

PUBLIC POWER POST-2028 CONCEPT PAPER

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EXECUTIVE SUMMARY

The Regional Dialogue contract expires in 2028, and upon its conclusion the Bonneville Power Administration (BPA) and Public Power move into a new era of power supply. Public Power anticipates the post-2028 contracts must help preference customers respond to their changing power supply needs as they evolve over time, provide options to meet new regulatory requirements, and include adaptable provisions to address the impacts from the potential formation of organized market(s) in the region. In response to these changing requirements, the following paper reflects a set of concepts and proposals designed to guide BPA's post-2028 contract offerings.

This paper reflects the strong collaboration and information exchange between BPA and Public Power over the last several years. As a result, these concepts have been extensively vetted and are broadly acceptable to Public Power while preserving individual perspectives and identifying where further alignment and analysis is needed. The breadth of the concepts presented is wide, but in all cases, they require:

1. BPA's affirmation of Public Power's preference rights to the energy, capacity, and environmental attributes from the Federal Columbia River Power System (FCRPS), including potential changes to BPA's policies for applying preference and how preference customers exercise their rights.
2. Adherence to BPA's statutory obligations including meeting public power's energy and peak capacity net requirements when requested.
3. The use of tiered rates as the springboard to maintain existing benefits, with enhancements to, among other things, help the transition to a carbon-free power supply.
4. Achieving durability by offering contracts with adaptable products, services, and terms that will allow BPA customers to meet their needs as they evolve over time, including their emerging resource adequacy needs. This also include financial prudence in offering the highest possible value at the lowest reasonable cost.

Building off these parameters, the concept paper explores six main issues, as follows:

1. ***System Size and Allocation:*** This concept builds off a tiered rates framework that considers the methods and potential inputs for calculating Public Power's high water mark Tier 1 allocation, the size and scope of BPA's Tier 1 System Firm Critical Output, and potential system augmentation.
2. ***System Capacity:*** Preference and priority to BPA's system capacity is addressed to first serve Public Power and meet BPA's net requirement obligations and preference customer elections prior to any sales to non-preference parties. This is furthered through an advanced determination of BPA's peak net requirements obligations under each of the contract products before adjustment to the parameters providing for equitable and durable cost allocation.

3. ***Clean Energy Products and Practices:*** In meeting the changing environmental regulations and utility goals, the post-2028 power supply contract must acknowledge the right of Public Power to retain the environmental attributes of the resources from which it is served. Public Power further recommends BPA consider access to a 100% renewable or non-emitting product through a new process for customers to access rights to environmental attributes, and provides recommendations for BPA to consider in tandem with its current business practices and approach to potential system augmentation.
4. ***Cost Management and Contract Terms:*** The financial success of Public Power and BPA are inherently intertwined. This concept paper puts forth a set of proposals aimed toward maintaining a financially healthy BPA. The proposals are crafted to accomplish three things:
 - a. Establish accountability through codified financial policies;
 - b. Provide heightened Public Power asset management oversight; and
 - c. Allow equitable contract off-ramp and modification provisions.
5. ***Adaptable Contracts:*** One of the most important elements in the post-2028 contract is to allow for Public Power to adapt to changing externalities. The array of concepts included is diverse but with a common thread allowing for customer choice in how the value of the FCRPS is delivered to Public Power while limiting overall cost shifts between customer groups.
6. ***Other Issues:*** The concept paper discusses the importance to Public Power of transfer service, irrigation rate mitigation product, and low density discount in the post-2028 timeframe.

Finally, it is important to highlight the need for continued collaboration, and the concepts and actions discussed here are just one part of an ongoing dialogue between BPA and Public Power. We expect the priorities and needs within Public Power will become increasingly detailed and certain as the conversation unfolds. Our hope is for this foundational concept paper to inform the ongoing discussions and collaborative analysis between BPA and Public Power as we work to create contracts that provide customers with the products they need to succeed in the new power era.

INTRODUCTION

The electric utility industry in the Pacific Northwest is undergoing unparalleled changes that are only expected to accelerate up to and during the next Bonneville Power Administration (BPA) power supply contracts. The reasons for this transformation are manifold and multilayered, but they include:

1. Expanding regulatory obligations (e.g., clean energy and carbon obligations) under local, state, and national law;
2. Expanding conservation and load management obligations under state and, potentially, national law;
3. Potential capacity shortfalls as carbon-emitting base load resources retire;
4. Increasing need to efficiently integrate variable renewable resources to serve a greater portion of the region's load and to reduce renewable curtailments;
5. Emerging new organized market alternatives in the West;
6. The potential for an over-abundance of very low-cost energy lowering BPA's revenue from secondary sales;
7. Emerging regional and state resource adequacy requirements;
8. Changes to loads and resources due to climate change;
9. A declining and increasingly constrained Tier 1 System due to increased scrutiny on the impacts of hydropower; and
10. New end-user demands for electric power (e.g., electric vehicles, conversion to electric heating, and movement away from fossil fuel generation).

The scope and pace of the above changes will place significant challenges on BPA and its preference customers during the post-2028 period, which are as significant as those that led to the adoption of the Northwest Power Act. What is more, there will likely be other changes in the post-2028 operating environment that BPA and its customers do not yet foresee but for which they will need the ability to adapt. This combination of rapid industry change and future uncertainty has led to the belief that, without adjustments from the status quo that provide more customer optionality, the current construct may fail under the weight of the changes anticipated after 2028, particularly if the next contract is for another twenty-year term.

