allowance are the appropriate points from which load growth should be measured to ensure customers receive appropriate PF Tier 1 and PF Tier 2 price signals.

2.4.1.5 Conservation Adjustment

Bonneville will include a conservation adjustment for eligible customers to add a defined amount of self-funded conservation to the Provider of Choice CHWMs. The conservation adjustment will be equal to 50% of self-funded conservation achievements approved by Bonneville from FY 2012 through FY 2023. Customers must complete conservation by the end of FY 2023 and report it by the end of FY 2025 for it to qualify for the adjustment.

Self-funded conservation is conservation not funded using Energy Efficiency Incentive (EEI) funds received by a customer from Bonneville under its Energy Conservation Agreement (ECA). Bonneville will include two types of self-funded conservation in the adjustment. The first type is self-funded conservation that meets the eligibility and reporting requirements of the Bonneville Energy Efficiency Implementation Manual (IM) as incorporated by the ECA. Bonneville notes that Section 18.1.2.1 of the Regional Dialogue contracts requires reporting of cost-effective self-funded savings. Bonneville will use savings that have been reported to Bonneville within the timelines established in the IM.

¹⁶ More details on the move to firm P10 monthly percentiles is available at <https://www.bpa.gov/energy-and-services/power/climate-change-fcrps>.

The second type of self-funded conservation that will qualify is self-funded Northwest Energy Efficiency Alliance (NEEA) savings. Bonneville is a direct funder of NEEA and relies on the conservation NEEA invests in to achieve its goals as outlined in Bonneville's Resource Program and the Council's power plan. Bonneville relies on NEEA savings to meet its resource needs and fulfill its Northwest Power Act obligations. NEEA savings are evaluated and validated to a degree sufficient to justify significant Bonneville funding. Bonneville will include customer's self-funded NEEA savings proportional to each direct funding utility's annual funding percentage of the annual regional total savings reported by NEEA. Bonneville will include calendar year savings for CY 2012 through CY 2023, as the NEEA reporting cycle does not align to Bonneville's fiscal year.

Under the Northwest Power Act, cost-effective conservation is Bonneville's priority resource for acquisition. Conservation reduces the Administrator's obligation to acquire resources by reducing the consumer load of a customer. Bonneville's conservation goals are informed by the Council's power plan and Bonneville's Resource Program. Under Regional Dialogue, Bonneville collected 70% of projected programmatic energy efficiency acquisition costs as EEI funding in PF Tier 1 rates.¹⁷ Bonneville uses EEI funding to acquire verified energy savings from its customers under Bonneville's conservation program. Separate from EEI funding Bonneville expected that customers who invested in additional conservation would make up the remaining 30% of achievement through reported self-funded savings. Self-funded conservation savings benefit all customers by reducing Bonneville's conservation cost and in turn the PF Tier 1 rate for EEI costs that would have otherwise needed to be collected. For this reason, Bonneville believes it is appropriate to include a CHWM adjustment for self-funded conservation savings reported to Bonneville or self-funded through NEEA during the Regional Dialogue contract period.

2.4.1.6 New Specified Resource Adjustment

Bonneville will include a new specified resource adjustment that will add 50% of the aMW amount of new specified resources dedicated to load in FY 2023 to an eligible customer's Provider of Choice CHWM. New specified resources refers to a customer's resources listed in Section 2 of Regional Dialogue Exhibit A that are identified as new. These are resources that were first obligated to serve load after September 30, 2006. One goal of Bonneville's Regional Dialogue Policy was to encourage non-federal resource development. The new specified resource adjustment recognizes that customers accomplished a Regional Dialogue policy goal by investing in new specified resources that continue to apply to load after the Regional Dialogue contracts expire. To qualify for the adjustment, the new specified resource must also be included in the PF-eligible load calculation.

¹⁷ From FY 2012 to FY 2018, PF Tier 1 rates collected 75% of projected energy efficiency acquisition costs for EEI funding.

2.4.1.7 Load Growth Adjustment

Bonneville will include a load growth adjustment that will add a defined amount of load growth from the Regional Dialogue contract period to the Provider of Choice CHWM. Customers whose index year PF-eligible load is greater than their base allowance (those customers whose FY 2023 PF-eligible load is greater than their 2024 RHWM) will qualify for this adjustment. Bonneville will take the difference between the base allowance and index year PF-eligible load and add 25% of that load difference to the Provider of Choice CHWM.

Bonneville’s Regional Dialogue policy provided for low and stable PF Tier 1 rates by limiting the amount of augmentation costs that were included in the Tier 1 cost pool. The tiered rate construct insulates customers from each other’s decisions on how to serve their growing loads and the resulting costs. If Bonneville were to include all load growth in the CHWM calculation, this would undermine the intent of the tiered rate construct and could eliminate the price signals to invest in non-federal resources or conservation. That said, firm adherence to a CHWM that includes no adjustment for load growth becomes increasingly outdated and disconnected from current conditions. Bonneville will allow 25% of load growth to be added to Provider of Choice CHWMs to address that concern, while also signaling the importance of investments in conservation and development of non-federal specified resources.

2.4.1.8 Proportional Share Adjustment

Bonneville will include a proportional share adjustment if, after calculating CHWMs according to the steps taken in Sections 2.4.1.1 through 2.4.1.7, the aggregate of those initial CHWMs is less than 7,250 aMW. This provides an equitable adjustment to all customers as part of the CHWM calculations.

The proportional share adjustment will equal the difference between 7,250 aMW and the initial aggregate CHWMs, as determined by the steps taken in Sections 2.4.1.1 through 2.4.1.7. Bonneville will adjust individual CHWMs by an amount equal to the customer’s pro rata share of the proportional share adjustment, if triggered. A customer’s share is based on its individual CHWM relative to the initial aggregate CHWMs of all customers. Customers that have no exposure to Above-CHWM load under the CHWM, as determined by the steps in Sections 2.4.1.1 through 2.4.1.7, will build headroom, allowing them to grow loads before being exposed to Above-CHWM load service options. The proportional share adjustment provides a buffer for load growth that has already occurred or will occur between FY 2023 and when power deliveries start in FY 2029.

Initial Aggregate CHWMs	Proportional Share Adjustment Amount
7,000 aMW	250 aMW
7,150 aMW	100 aMW
7,350 aMW	No adjustment

Bonneville will not include a proportional share adjustment if the initial aggregate CHWMs, as determined by the steps taken in Sections 2.4.1.1 through 2.4.1.7, exceeds 7,250 aMW; however, Bonneville will not reduce initial aggregate CHWMs.

2.4.1.9 Returning Public Utility Treatment

Bonneville must calculate a CHWM for any existing public utility seeking to purchase power from Bonneville including a public utility that does not have a Regional Dialogue power sales contract or has a Regional Dialogue contract for service only to a discrete part of its retail load. The Public Utility District No. 2 of Grant County, Washington, (Grant) inquired about a 5(b) power sales contract from Bonneville for its net requirements load service starting in FY 2029. Under Regional Dialogue, Bonneville only served a portion of Grant's municipal load in the Grand Coulee area. Bonneville had served Grant's net requirements load under the prior Subscription contract. Therefore, Grant presents a unique exception as a returning public customer, and Bonneville will establish Grant's CHWM for the first time.

Bonneville will apply a similar CHWM calculation methodology for Grant as all other PF customers. However, there will be some unique considerations based on Grant's status as a returning utility. Bonneville will use the last block purchase amount Grant made under the Subscription contract in lieu of the 2024 RHWM to set its base allowance. Bonneville does not believe it is prudent to recalculate what Grant's CHWM could have been under Regional Dialogue as it would require reconstructing a set of assumptions from over a decade ago and would ignore the relationship between Grant and other customer CHWMs. Bonneville will use Grant's last block purchase as a proxy for the 2024 RHWM because it provides a known historical load basis without creating a revisionist process. Like other customers, Grant will have the opportunity to apply for resource removal which would be contingent upon Bonneville's approval through a formal process.

Bonneville will restrict Grant when applying two of the CHWM calculation adjustments—the conservation adjustment and the new specified resource adjustment. The only self-funded conservation that will qualify for an adjustment for Grant are self-funded measures for the load Bonneville served during Regional Dialogue that was reported to Bonneville. Grant's other conservation will not qualify because the rationale for the conservation adjustment is to recognize achievements that helped Bonneville reduce its obligation and meet its total conservation targets; any conservation achieved by Grant for its broader load did not reduce Bonneville's obligation. For this reason, Bonneville will not include any NEEA savings Grant may have acquired during the Regional Dialogue contract period in the conservation adjustment. Grant will also not qualify for the new specified resource adjustment because Grant did not add any new specified resources to serve its load in the Grand Coulee area, and Bonneville will not retroactively determine what would have been considered a new specified resource under Regional Dialogue.

Grant will be subject to the same data requirements and transparent processes that all other Bonneville customers will be subject to in determining its net requirements load, including determining NLSLs, and CHWM. Bonneville will not pursue any special data provisions or unique process based on Grant's status as a returning public utility.

