

March 3, 2023

John Hairston
Administrator and CEO

Suzanne Cooper
Senior Vice President of Power Services

Kim Thompson
Vice President of Northwest Requirements Marketing

Submitted via email to post2028@bpa.gov

Dear Administrator Hairston, Ms. Cooper, and Ms. Thompson:

Overview

The Above High Water Mark Group (AHWM-G), representing thirty-two of BPA's preference customers comprising nearly 30% of BPA's total load obligation, appreciates the opportunity to provide comments in response to recent developments in BPA's Provider of Choice (POC) process. The AHWM-G recognizes the challenge of developing a comprehensive policy package that will produce an equitable balance of benefits for all of Bonneville's preference customers. The AHWM-G is encouraged by more recent discussions in the POC process, which have identified significant gaps in POC policy development to date. As such, the AHWM-G remains concerned that discussions have not fully worked through needed policy positions addressing the terms of Tier 2 service, non-federal resource integration, and transfer service treatment. These specific policies may appear as 'fringe issues' for some preference customers, but they are at the forefront of our concerns because of the impacts on our communities.

Before we address specific issues in our comments, we would like to take a moment to express our support for the Northwest Requirements Utilities system size, allocation, and augmentation proposal (the "NRU Proposal"), which NRU submitted to the Bonneville Power Administration on February 8, 2023. The NRU Proposal is consistent with the Public Power Council's (PPC's) Framework and Considerations, which PPC presented to Administrator Hairston and other officials from the agency on February 2, 2023, but also provides more specific guidance on several issues that will be critical to public power in the post-2028 era. Additionally, the NRU Proposal framework includes reasonable adjustments that help to strike a more balanced outcome across all stakeholders.

Support for NRU Comprehensive Proposal

The AHMW-G would like to provide a couple of specific points of feedback in support of the broader NRU Proposal framework.

Tier 1 System Size & Augmentation

From our perspective, a balanced policy outcome would incorporate an objective that minimizes above high-water mark exposure at the onset of the post-2028 contract. We acknowledge the implications of this policy objective but also think it strikes a balance to prevent big winners and losers. Therefore, we urge BPA to consider augmentation, as part of the POC policy framework, necessary to produce a Tier 1 system size of 7,500 aMW. BPA should also consider including the CGS uprate as part of an overall Tier 1 resource acquisition decision that would benefit all preference customers.

Load Growth adjustment

We support BPA's POC policy framework that provides consideration for both load growth and conservation adjustments in determining individual utility CHWM amounts. The AHMW-G thinks that it is important to also recognize how these adjustments may impact differently situated utilities. As a matter of policy, we suggest a more equitable outcome based on the premise that customers either 'bear the responsibility' or 'receive the benefit' from their decisions at comparable terms. Additionally, the proposed conservation adjustment benefits a small number of preference customers while there are many more that would benefit by the load growth adjustment. On a proportional share basis, utilities benefiting by the conservation adjustment are receiving greater benefit than are the load growth adjustment utilities. It is through this lens that we propose increasing the Load Growth adjustment to 50% versus the 25% proposed by BPA's POC policy framework.

Non-federal resource adjustment

The AHMW-G supports BPA's policy framework that provides CHWM 'crediting' for self-funded, BPA-reported resource investments made during the Regional Dialogue contract. BPA has supported this position to encourage conservation investments that have helped BPA achieve broader regional objectives. In addition to conservation, renewable and non-emitting resource investments are at least as important in achieving both regional and national climate goals. These dedicated resources also produce a benefit to the region by helping to diversify the region's generation fleet and lowering a utility's overall net requirements, thereby benefiting all preference customers. The AHMW-G proposes a similar 'crediting' for renewable and non-emitting resource investments through a CHWM add-back, like what is being proposed for conservation, to ensure we aren't creating a disincentive for utilities to build resources to meet load growth, or to build resources but then not dedicate them to load due to the concern that they will lose Tier 1 allocation as a result. We think this is an important policy consideration for

subsequent TRM-based contracts, even if resources added after 2023 don't reduce the POC-specific CHWM allocations.

While adoption of these three changes to the latest BPA proposal would enhance the viability of the package presented, the AHWG still sees key issues that need to be resolved in the policy phase of the POC process.

Additional Policy Considerations for the DRAFT Policy ROD

The following comments incorporate the most recent BPA workshop materials, presented on February 21-22. This group appreciates the effort that BPA staff has put into the work done to date and the provision of new options for AHWG preference customers. We think such updates are good first steps and essential to ensuring the TRM paradigm is successful into the next contract and beyond. However, more steps are still needed in the policy phase of this contract formation.