Public Power seeks to partner with BPA to develop post-2028 contracts that will not just help meet the above challenges, but also place BPA, its preference customers, and the communities they serve in a position to thrive. The following paper lays out Public Power's proposed concepts for achieving this objective. While the breadth of issues addressed herein is wide, reflecting the diverse needs of BPA's preference customers, the value of BPA's post-2028 contracts and the ability of such contracts to deliver that value should be built on the following three fundamental elements:

1. **Service of Net Requirements.** Like all BPA power contracts since the Northwest Power Act was passed in 1980, the post-2028 power supply contracts must ensure that BPA will meet the energy and peak capacity Net Requirements of all its preference customers upon request. This includes helping all requesting preference customers to meet their resource adequacy requirements for both capacity and energy.
2. **Full Application of Preference.** The ultimate success of the post-2028 power supply contracts will largely depend on whether they help preference customers meet their expanding obligations. For many utilities, meeting these new regulatory and compliance obligations while keeping the lights on at the lowest possible cost will remain as a paramount concern into the future. These obligations breathe renewed life into the value of the Federal Base System (FBS) resources serving the Net Requirements of preference utilities and first right of access to those resources at cost, which Public Power views as a fully bundled power product with first in right entitlement to all the energy, capacity, and environmental attributes (e.g., Renewable Energy Credits and low carbon attributes) of such resources. The post-2028 contracts must fully address this preference right by ensuring that BPA does not offer to sell any portion of the energy, capacity, and/or environmental attributes of the Federal system to non-preference customers before providing a timely and meaningful opportunity to its preference customers to exercise their preference rights.
3. **Tiered Rates.** Public Power proposes that BPA and preference customers use a tiered rates framework as the starting point for this concept paper and subsequent post-2028 contract negotiations. This is due to two main factors. First, Public Power continues to see a benefit to using a tiered rate structure to ensure consistently low rates over time for that portion of a customer's load served by the FBS (as it may be defined and augmented for the post-2028 period). Second, as further discussed below, Public Power believes that a tiered rate structure coupled with an allocation of environmental attributes presents one of the best opportunities within the post-2028 contracts to (i) ensure that utilities can meet their respective regulatory obligations, (ii) preserve and enhance the low carbon attributes of the Tier 1 System for the benefit of preference customers, and (iii) encourage renewable resource development for purposes of serving preference customer load. For these reasons, the concepts identified below build on and expand on the established tiered rate framework.

This concept paper intends to define the initial bounds by which Public Power and BPA will analyze and construct the region's next long-term power supply contract. We view this as a starting point of an iterative process between Public Power and BPA where these concepts will be deliberated and built upon. We also anticipate that many of the externalities identified above will change or evolve between now and when the post-2028 contracts are finally signed. For this

reason, Public Power expects that some of the positions laid out below will adjust over time and are therefore considered non-binding. Public Power also acknowledges that the proposals below will likely have cost and product impacts, and/or create additional complexity for post-2028 implementation, that are not fully identified or understood at this time. Public Power respectfully requests BPA work with customers during the next stages of the post-2028 development process to analyze and better understand these impacts.

We also note that there are critical elements to BPA’s post-2028 competitive position that may be beyond the scope of the contracts and products. In particular, obligations for Residential Exchange and Fish and Wildlife mitigation will continue to have a substantial impact on BPA costs and rates. To achieve BPA’s “Provider of Choice” goals, it is essential for the agency to work with customers on approaches to both control the level of these costs and achieve long-term certainty. Work on these issues needs to start soon, and should not be deferred, because they will have significant cost implications that we need to understand before arriving at terms for this next contract period.

CONCEPT PAPER FRAMEWORK & PRINCIPLES

The remaining balance of this paper is divided into the following main categories:

1. System Size and Allocation
2. System Capacity
3. Clean Energy Products and Practices
4. Cost Management and Contract Term
5. Adaptable Contract Terms and Conditions
6. Other Issues

Each category includes one or more concepts for subsequent exploration and development by Public Power and BPA. The proposed concepts were developed and evaluated by Public Power using the following principles as a starting point for the post-2028 contracts:

1. *Ensure the lowest Tier 1 Rates while preserving and enhancing the value of the Federal Columbia River Power System (FCRPS).*
2. *Adhere to preference and obligation to serve 5(b) peak and energy Net Requirements.*
3. *Adaptable to emerging markets, regulatory changes, and evolving end-user needs.*
4. *Enable customers to meet regulatory compliance obligations (including carbon compliance objectives) and minimize compliance uncertainty.*
5. *Broadly acceptable to public power utilities.*
6. *Facilitate development and integration of non-federal resources by preference customers.*

Public Power, which is defined here as the Public Power Council, Western Public Agencies Group, Northwest Requirements Utilities, and Pacific Northwest Generating Cooperative, are submitting

this concept paper to BPA in March 2022. The concept paper proposals and related details were jointly drafted by a small working group that included the organizations listed above as well as many individual BPA customers who participated on a voluntary basis. All of BPA's preference customers have had the opportunity to review, critique, and supplement the included proposals through an iterative process running from December 2021 through March 2022 that included multiple PPC's Rates and Contracts meetings per month, which were made available to all of BPA's current preference customers, as well as many separate meetings held by the trade organization identified above and their respective members. In addition, a draft of this concept paper was provided to all of Public Power more than two weeks prior to its submittal to BPA with opportunity for comments and suggestions. Thus, this concept paper and its proposals should be considered broadly vetted and acceptable to Public Power, except where otherwise noted.

SYSTEM SIZE & ALLOCATION

Background

Public Power proposes that BPA and preference customers use the existing tiered rates framework as the starting point for this concept paper and subsequent post-2028 contract negotiations. This is due to two main factors. First, as put forth in our principles, Public Power continues to see a benefit to using a tiered rate structure to ensure equitable access to the lowest cost assets of the federal hydro system. Second, as discussed in more detail under the Clean Energy Products and Services section below, Public Power believes that a tiered rate structure together with a corresponding tiering of environmental attributes presents one of the best opportunities within the post-2028 contracts to (i) ensure that utilities can meet their respective regulatory obligations, (ii) preserve and enhance the low carbon attributes of the existing Tier 1 System for the benefit of preference customers, and (iii) encourage renewable resource development for purposes of serving preference customer load.

