



Energizing Life in Our Communities

August 10, 2022

Bonneville Power Administration
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Submitted via email: techforum@bpa.gov

RE: Snohomish PUD comments on BPA Post-2028 Concept Paper

Snohomish PUD (Snohomish) appreciates the opportunity to provide feedback to the Bonneville Power Administration (BPA) regarding topics addressed in its Post-2028 Concept Paper, issued July 2022. In March of 2022, Snohomish contributed to the Public Power Council (PPC) Concept Paper, outlining a number of requests and observations regarding what public power needed to ensure a successful Post-2028 Power contract.

Snohomish is encouraged to see that many of these suggestions were considered or adopted in BPA's concept paper. However, there are also several topics that will warrant further discussion, and others still that create significant concerns.

The purpose of these comments is to highlight those areas which cause the most concern for Snohomish. These topics can broadly be considered "the three C's" – Capacity, Carbon, and Contract High Water Mark (CHWM). BPA's proposals each threaten to adversely impact Snohomish's ability to serve its customers with safe, reliable, and environmentally responsible power at the lowest reasonable cost.

Capacity and the Slice Peak Net Requirement

Snohomish has serious concerns regarding the future of the Slice product should BPA's proposal regarding capacity and Peak Net Requirement (PNR) reach implementation. Rather than enhance the value of the Slice product, BPA's proposals limit the flexibility, energy, and capacity available to Slice and run contrary to the very concept of the Slice product; for customers to assume the operational risk of BPA's obligation to serve them, while giving them control over their share of the system, both energy and capacity.

In its concept paper, PPC and Slice customers outlined potential gaps in the status quo product offerings regarding capacity. This was largely a reaction to regional efforts to ensure capacity resource adequacy, and third party measurements that confirmed that many Slice customers were "capacity short" with the BPA product they received. Because many Slice customers are seeking to participate in these regional efforts, Snohomish and our peers requested that BPA examine potential solutions to these deficits through enhancements in the Block portion of Slice/Block, or even through provision of an appropriately priced capacity product. Instead, BPA's PNR proposal seems most focused on limiting

Slice customer capacity, creating new renewable resource integration and within-month energy risks, without a clear plan or vision for how and why this would be accomplished.

This treatment runs contrary to the spirit and value proposition of Slice. Customers purchasing Slice are agreeing to buy product output indexed to the actual output of the Federal System and agree to take on the energy risks that might be created due to water conditions. Imposing a limit on capacity during any period functionally reduces not only capacity, but customer ability to flexibly utilize their rights-to-power to serve load; breaking the relationship to the output of the Federal System, and increasing the energy risks Slice customers are asked to take on. BPA's proposed methodology, based on the Western Resource Adequacy Program peak contribution calculations, would have a drastic impact upon Slice customer energy output and flexibility.

Snohomish has two specific requests regarding capacity for BPA to consider:

BPA staff should take a neutral position regarding Peak Net Requirement

Finding equitable and workable solutions to BPA's capacity concerns will require the meaningful participation of BPA customers and BPA staff. If BPA staff supports a methodology that favors or disadvantages a particular group of customers, the opportunity for meaningful dialogue diminishes. Snohomish recommends that BPA take a neutral position regarding Peak Net Requirement as all customers explore BPA's perceived capacity concerns and work to find a solution that both addresses BPA's concerns and meets customer needs.

BPA staff should reexamine the potential for offering a stand-alone capacity product in Post-2028

Customers who have identified capacity shortfalls are asking BPA to examine products and solutions that may help meet those gaps. While Snohomish recognizes that by being a Slice/Block customer, the risk of meeting load obligations falls upon the utility, Snohomish hopes that BPA remains true to its stated Provider of Choice goals to both help meet customer net requirements equitably and that efforts do not increase the risk of meeting load obligations. Snohomish believes that an appropriately priced stand-alone capacity product could equitably meet customer needs and build upon the historically strong BPA-customer relationship foundation. If BPA does not believe that a stand-alone capacity product is viable, Snohomish requests a workshop or opportunity for BPA to discuss the perceived threats to its ability to provide capacity from the Federal System.

