

February 8, 2023

NRU Comments on Provider of Choice Tier 1 System Size, Allocation, and Augmentation

Northwest Requirements Utilities (“NRU”) submits these comments to inform the development of BPA’s post-2028 policy approach to key issues, including Tier 1 system size, allocation, and augmentation. NRU represents the interests of 57 Load-Following customers that hold Network Transmission contracts with BPA. NRU members are located in 7 states across the region and represent roughly 30% of BPA’s Tier 1 load. Of primary importance to NRU members is BPA’s continued ability to offer affordable and reliable power supply and transmission services, and durable contract options that maximize the value of the federal system for the benefit of preference customers.

NRU’s Board of Directors met February 8 to discuss and determine NRU’s position on key post-2028 issues. We are sharing the outcome of our Board’s decision, including the formal support for the attached NRU Proposal and the following comments. NRU believes that all preference customers will benefit from this proposal and strongly encourages BPA to incorporate this proposal into its Provider of Choice policy.

NRU’s support for this proposal and these comments represents a careful compromise between NRU member utilities. In supporting a Tier 1 system size of 7500 aMW and in other aspects of the proposal, there are some NRU members that might benefit from a proposal that differs in one way, and there are other members that might benefit from a proposal that differs in another way. The NRU Board is attempting to balance these perspectives and arrive at a proposal under which all NRU members and all preference customers would benefit.

NRU agrees with BPA that the foundational policy intent and design elements should establish the basis for evaluating adjustments and proposed alternatives to BPA’s latest proposed concept. It has also become apparent, however, that BPA and public power have yet to achieve broad consensus on that foundational intent, leading to some disagreement with BPA’s proposed design elements. We further recognize that most program design elements are unavoidably interrelated, and that a comprehensive and integrated policy approach is necessary to achieve a result that is broadly acceptable to both BPA and public power. With that in mind, and in the interest of setting the stage for the Proposal and recommendations that follow, we believe that several adjustments to the “Three Foundational Policy Elements” that BPA outlined at the January 24 Workshop are necessary. To that end, we offer the following edits.

Tiered Rates

- **Protect and enhance the value** of the federal system.
- **Insulate customers** from costs associated with others' load changes and resource decisions **for the duration of the post-2028 contract.**
- **Enable customer choice** for growing load service.

CHWM Calculation

- **Enable better firm resource planning** by resetting CHWMs at an earlier point in time.
- **Adjustments are responsive** to load and resource changes experienced while factoring in anticipated future needs.
- **Adjustments are consistent with Regional Dialogue policy objectives** associated with conservation and/or resource development.
- **A bottom-up calculation methodology provides basis** for Tier 1 system size.
- **Outcomes are equitable** for differently situated utilities.

Tier 1 System

- **Tier 1 system size** is a function of CHWM calculation methodology **and anticipated future needs.**
- **Provide certainty** in amount of Tier 1 service for duration of contract.
- **BPA resource planning guides** augmentation strategy, ~~if needed~~, for BPA's Tier 1 obligations.

Building on the updated foundational intent, below is an introduction to the design elements of our Proposal, and attached is a detailed outline for your consideration.

First, the NRU Proposal builds upon several elements in the BPA Proposal reviewed at the Provider of Choice Workshops on January 24 and 25. NRU recognizes BPA's impressive work in creating an allocation framework that is both responsive to public power interests and load dynamics and also flexible enough to be adjusted to achieve additional policy goals. These elements include:

- Initial CHWMs are lesser of BP 24 RHWM or FY 2023 PF-eligible loads;
- Resource Removal is treated equivalent to load growth;
- Returning Utilities' past contract levels guide initial CHWM approach;
- Small Utilities benefit from a CHWM adjustment; and
- Tier 1 Load Obligation is calculated as sum of resulting CHWMs with adjustments.

Second, NRU's Proposal builds on the recommendations of the broader public power community. The recent recommendations from public power are the result of hundreds of hours of dedicated effort on the part of public power executives and staff and build upon the foundational elements that BPA's Provider of Choice team worked diligently to provide. These recommendations establish a common framework and serve to highlight the primary goal of both BPA and public power; specifically, to create a durable set of contracts that are broadly supported. This general policy framework is consistent with NRU's Proposal.

Third, NRU submits that an additional foundational policy intent should be to achieve equitable outcomes for differently situated utilities. This additional intent, and the design elements that follow, form the basis for the NRU Proposal. As detailed above, NRU appreciates the policy intent and design elements outlined in BPA’s proposal. While many of those elements resonate and align with NRU’s position, the intent to achieve equitable outcomes is foundational to the NRU Proposal. Both BPA and public power seek to create durable contracts that are regionally supported. Further, one of the Provider of Choice goals is that “Product and service offerings are equitable.” However, in order to ensure broad regional support, NRU recognizes an essential distinction between “equity” and “equality”, and believes that, in addition to product and service offerings, BPA must also consider whether an equitable outcome is achieved for differently situated preference utilities at the start of the next contract.

The NRU Proposal recognizes historical policy objectives and achievements through its recommended credits and adjustments, results in a reduction in preference customer exposure to market risk and volatility, and provides room for most utilities to grow within the Tier 1 rate pool. These results are consistent with the foundational policy elements discussed above and achieve a more equitable outcome for a greater number of differently situated preference customers than any alternatives considered to date.

