



Customer Group

Slice Customer Comments on BPA's Provider of Choice Concept Paper and Workshop hosted on July 21st, 2022

Slice Customers are providing the comments below as feedback to the Bonneville Power Administration (BPA) on its proposed implementation of Peak Net Requirements discussed in the Post-2028 Concept Paper published July 14, 2022. As noted in the July 28, 2022 letter from Kim Thompson, BPA's Vice President for NW Requirements Marketing, the proposed methodology for implementing peak net requirements triggered significant concern. We appreciate staff's effort to develop the Provider of Choice Concept Paper and Workshop materials to help customers better understand BPA's initial thinking, and for BPA's responsiveness to the expression of concern. We look forward to engaging with BPA's subject matter experts and other preference customers through a peak net requirements task force.

I. BPA's proposed methodology for implementing Peak Net Requirement conflicts BPA's stated goal of maintaining equity across product offerings.

Limiting the Slice right to power to something less than the Slice customer's percentage share of the actual Tier 1 Federal System capability will fundamentally disrupt the balance across BPA's products that is essential to maintaining product equity. In concept, a utility using the Slice product to serve its load is re-balancing the shape of the Federal System. Slice customers both (1) use balancing purchases and sales to manage the difference between the shape of the Federal System and their load obligations, (2) integrate renewable energy resources with their share of Federal System, and (3) optimize their share of system capability to provide the lowest net cost of power for their customers. The limited language in the Concept Paper, and the lack of a clear, prudent vision on how the concept would be operationalized, raises significant concerns that there is not an awareness of how disruptive this could be to the Slice value proposition, or a plan to avoid impacts.

The rebalancing and optimization of the Federal System and remarketing of surplus power (both energy and capacity) is a sound business practice - a practice BPA employs on behalf of load following and block customers. Limiting Slice customers' ability to manage their within-month energy risk, remarket surplus, integrate renewables and optimize system capability as contemplated in BPA's Peak Net Requirement proposal means Slice customers would be uniquely disadvantaged. Such limitations would result in a significant loss of value and therefore creates cost disparities relative to other BPA products, and electing a version of the Slice product with the constraints identified in BPA's proposal would result in all Slice customers facing higher net cost of power than customers who elect other products.



Customer Group

II. The proposal to limit Slice by a Peak Net Requirement has complex implementation challenges, would be administratively burdensome, and will result in unintended consequences.

Implementing a Peak Net Requirement limit on capacity for Slice customers not only has policy concerns, but implementation concerns as well. If the proposal were to be operationalized – so far this is not clear in the Concept Paper or in staff discussions to date – then the practical effect appears to be limiting the customer’s right to power that today is modeled via the Slice Computer Application. This would be very different from the Slice customer’s percentage share of the actual or representation of the Federal System capability. This introduces a new set of external, contractual constraints into the modeling of the Slice product that do not exist today and do not reflect a reasonable representation of actual system conditions.

Like all Regional Dialogue products, Slice is a bundled power product that delivers integrated energy and capacity. As a product indexed to the actual capability of the Federal System, Slice customers and BPA have gone to great lengths to ensure the constraints and operating parameters modeled in the Slice Computer Application are a fair and reasonable representation of the actual capability of the Federal System. Introducing new, artificial constraints into the Slice Computer Application has the potential to have unintended consequences beyond those negative effects already identified by customers. One such concern of the Slice Customer group is that using a Peak Net Requirement to limit capacity for Slice customers on a planning basis will have the unintended result of limiting the overall energy rights-to-power. As proposed, the Peak Net Requirement capacity limit is administratively complex, burdensome, and has high potential for unintended operational consequences. At a minimum, the administrative complexity this proposal introduces does not serve BPA or its customers well, is contrary to Provider of Choice goals, and may prove incompatible with current or future customer needs.

III. Continuing to provide service to preference customers under the Slice product supports BPA’s principle that “Provider of Choice policy and contracts provide financial stability for Bonneville and support Bonneville’s regional obligations and commitments”.

The Slice product is complementary to BPA’s other product offerings and diversifies BPA’s financial and operational risk. Through cost allocation under the Tiered Rates Methodology (TRM), BPA fully recovers its actual Tier 1 System costs, regardless of actual system output, supporting the agency’s principle to preserve its financial stability. In exchange, the product’s capability is indexed to the Federal System’s capability, and is therefore subject to the same operational constraints and limitations faced by BPA. Uniquely amongst BPA’s product



Customer Group

offerings, customers taking the product Slice assume all volumetric and market price risks of the federal system's output for their Slice allocation.

This product design is a substantial mitigant for two of BPA's key ratemaking risk factors - market price volatility and the variable output of the Federal System. Under Regional Dialogue contracts, approximately 22% of the Federal System is shielded from the financial risks associated with market prices and variable System output through the Slice product. By any measure, this is a significant contribution to BPA's overall financial health and stability. For this reason, it is beneficial for BPA and all preference customers to have diversified and complementary products offered in the Provider of Choice contracts.

However, the proposed methodology for implementing Peak Net Requirements in the Concept Paper makes Slice a comparatively less attractive product, threatening to undermine BPA's stated Provider of Choice principles. Other BPA offerings having comparatively lower net costs of power may cause significant migration away from the Slice product, which would increase BPA's financial risk exposure and reduce BPA's ability to support their regional obligations and commitments.

IV. Slice Customers ask that BPA reconsider their implementation of the Peak Net Requirements and re-think their calculation methodology.

The Slice Customer Group is not opposed to developing a Peak Net Requirements methodology for the Provider of Choice contracts, provided that the methodology's core objective is to meet BPA's obligations to serve customer load, and disruptive impacts are proactively considered and mitigated. The current Regional Dialogue Sales Agreement includes a provision to determine a Peak Net Requirement calculation as part of a future public process – to date, this provision has not been explored or acted on. Slice customers have actively advocated for a Peak Net Requirement calculation during the Provider of Choice process; however, the context of that advocacy was for BPA to ensure that customer capacity needs were met during periods of deficit. BPA's current proposal instead acts as a limit during periods of surplus.

Slice customers are willing to further discuss the concept of Peak Net Requirement with BPA and other preference customers to both understand BPA's perspectives on capacity, and to help establish a reasonable and equitable policy objective that a Peak Net Requirement proposal could achieve. Regardless of the accuracy and reasonableness of the methodology, any test that is applied for the sole purpose of limiting the Slice advance sale of surplus will result in product inequities and unduly complex implementation. For this reason, Slice customers ask that BPA reconsider their proposal and engage with customers to seek alternatives.



Customer Group

Slice Customer Group Members:

Benton PUD; Clark Public Utilities; Clatskanie PUD; Cowlitz PUD; Emerald PUD; Eugene Water and Electric Board; Franklin PUD; Grays Harbor PUD; Idaho Falls; Lewis PUD; Snohomish PUD; Tacoma Power.