Tier 2 Flexibility and Election Options

We appreciate BPA for responding to preference customer feedback and for moving closer to a framework that may provide preference customers with necessary flexibility and optionality to address future uncertainties from both a supply side and demand side perspective. The information BPA presented during the Feb 21-22 workshop is a good starting point, but we think more flexibility is necessary to provide workable policies related to both AHWG service terms and proposed pricing options. We think the following points are critical to providing the flexibility and optionality to support utilities that will continue to face AHWG load service obligations into the future.

The AHWG does support the changes to BPA's proposal that now include multiple Tier 2 purchase options (i.e. short-term and long-term, as well as resource type based portfolios) in support of future resource integration options. However, we remain convinced that BPA and other preference customers will be unharmed by allowing more flexibility to switch between the long-term pool and the flexible path. We also firmly disagree that by providing customers options for how to meet future load growth will not result in resource development. Public power has no choice to but to develop new resources to meet load growth. Our biggest concerns regarding the revised proposal remain grounded in two elements. First, it appears that BPA is biasing its customers choices toward a BPA-provided AHWG path by forcing them to make a decision for 20-years at the beginning of the contract and further by allowing CHWM headroom pooling at cost for only its preferred offering, the long-term, BPA provided option. We think that broader applicability of CHWM pooling is warranted, public power has been uniformly behind the concept, and any time BPA biases AHWG customer decisions in favor of BPA provided offerings, we see this as being in direct conflict with its stated policy objective of

encouraging non-federal resource development. More flexibility in options and direct comparability, or outright support, for non-federal resource development is necessary to result in non-federal resource development in the post-2028 era contracts.

Tier 2 Service

BPA staff have continued to press their preference for a one-time, long-term Tier 2 election, now accompanied by a one-time election change option which includes hold harmless provisions for other preference customers. BPA should consider expanding options for path selection (Path 1 or 2) versus relying solely on hold harmless provisions alone or limiting it to a one-time option.

Also, and most importantly, consistent with prudent utility planning, and for customers to make such a commitment, BPA would need to present a 'Long-term Tier 2 Rate' resource strategy and pricing policy, which is missing at this point in the POC process. The AHWM-G thinks it is imperative to include a Tier 2 pricing policy that indicates the intent behind BPA's approach to pricing Tier 2 service, instead of deferring the conversation until the future POC rate-making process. We understand there are process considerations for formal rate making decisions. However, outlining the intent behind the general approach, similar to every other POC policy position BPA is asserting, will help inform the choices preference customers are being asked to make as well as resource investment opportunities that exist today. Equally important to some, is the policy framework by which resource selection will be determined. Not having an alternative to compare to makes non-BPA resource investment decisions very difficult to discern. Fundamentally, customers need to be able to weigh pricing and resourcing options before we can support any Tier 2 framework.

FCRPS Surplus Resources

The AHWM-G has stated from the very beginning that we support and understand the merits of the Tiered Rate Methodology, but also seek accommodation for more reasonable terms under the post-2028 era contract to access our statutory rights to federal power at cost. We seek more discussion with BPA and Public Power to find an outcome that presents opportunities for our communities to have access to low-cost federal power for native load service, when it is available, as intended by congress. The AHWM-G does not seek to hoard federal power for its own use nor are we suggesting redirecting a large quantity of surplus federal power for Tier 2 load service at the expense of other preference customers. In fact, charging AHWM customers the Tier 1 price for non-firm power, when available, would result in a larger Tier 1 sales credit as compared to forecasted sales revenue BPA assumes in rates. Further, we do believe it would play an important role in stabilizing Tier 2 rates and provide a bridge for utilities seeking to develop resources if there were a cost-based, right of first refusal mechanism to allow growing utilities to access surplus power at cost-based rates to meet net requirements. For the arguments laid out in prior comments, we strenuously disagree that this would inhibit resource development, especially if the amount made available is capped and used specifically for new

resource integration. Additionally, with both future WRAP requirements and baseload resource needs across the region, utilities will not be able to simply wait to see if market solutions materialize.