Public Power is not, however, asking for a simple roll-over of the existing Tiered Rates Methodology (TRM). Instead we propose to work with BPA to identify enhancements to the TRM framework, including the potential for new products and tools, to address both the post-2028 challenges identified above as well as the existing shortcomings. For example, the rate period to rate period variability in the size of the Tier 1 system should be considered. This unpredictability, together with the Tier 1 take-or-pay obligation, has made it very difficult for customers to plan on how to serve their Above Rate Period High Water Mark Load (A-RHWML), particularly if using non-federal resources. As we see greater resource constraints facing the region over the coming decades, this has become an issue of growing importance and a key topic of debate across public power as we discuss the terms of the next BPA contract period. As further discussed below, Public Power is looking forward to collaborating with BPA to identify possible ways to address such issues.

Proposals for BPA's Consideration

With the decision to continue with a tiered rate framework for the post-2028 period comes difficult questions regarding Tier 1 system size and allocation. Notwithstanding our best efforts in the developing this concept paper, Public Power has more work to do on these two critical items. We have, however, identified the following considerations that we ask to further explore and analyze with BPA in an iterative process that seeks to identify an approach to system size (including revisiting how BPA determines the Tier 1 Firm System Critical Output as well as augmentation of the Tier 1 System) and allocation that ultimately achieves broad support across Public Power:

Initial Allocation (i.e., High Water Mark) Calculation: The current TRM allocates the existing “Tier 1” system amongst its preference customers via a legacy CHWM amount. Each utility’s CHWM is based on its FY 2010 measured load and §5(b)(1) dedicated resources as of September 30, 2006 (Existing Resources), subject to various normalizing adjustments for energy efficiency, weather, and economic circumstances. The CHWM amounts are generally fixed through the term of the current contract and are only modified under a few, limited circumstances. The initial CHWM is adjusted by BPA’s “Rate Period High Water Mark” (RHWML) process, which defines a customer’s maximum entitlement to delivered power at a Tier 1 Rate for each rate period. Thus, under the current contracts, any portion of a utility’s Net Requirements load that exceeds its RHWML is deemed to be A-RHWML, and the customer must either serve that load from non-federal resources or using a BPA Tier 2 Rate. Looking ahead to post-2028, Public Power is in general agreement that the system allocation methodology for the post-2028 contracts should start with a similar calculation of a utility’s load less its resources with agreed to adjustments. However, we have no initial agreement on the vintage or nature of the inputs to the calculation or adjustments we would like to see. Accordingly, we would like to work collectively with BPA to present multiple perspectives that will allow us to evaluate the following to be potentially used in calculating each utility’s post-2028 CHWM:

1. The measured Total Retail Loads by BPA fiscal year(s) to be used in the calculation.
2. The Existing Resources and New Large Single Loads (NLSL) used in the calculation, as well as potential changes to the definitions thereof and related BPA policies. This should include potential modifications to BPA’s 5b/9c and NLSL policies that consider changes to allow for more flexible application of non-federal resources.
3. Consideration of conservation achievements.

BPA’s Tier 1 Firm System Critical Output: BPA currently uses 1937 critical water to calculate its Tier 1 Firm System Critical Output. Public Power proposes to work with BPA to evaluate whether it should continue to use 1937 critical water or some other metric in the determination of the post-2028 Tier 1 Firm System Critical Output, which includes collaboration on the following:

1. Considering alternatives to the use of 1937 Firm Critical Water based on probabilistic analysis of more recent streamflow.

2. Conducting sensitivity analyses that include climate change, potential FCRPS efficiency gains, and impacts of potential resource loss.
3. Considering consequences to the BPA's contract products of moving away from the current 1937 critical water standard for determining the amount of firm Tier 1 service, whether to a different definition of firm critical or to another point in the system output distribution.
4. Considering impacts to BPA's balancing purchases, secondary sales, and system carbon content.

Augmentation: BPA and Public Power should collectively determine an appropriate augmentation strategy, which considers impacts to the cost, fuel mix, and resource firmness. This should include exploring options to (i) augment the size of the Tier 1 System at the beginning of the contract to an amount equal to the sum of the CHWMs and/or (ii) to provide each preference customer initial CHWM/RHWM headroom at the beginning of the contract that BPA would meet by strategically augmenting the Tier 1 System as loads grow.

Other Considerations: BPA and Public Power should also examine the following considerations in addition to the factors above in order to achieve an equitable allocation approach that is ultimately broadly acceptable among customers:

1. **Consideration for New, Tribal, and Emerging Loads.** BPA should consider additional allocation for new public/tribal utilities, as well as returning and emerging load growth for existing customers, which includes consideration for Committed To/Contracted For Loads or other flexibilities such as mid-term CHWM updates to account for load growth from electrification and other industry trends.
2. **Potentially Fixing the Size of or Range for the Tier 1 System.** BPA should consider alternatives that fix each customer's RHWM amount in order to address the Tier 1 allocation variability described above.
3. **Tier 2 Rates and Product Development.** Under the current TRM, customers have the option to serve A-RHWM (i.e., Net Requirements exceed RHWM) by either using BPA's Tier 2 Rates or non-federal resources. There is an array of Tier 2 Rates currently available, which includes a Load Growth Rate, Short Term Rate, and Vintage Rate. While the current Tier 2 Rates provide some optionality, Public Power requests that BPA and customers evaluate modifications that provide more customer control and consider the emerging issues that customers face such as carbon regulations.
4. **Normalizing Factors.** Similar to the CHWM calculations that were conducted for the current contracts, there may be considerations to account for outliers during the measured time period that is used to calculate the post-2028 CHWMs. This should include, but is not limited to, weatherization and faulty meters.
5. **RHWM Exchange.** Public Power proposes that under the next contracts BPA pool and reallocate unused RHWM to requesting preference customers whose Net Requirement exceeds their RHWM. If there is no such demand, BPA would remarket

the unused RHW in the same manner that it currently does. RHW entered into the unused RHW pool for a given rate period or rate year would be returned to customers at the start of the next rate period or rate year, as applicable, to the extent necessary to match any growth in their Net Requirements.