Carbon and Environmental Attributes

Snohomish appreciates BPA's attention to the carbon content of its product offerings. As a Washington state utility subject to the Clean Energy Transformation Act (CETA), Snohomish is required to be 100% carbon neutral by 2030, and 100% carbon-free by 2045. However, Snohomish's community goals are to be 100% clean by 2030, and a goal of many BPA customers is to have *a clear pathway to a 100% clean BPA product in year 1 of the new contract*. BPA's proposal to allocate environmental attributes to customers based on actual MWh of generation delivered is both consistent with Snohomish's regulatory needs, as well as the most accurate and equitable methodology for representing the attributes of energy

consumed by BPA customers. While this proposal helps Snohomish meet its regulatory goals, it does not fully address Snohomish's needs.

With a requirement to be 100% carbon-free by 2045, Snohomish requires certainty that energy received from BPA does not violate our regulatory requirements. Without this certainty, the value of BPA's product offerings is significantly diminished, and could have financial and operational impacts to Snohomish's business and, ultimately, its customers. BPA's proposal to reduce the term of the contract to 2044 presents no actual long-term solution for utilities facing regulatory pressures, instead pushing critical discussions regarding carbon content of federal deliveries into an indeterminate future period. Snohomish requests that these conversations occur during the Post-2028 Provider of Choice dialogue. BPA's ability to offer a 100% clean power product from the Federal System is an issue of critical importance to Washington customers, and likely more as other jurisdictions adopt clean energy standards. Further, though the standard is to be 100% carbon-neutral in 2030, if Washington utilities can prove they are 100% clean, there are significant regulatory benefits for early adoption. The earlier BPA can offer pathway to 100% clean, the more benefit preference customers will realize.

Snohomish has two specific requests regarding carbon and environmental attributes for BPA to consider:

BPA staff should build upon the Tier 2 attribute pool framework for Tier 1

In its Concept Paper, BPA outlines that Tier 2 resources could be pooled, with Tier 2 customers receiving environmental attributes associated only with those resources supplying the Tier 2 cost pool (which could include federal system power). This treatment suggests that a similar treatment could be applied to Tier 1; by creating two cost pools within Tier 1, BPA could maintain their "one system mix" methodology while allocating environmental attributes between a 100% clean cost pool and other, potentially lower-cost cost pools. This is not the only way that BPA could approach creation of a 100% clean product; however, utilizing the Tier 2 model and applying it to Tier 1 could be a reasonable starting point for future customer discussions.

BPA staff should strongly consider the proposal for direct customers energy exchanges to support a 100% clean product

One proposal from customers in the March PPC Concept Paper outlined the potential for customers to directly exchange fuel types received from BPA on a planning basis. This exchange would allow customers who required a 100% clean product to exchange their Tier 1 resource rights directly with other customers who may have different clean energy requirements for a cost. These exchanges would not impact the actual amount of energy received, only the fuel-type attribution associated with each customer's federal deliveries.

Snohomish believes this proposal meets the needs of Washington state customers and would be acceptable to regulators based on final adopted CETA rules, and requests that BPA give this proposal due consideration and discussion in future Post-2028 workshops.

Contract High Water Mark

Customers and BPA both agree that system allocation, system size, and the level of each customer's Contract High Water Mark in comparison to their Net Requirements is a core element of the Post-2028 contract. Further, each of these three topics is linked such that decisions regarding any one aspect will impact the final CHWM outcomes. For each of these topics, Snohomish has specific feedback for BPA to consider.

BPA should recognize historic conservation in its calculation of CHWM

Conservation has historically been a key resource for all northwest utilities. Whether self-funding or utilizing BPA's conservation program, the entire BPA footprint has benefitted from load reduction and deferred resource investments provided by cost-effective conservation investment. Further, the value of the federal system has been protected, as customers have been able to mitigate exposure to higher cost Tier 2 investments by BPA. The Long-Term Regional Dialogue Final Policy recognized that tiered rates and high water marks "create powerful incentives" and that "utility initiatives in response to these incentives [will be] a very significant source of conservation savings."