Bonneville would develop a similar CHWM calculation approach if it receives requests for power from other returning utility customers.

2.4.2 Subsequent CHWM Adjustment Categories

Bonneville believes that certain conditions merit an increase to the amount of power a customer can purchase at a PF Tier 1 rate, or said another way, an increase to a customer's CHWM, after the one-time CHWM calculation outlined in Section 2.4.1. These subsequent CHWM adjustment categories would increase the sum of all CHWMs and could require Bonneville to acquire resources for firm power to be sold at PF Tier 1 rates. Bonneville has identified six CHWM adjustment categories for the Provider of Choice contract term: small utility, new public utility, tribal utility, U.S. Department of Energy (DOE) vitrification load, CF/CT loads, and Port Townsend Paper.

These are the only subsequent CHWM adjustment categories that will be available during the Provider of Choice contract period. Bonneville will determine implementation details for these subsequent adjustments as part of the FY 2026 CHWM process. At that time, Bonneville will establish a process to update CHWMs for any changes based on the subsequent CHWM adjustment categories and to calculate the amount of Above-CHWM load a customer has in any given rate period for use in the rate case process. This will ensure timely information is available to establish future rates while weighing the administrative process that will be needed to ensure accurate information is calculated. The process to update CHWMs and the timing, likely by rate period ahead of the rate case, will be determined as part of the FY 2026 CHWM process to ensure timing best suits the rate case needs.

2.4.2.1 Small Utility Adjustment

Bonneville will increase a small utility customer's CHWM under this adjustment. Bonneville will allow customers with PF-eligible load under 5 aMW to increase their CHWM up to the lesser of double their initial Provider of Choice CHWM, as defined in Section 2.4.1, or 5 aMW. This adjustment helps mitigate the relatively greater effective PF rate impact these customers experience from small amounts of load growth served at PF Tier 2 rates compared to large customers. Small customers may see a proportionally larger change in their effective rate because they have less existing load across which to blend the effect of increasing load service costs at PF Tier 2 rates. Bonneville will cap this small utility adjustment to the load which qualifies for the adjustment based on Provider of Choice CHWMs calculated in FY 2026.

2.4.2.2 New Public Utility Adjustment

Bonneville will allow new public utilities that meet Bonneville's standards for service and request service under the Northwest Power Act to purchase power sold at a PF Tier 1 rate. Bonneville will calculate new public utilities' CHWMs based on their PF-eligible load. This will ensure that new public utilities have a CHWM even if they are not formed at the start of the contract period.

Bonneville will limit the amount of Tier 1 that can be purchased by new public utilities to a total of 200 aMW during the Provider of Choice contract period, with no more than 50 aMW added in any rate period. To the extent power needs exceed the rate period limit or the 200 aMW threshold, a new public utility will only be able to purchase power at PF Tier 2 rates for their net requirements loads until the next long-term contract period. The 50 aMW rate period and 200 aMW contract period limitations balance providing any new public utility with the ability to purchase power at the lowest-cost PF power and limiting increased costs that would dilute benefits of the PF Tier 1 rate for existing customers. Bonneville will grant additional CHWMs on a first come, first serve basis.

2.4.2.3 Tribal Utility Adjustment

Bonneville will allow a tribal utility to increase its CHWM for load within the tribal utility's service territory, as will be defined by the customers' contracts. This exception will only apply to customers that are recognized as a tribal utility consistent with Bonneville's standards for service or a utility that is operated by a federally recognized tribe pursuant to a 638 contract¹⁸ and serves reservation load. Tribal utilities face sovereign, legal, jurisdictional and geographic circumstances that sometimes lead to unique challenges in providing service to loads. These unique challenges may result in the need for additional time to establish service territory compared to other newly formed public utilities. Bonneville believes that these challenges persist whether a tribal utility is newly forming, growing, or annexing load later. Therefore, any utility that qualifies as a tribal utility will be eligible for this category.

Bonneville will limit the amount of additional CHWM for tribal utilities to a total of 40 aMW during the Provider of Choice contract period. The amount will be added to the 50 aMW rate period limits noted above, if applicable, and count toward the overall 200 aMW contract-term limit established under the new public utility category. Bonneville will grant additional CHWM on a first come, first serve basis similar to new public utilities; therefore, if a tribal utility annexes load after the new public utility 200 aMW adjustment is exhausted, there will be no additional CHWM access for tribal utilities. To the extent annexed load exceeds the 40 aMW

¹⁸ Under the Indian Self-Determination and Education Assistance Act, tribes can request to assume the responsibility for programs and services administered to them on behalf of the Secretary of the Interior through contractual or compact agreements. These are often referred to as 638 contracts. See Indian Self-Determination and Education Assistance Act of 1975, Pub. L. No. 93-638.

limit, tribal utilities would be able to purchase power at a PF Tier 2 rate like any other PF customer.

Tribal utility customers under 5 aMW would also qualify for the small utility adjustment, described in Section 2.4.2.1. Those customers would first serve load growth (including annexed load) with the small utility adjustment, and after they reach that threshold they would be eligible for the tribal utility adjustment, if there are any remaining aMWs in the category.

2.4.2.4 DOE Vitrification Load Adjustment

Bonneville will increase DOE Richland's CHWM to serve the total DOE Richland's vitrification plant load up to the difference between DOE Richland's Provider of Choice CHWM and their base allowance. Bonneville supports this ongoing high-priority program for cleanup, defense materials production, and waste processing and disposal activities at the DOE Hanford site in Washington.

2.4.2.5 CF/CT Adjustment

Bonneville will increase a customer's CHWM if it has a CF/CT load whose electric power demand significantly dropped due to certain qualifying factors. The adjustment is to account for CF/CT loads that were adversely impacted in FY 2023 but do not qualify for the economic adjustment. To qualify for the adjustment, the customer must meet the following three requirements.

First, a customer's Provider of Choice CHWM must be lower than its base allowance. The adjustment will be capped at the difference between a customer's Provider of Choice CHWM and their base allowance.

Second, the CF/CT load must: 1) be listed in the customer's Regional Dialogue Exhibit D; 2) have operated during the Regional Dialogue contract period; and 3) not have been demolished. Bonneville will take the highest consecutive 12-month operating period from FY 2012 to FY 2022 to establish the CF/CTs historic high load. The CF/CT load must have been operating at less than 50% of its historic high load in FY 2023.

Third, the CF/CT load must resume production demand by October 1, 2028. Bonneville will measure the recovered load based on the highest consecutive 12-month operating period from FY 2024 through FY 2028. If the difference between the recovered load and the FY 2023 load is greater than the cap and the historic high load is greater than the cap, the adjustment will be set equal to the cap. If the difference is lower than the cap, the adjustment would be set equal to the difference between the recovered load and the FY 2023 load but will not exceed the historic high load.

The CF/CT adjustment is tied to a specific load. If the CF/CT load ceases to consume electricity or significantly lowers the amount of electricity it consumes for production demand, Bonneville

will remove all or a portion of the CF/CT adjustment. Once the adjustment is removed, a customer will not have access to that portion of the adjustment again if loads were to return.

Customers must notify Bonneville if they believe they have a CF/CT load that qualifies. If Bonneville does not have meter data that isolates the specific CF/CT load to distinguish it from the rest of the customer's general requirements load, Bonneville will require the customer to submit such data for purposes of calculating the adjustment as well as to verify the CF/CT remains operational after the adjustment is granted. No adjustment will be applied if such data either does not exist or support the applicable qualifying factors.

A returning utility, as described in Section 2.4.1.9, will not qualify for this adjustment as it did not receive power from Bonneville during the Regional Dialogue contract period.

A CF/CT load could qualify for the economic adjustment to TRL as outlined in Section 2.4.1.2 of the Policy. If a CF/CT qualifies for the economic adjustment, the customer must take the economic adjustment and would not qualify for this subsequent adjustment.

2.4.2.6 Port Townsend Paper Adjustment

Bonneville will consider increasing Jefferson PUD's CHWM to serve Port Townsend Paper load contingent on three conditions: 1) Port Townsend Paper is not offered a direct service industry (DSI) contract; 2) the load is determined to be eligible for PF service; and 3) Bonneville holds a public process to consider such an increase. The increase would be limited to the Port Townsend Paper load but the process could determine a partial adjustment or no adjustment at all and whether the adjustment would be tied to the load's continued operations.

2.4.3 Rate Period High Water Marks

With a set amount of power sold at PF Tier 1 rates (Section 2.3.1), Bonneville will no longer calculate RHWMs under Provider of Choice. Under Regional Dialogue, Bonneville reevaluated the RHWMs each rate period to resize the CHWMs commensurate with changes in the federal system capability from rate period to rate period. Under Provider of Choice, Bonneville will no longer need to calculate RHWMs each rate period because Bonneville will set the amount of power that customers are eligible to purchase at a PF Tier 1 rate for the duration of the contract.

3. Products and Services at Priority Firm Rates

Bonneville will provide PF customers product options to purchase firm power at a PF Tier 1 rate and options to purchase power for Above-CHWM load at PF Tier 2 rate(s). Bonneville intends to offer contracts for the following products: Load Following, Block, and Slice/Block. Bonneville will develop details for each product in the policy implementation and contract development phase.