During the Feb 21-22 POC workshop, BPA explained that relying on federal surplus in excess of the current critical firm definition introduces risk due to seasonal volatility, so instead BPA would make separate resource acquisitions to create a 'firm' Tier 2 resource. To place a finer point on our proposal, the AHWM-G would like BPA to consider evaluating how non-federal resource acquisitions could be integrated with the FCRPS to effectively 'firm' a portion of the non-firm surplus inventory instead of a strategy that would rely solely upon non-federal resource acquisitions to develop a 'firm' Tier 2 resource. The magnitude of acquisitions, likely coming from variable energy resources, would be substantially greater as a standalone procurement versus integrating such purchases in with surplus power from the federal hydro system and if all renewable, it is not clear that such acquisitions would necessarily be 'more firm' than reliance on a part of BPA's expected surplus above critical firm.

Transfer Service

Transfer service continues to be an essential service for many preference customers today and into the future. BPA's existing implementation of transfer service is a foundational policy throughout BPA's history and conforms to the very essence of a 'delivered product'. The AHWM-G fully supports the key points contained within the Transfer Service Proposal letter that was submitted by Northwest Requirements Utilities, Pacific Northwest Generating Cooperative, and Idaho Falls Power on February 24th, 2023. It is critical that BPA continues to provide transfer service for all its customers on a non-discriminatory basis. If BPA's policy objective is to encourage preference customers to develop their own non-federal resources, then it makes sense for BPA to facilitate non-federal resource development through comparable non-federal transfer service provisions. Absent this commitment, AHWM load obligations become virtually impossible for utilities to manage on an economic or reasonable basis, and once again BPA would be biasing AHWM purchases toward BPA-provided generation.

Non-federal Resource Integration

It is widely recognized that non-federal resource investments will be required in the future to meet load growth and climate change goals across the region. The BPA POC process provides a perfect opportunity to explore material reform to BPA power and transmission integration services. At a minimum, we think the BPA's POC policy record of decision should contain a guiding statement that that "the federal system will be leveraged to encourage and support the development of non-federal resources" to guide future rate/design processes.

The monthly diurnal shaping requirement in BPA's existing contract combined with existing renewable technologies require shaping and flattening services which are priced at theoretical

marginal costs, render resource investments uneconomic for many utilities, and have contributed to the lack of resource development over the RDC period. The AHWM-G sees a potential opportunity for BPA to leverage CAISO EIM & EDAM market tools to redefine renewable resource integration services across the board and pass-through the actual costs reflected in today's industry realities. Finding ways to incentivize, reliable and affordable, renewable and non-emitting resource development may provide the biggest benefit to the region for generations to come. The AHWM-G thinks developing pricing policies around BPA's integration services is also critically important to address as part of the policy record of decision instead of deferring to the POC rate-making process. Creating certainty now will assist preference customers in making long-term resource decisions that have been made available by recent federal legislation.

Summary

In closing, we appreciate BPA's commitment to finding an equitable and meaningful outcome to the Provider of Choice process. The AHWM-G is also committed to compromise, which is at the essence of sound public policy making. We do not want to see big winners or losers in this process; we do not see this as a sustainable path forward for public power and BPA. However, absent the policy considerations we propose above, the members of the AHWM-G, or more specifically the customers our utilities serve, end up becoming the losers in this process. We feel that is an unacceptable and unequitable outcome.

The AHWM-G also recognizes the process timeline is quickly closing, but we continue to stress the need for timely collaboration and open-minded exploration of solutions to define the policy issues we have been raising as part of the POC process. Our plea is to develop a policy framework that can minimize policy afterthoughts and unaddressed open items, while still leaving the mechanics of implementing ratemaking to subsequent proceedings. A comprehensive policy record of decision will add substantial value through certainty in this process. We still have time to make it happen!

Sincerely,

Big Bend Electric Cooperative
Blachly-Lane Electric Co-op
Central Electric Coop
City of Bonners Ferry
City of Forest Grove
City of Heyburn
City of Richland
Clearwater Power Company

Columbia Basin Electric Cooperative
Columbia Rural Electric Association
Consumers Power Inc
Emerald PUD
Fall River Rural Electric Cooperative
Flathead Electric Cooperative
Harney Electric Cooperative
Hood River Electric Cooperative
Inland Power and Light Company
Kootenai Electric Cooperative
Lincoln Electric Co-op Inc
Lower Valley Energy Inc
Midstate Electric Cooperative, Inc
Missoula Electric Cooperative, Inc
Northern Lights, Inc
Northern Wasco County PUD
Okanogan County Electric Inc
Pacific Northwest Generating Cooperative
Ravalli Electric Cooperative Inc
Surprise Valley Electrification Corp
Umatilla Electric Cooperative
United Electric Co-op Inc
Vigilante Electric Co-op Inc
Wells Rural Electric Company