SYSTEM CAPACITY

Background

Section 5(b)(1) of the Northwest Power Act provides that:

Whenever requested, the Administrator shall offer to sell to each requesting public body and cooperative entitled to preference and priority... electric power to meet the firm power load of such public body (or) cooperative... in the Region to the extent that such firm power load exceeds –

(A) the capability of such entity's firm peaking and energy resources used in the year prior to the enactment of this Act to serve its firm load in the region, and

(B) such other resources as such entity determines, pursuant to contracts under this Act, will be used to serve its firm load in the region.¹

The electric power BPA is obligated to sell each preference customer to meet its Net Requirements includes both electric energy and electric peaking capacity. Today, under the Regional Dialogue contracts, Public Power customers are differently situated, from a Net Requirements perspective, based on whether they chose the Load Following, Slice/Block, or Block products under the Regional Dialogue Policy. While BPA's peak net requirement obligations to Load Following customers under the current Regional Dialogue contracts is consistent with the §5(b)(1) language above, Section 5.1 paragraph 3 of Slice/Block Regional Dialogue contract curtails the §5(b) rights of Slice/Block customers with the following language:

BPA does not guarantee that the amount of Slice Output Energy made available under the Slice Product, combined with Firm Requirements Power made available under the Block Product, will be sufficient to meet (*customer's*) regional consumer load, on an

¹ 16 U.S.C. § 839c(b)(1).

hourly, daily, weekly, monthly, or annual basis. (*Customer*) agrees that it has the obligation to supply nonfederal power to meet its Total Retail Load not met by its purchase of Slice Output and power from the Block Product.

Among the legal effects of the above contract language is that it deems BPA's §5(b)(1) obligations to Slice/Block Customers to serve their energy and peak capacity Net Requirements satisfied even if the Slice Output Energy made available under the Slice Product, combined with Firm Requirements Power made available under the Block Product and the customer's own §5(b)(1) dedicated resources, falls short of meeting their full energy and peak capacity needs. However, the growing resource adequacy issues confronting the region, including the resource adequacy issues confronting BPA's Slice/Block Customers, as well as the emergence of the Western Resource Adequacy Program, likely mean that the "you are on your own" construct of the current Slice/Block contract will not be sustainable for Slice/Block customers post-2028 without significant changes.

Given these resource adequacy challenges, BPA should consider additional tools within the Slice/Block product for Slice/Block customers. Such challenges will also require BPA to reevaluate how it gives preference customers the opportunity to assert their preference rights over FCRPS capacity before BPA sells it to non-preference customers. BPA should not sell capacity and/or energy to non-preference customers when there is demand for such capacity and/or energy among its preference customers, but this is what has happened with BPA's recent capacity sales to non-preference third parties. For this and the other reasons above, more robust mechanisms should be evaluated for post-2028 that ensure that preference customers can assert their statutory rights to BPA's capacity in a timely and meaningful way.

In asserting preference to system capacity, it is not just the peak net requirement needs of Slice/Block or Block customers that Public Power is concerned with. It is essential that the capacity needs of Load Following customers continue to be met, and that ongoing requests for access to capacity for the integration of non-federal resources used to serve preference customer loads are also addressed.

Finally, as detailed in the subsections below, Public Power looks forward to working collaboratively with BPA to identify and develop products and services that will help customers address their existing and anticipated needs throughout the post-2028 contract term.

Proposals for BPA's Consideration

Public Power is looking for post-2028 contracts that help them meet their post-2028 5(b) net peak requirement needs. We request that BPA assess its obligation to do so under §5(b)(1), and we

further believe that meeting this objective will require the broadest possible application of preference to all components of power produced by the federal power system and marketed by BPA, including both capacity and energy, as well as the derivative environmental attributes of that capacity and energy. To this end, BPA must also reevaluate how it gives all preference customers the opportunity to assert their preference rights to FCRPS capacity and energy that is brought to the secondary market, especially in situations where the non-price terms and conditions negotiated by BPA and other non-preference customers are non-standard. Public Power also makes the following capacity related proposals for BPA's consideration:

Load Following Product Net Peak Requirements: Public Power requests that BPA consider and analyze the following for the Load Following product:

1. Continue to serve Load Following customer's entire net peak load requirement just as today, consistent with 5(b).
2. Provide for more efficient and cost-effective non-federal resource integration. An important consideration when integrating specific generating resources with a Load Following customer's BPA power supply are firming and shaping services (i.e., converting a specific resource output profile into a shape as defined by the BPA's Regional Dialogue contract or its successor). Currently, the default option for Load Following customers is BPA's Resource Support Services. RSS was intended to provide planning certainty for BPA when balancing its resources and load service obligation. While Public Power agrees that this planning responsibility is an important consideration for BPA, RSS in practice is needlessly complex and overly expensive, especially for capacity to balance variable, carbon free resources such as solar and wind. Thus, Public Power requests that BPA analyze an RSS charge that is comparable to its Load Shaping Rate or other similar options.

Slice/Block and Block Capacity-Specific Product Enhancements: Public Power requests that BPA consider and analyze products and services that will enable non-Load Following customers to meet future resource adequacy obligations consistent with 5(b) peak and energy Net Requirements. To that end, Public Power looks forward to working collaboratively with BPA to identify and develop products and services that will help customers address their existing and anticipated needs throughout the tenor of the post-2028 contract term.

We propose that BPA and Public Power use a sequential process to: First, identify gaps between the current products and the expected post-2028 resource adequacy and load service of BPA's Slice/Block and Block customers; Second, start sequentially with the easiest (defined here as the smallest changes from existing practice) enhancements to analyze such gaps with optionality to best match community needs, and Third, progress through enhancement options, and once exhausted, supplement with a capacity product until the holistic Net Requirements (energy and peak) of such customers are met.