During the Provider of Choice contract implementation phase (FY 2026 through FY 2028), Bonneville will work to ensure that any remaining elements of products and services are fully implementable by the start of power deliveries under the Provider of Choice contracts. Bonneville will ready systems, develop internal processes and update technology to ensure all products function correctly under the Provider of Choice contract. System or process changes could require customers to adapt their own systems for compatibility.

3.1 Product Basics

Bonneville's intent is to provide a suite of products and services that include Load Following, Block, and Slice/Block. Bonneville refers to Block and Slice/Block as planned products. Under the Load Following product, Bonneville will meet a customer's energy and peak net requirements. In contrast, under planned products, Bonneville will meet a customer's energy and peak net requirements based on a forecast planned annual amount, but the customer is responsible for meeting its hourly energy and peak net requirements.

The Load Following product will offer customers defined flexibility to add non-federal resources to serve load. Bonneville will require that customers provide information regarding how those resources will be applied to serve load. To account for the value of the resource shape and other characteristics, Bonneville will require RSS, or its future equivalent as developed in the PRDM, as discussed in Section 2.3.3.5.

In contrast, planned products will offer customers greater flexibility in how they use non-federal resources to serve load. Customers electing a planned product will not be required to purchase RSS from Bonneville. Bonneville will only be responsible for the net requirements established in the annual calculation. Planned product customers will be responsible for meeting any monthly, daily or hourly shaping needs.

Another key distinction between the Load Following product and planned products is who takes on the planning obligation. Bonneville will plan for the average expected amount of power needed to supply load for all product types. Bonneville will assume the planning obligation for a Load Following customer but will require more assurance of how non-federal resources are operated, as outlined above, than it does of planned product customers. Conversely, in providing flexibility to planned products, Bonneville does not assume any planning obligation beyond the monthly planned power delivery, including for power sold at a PF Tier 2 rate, if elected.

Given that Bonneville decided to join the binding WRAP (see Section 1.2.1 for more details), Bonneville will consider WRAP's Planning Reserve Margin¹⁹ (PRM) as part of its own planning obligation. Bonneville's planning obligation is dependent upon a customer's product selection.

¹⁹ The WRAP defines PRM as "[a]n increment of resource adequacy supply needed to meet conditions of high demand in excess of the applicable peak load forecast and other conditions such as higher resource outages, or lower availability of resources, expressed as a percentage of the applicable peak load forecast . . ."

Bonneville is open to exploring an additional stand-alone PRM service to help planned product customers meet WRAP requirements, provided Bonneville has firm surplus capacity available, and Bonneville determines not all firm surplus capacity should be offered to the Long-term Tier 2 rate (Section 3.5.1). Any specific details about a PRM service would be part of detailed product and rate design discussions. Because this would be a surplus service, if available, Bonneville would sell this service subject to the then-effective, and yet to be established, Firm Power Products and Services (FPS) rate.

Bonneville recognizes that products require both services design and rate design. Bonneville plans to develop products with different services and would reflect the costs of those differences through its rate design. For example, some products may provide more capacity than other products. Customers that select such products should expect capacity rate design to ensure balance exists between services and costs as it does under Regional Dialogue. Updated products may also carry additional benefits or risks not contemplated under today's products and services, which will be established in the policy implementation and contract development phase and reflected in the rate design phase of the process.

3.1.1 Product Switching

Bonneville will include a one-time right for customers to request a change to their product election during the term of the contract. A customer request to change products will be subject to cost-shift assessments and conditions such as defined election windows and/or requiring the start of power deliveries under the new product to align with the start of a rate period. Bonneville will develop specific product switching requirements during the policy implementation and contract development phase.

3.1.2 Emerging Markets

Western utilities are currently engaging in discussions regarding emerging markets under development, as discussed in Section 1.2.2. These evolving initiatives will have implications for the Provider of Choice products and services design.

Bonneville will design Provider of Choice firm power products to operate and accommodate potential changes that emerging markets may bring regardless of whether Bonneville decides to join an emerging market. Customers will need to evaluate which product offering is the best fit for them under Provider of Choice and weigh the costs, benefits, and risks associated with different products in light of the emerging market landscape. Bonneville may need to address foundational product viability as changes necessary to align products with emerging market requirements unfold. Bonneville anticipates discussing how product offerings will be adapted to better align with emerging markets during the policy implementation and contract development phase and PRDM process as emerging market designs mature.

3.2 Load Following

Bonneville will offer the Load Following product, which will serve a customer's energy and peak net requirements load on an hourly basis. Customers that purchase this product will benefit from load service certainty and will retain the opportunity to develop non-federal resources. To ensure that customer resource decisions do not shift costs or benefits to other customers, Bonneville will require shaping services for resources, as discussed in Section 2.3.3.5. Bonneville does not currently anticipate major changes to the Load Following product.

3.3 Block

Bonneville will offer the Block product, which is a planned product that will provide firm power each month on a planned annual basis to meet a customer's planned annual net requirements load in pre-defined quantities and shapes. Provider of Choice contracts will establish hourly amounts for the month. Bonneville will not follow load hour to hour. Bonneville will offer two shapes for a customer's block purchase options under Provider of Choice:

1. A flat block which delivers an equal amount of power in all hours of the year.
2. A shaped block, which reshapes the customer's annual net requirements amounts into the forecast shape of its monthly net requirements. Bonneville will offer two options in how to shape these monthly amounts. The first option will provide block amounts in equal quantities across all hours by month. The second option will provide a diurnal shape, and Bonneville intends to require the monthly amounts are shaped with up to 60% of the megawatt hours in heavy load hours.

Customers purchasing the Block product will plan and operate their non-federal resources to meet their actual hourly loads beyond what they are provided from Bonneville. Bonneville will establish each customer's monthly net requirements shape at the start of the contract based on the customer's actual load shape. Bonneville will allow customers one recalculation of their block shape during the contract period.

3.3.1 Block with Shaping Capacity Option

Bonneville will offer a Block with Shaping Capacity option that will allow customers to reshape their hourly block amounts based on the monthly characteristics of their net requirements load. Bonneville will only offer this option to a customer electing the standalone Block product. Bonneville and the customer will determine shaping amounts based on the customer's net requirements load, which means that customers with greater load variations could expect to be able to purchase greater amounts of shaping capacity. The addition of shaping capacity offers a customer the ability to reshape their block purchase to better meet the changes in their hourly loads and peak load needs.

The Block with Shaping Capacity option under Regional Dialogue limited the reshaping of hourly block amounts to within heavy load hours within a day. Bonneville is evaluating a redesign for this product. For example, Bonneville will assess if a customer can obtain benefits from the

product by shifting amounts of their block purchase across the day and the month. Bonneville will develop the specific product features during the policy implementation and contract development phase to ensure any changes are consistent with broader product design changes.

3.4 Slice/Block

Bonneville intends to offer the Slice/Block product, which bundles the Slice product and the Block product to meet a customer's planned annual net requirements load. Slice/Block would be a planned product that offers customers flexibility in how they manage their loads and resources, including autonomy in marketing, and comes with the benefits and risks associated with the capabilities of the federal system.

The block portion of this product will provide a planned amount of flat firm power to serve a portion of a customer's net requirements. Customers will be able to elect either a flat annual or flat within-month block shape. Bonneville will not offer an add-on Shaping Capacity option for the block portion of the Slice/Block product. Bonneville offers limited options for the block portion because the slice portion provides significant shaping flexibility.

In the slice portion of this product, Bonneville offers a federal system sale of power that includes 1) firm requirements power, and 2) an advance sale of surplus power. A customer's planned slice amount is calculated based on a percentage of the forecast annual firm portion of a predefined set of resources with costs allocated to a Tier 1 cost pool. This will include any specific augmentation types as identified in the PRDM and quantified in each rate case. A customer's actual slice amount will be a percentage of the capability of those same resources and includes any surplus associated with actual water conditions. The slice portion of the product will allow the customer to monetize surplus energy directly because surplus energy is a component of the actual system output provided under the product. A customer purchasing the Slice/Block product agrees to take power associated with the slice portion in the shape of the actual, approximated or simulated output of the predefined set of resources and accepts that Bonneville will not shape it to meet their actual loads, capacity or reserve needs. By purchasing the Slice/Block product, the customer takes on the risk associated with output capability and water year variations.

Despite being modeled to mimic the capabilities of the set of resources with costs allocated to a Tier 1 cost pool, the slice portion of the Slice/Block product will be a system sale and not a sale of operational rights, resources or resource capability, and it will not transfer control of federal resources to customers. Federal operating agencies retain all operational control of all resources that comprise the FCRPS at all times.

