PNGC Power
Smart. Local. Connected.

February 3, 2023

Bonneville Power Administration
905 NE 11th Ave.
Portland, OR 97232

To: John Hairston, Suzanne Cooper, Kim Thompson, Sarah Burczak, Post-2028 BPA Team

PNGC is a wholesale G&T that serves 16 retail distribution electric cooperatives across 7 states and 8 BAs. PNGC and its members are entitled to preference power from BPA. PNGC is a statutorily organized Joint Operating Entity and as such is the second largest power customer of BPA. Within our membership we have utilities that have experienced large load growth as well as utilities that continue to have CHWM headroom under the current contract, due to largely flat loads. We also have utilities that have engaged in self-funded conservation investments.

While many utilities across the region are still digesting the events of the past couple of weeks and will undoubtedly provide comments of their own, our membership wanted to be responsive to BPA's request for comments by February 3rd to inform the February 9th virtual BPA workshop, where non-federal resource terms and transfer terms are expected to be discussed. It is our sincere hope to sign-on in the coming weeks, along with others in public power, to a comprehensive proposal in response to BPA's updated concept positions for post-2028 contracting. To that end, we will keep our comments here foundational and not overly specific, except with regard to items to cover at the February 9th workshop.

In an ideal world, PNGC and all of public power would submit joint comments with a unified vision of the future. The fact that BPA will continue to receive divergent comments is largely due to the significant fault-lines that exist within public power today. One fault-line is over product type. The second and more difficult one has been created by the implementation of tiered rates. When product features and Tier 1 and Tier 2 rates are in general parity, the fault-lines do not show significant signs of stress. When the current Regional Dialogue contracts were signed, Tier 2 rates were slightly higher than Tier 1 rates. Then market prices dipped down for much of the past 10+ years and Tier 2 prices even drifted below Tier 1 rates for some time. This relieved stress along the fault-lines created by limiting access to Tier 1 power under the TRM. However, in the past few years Tier 2 rates have increased dramatically, creating significant divergence between Tier 1 and Tier 2 rates and highlighting the stress along this fault-line. We applaud BPA for taking steps in the BP24 rate case to relieve some of this stress. That was an essential move. However, many of your customers are now realizing dramatic rate increases to accommodate this reality, at the same time that BPA is making

Pacific Northwest Generating Cooperative
8440 SE Sunnybrook Blvd •Clackamas, OR 97015
(503) 288-1234 • Fax (503) 288-2334 • www.pngcpower.com

exceptional net revenues on wholesale sales, and that reality creates new tension among public power.

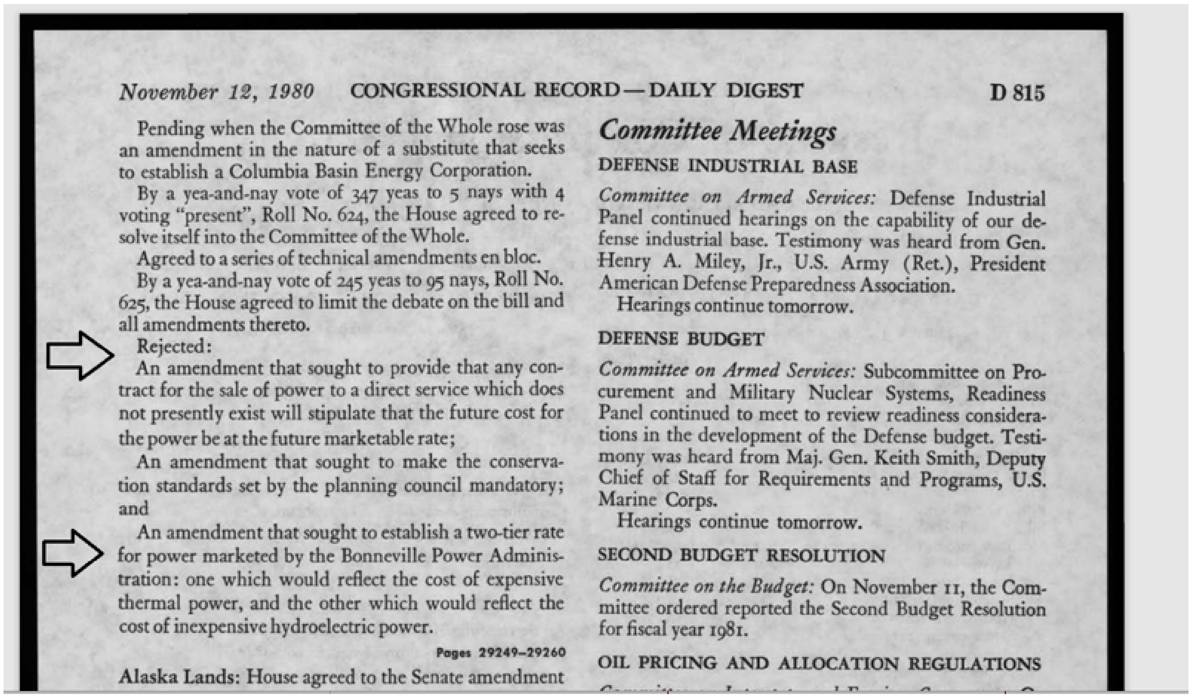
PNGC has attempted to be open-minded going into this next contract, hoping to create a foundation for a future that creates equity across public power, allows BPA to meet its statutory obligations, and to ensure recovery of its costs. What we've found is that much of the Provider of Choice conversation has centered on Tier 1 framework and seems biased toward status quo. As a result, our membership supported advocating for issues that were not getting equal airtime in public debate (namely AHWM considerations), but which are necessary to develop a comprehensive package. While we have carried this message, we also are acutely aware that there are other interests at stake, many of which reside within our own membership.