That sequence of analysis reads broadly as follows, starting with product enhancements in part (A) and product additions in part (B). Additional details follow this higher-level sequential description:

- A. **Block ratio and product options help customers better match the BPA product to their load service needs.**
 - a. **Customers select their Block/Slice ratio of contractual allocation at firm critical** from a narrow band of discrete options (for example: 45% Slice/55% Block, 50% Slice/50% Block, 55% Slice/45% Block).
 - b. **Customers select their Block option to pair with their Slice allocation.** This additional choice allows customers to utilize existing products with existing pricing mechanisms to better meet their load service needs.
 - i. This would require updating of the current 60% Heavy Load Hour maximum in order to facilitate 5(9)(b) load service
 - ii. This would be enhanced by periodic Block load shaping factor updates to reflect current load profiles
 - iii. The Slice Requirements Slice Output test needs to be modernized in the present period to align with the operational environment, but would further benefit from a modernized Slice/Block product
- B. **Unmet Peak Net Requirement needs would be served by a capacity product allocation** calculated to meet any remaining statutory obligation BPA has to serve a customers peak load.

Further details on product options described above are included in the Appendix. If adopted, these proposed updates would likely have revenue, operational, rate, and/or risk impacts that are not at this time fully understood, at least not yet by all of Public Power. Nonetheless, for a next step, we are supportive of working together with BPA to analyze both the individual and cumulative impacts of these proposals, as well as any factors that may offset such impacts (e.g., rate options), to determine whether the net impacts (on an individual basis and/or in the aggregate) are broadly acceptable to both BPA and all of its preference customers.

CLEAN ENERGY PRODUCTS & PRACTICES

Background

In recent years, states, local governments, and utilities across the region have passed laws or established goals to increase clean energy resource acquisition and reduce greenhouse gas emissions. To meet these new laws and goals, BPA's preference customers must be able to represent that they have invested in and received clean electricity power and products from the federal system.

BPA's power supply is primarily derived from clean, renewable hydropower, which provides a beneficial starting point for preference utility requirements and BPA should have a goal of offering a 100% clean power product pathway during the post-2028 contract term. Moreover, other utilities may have an interest in providing 100% clean power as soon as possible to their customers.

To be the post-2028 Provider of Choice for Public Power, it is essential that BPA offers a cost-effective and administratively efficient post-2028 products that will enable its preference customers to meet 100% clean energy or 100% carbon-free requirements or goals. Additionally, Public Power requests analysis of additional options for "cleaning and greening" the federal base system. And, to the extent augmentation is necessary to meet preference customer Net Requirements, Public Power seeks to work with BPA to jointly contemplate how clean power investments will be considered prior to any long-term acquisitions are made.

Topics for Discussion

Environmental Attributes should be Retained for Preference Customers

Fundamentally, the post-2028 contracts must recognize that preference rights include the environmental attributes of the federal base system output including attributes associated with unspecified secondary surplus sales.

Market Purchases and Participation

To achieve load and resource balance, BPA utilizes unspecified market purchases. Under emissions reporting frameworks, unspecified market purchases are deemed to include greenhouse gas emissions. These market purchases are not eligible for compliance with clean energy resource acquisition requirements. Additionally, there are specific state requirements, such as Washington Clean Energy Transformation Act (CETA), that limits the ability of utilities to use unspecified market purchases transacted in increments greater than a month.

Organized market participation may expand the ability to integrate clean energy resources, but participation in organized markets may also have an impact on BPA's emissions profile. The carbon content of BPA's "single system mix" could be significantly different under organized markets, and customers want to ensure that this is considered in the post-2028 framework. Customers have an interest to ensure that the designation and distribution of federal system environmental attributes is considered and not adversely impacted for customers due to BPA market participation.

Single System Mix

With the customer need for a product that is 100% clean, one identified point of discussion is BPA's policy to treat its portfolio output as a "single system mix." A single system mix means that

any energy sold by BPA is assumed to include a portion of BPA's unspecified market purchases used for system balancing. Therefore, the single system mix approach could pose challenges for preference customers because a portion of their fuel mix will always be considered non-clean and contain some amount of carbon content, potentially preventing customers from claiming the use of 100% clean resources and result in incremental costs due to compliance penalties or mitigation requirements.

In addition, the interplay between the single system mix and the tiered rate construct will be critically important post-2028. BPA should expect increased demand from customers post-2028 for Vintage Tier 2 products based on carbon-free resources as utilities look to comply with their carbon-free requirements or goals. Although customers paying Vintage Tier 2 rates based on carbon-free resources will expect to receive an attribution of 100% carbon-free based on such resources, there is an open question as to whether they would instead receive attribution of BPA's single system mix that includes the carbon emitting components of both Tier 1 and other Tier 2 products. This has the potential to create perverse incentives and outcomes. For instance, it would mean that a hypothetical customer who requests 10 aMW of a Vintage Tier 2 product based on a carbon-free resource would receive the same carbon attribution as another hypothetical customer who requests 10 aMW of a Vintage Tier 2 product based on a coal resource. This is because both customers would receive BPA's single system mix. Such an outcome would not only discourage the use of carbon-free resources for Tier 2 purposes, but it would also undermine the low carbon attributes of BPA's Tier 1 power if carbon-emitting resources are used to serve load at a Tier 2 rate and then run through BPA's single system mix for carbon accounting purposes. For these reasons, Public Power wishes to work with BPA to develop mechanisms that ensure that 100% of the attributes of the resources underlying the Tier 1 and Tier 2 products are, respectively, attributed to the customers who pay the associated Tier 1 and Tier 2 rates.

Varying Needs Across Jurisdictions

Preference customers have a range of regulatory needs (or lack thereof) across the multiple jurisdictions served by BPA. It is Public Power goal to ensure that the post-2028 product fairly distributes the environmental benefits and associated costs within BPA's preference customer base, whether this takes the form of Renewable Energy Credits (RECs), rate adjustments, or some other heretofore undiscussed mechanism. Public Power's proposals intend to recognize the varied needs of BPA's customers and ensure equity between preference customers.

