## Seattle City Light's Comments on BPA's Provider of Choice Concept Paper

Seattle City Light appreciates BPA's efforts to pull together a broad range of complex topics to develop its Provider of Choice (POC) Concept Paper. City Light actively participated in the Public Power Council's collaboration to reach consensus among BPA's customers on many related issues and we acknowledge this is a challenging process. City Light contributed to the development of PPC's Concept Paper, and we felt overall that public power was collectively headed in the right direction, providing rational input for BPA's post-2028 contract policy development process.

City Light has carefully reviewed BPA's POC Concept Paper and supports many aspects of BPA's proposal, but we continue to be concerned about developments in several areas of particular importance to City Light.

### Treatment of Carbon

Although BPA suggested a willingness to discuss this issue with customers in the upcoming POC policy workshops, City Light requests BPA commit to deliver a product that will be fully compliant with Washington's Clean Energy Transformation Act (CETA). From City Light's perspective, access to 100% clean energy is an extremely important element of the value proposition of federal power supply. Mostly clean will not suffice; City Light and other Washington utilities subject to this law will be required to pay penalties to continue to buy federal power that is not carbon free. City Light's exposure to carbon penalties under BPA's conceptual proposal could be substantial. Working with BPA and its customers to ensure BPA can and does deliver a CETA-compliant product is instrumental in combating climate change as well as providing customers value through access to the federal hydro system.

BPA's Concept Paper proposed that environmental attributes of Tier 2 resources could be accounted separately from Tier 1 resources. City Light would appreciate BPA exploring all possible ways to provide a CETA-compliant product, including taking a different approach to accounting for environmental attributes of Tier 1. City Light encourages BPA to explain how it will incorporate the cost of greenhouse gas (GHG) emissions into its decisions when making power purchases and how BPA will maintain reliability and cost controls. City Light asks that BPA be a full partner in encouraging the reduction of GHG emissions.

### Peak net requirements

City Light does not oppose developing a Peak Net Requirements (PNR) methodology for the POC contracts. Block and Slice customers have advocated for a PNR calculation in the past; however, the context of that advocacy was based on the idea that BPA's products should ensure that customers' capacity needs are met during periods of capacity deficit. BPA's current proposal does not do that, and in fact acts as a limit during periods of surplus.

City Light is willing to further discuss the concept of PNR with BPA and other preference customers to both understand BPA's perspectives on capacity, and to help establish reasonable and equitable policy objectives that a PNR proposal could achieve. City Light believes any test applied for the sole purpose

of limiting a customer's sale of surplus will result in product inequities and unduly complex implementation. For this reason, City Light strongly asks that BPA reconsider its proposal and engage with customers to seek alternatives. Additionally, to provide BPA some context and our initial thinking on the effect of BPA's methodology in the POC Concept Paper, please see the following:

Peak load and peak resource capacity in a given time period are not necessarily concurrent. City Light believes it is not appropriate to take two bulk peak numbers (i.e., a customer's average monthly peak load and its non-federal resources capacity contribution) and subtract them as indicated in BPA's methodology. As a very simplified example, if a customer's peak load is 100 MW and always occurs during the daytime, but their resources can only supply 50 MW during the day and 75 MW at night, their PNR will be 100 – 75 = 25 MW, leaving them 25 MW short during their time of peak load. City Light believes a more appropriate way is to calculate net requirement on the most granular basis possible (such as hourly), and then take the maximum of all those values to arrive at a peak net requirement. Calculation-wise it's a bigger lift, but that's the only way to show that this hypothetical customer should have a PNR of 50 MW, not 25 MW.

Additionally, we also must start thinking of this proposal's impacts in the context of the Western Resource Adequacy Program (WRAP). The WRAP's Qualified Capacity Contribution (QCC) figures are calculated based on hours when regional load is above a certain threshold, not necessarily when a customer's own load is peaking. If BPA wants to determine how capable a customer is at meeting their own peaks, they should use peak resource capacity based only on the customer's own system demand. And it should be noted the WRAP QCC looks at historical customer resource use in the few Capacity Critical Hours. This neglects the likelihood that customers are energy limited and their peak generation is much less in the non-critical hours. Further, WRAP QCC's are calculated during winter and summer seasons, not shoulder periods, which could leave PNR undefined in some months (April, May, and October).

Overall, City Light is concerned that PNR as currently proposed could substantially devalue the Block product and leave City Light with fewer options for dealing with resource adequacy and load balancing during extraordinary weather or other system conditions. For example, if the PNR is calculated using a P50 peak load based on recent prior years' seasonal peak loads (as is done in the WRAP program) rapid load growth such as projected in City Light's 2022 Integrated Resource Plan's rapid electrification scenario could create a formidable planning challenge during the term of POC contract. That scenario forecasts that in a few years City Light will see larger capacity shortfalls in winter than ever before due to electric vehicle and electric transit loads and it seems this current PNR proposal will only exacerbate the planning challenges for us.

City Light sees the proposed implementation of BPA's PNR methodology as fundamentally inequitable among BPA's different customer groups. Load Following customers will have all their resource adequacy needs meet as they occur, while Slice and any capacity components included in the Block product would only have capacity needs met up to a cap set based on expectation. In addition, utilities that invested substantially in non-federal resources will have reduced access to the federal system's capacity.