Our response today and our appeal steps back from all that has transpired to date and attempts to build upon both the position that BPA has provided, as well as the general sentiments of public power based on concerted efforts over the past months to bring us all to common ground. We are generally in support of the policy direction BPA presented during the Jan 24-25 workshop and also support the framework that has been developed over the past few weeks by public power. However, we also think that significant elements of the discussion remain and need to be addressed, many of which are covered below.

A Reflection on Tiered Rates

With respect to tiered rates, we understand the merits of the construct and can support it going forward as long as there are considerations to allow AHMW customers to serve load at reasonable terms under the next contract. PNGC's position continues to be that existing contracts end in 2028 and we think the statutory intent is about equity and that preference customers are entitled to equal access to the FCRPS to meet net requirements at cost-based rates (being the costs actually incurred to serve load). Our view has been that the TRM is a contractual construct and not a statutory one. Our research of the 1980 Regional Act finds that this issue of "cheap hydro" power and more expensive marginal resources existed back then as well. Congress expressly rejected proposed amendments to the 1980 Regional Act that would have created a two-tier rate system (Fig. 1). We do not want to fall into the same trap again and ask that BPA be mindful of the rate impacts to AHWM customers as well as the rate impacts to Tier 1 only customers. One thing the PNGC membership has settled on is that we cannot have big winners and big losers in the post-2028 outcome. That outcome will not sustain us all collectively into the future.

Figure 1. Congressional Record



November 12, 1980 CONGRESSIONAL RECORD — DAILY DIGEST D 815

Pending when the Committee of the Whole rose was an amendment in the nature of a substitute that seeks to establish a Columbia Basin Energy Corporation.

By a yea-and-nay vote of 347 yeas to 5 nays with 4 voting "present", Roll No. 624, the House agreed to resolve itself into the Committee of the Whole.

Agreed to a series of technical amendments en bloc.

By a yea-and-nay vote of 245 yeas to 95 nays, Roll No. 625, the House agreed to limit the debate on the bill and all amendments thereto.

Rejected:

An amendment that sought to provide that any contract for the sale of power to a direct service which does not presently exist will stipulate that the future cost for the power be at the future marketable rate;

An amendment that sought to make the conservation standards set by the planning council mandatory; and

An amendment that sought to establish a two-tier rate for power marketed by the Bonneville Power Administration: one which would reflect the cost of expensive thermal power, and the other which would reflect the cost of inexpensive hydroelectric power.

Pages 29249–29260

Alaska Lands: House agreed to the Senate amendment

Committee Meetings

DEFENSE INDUSTRIAL BASE

Committee on Armed Services: Defense Industrial Panel continued hearings on the capability of our defense industrial base. Testimony was heard from Gen. Henry A. Miley, Jr., U.S. Army (Ret.), President American Defense Preparedness Association.