Many customers also have an interest in environmental stewardship and clean energy in absence of or beyond what is required by state mandates. Public Power hopes to craft proposals that will preserve the flexibility for BPA to meet all of the needs of respective customer by allowing cost-effective compliance with regulations, providing 100% clean power for customers who elect that purchase as a matter of community choice, and ensuring that customers without mandates or established goals will receive appropriate compensation for helping other customers meet

requirements and will not face negative financial consequences of others' compliance needs (or vice versa).

Proposals for BPA's Consideration

Public Power proposes that BPA consider a three-pronged strategy to provide benefits to customers at the beginning of and throughout the post-2028 contracts by (1) analyzing adjustments to its business practices that may have environmental benefits, (2) providing a pathway to a 100% clean product, and (3) when needed, making investment in specified, clean resources.

BPA should attribute different fuel mixes to Tier 1 and Tier 2 rates. For the reasons discussed above, BPA must develop a mechanism to deliver the attributes of the respective resources underlying the Tier 1 and Tier 2 rates (or equivalent post-2028 construct) to the customers who specifically pay such rates. While this approach by itself may not enable customers to achieve a 100% clean product, it would help them move towards that objective while also removing purchases associated with meeting Tier 2 load from Tier 1 accounting and vice versa.

BPA should issue environmental attributes based on actual purchases, rather than a customer's RHEM allocation. BPA should align environmental attribute creation and allocation with actual energy delivered to customers. Currently BPA allocates RECs to customers based on the customer's RHEM allocation, and not their actual purchases of energy. In order to align with state regulatory requirements, BPA should adjust its practices and assign environmental attributes based on actual energy purchases and the fuel mix content of the BPA Tier 1 or Tier 2 rate.

BPA should provide a pathway to a 100% clean product by allowing customer to customer reallocation of rights to energy and environmental attributes. Under today's construct, customers do not have any real control over the fuel mix content of BPA's system mix and, by extension, the fuel mix content of energy they receive from BPA. While this structure represents a preference customer's rights to the environmental attributes of BPA's system, the lack of control and inability to eliminate emitting fuel types (i.e., carbon based) make the current construct challenging in a future where 100% clean energy standards are established or on the horizon. Customers propose establishing a 100% clean product that aligns, and does not create disruption, with BPA's single system mix policy.

Public Power proposes that, in addition to developing a mechanism to deliver the attributes of the respective resources underlying the Tier 1 and Tier 2 rates (or equivalent post-2028 products) to the customers who specifically pay such rates, BPA should also establish a process through which customers would be able to bilaterally allocate their rights to energy and environmental attributes with other preference customers, which may include a rates adjustment where necessary. An efficient bilateral allocation of energy and attribute rights creates regulatory certainty for those

BPA customers with clean energy obligations, while providing a potential premium for those customers without. Finally, any customer who does not wish to participate in any bilateral allocations would not be impacted by others' product choice.

This proposal aligns with regulatory requirements in a couple of important ways. First, many compliance obligations require utilities to own or possess the rights to all environmental attributes associated with any given megawatt-hour of energy received. This includes carbon-free attributes, renewable attributes, and any other claims which could be made against the energy. This could be represented through RECs or through some other form, such as an attestation or an imputed number of attributes based on BPA's system mix percentages.

Second, this proposal aligns with many clean energy regulations that are acquisition-based standards, requiring energy and the rights to the environmental attributes to be acquired together in the same transaction. This precludes any kind of "after-the-fact" transactions of power and attributes, as this would constitute a separation of attribute from the initial allocation of energy.

These two aspects combine to create the first requirement of a rights-allocation framework: any allocation of environmental attribute rights between customers must occur *prior* to the period in which energy is generated, allowing for customers to allocate the rights to the energy itself, rather than just the attributes.

As with any transaction made before an operational period, there must be enough energy and attributes available to fulfill the terms of the agreement. An allocation framework collapses if customers allocate more than they receive. Therefore, it is essential that a limit to the number of megawatt-hours allocated is established as part of the product framework. To ensure that customers do not allocate more megawatt-hours and associated attributes than what they actually receive, the framework should limit allocation amounts to the customers' share of the forecasted firm critical output of BPA's system.

BPA should analyze additional options for "cleaning and greening" the federal base system.

BPA should analyze whether there are viable, clean power options for short-term purchases to balance its system and reduce its reliance on wholesale unspecified market purchases. State law precludes utilities from making unspecified market purchases of longer than 31 days to serve Washington customer load after 2025. The current business plan identifies spot market purchases as the preferred least-cost approach, but this analysis should be reviewed in light of new clean energy regulations, associated regulatory risk, and some customer preferences to reduce BPA's emissions profile. This analysis should review the impact on all customers, to ensure fair treatment of customers not subject to a requirement or goals, including both cost and fuel mix as well as the potential for such customers to trade attributes if Public Power's other proposals are adopted. BPA

should also offer clean and specified Tier 2 product(s), including investigating customers' ideas for process improvements and interest in molding the offering.

When needed, BPA should consider long-term clean energy investments to augment the federal system. To the extent that the base federal system has a need to grow to meet customer Net Requirements, which is an open question that will likely be addressed within the post-2028 contracts, Public Power requests that clean power investments are considered to meet those needs. This concept is focused on long-term investments that add to the federal portfolio to meet customer Net Requirements, rather than shorter-term purchases that are made for load-resource balancing purposes. Additionally, as a federal power marketer, BPA is not a resource developer and Public Power requests that any augmentation needed for the federal base system could be performed by an experienced third party, with preference customer input throughout the process.

COST MANAGEMENT & CONTRACT TERM

Background

The financial health and success of Public Power and BPA are intertwined. We understand BPA's statutory obligation to recover costs and repay the federal investment in the FCRPS. Our fundamental focus is on value, of which managing costs is one aspect. The willingness and ability for Public Power to sign long-term contracts depends substantially on the outcome of discussions in this area.