As Bonneville moves into the policy implementation and contract development phase of the Provider of Choice process, Bonneville and customers will negotiate updated characteristics of a Slice/Block product. Bonneville must ensure that product design is consistent with the proposal to fix the amount of power sold at a PF Tier 1 rate (see Section 2.3.1). Bonneville must also ensure that it continues to meet a customer's planned (annual) net requirements without

causing cost shifts to non-Slice/Block customers. Bonneville will also consider and weigh changes necessary to deliver an efficient and durable product in the changing energy landscape. For example, Bonneville will seek to reduce the operational uncertainty associated with the product in the day ahead time frame and evaluate whether current processes are compatible with potential future markets. Customers should assess how markets and potential product changes impact their power product evaluation. Bonneville is committed to exploring these challenges in the next phase, and will need to move swiftly and work with customers to determine whether there is adequate interest to continue offering the Slice/Block product under Provider of Choice.

3.5 Above-CHWM Load Service

Bonneville will offer customers choices in how they serve their Above-CHWM load. Customers may elect to serve Above-CHWM load with Bonneville-provided power, non-federal resources or a combination of the two. Bonneville's foremost objective for Above-CHWM load service is to establish clear expectations of who (Bonneville, the customer or a combination of the two) will have the obligation to plan for and serve future loads and in what amounts. Bonneville believes that clear obligations support resource planning and equitable allocation of costs among customers, both of which are necessary elements of achieving a cost-effective and long-lasting federal and non-federal resource portfolio. Bonneville will work with customers to develop carefully crafted flexibilities to accommodate customer choice and help customers manage the unpredictable and evolving energy landscape.

Bonneville's Above-CHWM load service options balance establishing known obligations with flexibility to foster the development of physical resources while simultaneously supporting equitable cost allocation.

Bonneville will offer a Long-Term Tier 2 Path and a Flexible Above-CHWM Path for Above-CHWM load service. A customer will make a one-time election to determine what portion of its Above-CHWM load will be served through the Long-Term Tier 2 Path and what portion will be served through the Flexible Above-CHWM Path. Each individual customer within a joint operating entity will need to make its own Above-CHWM load service election.

After CHWMs are calculated, each customer will elect one of these four options:

- A. All Long-Term. All of a customer's Above-CHWM Load will be served at Bonneville's Long-Term Tier 2 rate.
- B. Fixed Long-Term then Flexible. A fixed aMW amount of a customer's load will be served at Bonneville's Long-Term Tier 2 rate with any excess Above-CHWM load served through the Flexible Above-CHWM Path.
- C. Fixed Flexible then Long-Term. A fixed aMW amount of a customer's load will be served through the Flexible Above-CHWM Path with any excess Above-CHWM load served at Bonneville's Long-Term Tier 2 rate.

- D. All Flexible. All of a customer's Above-CHWM Load will be served through the Flexible Above-CHWM Path.

3.5.1 Long-Term Tier 2 Path

Bonneville will provide one opportunity, 60 calendar days after CHWMs are established, for a customer to elect to have some or all of its Above-CHWM Load served at Bonneville's Long-Term Tier 2 rate. The Long-term Tier 2 rate will be made available in a flat annual block. A customer's election associated with the Long-Term Tier 2 rate will give Bonneville certainty to plan for cost-effective resource acquisitions to meet its Above-CHWM load obligation. Further, a customer's one-time election will insulate the Long-Term Tier 2 rate from additional acquisition costs not associated with service to customers in the Long-Term Tier 2 cost pool. Bonneville believes that the certainty and stability of the Long-Term Tier 2 rate would be lost if other customers are provided an opportunity to purchase power at the Long-Term Tier 2 rate in response to after-the-fact economic choices. Bonneville may require a phase-in period for the Long-Term Tier 2 rate for a new public utility initiating service.

Each rate period, Bonneville will use the rate-setting process to calculate the Long-Term Tier 2 rate applicable to all customers purchasing power at the Long-Term Tier 2 rate. Bonneville will propose through the PRDM that the costs of any firm inventory, inclusive of any augmentation amounts and calculated after all other obligations are considered, are allocated to the Long-Term Tier 2 rate to meet any otherwise unmet Long-Term Tier 2 rate load obligation. This could result in a portion, or all, of the Long-Term Tier 2 rate being set at a cost equivalent to the cost of power sold at Bonneville's PF Tier 1 rates if sufficient firm inventory is available.

Bonneville will provide a one-time change option to any customer that elected at contract signing to have any amount of its load served at Bonneville's Long-Term Tier 2 rate. A minimum of three-year's notice would apply with the applicable change effective at the start of the next rate period. The one-time change would allow customers to cap, or reduce, the amount of its load that is subject to the Long-Term Tier 2 rate. Bonneville intends to explore the adoption of a fee for exercising the one-time change option to protect other Long-Term Tier 2 rate customers from cost shifts that could result from the change in election. Bonneville would establish the method for determining the cost of exercising the one-time change option through the contract, the PRDM document, and/or Bonneville's rates as established through each rate setting process.

Additionally, customers may reduce their initial Long-Term Tier 2 Path election, without a fee, provided that the notice of the reduction is given to Bonneville: 1) before Bonneville acquires power for the purposes of serving Long-Term Tier 2 Path obligations, or 2) if no such acquisition has occurred, the customer notice of a reduction occurs at least 3 months prior to the start of the BP-29 rate proceeding, whichever occurs first. This option to reduce would not count toward the customer's one-time option to reduce its Long-Term Tier 2 option during the term of the contract (with a fee) discussed above.

Lastly, Bonneville intends to include provisions in the PRDM that explain what happens if Bonneville has Long-Term Tier 2 costs and no load being served at the Long-Term Tier 2 rate. The provision would also address situations where a subset of customers that elected service at the Long-Term Tier 2 rate are determined to be bearing an inequitable amount of the Long-Term Tier 2 costs.

3.5.2 Flexible Above-CHWM Path

Prior to each rate period, Bonneville will provide customers that elect to serve all or a portion of their Above-CHWM load through the Flexible Above-CHWM Path an opportunity to serve all or a portion of their Above-CHWM load at the Short-Term Tier 2 rate for the upcoming rate period. The Short-Term Tier 2 rate will be made available in a flat annual block. Customers will make this election at least three months before each rate case as identified in the Provider of Choice contract and PRDM. Bonneville will need to consider if there is a limit each rate period to the amount of load that can be placed on the Short-Term Tier 2 rate. Such a limit, if any, shall be employed only if Bonneville concludes, after making a good faith effort to acquire such power at any available price, that insufficient power is available to serve all customer Short-Term Tier 2 elections.

Customers that elect to serve all or a portion of their Above-CHWM load through the Flexible Above-CHWM Path may also have opportunities to elect to serve all or a portion of their Above-CHWM load at a Vintage Resource Tier 2 rate. This option will only be available prior to Bonneville making an RFO for the output of a physical resource to meet any of Bonneville's load obligations. The maximum amount of power a customer can request to purchase at a Vintage Resource Tier 2 rate would be set equal to the annual maximum forecast of the customer's future Above-CHWM load; subject to the Flexible Above-CHWM Path less any non-federal resources serving that Above-CHWM load. When a customer purchases power in excess of actual Above-CHWM load, Bonneville would treat it as an advanced sale of surplus power to be managed by the customer.

If a customer has elected to serve all or a portion of their Above-CHWM load through the Flexible Above-CHWM path and they do not select a federal service option, Bonneville will assume the customer will serve their Above-CHWM load with non-federal resources.

4. Products and Services at New Resource Rate and Industrial Firm Power Rate

In addition to offering firm power products and services at PF rates, Bonneville will, consistent with statute, also offer service to Pacific Northwest customers not eligible to purchase power at a PF rate when requested. This includes IOUs and service to NLSLs, whether supplied by PF customers or IOUs. Bonneville also has discretion to sell power to its only existing DSI customer. The following sections outline Bonneville's proposed load service to these customers should they request a contract for the Provider of Choice contract period.

4.1 5(b) for Investor-Owned Utilities

Under section 5(b) of the Northwest Power Act, IOUs have a statutory right to request that Bonneville sell them power to meet their net requirements load.

Bonneville's sales of power to IOUs under section 5(b) are sold at the section 7(f), New Resource (NR) rate. The NR rate includes the cost of the Federal Base System resources not otherwise allocated to PF customers under section 7(b), new resources, and exchange resource costs. Additionally, the NR rate includes an allocation of the section 7(b)(3) surcharge (if applicable).

Bonneville intends to provide power sold at the NR rate that IOUs elect to purchase as a standalone Block product, also referred to as the NR Block product, with similar features to the standalone Block product offered to PF customers (Section 3.3) and on the same development timeline. In contrast to the Block product for PF customers, IOUs would not receive a CHWM nor would their NR Block contract reflect elements of the tiered rate construct, as all power sold under such agreement would be at the NR rate.

4.2 New Large Single Loads

Bonneville will maintain its NLSL Policy.²⁰ As defined by the Northwest Power Act, an NLSL is a load that results in an increase in power requirements of 10 aMW or more during a consecutive 12-month monitoring period. If requested by a customer, Bonneville will sell it power to serve NLSLs at the section 7(f), NR rate. Bonneville will continue to examine ways to improve NLSL policy implementation as part of the policy implementation and contract development phase. Customers will retain the option to serve NLSLs with dedicated resources in lieu of electing service from Bonneville. Once a customer elects either the NR rate or dedicated resources to serve an NLSL that election will be final for the remaining Provider of Choice contract period. Bonneville will continue to require Slice/Block customers to use dedicated resources to serve NLSLs.