Over the course of the Regional Dialogue contract Snohomish responded to the incentives, investing over \$147 million to acquire over 126 aMW of conservation, with plans for more. This conservation, along with significant investment in new renewable generating resources,¹ has allowed Snohomish to maintain its load below the threshold of its RHWM, reducing the load burden on BPA, increasing available surplus power from the federal system, and ensuring the region is able to meet its conservation targets. If this investment is not recognized in CHWM calculations in Post-2028, its value becomes distributed among all BPA customers while Snohomish's customers are penalized with a lower allocation of Tier 1 rates, and thus higher cost power. This is an outcome of the initial concept of setting Net Requirements to FY2026 levels, which would incorporate the nearly 400aMW of net load growth into CHWM consideration without accounting for the deliberate efforts of utilities to mitigate load growth. This undercuts the incentives created by the Regional Dialogue Final Policy and is a clear violation of cost causation principles; if a customer incurs a cost, that customer should receive the associated benefit of said cost. The effect of such a policy choice would be to effectively meld rates in Year 1 of the contract by re-socializing the costs of load growth realized from contract start to FY2026. A regional desire to move away from melded rates was one of the core policy objectives of the Regional Dialogue contract and Tiered Rates; constructs which are considered and referenced throughout BPA's concept paper.

Even more concerning is the impact the decision would have on conservation value on a planning basis. Snohomish, along with all other Washington utilities, is required by statute to acquire all cost-effective conservation. However, the term cost-effective changes relative to value provided by the investment, when weighed against other investments. If conservation no longer provides long-term benefit through a reduction in exposure to potential Tier 2 purchases or non-federal resource investments, its value goes down and it becomes less cost-effective. This will have the policy effect of rewriting conservation economics in the current contract and future ones, as utilities must consider and account for the policy outcome that conservation investments would reduce future Tier 1 allocations. This will result in lower

¹ Snohomish constructed or acquired four hydroelectric projects during the Regional Dialogue contract period, with a nameplate capacity of more than 20MW. Snohomish is not currently proposing to recognize these new resources in BPA's CHWM calculations.

conservation investment across all Washington utilities, will drive up customer demand, and increase stress on the federal system; this result seems contrary to both BPA's and customers' best interests.

The Concept Paper's initial suggestion of including only forward-looking (FY2022-FY2026) fractions of conservation investment does not appropriately preserve the tenets of Tiered Rates obligations in the existing contract or provide a proper incentive structure for conservation investment for the region's future. Inclusion of conservation achievement within the current contract in CHWM calculations is a more appropriate consideration of conservation that recognizes the contribution of our ratepayers to achieving the regional goal, preserves Tiered Rates policy goals, and incentivizes utilities like Snohomish to continue to achieve conservation, effectively lowering the Administrator's overall obligation to serve load.

Snohomish specifically requests that BPA recognize conservation achieved during the Regional Dialogue period within the CHWM calculation, which would continue BPA's commitment to regional conservation and preserve its value to the region.

BPA staff should strongly consider a larger fixed system size if an appropriate CHWM allocation is utilized

Snohomish agrees with BPA that a fixed system size over the course of the Post-2028 contract makes the most sense, and provides the proper level of CHWM certainty for customers over the term of the agreement. However, Snohomish recognizes the region and industry is in a period of rapid transition, and the electrification of more of the Pacific Northwest economy is an explicit policy goal of many states and communities. As a result, Snohomish believes that BPA's proposed system size may be too conservative. Snohomish encourages BPA to carefully examine the risk tradeoffs of increasing system size in 100 aMW increments between 7000 aMW and 8000 aMW. Snohomish believes that a reasonable system size lies in that range, could foster a broadly acceptable agreement on CHWM allocation (to include appropriate credit for conservation achievements), and looks forward to engaging with BPA and our public power peers to further explore that possibility.

Snohomish appreciates BPA staff's hard work on the Concept Paper

Snohomish recognizes the hard work by talented Staff in developing the Concept Paper. While we focus here on our concerns, we also acknowledge the positive elements (long-term contracts, attribute accounting, RSS) that we see in the Concept Paper. We understand that this is a starting point, that any Concept Paper of this scale and complexity should be viewed as an iterative process, and more work needs to be done. Snohomish appreciates the opportunity to provide these observations regarding the BPA Post-2028 Concept Paper. We look forward to continuing to work with BPA positively, professionally, and collaboratively on these issues in future phases of engagement. We value our relationships with BPA and its staff and seek to serve as partners in finding thoughtful solutions for our region, and our community. If you have any questions about our comments or would like further context for our comments, please do not hesitate to contact us.

Sincerely,

Jason Zyskowski 8/10/2022

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