With the above policy intent in mind, NRU supports several adjustments to the BPA Proposal, outlined below:

- Provide an adjustment to recognize 100% of Regional Dialogue investments in new renewable and PURPA resources;
- Increase the Load Growth Adjustment from 25% to 50%;
- Include an adjustment for single large loads lost during Regional Dialogue, if the load returns by September 30, 2033;
- Include a Pro Rata Adjustment of CHWM applied to all preference utilities to achieve a Tier 1 system size of 7500 aMW; this is the system size that models show BPA is able to achieve in a cost-effective way;
- To the extent resources are acquired to expand the Tier 1 system, the augmentation of the Federal Base System should utilize non-carbon emitting resources, following robust input from public power;
- Allow billing credits for utilities that develop and integrate new, cost-effective resources in lieu of Tier 1 augmentation;
- Direct any additional power from Columbia River Treaty modification toward Tier 1 augmentation;
- Provide more than one Tier 2 opt-in period and additional Tier 2 product options, including a product to serve Tier 2 needs with surplus federal firm power at a rate equivalent to the Tier 1 rate, a vintage product with specified resource(s), a blended cost product from multiple acquired resources, and both short and long-term Tier 2 options;
- Create an approach with public power to achieve a 100% clean federal product within the post-2028 contracts to support customers with national and regional objectives;
- Provide comparable Transfer service by continuing to roll the cost of Transfer service into power rates for both federal and nonfederal resources, and

- Maintain both the irrigation and low density discounts with substantively similar overall treatment with potential refinements.

These recommendations are further described in the attached document. As BPA has noted previously, the design elements are highly interrelated and, to the extent that one element is modified or adjusted, NRU would revisit its overall policy position. For example, if BPA does not agree to augment the Tier 1 system to 7500 aMW, then the agency would need to reconsider NRU's proposed allocation mechanisms to ensure that non-growing and slow growing utilities are left, at a minimum, no worse off than under Regional Dialogue.

Fourth, the NRU Proposal is not only focused on protecting the federal system, it is intended to enhance and maximize its value into the future. As noted above, we submit that one of the foundational policy elements of the Provider of Choice process, and the design elements that follow, is the intent to protect and enhance the value of the federal system. Importantly, we believe that all preference utilities, while accepting the cost risks that come with system augmentation, will benefit from a larger Tier 1 system. Long-term resource additions will better position BPA and its preference customers for a future with the diverse generation portfolio necessary to protect and enhance the value of the federal system, and the value of preference, going forward.

Prior to the NRU Board's formal adoption of this proposal, our membership engaged in discussions regarding the value and cost of expanding the Federal Base System, with some utilities that have historically been flat or declining indicating an initial reticence to assume the potential additional cost of an expanded system for which they may not have a need. Alternatively, utilities with load growth indicated an interest in expanding the system further, with the goal of eliminating Above High Water Mark Load for all preference customers. For NRU members, historically growing or not, maximizing preference customer access to the Tier 1 system is extremely valuable due to the rate stability and risk mitigation that goes hand-in-hand with Tier 1 access.

It is important to note that Tier 1 access is perhaps even more valuable to our members due to their small size relative to other utilities serving denser populations and urban load centers. The relatively small load needs of many of our member utilities has proved an additional hurdle for members seeking to integrate low-cost nonfederal resources, leaving most of our members reliant on federal options to meet their load. One way to address this dynamic is to maximize access to the Tier 1 system for preference utilities. Another approach included in the NRU Proposal is to offer additional Tier 2 product options, all of which are designed to reduce rate volatility and risk for Tier 2 customers.

Regarding Tier 1 system augmentation, while it is difficult to forecast with certainty, there appears to be broad consensus that augmentation for the post-2028 period has considerable merit. The opportunity to augment the federal system with low-cost resources will provide the expanded access described above, while also enabling preference utilities to meet clean energy obligations. In addition to the extended uprate of the Columbia Generating Station, opportunities include regaining additional benefits through renegotiation of the Columbia River Treaty, reconsidering the definition of firm hydro, supplanting federal

augmentation with cost-effective nonfederal integration with billing credits, or utilizing the flexibility of the current federal system to cost-effectively integrate new long-term generating resources. We recognize that these augmentation options have different cost implications and NRU does not prescribe a particular path forward; only that our organization supports augmentation to the amounts provided in the NRU Proposal. Further, any added resources to the Federal Base System should be non-emitting in nature and focus on least-cost, least-risk alternatives with consideration to generation location and transmission paths to ensure a result that both protects and enhances the value of the Tier 1 system going forward. NRU will provide further comments in support of augmentation as part of the Provider of Choice process.

Last, we believe all preference customers would benefit from the NRU Proposal. These benefits include:

- Utilities with self-funded conservation and renewable and PURPA resources receive a larger CHWM adjustment in recognition of historical investments;
- Utilities with historical load growth incorporate more incremental load into Tier 1 service;
- Utilities with historically low-to-moderate load growth receive headroom from a pro rata adjustment to CHWM, providing a risk-mitigated pathway to serve future growth;
- Utilities with clean energy goals and obligations benefit from both the augmentation of the Federal Base System with non-carbon emitting resources and a pathway to 100% clean energy;
- Utilities with future load growth will benefit from additional Tier 2 options to meet their varied needs. Relatedly, by identifying the rate for firm surplus power sales to Tier 2 customers, all preference utilities will experience a reduction in rate volatility through greater certainty in the rate-making process;
- Utilities dependent on Transfer service will not be deterred from nonfederal resource investments due to differing rate treatment of federal versus nonfederal resources delivered via Transfer service; and
- Utilities with large irrigation loads and low-density systems will retain a discount to address disproportionately high costs of service.

We sincerely appreciate BPA's ongoing collaboration and the considerable efforts of the BPA executives and staff on the Provider of Choice team. As BPA works toward its draft policy, we believe that the NRU Proposal addresses essential post-2028 questions in a way that benefits preference customers and BPA. The NRU Proposal provides the policy framework for Provider of Choice contracts that NRU members will sign.

We look forward to continuing to work with you throughout the Provider of Choice process and are available to discuss NRU's positions at your convenience.