4.3 Direct Service Industry Customer

Bonneville has discretion to offer contracts to existing DSI customers, which are served at the Industrial Firm Power (IP) rate. Although historically an important Bonneville customer group, the majority of entities that were DSI customers have ceased to exist or operate in the Pacific Northwest or terminated their DSI contracts. Once an entity is no longer a DSI customer it is no

²⁰ Bonneville published an NLSL policy in April 2001, which is available at <https://www.bpa.gov/-/media/Aep/power/regional-dialogue/nls-policy-04-2001.pdf>. Bonneville addressed NLSL issues in a 2002 ROD, available at <https://www.bpa.gov/-/media/Aep/power/regional-dialogue/20020327-nlso-policy-rod.pdf>, and a Policy for Power Supply Role for Fiscal Years 2007-2011 published in February 2005, available at <https://www.bpa.gov/-/media/Aep/power/regional-dialogue/20050204-rod-policy-for-power-supply-role-for-fys-2007-2011.pdf>.

longer eligible to purchase power at the IP rate. Bonneville is not authorized to sell power to any new DSIs.

Port Townsend Paper is Bonneville's only remaining DSI customer. Port Townsend Paper has a current peak demand of 15.75 MW and its current DSI contract is effective through September 30, 2028, commensurate with the expiration of the Regional Dialogue contracts.

Should Port Townsend Paper request a contract for service beginning October 1, 2028, Bonneville would analyze whether offering a DSI power sales contract at the IP rate will have a benefit to Bonneville and its other customers. Depending on the outcome of such analysis, Bonneville may offer Port Townsend a power sales contract. Bonneville remains open to exploring alternative approaches to economically meeting the Port Townsend Paper load, consistent with Bonneville's statutes, including the approach discussed in Section 2.4.2.6 to create a subsequent CHWM adjustment.

5. Rate Discounts

Bonneville will offer two rate discounts: the Irrigation Rate Discount (IRD) and Low Density Discount (LDD).

5.1 Irrigation Rate Discount

Under Provider of Choice, Bonneville will include an IRD as a rate adjustment in its wholesale power rate proceedings. Bonneville has a long-standing history of providing some form of rate mitigation to irrigation loads in the agricultural sector dating back to the early 1940s. Bonneville recognizes that agriculture is a dominant driver in many rural communities across the region and understands the importance of this sector to the Pacific Northwest's economy.

Bonneville will offer the IRD in the form of a fixed mills-per-kilowatt hour (kWh) amount, calculated each rate proceeding according to the IRD methodology. Bonneville's IRD methodology will be determined in the PRDM. For each rate period, participants will receive the same fixed mills-per-kWh discount for eligible irrigation loads during the months of May, June, July, August, and September. Bonneville intends to calibrate the overall program costs at the onset of the new contract under the new IRD methodology to a level similar to that observed during the Regional Dialogue contract period (i.e., \$22 million per year). Bonneville is proposing the irrigation load eligible to receive a discount will be a five-year average of the May through August irrigation load amounts for FY 2018 through FY 2022. If a customer does not have irrigation data available, Bonneville will determine whether to accept alternative historical data. The amount of eligible irrigation load would be fixed for the Provider of Choice contract period.

Customers must meet one of the following criteria to be eligible for IRD program participation under Provider of Choice:

1. The customer must have participated in Bonneville's IRD program under Regional Dialogue or

2. At least 75% of the customer’s TRL must be placed on Bonneville starting October 1, 2028; and the ratio of the customer’s irrigation rate schedule sales, May through September in FY 2018 through FY 2022, divided by its TRL for FY 2018 through FY 2022, is at least 5%; or, if less than 5%, the average megawatt hour (MWh) use for May through September in FY 2018 through FY 2022 (25 months/five years) is 7,500 MWhs or more.

During the Provider of Choice contract period Bonneville will continue to require that participating customers implement cost-effective conservation measures on irrigation systems in their service territories to be eligible for the IRD.

5.2 Low Density Discount

Section 7(d)(1) of the Northwest Power Act directs the Administrator to provide a discount to the wholesale power rates of customers with low system densities to the extent appropriate. The intent of LDD is to avoid adverse impacts on the retail rates of customers with low system densities. The Administrator has discretion to establish the criteria under which the LDD is offered.

In future rate proceedings, Bonneville will review implementation details for the LDD such as eligibility criteria, discount level, and applicable rates, and will examine whether the LDD should apply to load growth purchases. Bonneville intends to evaluate customer eligibility on a rate period basis, in contrast to the current practice of evaluating on an annual basis, which should provide customers with information for their planning purposes well in advance of implementation.

6. Power Delivery

Bonneville Transmission Services delivers power to customers across several states via the Federal Columbia River Transmission System (FCRTS) and pursuant to its Open Access Transmission Tariff²¹ (OATT). The agency has sometimes elected to, or circumstances have required that it, serve customers over transmission systems owned and operated by entities other than Bonneville, rather than build to directly connect those customers to its transmission system. Bonneville refers to this kind of delivery as “transfer service.”

Whenever requested by a public body or cooperative entitled to preference and priority under the Bonneville Project Act, Bonneville is obligated to offer to sell electric power to that public body or cooperative through contracts that cannot exceed 20-year terms. Congress also authorized Bonneville to construct, own, and operate transmission or to purchase transmission to deliver the electric power in satisfaction of this contractual obligation. In exercising its authority to market and transmit electric power, Bonneville’s statutes provide that there be sufficient capacity for the transmission of

²¹ Bonneville’s OATT is available at <https://www.bpa.gov/-/media/Aep/transmission/open-access-transmission-tariff/bpa-open-access-transmission-tariff-20211001.pdf>.

electric power—generated or acquired—to satisfy Bonneville’s contractual obligations. Prior to 1996, Bonneville fulfilled this obligation through a bundled power and transmission contract. With the advent of transmission deregulation in 1996, Bonneville has fulfilled this obligation by and through its adoption of the OATT. Under its OATT contracts, Bonneville has a legal obligation to provide transmission service, consistent with the terms of the Tariff and customer’s respective transmission contracts.

Customers purchasing power from Bonneville Power Services under Provider of Choice contracts will continue to be responsible for arranging and contracting for transmission service with Bonneville Transmission Services. Customers will be responsible for contracting with Bonneville Transmission Services to deliver power from the point of receipt to the point of delivery; or in the case of a transfer point of delivery, the customer will be responsible for contracting to the relevant point of interconnection between Bonneville’s transmission system and the intervening transmission system. This section outlines the relationship of this Policy to power delivery.

6.1 Transmission

The Policy does not address Bonneville’s transmission products and services, which are available to all transmission customers under Bonneville’s OATT. Bonneville’s transmission policies and public processes, including those associated with Network Integration Transmission Service, are outside the scope of this Policy. Bonneville Power Services and Bonneville Transmission Services will continue to coordinate on policies and processes to help align policies and contracts across business lines.

6.2 Transfer Service

The intent of this section is to: 1) clarify the circumstances and limitations related to Bonneville’s continued acquisition of and payment for third-party transmission capacity to serve PF customer loads and 2) ensure Bonneville’s delivery of firm power sold at PF rates is subject to policies similar to Bonneville transmission policies regardless of whether the customer is served by the contiguous FCRTS or through a combination of the FCRTS and an intervening system.

6.2.1 Administration of Transfer Service

Bonneville will contract directly with third-party transmission providers to procure transmission capacity to meet the obligations of the Provider of Choice contracts. If a customer is interested in contracting directly with a third-party transmission provider, the customer may request Bonneville to consider such arrangements. Bonneville will review any customer requests to contract directly with a third-party transmission provider and determine whether to accommodate such requests in its sole discretion on a case-by-case basis. In its review, Bonneville will consider several factors, including but not limited to, whether Bonneville has

cost responsibility for the load served at the requested points of delivery, consistency with the transmission provider’s tariff and other business practices, and any impacts to Bonneville’s other service with that provider.

Currently, Bonneville serves the majority of transfer loads using firm transmission, and Bonneville expects that to continue. Bonneville will attempt to acquire firm transmission for all federal and non-federal deliveries to transfer customer loads. However, in the event that firm transmission is not immediately available, Bonneville will not guarantee firm delivery on the customer’s timeline.

6.2.2 Cost Recovery for Transfer Service for Power Priced at a PF Rate

In the PRDM, Bonneville will continue the practice of proposing to recover the costs of the network component of transfer service for electric power sold at any PF rate from the Tier 1 cost pool in its initial rate proposal. Bonneville will also propose to recover the costs of transfer service for power sold at an FPS rate serving requirements load, excluding NLSL load, from the Tier 1 cost pool.

Bonneville will pass-through the costs of transfer service associated with power sold at an NR rate, whether serving an NLSL or an IOU, to the individual customer serving the load.