Hearings continue tomorrow.

DEFENSE BUDGET

Committee on Armed Services: Subcommittee on Procurement and Military Nuclear Systems, Readiness Panel continued to meet to review readiness considerations in the development of the Defense budget. Testimony was heard from Maj. Gen. Keith Smith, Deputy Chief of Staff for Requirements and Programs, U.S. Marine Corps.

Hearings continue tomorrow.

SECOND BUDGET RESOLUTION

Committee on the Budget: On November 11, the Committee ordered reported the Second Budget Resolution for fiscal year 1981.

OIL PRICING AND ALLOCATION REGULATIONS

In watching BPA adjust its proposals and thinking over the past months, we recognize and appreciate that BPA is trying to find a middle ground. We are also trying to find middle ground and sincerely hope that our comments are received with this intention in mind. The following reflects PNGC's thinking on key issues, given to inform the next round of conversations.

Tier 1 system size augmentation: We appreciate the thought that went into BPA's proposals at the January 24-25 workshop and see the merits of the balance of interests that have been represented. That said, we think BPA should consider at least some augmentation to the Tier 1 system. In particular, the potential CGS uprate and any power that might come back from Canada if the CRT is renegotiated should be added to the Tier 1 system size. We think that a system size between 7,250-7,500 is reasonable. Our understanding is that many others in public power seem to be supportive of this range. CGS alone almost gets us to the lower end of this range, reportedly at a cost comparable to the existing Tier 1 average rate.

Impacts on flat and declining load utilities: We support regional efforts to mitigate rate impacts to flat and declining load utilities due to the change from one contract to the next. We think that this is best achieved by assessing the amount and cost of augmentation to ensure reasonable costs and benefits result to all BPA customers. We also ask that the ongoing cost impacts to growing utilities of maintaining AHWM exposure into the next contract be factored into the rate impact comparisons across utilities.

Discounts: The long-standing use of discounts to help equalize costs associated with being either rural or agricultural utilities are on occasion weaponized by those that do not have them, to try and make gains in other areas. If BPA is looking to minimize "cost shifts" between customers, then significant changes to these discounts make no sense especially when they are in place because of statute and long-standing policy.

2023 test year: We think this was a good proposal from BPA for a few reasons:

- It eliminates the potential for gaming a future year's loads,
- It provides a clear incentive to continue conservation investments without additional "compensation" required, and
- Most importantly, it gives preference customers certainty on their resource profile and allows us to attempt to meet any open positions with the aid of federal grant funding.

Small utility headroom: We understand and sympathize with the concerns stated regarding our smallest utilities within public power. We do not oppose BPA's proposal to create "special" headroom for them to grow into. We also recognize that a 5-10 aMW utility is still "small" in the grand scheme of things and some of these smaller utilities have experienced significant load growth under the current contract. As such, we wonder if a rate impact mitigation tool might be expanded to allow for the greater of either 25% (or 50%) of load growth <u>OR</u> 1 aMW as the load growth add-back to the CHWM. This would help the smaller utilities experiencing load growth through demographic changes and smooth out the rate impacts of discrete cliffs in pricing schema.

AHWM terms need to be defined: One thing to acknowledge is that the current proposals will leave many utilities with above high-water mark exposure at the onset of the next contract. For growing utilities, this is a paramount concern. BPA must work with public power customers facing AHWM loads to define and refine a package of critical changes. If BPA goes with a smaller Tier 1 system, and assuming we can resolve the allocation issue, here are the essential AHWM issues that must be addressed:

> **<u>Transfer Service</u>:** BPA must continue to provide transfer service for all its customers on a non-discriminatory basis. If a growing utility has AHWM load and BPA will not serve it with federal power at Tier 1 rates, we think non-federal resources must be treated the same as federal resources. Absent this commitment, AHWM load becomes virtually impossible for utilities to manage on an economic or reasonable basis.
>
> **<u>Non-federal resource integration</u>:** If we are going to put AHWM obligations on growing utilities, we need to seriously explore material reforms to how non-federal resource integration is handled today. We need to recognize the

emergence of, and growing requirements for, renewable resources such as wind and solar, which do not have flat shapes. The existing Load Following construct of requiring “flat-around” delivery and the RSS deviation charges being priced at marginal cost make these resource investments uneconomic. We do not think that was the intent, but that is absolutely the effect. If one wants to seriously understand why public power is not bringing resources on-line, this issue coupled with carbon legislation is the #1 barrier. With BPA now in the EIM and potentially in an EDAM, we think there are obvious integration tools and alternative rates that could much more effectively allow public power to build and integrate new renewable resources. The reality is that BPA resources alone no longer balance the system.