Given the uncertainty and potential for change post-2028, Public Power is interested in examining a suite of mitigation tools that will help manage the varied risks both BPA and Public Power will jointly face in the post-2028 operating environment, including program cost, rate level, and carbon risk, among others. Some concepts discussed here are applicable to factors more directly in BPA's control such as program costs, while others may encompass risk mitigation for broader factors. Although not completely within BPA's control, we note that it is essential for the agency to work with customers to limit the level of rate impact and uncertainty in key areas such as Residential Exchange and Fish and Wildlife mitigation. We believe this work needs to begin as soon as feasible.

The upward rate and cost trajectory during the first part of the Regional Dialogue contracts was alarming to BPA's preference customers, many of whom found themselves questioning the wisdom of executing long-term, take-or-pay power supply contracts with BPA. The upward pressure at the time was due to factors both within and outside of BPA's control. During the initial rate periods of the Regional Dialogue contracts, the revenue requirement for BPA's power costs and rates increased substantially. External factors driving up rates included historically and persistently low natural gas prices, the rise of renewable energy, multiple carbon-free initiatives,

and reduced demand, to name a few. Together, these external factors fundamentally changed energy markets throughout the West, significantly lowering both (i) the price BPA received for its secondary energy and (ii) the measuring stick by which BPA's power rates were compared.

To its credit, BPA ultimately took action to address the early Regional Dialogue concerns of its preference customers regarding its upward power rate trajectory. Significantly, this included BPA's adoption of its 2018-2023 Strategic Plan, which among other things put a renewed focus on improving BPA's cost-management discipline and established a goal to keep the sum of BPA's program costs, by business line, at or below the rate of inflation through 2028. More importantly, BPA has successfully implemented this component of the Strategic Plan by holding power program costs flat for two consecutive rate periods.

More recently since BPA's adoption of the Strategic Plan, some of the external factors that so heavily weighed on BPA's competitiveness in the early part of the Regional Dialogue contracts shifted in BPA's favor to significantly increase the revenue BPA receives for its secondary energy. This, coupled with BPA's success in holding its program costs below the rate of inflation, has greatly improved the perception that BPA is a competitive power supply option compared to the early years of the Regional Dialogue contracts.

At the same time, BPA has also adopted financial policies related to liquidity and debt management that have added costs for customers that were not contemplated during negotiation of the Regional Dialogue contracts. Public Power wishes to avoid the potential for unexpected costs from discretionary financial policies in post-2028 contracts. This means coming to agreement between BPA and Public Power on financial strategy and approaches for mutually agreed changes as circumstances evolve.

Based on the above experience, some of the lessons learned by preference customers during the term of the Regional Dialogue contracts are that:

1. BPA's business and competitiveness are cyclic due to many different internal and external factors, both in and out of BPA's control, and cost management discipline, implemented over the long-term, is one of the few means BPA has to help ensure that it remains cost competitive during both the highs and the lows of its business cycle;
2. When, as during the early part of the term of the current contracts, BPA's power rates are potentially uncompetitive or increase too rapidly, it can and does cause economic harm and distress to the communities BPA's preference customers serve;
3. BPA's long-term, take-or-pay contracts, in their current form, place the risk that costs could rise excessively on BPA's preference customers without potential recourse;
4. When such costs do rise excessively, the take-or-pay construct means that preference customers have no direct means to mitigate their exposure (e.g., customers cannot

- reduce their BPA power bill by reducing their demand) but instead must rely on BPA to agree that there is a problem and then hope for BPA to act;
5. BPA can and will take steps to address the cost and rate concerns of its customers, particularly when BPA determines that it is in BPA's long-term interest to do so, but that realization and follow-through may come too late for Pacific Northwest communities and businesses;
 6. BPA's Integrated Program Review and Capital Investment Review processes, while providing valuable transparency, do not offer preference customers a level of cost protection and control commensurate with the level of cost risk they assumed in the Regional Dialogue contracts; and
 7. BPA's statutory obligation to provide preference customers power at cost does not prohibit BPA from adding new cost categories to raise its revenues.

In addition, as BPA's preference customers look forward to the post-2028 period, we see a changing operating environment that will place renewed emphasis on the value of the FCRPS due to its dispatchability and low-carbon attributes. Continuing to preserve and enhance such value will be important for the post-2028 period, but the affordability of BPA's power rates is also a foundational component of the value the FCRPS, and this will still matter post-2028 to the communities we serve – just like it always has. And, as throughout the past, the struggle for post-2028 will be in finding and maintaining a balance between the lowest possible BPA power rates and preserving and enhancing the value of the FCRPS.

Proposals for BPA's Consideration

Based on the above, Public Power believes that a more equitable and balanced allocation of cost risk and cost control between BPA and its customers is essential for meeting both the twin aims of (i) ensuring the lowest possible power rates during the full term of the new contracts and (ii) preserving and enhancing the value of the FCRPS. To this end, we recommend that BPA work with customers to develop the following concepts to be incorporated in the post-2028 contracts:

Defining Targets Directly in Contract or Policy Documents. BPA's adoption of its 2018-2023 Strategic Plan and, specifically, the commitment within the plan to keep the sum of BPA's program costs at or below the rate of inflation through 2028 was a watershed moment that brought the cost-management discipline that had been lacking in the early years of the current contract. Public Power is interested in including a similar commitment in the post-2028 contracts. Such a commitment could include, for example, capping rate period to rate period increases in power rates and/or program costs to the rate of inflation, or otherwise fixing rate period program cost or rate levels.

Setting BPA’s Financial Policies for the Duration of the Post-2028 Contracts. As discussed above, while certain elements of the 2018-2023 Strategic Plan did bring needed cost-management discipline to the power business line, the building financial resiliency objective of the plan has proven to be a source of upward rate pressure as BPA has sought to meet the objective by adopting various policies targeting its debt utilization, debt capacity, and liquidity (including by adopting its Financial Reserve and Leverage Policies). Due, in part, to the policies adopted by BPA and, in good part, to a secondary energy market that has rebounded, BPA’s financial health has improved since the adoption of the 2018-2023 Strategic Plan and its 2018 Financial Plan counterpart. However, that BPA would adopt such policies to improve its own financial condition – and unilaterally impose the resulting costs on its preference customers to do so – was not contemplated during the negotiation of the Regional Dialogue contracts. To avoid a similar set of surprises in the post-2028 contract term, the next contracts should set the financial policies that will be in place during the term of the contract and any amendments or additions thereto should be limited to only those that are agreed to by BPA and a super-majority of its preference customers.