6.2.3 Cost Recovery of Non-federal Transfer Service

Bonneville will support customer development of non-federal resources by continuing the practice of proposing to recover the costs of the network component of transfer service for non-federal power serving Above-CHWM load from the Tier 1 cost pool. Additionally, Bonneville will propose to recover the costs of the network component of transfer service for non-federal resources serving PF-eligible loads below their CHWM from the Tier 1 cost pool. Bonneville will propose this cost treatment in the PRDM. Bonneville will limit its support to the last leg required for delivery to the customers’ load and the non-federal resource must be designated as a network resource on firm transmission.

Bonneville will set a limit on its financial assistance to transfer customers for non-federal resource deliveries. The limit will be 41 incremental MWs per year, similar to the limit under Regional Dialogue. The overall MW limit would increase over the contract period. If non-federal power exceeds the limit, Bonneville would not recover the costs of transfer from the Tier 1 cost pool; but it could cover the costs in a future year depending on total load growth served by non-federal resources. For example:

Year	Annual Non-federal Load Limit (MW)	Cumulative Non-federal Load Limit (MW)	Additional Non-federal Load Requests (MW)	Non-federal Load Receiving Support (MW)
1	41	41	10	10
2	41	82	80	51
3	41	123	0	90

6.2.4 Quality of Service and Similar Cost Treatment

Bonneville will work to ensure that quality of service is provided by the third-party transmission providers, consistent with established contracts and tariffs. Bonneville will seek to include formalized communications standards in transfer agreements and will commit to take a proactive role in working with third-party transmission providers during the process of planning local transmission facilities that would be used to serve customer loads. Bonneville also commits to involve transfer service customers in these discussions. Effective communication with third-party transmission providers and the inclusion of the transfer customers, where possible, should maintain or improve the quality of service going forward.

Customer collaboration with third-party transmission providers or Bonneville Transmission Services is vital for Bonneville's planning process to uphold or enhance service quality while minimizing costs. To achieve this, Bonneville will require transfer customers to provide timely planning information regarding load and resource forecasts, expansions, or upgrades, as well as load additions or losses. By actively engaging with transfer customers and third-party transmission providers well in advance of needs, Bonneville has an opportunity to ensure the best possible service.

As it relates to cost exposure, it is Bonneville's intent that transfer customers pay the same, or similar, categories of costs as those paid by directly connected customers. Specifically, when structuring contracts, policies, and rates for transfer service, Bonneville will endeavor to maintain consistent treatment of costs categories between customers that are served by transfer service and customers that are directly connected to the FCRTS.

6.2.5 Direct Assignment Guidelines

When Bonneville Power Services has determined that a customer is adding, changing or increasing load in a way that requires a new, altered or unplanned transfer path, capacity or facilities, Bonneville Power Services, as the transfer service contract holder, and Bonneville Transmission Services, will work with both the customer and the third-party transmission provider to develop the best overall plan of service. Bonneville will use the Direct Assignment Guidelines, as memorialized and periodically updated in Bonneville's Power Rate Schedules and General Rate Schedule Provisions, to propose allocation and recovery of new transfer service costs similar to the rate treatment of transmission costs for customers directly connected to the FCRTS. Any updates made to the Direct Assignment Guidelines will be through a 7(i) rate case process.

Additionally, when determining the need for new or altered transfer service, Bonneville will use the established and periodically updated Guidelines Regarding Request for Transfer Service to

New Points of Delivery²² to assess alternate delivery options, cost-effectiveness, and quality of service.

6.2.6 Ancillary Services and Losses

Transfer customers will pay for each ancillary service that directly connected customers would purchase from Bonneville Transmission Services. To avoid exposure to pancaked ancillary services charges, Bonneville will pay the third-party transmission provider for all required ancillary services. Bonneville Power Services will then construct a rate or charge and assess that rate or charge to transfer customers for any ancillary services, or portions of ancillary services that the customer did not have to pay to Bonneville Transmission Services, by virtue of being served by transfer service.

Transfer customers will also pay for losses associated with delivered power, similar to how directly connected customers pay for losses. To avoid exposure to losses from multiple transmission providers, Bonneville will pay the third-party transmission provider for all losses and construct a rate or charge assessed to transfer customers for any losses, or portions of losses, that the customer did not have to pay to Bonneville Transmission Services by virtue of being served by transfer. This represents a shift from Regional Dialogue, where Bonneville passed through the cost of losses associated with non-federal transfer service in all instances. The Regional Dialogue policy resulted in certain instances where transfer customers were responsible for losses to both Bonneville Transmission Services and Bonneville Power Services for the losses over the third-party transmission provider's system. To ensure consistent cost treatment, and for administrative simplicity, transfer customers will be responsible for losses over a single transmission system, similar to directly connected customers.

6.2.7 New Utilities and Annexed Load

Bonneville will arrange and propose to recover the costs of the network component of transfer service for power deliveries to serve the load of a newly formed public customer or a transfer customer's annexed²³ load in the following situations: 1) if the annexation is not disputed and the utility losing load and service territory provides written consent to the annexation and transfers any rights and ownership interest in the distribution facilities and properties in the annexed territory; or 2) if the relinquishing utility is opposed to the annexation, once a state or court has made a final determination that the utility has the legal right to serve the annexed load. These provisions are necessary if Bonneville is to remain a neutral party in annexation disputes and not provide service until a clear decision has been made on which entity has the

²² The Guidelines Regarding Request for Transfer Service to New Points of Delivery is available at <https://www.bpa.gov/-/media/Aep/power/transfer-service/transfer-service-guidelines-for-transfer-service-to-new-pods.pdf>.

²³ For purposes of this portion of policy, Bonneville defines annexations as "the acquisition of existing load, existing distribution, and service territory by means of annexation, merger, purchase, trade, or a judicial decision."

legal right to serve the load, and the acquiring utility has obtained an ownership interest in the distribution facilities and properties in the territory sought to be annexed.

Bonneville will use established and periodically updated Guidelines Regarding Request for Transfer Service to New Points of Delivery, referenced in Section 6.2.5, to assess alternate delivery options, cost-effectiveness, and quality of service for new and annexed load.

7. Carbon

National, state, and local efforts to shift the energy industry toward carbon-free resources include reducing GHG emissions, increasing the use of renewables, and electrifying transportation and other sectors traditionally dependent on fossil fuels. Some states have also mandated that retail utilities and other load serving entities achieve a 100% carbon-free power supply. This includes Washington's Clean Energy Transformation Act (CETA) mandate of 100% carbon-free by 2045. Moving toward a carbon-free future is a collective challenge that will take industry-wide efforts and require new energy and capacity resources to ensure sufficient supply for meeting load and maintaining grid reliability.

As the Pacific Northwest tackles the challenge of decarbonization, Bonneville will strive to meet future load needs with cost-effective, carbon-free resources when acquisitions are required. But Bonneville cannot provide 100% carbon-free power or offer a 100% carbon-free product at this time.

Bonneville sells power produced largely from a system of federal resources, which is on average 95% carbon-free. This system of resources includes the federal hydropower system, the Columbia Generating Station (CGS), as well as non-federal resources and market purchases. Market purchases help Bonneville meet near-term and real-time energy demands not met by the base federal system. Current energy markets do not delineate the generating source for power sold in these markets. States with GHG reporting programs consider this power to be unspecified, and they attribute a default emissions factor to all unspecified power purchases akin to a natural gas generator. Bonneville is optimistic that electricity markets and state accounting practices will evolve to provide options for clean near-term and real-time purchases in the future. Bonneville anticipates that the federal system will move closer to 100% carbon-free over the Provider of Choice contract period. Bonneville intends to provide information through its Resource Program and other public forums on ways Bonneville is achieving its strategic goals related to decarbonization, which in turn customers can use to demonstrate progress toward their state targets.

7.1 Environmental Attributes

Bonneville will convey the environmental attributes of the power sold, including emissions and any renewable energy credits (RECs), commensurate with a customer's firm power purchase amount and rate elections.

7.1.1 Renewable Energy Credits

Bonneville will convey RECs based on the actual amount of power purchased by a customer. Bonneville will provide separate REC conveyance for power purchased at PF Tier 1 rates, PF Tier 2 rates, the NR rate, and the IP rate. Not all resources that make up a particular cost pool will necessarily create RECs. Bonneville will determine a customer's base allocation of RECs by applying the megawatt hours purchased from Bonneville at a particular rate to the percentage of qualifying resources assigned to that rate's cost pool. For example, a PF customer purchasing power at a PF Tier 1 rate would receive RECs based on the number of RECs generated by the resources assigned to the Tier 1 cost pool. Bonneville can convey, retire or otherwise dispose of additional RECs created by the federal system not associated with firm power sales at its discretion.

A customer will be able to elect whether Bonneville transfers their RECs to them, to another customer, to a third-party-managed REC market account or to a Bonneville-managed subaccount. Bonneville will not provide remarketing services for these RECs under Provider of Choice.