For these reasons, City Light believes it is imperative that BPA rethink the proposed methodology for implementing a PNR limitation in the POC process.

**Tier 1 System Size**

City Light encourages BPA to rethink and reconsider the proposal to fix the size of the federal system. There are many uncertainties related to how BPA will manage this fixed system as hydro conditions change. What resources may BPA procure to maintain the current size? How will BPA consider and pass GHG-related regulatory costs onto customers? Furthermore, for BPA to implicitly claim it will not acquire any new supply resources is to ignore the resource acquisition authority it has in the Northwest Power Act and forgo the capability to respond to changing conditions and customer needs.

**Credits for energy conservation**

BPA has proposed adding a credit for utility-funded energy efficiency (EE) achieved for only years FY-2022 through FY-2026 without augmenting the federal system, then prorate the Contract High Water Mark (CHWM) allocations so conserving utilities would receive adjustment credits for only a fraction of their conservation investments. This falls far short of where City Light hoped BPA would land on this issue. City Light has spent more than $409 million (of which just $68.7 million came from BPA) from 2010-2021 to acquire 183.59 aMW of energy conservation, which is well beyond the proportional share (75 aMW) of BPA's savings goal assigned by the Northwest Power and Conservation Council to City Light. City Light's actions benefitted other preference customers and contributed to our shrinking load. City Light would like to receive a higher proportion of credits for energy conservation achieved over the entire Regional Dialogue (RD) contract period.

BPA expressed a willingness to discuss additional adjustments for other energy conservation achieved during the RD contract period—with or without BPA's funding—but seems disinclined to augment the system to account for it. Prorating CHWMs for conservation adjustments without adding resources to the federal system will cause more customers to lose access to Tier 1 power. City Light disagrees strongly with this approach; we believe BPA should augment the system—at a minimum — to add back the total amount of energy conservation achieved by BPA and its customers since FY-2011.

**Federal capacity product**

As a preference customer, City Light feels it should receive an equitable share of federal system capacity to help City Light meet its retail load variability and related system resource adequacy, and the BPA product we choose to purchase should not be a deciding factor. In its POC Concept Paper BPA has signaled that it believes Block and Slice/Block customers should not be eligible to purchase additional capacity products, although the paper allows that BPA is "open to potential adjustments to the Block component of the Slice/Block product to meet the needs of a customer with a clear peak net requirements gap."

Notably BPA's concept paper also states, with regards to the Block-only product "Bonneville proposes to redesign the Block product with Shaping Capacity option to better meet Block customers' peak net requirements needs. Customers may find a successful redesign provides needed peaking flexibility but without the operational burdens of Slice." City Light strongly believes that if a customer can show a

deficit to serving its preference load during its peak hours, it should be afforded a means to access additional Tier 1 federal capacity to meet that need.

Accordingly, City Light looks forward to further discussions with BPA and other customers concerning development of a capacity product, or redevelopment of the Block product with Shaping Capacity, to ensure a useful product that can meet customers' future needs.

**Capacity/demand pricing**
BPA is considering a return to traditional rate-making that unbundles each customer's demand from its energy consumption. City Light supports this concept and will encourage BPA to set fair rates that reflect the true value of demand, especially real-time access to federal capacity (enjoyed by Load Following customers) versus the planned use of diurnal federal resource flexibility in longer timeframes (e.g., annually, in the case of Block customers).

**Tier 1 headroom**
City Light is expecting steep load growth after 2028 driven by widespread consumer electrification. Our total retail load is in a declining phase and our lowest load is expected to occur in FY-2026, which is the year BPA has proposed to benchmark the CHWMs. City Light is concerned that if our CHWM is set based on our load in FY-2026, we will completely miss the opportunity to cover projected electrification load growth with the BPA preference power to which we should have access. From City Light's perspective, load loss during the RD contract that is not explained by energy conservation could be considered load that was *temporarily* lost due to near-term economic/social events, including a pandemic that transformed many businesses. We expect this load to return and grow once the electric industry transformation matures to incorporate more effective, economy-wide electrification.

The RD contract included provisions for a Provisional CHWM process. City Light suggests BPA consider a comparable treatment for lost/returning loads under the POC contracts, an approach that allows for adjustments that address the evolving needs of utilities' end-use customers in these extraordinary times.

**Declared Resource Removal**
With purchase contracts expiring, City Light is losing several dedicated resources between now and FY-2026. City Light recommends we discuss with BPA now whether it will favorably consider a reasonable request to exclude these resources from our "existing resources" used to calculate our new CHWM. Otherwise, City Light may be required to replace each lost resource—likely both its energy and capacity—with non-federal resources.

**Block product design**
City Light believes there may be ways to enhance the existing product to increase its flexibility and contributions to City Light's system reliability. We City Light has been discussing this internally and are evaluating ideas we'd like to discuss with BPA once fully developed.

**Provider of Choice workshop planning**
Concerning BPA's POC process, City Light offers three suggestions:

1. Modify BPA's planned workshop structure to tackle the most difficult topics first: system size, allocation, augmentation, carbon and PNR.
2. Grant the greatest possible consideration for customer proposals, as we know our needs best, and demonstrate this consideration by providing specific articulated rationale for rejected proposals.
3. Transparently articulate any planned adjustments to BPA's POC policy concepts as soon as possible, so customers will know when to turn to other issues.