Transmission Service in General: Growing utilities need transmission expansion to meet their obligation to serve. This need is even more urgent if they are expected to develop new resources. Nearly all of the post-2028 discussion has focused on Tier 1 and the fight over allocation thereof. Transmission becomes a critical part of the resolution for growing utilities that are expected to develop resources. We ask that BPA commit to either building out the transmission system it currently holds or move quickly to a RTO/ISO construct that will do so.

Tier 2 Optionality: The future is uncertain for all of us and we are going to need options to effectively cope with the expected and unexpected challenges we are going to face. As long as BPA is kept whole on its own financial obligations, we think there remains room for choice among its customers on what types of resources to invest in going forward. We request multiple opportunities to opt into Tier 2 acquisitions over the term of the next contract and accept the financial commitment to those resources once made.

BPA has asserted that it will not augment all at once to meet load growth. Therefore, there will be phased in, incremental resource additions, for which a decision to opt-in or opt-out of each purchase decision can be made by individual utilities subscribed for Tier 2 service at that time. In addition, there will need to be different purchase options (i.e. short-term and long-term, as well as resource type based portfolios) in order to meet the ever-changing requirements being placed on our industry as well as the unknowable demographic shifts that will naturally occur.

Load Growth add-back: While we understand that BPA was trying to balance the total aMW being assigned to load growth and conservation in its proposal, there are different numbers of utilities and total loads in both buckets. It would be more equitable to base the decision on policy that the customer still bears half of the responsibility of their decisions – be it either load growth or self-supply conservation investments. To that end, we would prefer to see a 50% add back for load growth in the final baseline calculation.

<u>Dedicated resources</u>: BPA has claimed that self-funded, BPA reported conservation warrants a CHWM credit, or add-back, since it comports with BPA policy objectives. Statute provides that renewables will be the next resource after conservation. As such, and in recognition that conservation alone has not closed the gap in need and that cost-effective conservation is becoming harder to acquire, renewable supply side resource additions dedicated to serve AHWM load should not result in a reduction of the Tier 1 allocation.

We understand that net requirements will still be adjusted, as per statute. This can be done by allowing for a CHWM add-back credit for any non-federal, renewable resource investments, similar to what has been proposed for investments in self-funded conservation resources. We think this is an important policy consideration for subsequent TRM-based contracts. If BPA's current position of deducting any supply-side resource additions from Tier 1 stays in place, it is a terminal disincentive for public power to acquire resources. Assuming a hypothetical utility of 100 aMW, with a CHWM of 90 aMW and an AHWM load of 10 aMW, it makes no logical sense for that utility to pursue a 10 aMW resource if its CHWM is then changed to 80 aMW. This would be a resource planning "death spiral" and will cause inaction at a time when action is critical.

We would like to see the above referenced items addressed at upcoming BPA workshops.

In closing, we think it is essential for BPA to continue to find the middle ground that mitigates severe rate impacts to all of its preference customers, while also adhering to its statutory obligations. Our general view is that BPA and public power cannot survive outcomes that result in big winners and big losers. While we continue to prefer enough Tier 1 for everyone, PNGC is prepared to accept a fair allocation of a smaller system if we directly and effectively deal with the AHWM reforms as articulated above. We also support the mitigation of realized rate impacts for flat and declining load utilities. We continue to believe that a suitable balance can be struck.

The Inflation Reduction Act provide us a once-in-a-generation opportunity to develop new clean resources to meet the needs of the region. PNGC, its members and we suspect other growing customers are prepared to take on this responsibility, but we need BPA's help to do this. The AHWM reforms above are essential to all of us achieving this outcome and we look forward to discussing these issues on February 9th.

Sincerely,

Erin Erben, SVP Power Supply, on behalf of PNGC Power and its Members