7.1.2 Emissions Accounting

Bonneville intends to provide separate emissions accounting for power purchased at PF Tier 1 rates, PF Tier 2 rates, FPS rates, the NR rate, and the IP rate. For example, Bonneville will convey emissions attributed to resource(s) that comprise the Long-term Tier 2 rate pool to customers electing the Long-term Tier 2 rate.

Bonneville envisions it will convey a single emissions accounting associated with power sold at PF Tier 1 rates and not attempt to create emissions accounting subcategories within power sold at PF Tier 1 rates.

Bonneville will provide transparent accounting of the fuel mix and conveyance of environmental attributes. Bonneville anticipates its methods to account and convey environmental attributes will be flexible enough to adapt to the variety of existing and evolving program needs, but Bonneville will evolve its methods as needed to provide a durable framework.

8. Long-term Cost-Management

Bonneville understands the value that customers place on the cost of power supplied by Bonneville and its need to practice prudence in cost-management. Bonneville intends to continue to promote accountability, trustworthiness, and transparency to guide its projected costs so that customers continue to have ample opportunities to understand and provide input. While not legally required, Bonneville has established norms in access and transparency to financial information by establishing processes that provide the region the opportunity to comment on Bonneville's projected costs for the upcoming rate period. Bonneville offers quarterly financial and business performance updates, which allow the region to understand

any variance from planned business performance. Bonneville intends to continue to evaluate financial health goals as part of its ongoing strategic and financial plans, which help provide financial goals for the agency.

9. Conservation

Bonneville’s conservation program acquires reliable, cost-effective conservation to reduce the Administrator’s load obligation. When Bonneville moved to a tiered rate construct under Regional Dialogue, it created a direct nexus between the cost and impact of conservation for each customer that necessitated a restructuring of Bonneville’s conservation program. The conservation program that Bonneville and its customers established in the Regional Dialogue contract period has been successful in achieving consistent, reliable energy savings.

With the continuation of tiered rates under Provider of Choice, Bonneville proposes to maintain its approach to conservation acquisition and does not intend to pursue major changes to its conservation program. Bonneville will continue to acquire conservation through customer achievements. Bonneville intends to allocate EEI budgets to customers proportional to the amount of load supplied with firm power sold at a PF Tier 1 rate. Bonneville will offer a diverse set of conservation measures that customers may implement within their service territories and report to Bonneville. Once reported, customers may request payment for qualifying measures using established EEI budgets or report measures as self-funded.

Ahead of October 1, 2028, Bonneville intends to engage customers in a separate public process to discuss potential program changes, including a re-evaluation of the appropriate self-funding percentage. Bonneville is open to discussing conservation program improvements that may better serve customers’ needs, lead to more effective conservation program implementation, and be more adaptive to an evolving energy landscape. Following this engagement, Bonneville will update the ECAs to reflect any program changes and meet the needs of the Provider of Choice contracts.

10. Residential Exchange Program

Section 5(c) of the Northwest Power Act establishes Bonneville’s statutory obligation to regional utilities participating in Bonneville’s Residential Exchange Program²⁴ (REP). The REP provides residential and farm retail ratepayers of Pacific Northwest utilities with high-cost resources (public power and investor-owned) access to the cost benefits of low-cost Bonneville power through a power “exchange.” While the REP is not within the scope of the Provider of Choice Policy and contracts, REP costs must be recovered in Bonneville’s power rates.

Bonneville currently implements the REP through a settlement that is set to expire in 2028. Bonneville is engaging regional parties in a two-phased approach to develop the post-2028 REP

²⁴ More information on REP is available at <https://www.bpa.gov/energy-and-services/power/residential-exchange-program>.

implementation of the program. The first phase, referred to as the settlement phase, is exploring whether a follow-on REP settlement can be reached. During this phase, Bonneville will develop scenario analysis with potential levels of REP benefits for IOU and public stakeholders to consider. Bonneville anticipates completing its scenario analysis by early 2024. If a settlement is reached, Bonneville would likely conduct a section 7(i) rate-making process to consider and evaluate the settlement for statutory compliance. The timing of such a process depends on the success of REP settlement negotiations.

If an REP settlement is not achieved or appears unlikely, Bonneville would turn its attention from facilitating settlement to preparing for the traditional implementation of the REP. With the expiration of the current REP settlement in 2028, a number of previously settled legal and policy issues will become live issues. In preparation for this transition, a collection of processes, policies, and proceedings would be needed to ensure that Bonneville has the necessary components of the REP ready for the BP-29 Rate Case implementation of the REP. Those processes would likely address, at a minimum, the following:

- 7(b)(2) legal interpretation.
- 7(b)(2) implementation methodology.
- Average System Cost methodology, consultation process, Federal Energy Regulatory Commission filing.
- 5(c)(5) In lieu Policy.
- Residential purchase and sales agreement negotiation and development.
- Treatment of environmental attributes of the FCRPS.

The timing for commencing these processes will depend on the status of the REP settlement negotiations. If no settlement is reached, all of these processes must be completed by the time rates go into effect for the post-2028 period.

10.1 Residential Exchange Program for PF Customers

Under Regional Dialogue and the TRM, PF customers agreed to a limited waiver of their participation in the REP. Specifically, PF customers were permitted to only receive REP payments from Bonneville for certain resources. The customers' limited waiver reduced the cost of the REP in the PF Tier 1 rates, preserving the value of the Tier 1 system, which was a foundational element of the TRM and the Regional Dialogue contracts. Bonneville intends to expand upon that principle in the Provider of Choice contracts and include a provision whereby PF customers would waive their participation in the REP for the Provider of Choice contract period. This proposal will reduce the costs of the REP recovered in a PF Tier 1 rate as well as reduce the administrative burden and complexity of administering the REP.

11. New Long-term Contracts

Bonneville will offer and execute Provider of Choice contracts to utilities in late 2025. Bonneville will begin power deliveries under these contracts on October 1, 2028, following the

expiration of the Regional Dialogue contracts. Executing contracts in 2025 with service beginning in 2028 provides a three-year window for both customers and Bonneville to transition to the new contracts and plan for post-2028 power resource needs.

11.1 Duration of Contracts

Bonneville will offer 19-year Provider of Choice contracts, with an expiration date of September 30, 2044. Bonneville will offer the contracts to all eligible customers at the same time. Long-term contracts are critical for Bonneville’s financial health and will provide certainty by guaranteeing customers an assured and adequate supply of power. A 19-year contract also means that the Provider of Choice contracts will expire before CETA's 100% carbon-free standard applies. This will provide necessary time for Bonneville and customers to consider how subsequent contracts will interact with future carbon requirements.

Bonneville will work with customers to ensure that its Provider of Choice contracts provide customers with flexibility to take actions necessary to comply with other applicable provisions of federal or state law, including obligations under the Public Utility Regulatory Policies Act, and state clean energy requirements. Because certain federal agency customers are not authorized to execute 19-year contracts, Bonneville will work with those customers to offer a contract that complies with such limitations and can be renewed to result in a 19-year term.

11.2 Duration of Power Service

The Provider of Choice contracts will become effective on the date of execution between the parties, and power deliveries under the Provider of Choice contracts will begin October 1, 2028, immediately following the expiration of the Regional Dialogue contracts on September 30, 2028. Therefore, the duration of power deliveries under the Provider of Choice contracts will be 16 years.

11.3 Standardized Contracts

Bonneville will develop standardized Provider of Choice contracts with customers. Bonneville expects that contract provisions will be as identical as possible for customers taking similar services. Bonneville expects that the contracts will include options that will capture customers’ elections through option-specific clauses. Bonneville acknowledges that some customer circumstances are unique. In the contract, Bonneville will include special provisions necessary to address unavoidable and unique individual customer situations.

Bonneville will develop contracts in two phases. First, standard contract templates will be developed and refined in consultation with customers. A standard template will be created for each product offered. These standard contract templates will be released for public review and comment, and Bonneville will then finalize the templates. Second, Bonneville will provide a “window” or time period for customer product/contract selection between individual customers and Bonneville. During this time, Bonneville will take into account the individual utility service circumstances and allow time for contract finalization and signature. This includes

selecting the applicable version of standard language where multiple options have been developed, populating the contract with customer-specific details, and negotiating necessary special provisions. Changes to the standardized contract templates will be limited to issues that do not change the general terms and conditions of the products offered (e.g., special provisions may address individual customer resource issues, metering information, etc.).

Bonneville will use provisions of the current Regional Dialogue contracts as the starting point for drafting the Provider of Choice contracts, with changes in contract language to reflect changes in policy, products, and improved business practices.

Bonneville's offer of a Provider of Choice contract to an individual customer will be subsequent to and dependent upon 1) a customer's request for Bonneville to serve it, 2) a customer's eligibility under statute, and 3) meeting Bonneville's standards for service. Bonneville will obtain an individual customer's request of service and its product election in advance of preparing individual contract offers.

All new customers requesting service must meet Bonneville's standards for service prior to requesting such service.

11.4 Take-or-Pay Requirements for Purchases

Bonneville will include take-or-pay provisions in the contract for the amount of electric power that the customer is obligated to purchase. Bonneville will continue to refine implementation details accounting for the different business relationships inherent in load following contracts (in which a customer commits to buy all of its power from Bonneville beyond its dedicated resource amounts) and planned product contracts (in which a customer buys specific amounts of power). Take-or-pay is a cornerstone of the Policy because 1) it provides assurance to the U.S. Treasury that Bonneville will be able to meet its repayment obligation, and 2) take-or-pay commitments minimize cost shifts among customers as Bonneville recovers its costs through more certain power rates over the term of the agreement.

11.5 Load and Resource Information Requirement

Bonneville's Provider of Choice contracts will require specific information and data from customers that are necessary for the contract, including but not limited to:

- Meter data.
- Historic data needed for load forecasting.
- Load and resource data relating to serving large loads and NLSLs.
- Resource information needed for purposes of calculating net requirements.
- Battery and storage facility information.

Bonneville will require customers to provide any data necessary for the QCC calculation, or the specific resource QCC values, of the customers' resources.

Bonneville will clearly delineate between the electric power a customer commits to buy from Bonneville and non-federal power the customer commits to supply for its load from other sources in the Provider of Choice contracts. Contracts will include terms on which party—Bonneville, the customer or a combination of the two—will have responsibility to serve load growth.

The Provider of Choice contracts will require customers to annually provide information on their 10-year loads and resource plans. A utility that is required by state law to produce an integrated resource plan that includes such 10-year load and resource information can submit that plan to meet Bonneville’s requirement. Bonneville will produce load and resource information for customers who certify that they plan to rely on Bonneville for their additional power needs during the 10-year period.

For regional planning purposes, the Provider of Choice contracts will require that customers provide forecast loads and resources data annually on a confidential basis to the Pacific Northwest Utilities Conference Committee, or its successor organization. Load-following customers who purchase all their power supply from Bonneville would be excluded from this requirement as Bonneville would provide data on their behalf.

11.6 Federal Income Tax-Exemption on Columbia Generating Station Bonds

Bonneville meets the debt service costs of about \$4.5 billion in tax-exempt bonds for Energy Northwest’s Project 1, Project 3, and CGS. The tax exemption is predicated on a tax law analysis that is in part based on existing agreements and arrangements with customers relating to the use of the output of CGS and the payment of the costs of CGS. Notwithstanding anything else in this Policy, Bonneville will structure Provider of Choice contracts so that the tax-exempt status of these bonds is preserved.

11.7 Flexibility to Amend Contracts and Rates

Provider of Choice contracts will specify under which circumstances the contracts will be amended and revised. Bonneville and customer flexibility to update the contract will allow the contracts to be sustainable throughout the term of the agreement as new services are developed, products evolve, and the energy landscape matures.

Similar to the TRM, Bonneville intends to offer processes to revise the PRDM to avoid unintended consequences or to allow for improvements and enhancements. Bonneville believes that will provide a flexible yet predictable approach for the rate methodology going forward and allow for the ability to adapt to unexpected events under the contract while maintaining the necessary certainty to aid planning, customer equity, and cost recovery.

11.8 Dispute Resolution

Bonneville will develop dispute resolution procedures for the Provider of Choice contract period and the PRDM.

11.8.1 Provider of Choice Dispute Resolution

Bonneville will rely on the dispute resolution procedures used under the Regional Dialogue contracts for developing the dispute resolution procedures that will be included in the Provider of Choice contracts. These processes were carefully negotiated between Bonneville and customers taking into consideration each party's needs while also addressing legal requirements and consistency with Bonneville's Binding Arbitration Policy. The core of this dispute resolution process will be as follows: final actions subject to section 9(e) of the Northwest Power Act are not subject to arbitration and remain within the exclusive jurisdiction of the Ninth Circuit Court of Appeals. For issues that are not subject to section 9(e), either party to the contract may request to engage in either binding or non-binding arbitration. Bonneville believes that any dispute resolution process ultimately included in the Provider of Choice contracts will need to continue to balance efficiency with a fair opportunity to raise disputes to a neutral third party for resolution.

Bonneville acknowledges that not all issues are appropriate for resolution by a third party, and many matters for discussion under the contracts can be resolved informally. Under the Provider of Choice contracts, issue-identification processes would be designed to collaboratively address issues before they become formal disputes. Efficient and effective processes for customer and interested party input into Bonneville decision-making lessen the likelihood of unresolved disputes and the need for formal dispute resolution. Bonneville believes that issue-identification processes serve to clarify the exact nature of potential disputes and would precede any formal dispute resolution.

Bonneville also notes that the Administrator retains sole discretion to make policy decisions necessary to administer and interpret federal statutes and regulations. With the details of Bonneville's Provider of Choice contracts yet to be determined, any dispute resolution framework will need to be reviewed to ensure compatibility with the proposed contract. In summary, Bonneville believes that the current approach is suitable for the Provider of Choice contracts. Bonneville will need to carefully consider any proposed change to the dispute resolution framework to ensure that any change would be consistent with statutory requirements and Bonneville's Binding Arbitration policy.

11.8.2 Proposed Dispute Resolution for 2029 Public Rate Design Methodology

For the PRDM, Bonneville intends to draw upon the dispute resolution provisions in the TRM in developing the dispute process for changes to (or disputes over) the PRDM. The description of the current dispute process in the TRM is cumbersome and lengthy, and therefore, Bonneville is considering some simplifications to the process in the next version of these procedures. However, Bonneville will work with parties to determine the best approach and does not intend to limit or otherwise alter the substantive protections afforded by the TRM dispute process in the PRDM.

12. Environmental Analysis

Consistent with the National Environmental Policy Act²⁵ (NEPA), Bonneville assessed the potential environmental effects that could result from implementing the Policy.

This Policy would lay the foundation for Bonneville’s potential future formation of sales contracts providing for the long-term supply of electric power through standardized products and services and transparent processes. The Policy describes the underlying principles that would guide formation of those potential future contracts, including a description of the types of products and services that would be offered. As discussed in this decision document, the Policy’s foundational service elements would include: (1) specifying how net requirements would be calculated (the amount of firm requirements power a customer is able to purchase); (2) continuing the tiered rate construct; (3) defining the amount of power available at PF Tier 1 rates; and (4) specifying how CHWMs are calculated (the maximum amount of power available to each customer at PF Tier 1 rates). The Policy also identifies which products and services would be offered at PF rates, products and services available at the NR rate and IP rate, and various rate discounts. All of these proposed decisions would guide formation of any such potential future contract, and none would involve any new facility construction, changes in existing generator operations, or physical changes beyond previously disturbed or developed facility areas.

Because the Policy would not require Bonneville to take any action that would have a potential effect on the environment, no further NEPA analysis is required. As Bonneville begins contemplating new contracts with customers, with the goal of executing any such contracts by the end of calendar year 2025, appropriate NEPA analysis would be conducted and documented prior to making any final agency decisions about entering into potential Provider of Choice contracts.

²⁵ 42 U.S.C. § 4321 et seq.

APPENDIX – Abbreviations/Acronyms

Abbreviation/Acronym	Definition
Above-CHWM	Above-Contract High Water Mark
aMW	average megawatt
Bonneville	Bonneville Power Administration
CETA	The State of Washington’s Clean Energy Transformation Act
CDD	cooling degree days
CF/CT	Contracted For/Committed To
CGS	Columbia Generating Station
CHWM	Contract High Water Mark
Council	Northwest Power And Conservation Council
CY	calendar year
DOE	U.S. Department of Energy
DSI	direct service industry
ECA	Energy Conservation Agreement
EEl	Energy Efficiency Incentive
FBS	Federal Base System
FPS	Firm Power Product and Services
FCRPS	Federal Columbia River Power System
FCRTS	Federal Columbia River Transmission System
FY	fiscal year
GHG	greenhouse gas
Grant PUD	Public Utility District No. 2 of Grant County, Washington
HDD	heating degree days
IM	Bonneville Energy Efficiency Implementation Manual
IP	Industrial Firm Power
IOU	investor-owned utility
IRD	Irrigation Rate Discount
kWh	kilowatt hour
LDD	Low Density Discount
MW or MWh	megawatt, megawatt hour
NEEA	Northwest Energy Efficiency Alliance
NEPA	National Environmental Policy Act
Northwest Power Act	Pacific Northwest Electric Power Planning and Conservation Act
NLSL	New Large Single Loads
NR	New Resource
OATT	Open Access Transmission Tariff
P10	monthly 10 th percentiles
PF	Priority Firm
Policy	Provider of Choice Policy
PRDM	2029 Public Rate Design Methodology
PRM	Planning Reserve Margin

Abbreviation/Acronym	Definition
QCC	Qualified Capacity Contribution
REC	renewable energy credit
REP	Residential Exchange Program
RFO	request for offer
RHWM	Rate-Period High Water Mark
ROD	record of decision
RSS	Resource Support Services
RTO	Regional Transmission Organization
SNEER Exception	Small Non-dispatchable New Resource Treated Equivalently to an Existing Resource Exception
TRL	total retail load
TRM	Tiered Rate Methodology
WRAP	Western Resource Adequacy Program