Increasing Direct Customer Participation in Power Asset Management. Public Power would like to explore the potential of a larger, peer-to-peer role in the committee and decision-making process that BPA, the U.S. Army Corps of Engineer (USACE), and the Bureau of Reclamation (BOR) use to make power asset management decisions. The relationship between customers and the USACE in some Western Area Power Administration regions is one potential model. Another similar option is for BPA and customers to revisit the concept of Cost Management Groups (CMG(s)) explored during the Regional Dialogue contract development process. CMGs would be made up of a defined number of knowledgeable and qualified representatives selected by the customers. The CMGs would provide input to BPA on cost levels used for rate setting, major policy decisions that drive future costs, and the capital program; review financial performance of the Agency; and provide input to USACE, BOR, Energy Northwest and other entities that manage costs in BPA’s rates as well as to BPA. BPA would provide information to the members of the CMGs so they can provide informed input. There could be one CMG for all costs or, in the alternative, multiple CMGs for types of costs (e.g., CMGs for hydro O&M and capital, Fish & Wildlife, etc.). In the event of a disagreement between the CMG and BPA, the dispute could be reviewed by an independent panel of knowledgeable persons who would provide a recommendation to the BPA Administrator.

Cost-Management/Rate Related Off-Ramps and “Share the Pain” Mechanisms. As mentioned above, one of the lessons under the current contracts is that BPA can and does take action to control its costs when it perceives that there is a risk to its interests. Public Power’s experience, however, is that this risk signal is too attenuated under the current framework and that may take several rate periods of pressure for BPA to respond to customer demands that it rein in its costs, resulting in unacceptable impacts to Public Power customers in the meantime. Accordingly, the next contracts should include mechanisms to provide not only more price

certainty to customers but also a better and more urgent signal to BPA to change its cost course when necessary. Options for consideration include:

1. Longer-term contracts with contractual off-ramps that would allow preference customers to reduce some increment of their load on BPA if BPA's rates exceed a defined benchmark;
2. Shorter-term contracts with renewal rights; and
3. Provisions that require BPA to match rate period to rate period rate increases with cost reductions.

Potential "off ramp" provisions tied to costs or rates could either take the form of individual customer rights or a collective reopener. In the case of individual rights, issues of stranded costs and customer equity need to be considered. Potentially more promising to Public Power are rights where customers can collectively by a supermajority vote reopen or restart negotiation for a new contract. This would be predicated on significant thresholds for rates, costs, or system output that indicate the rates and/or quality of services have moved outside the bounds of Public Power's reasonable expectations when entering into the contract.

Finally, while we understand the risks of off-ramps tied to cost and rate management, we believe that BPA can mitigate those risks by proactively controlling its costs so that the off-ramp does not trigger, which would be the chief intent and purpose of a cost- or rate-based off-ramp. This approach has the benefit of aligning cost control with cost risk because it places both the ability to control costs and a greater share of the risk for failing to do so on BPA. This contrasts with the status quo, which places the former exclusively with BPA but the latter principally on its customers.

ADAPTABLE CONTRACT TERMS AND CONDITIONS

Background

The durability of the post-2028 contracts, and the ability of such contracts to help BPA and preference customers successfully navigate the many challenges they will face during the post-2028 period, will require adaptable and administratively efficient post-2028 contract terms and conditions with options that allow customers to readily adjust their relationship with BPA under the contract as their post-2028 needs evolve over time. This will require BPA and its customers to revisit the balance that was struck between certainty (including planning, revenue, rate, and risk certainty) for BPA and optionality for its customers in the Regional Dialogue framework and contracts, which favors the former by limiting the latter. However, the Regional Dialogue framework and contracts have now been in place for over a decade, and BPA's preference customers have learned a great deal as the changing industry landscape has highlighted how the

rigidity of the current construct can undermine its durability. This experience has led to the belief that, without either a shorter contract term or adjustments that provide more customer optionality, the current construct is likely to fracture under the weight of the changes anticipated after 2028, particularly if the next contract is for another twenty-year term.

Proposals for BPA's Consideration

Consistent with the principles stated at the beginning of this paper, Public Power proposes to work with BPA to identify and develop adaptable post-2028 contract terms and conditions that will allow BPA and its preference customers to adjust to meet challenges as they develop in the post-2028 operating environment, such as those arising from emerging markets, regulatory changes, and evolving end-user needs. Such terms should also be designed to help facilitate the development and integration of non-federal resources by preference customers and better enable such customers to meet their regulatory compliance obligations while minimizing compliance uncertainty.

Public Power understands that there can be tradeoffs between optionality and certainty. Accordingly, we further propose to work with BPA to analyze both the individual and cumulative impacts of the various proposals that BPA and its customers may consider, as well as any factors that may offset such impacts, to determine whether the net impacts are broadly acceptable to both BPA and preference customers.

In addition to the general call for adaptable terms and conditions made above, Public Power also makes the following specific proposals for further discussion and collaborative analysis with BPA:

Proposals for facilitating the development and integration of non-federal resources. The retirement of carbon emitting base load resources, emerging resource adequacy requirements, increased electrification, changes in end-user demands, and host of other factors will likely require the increased development and integration of new non-federal resources by preference customers in the post-2028 period. There are many reasons why BPA and its customers fell short of meeting its intended goal of facilitating the development of such resources during the current contract term, and there are improvements that can be made to provide more flexibility to customers as well as to reduce administrative burdens for both BPA and customers, including:

1. *Increasing the small non-federal resource threshold.* BPA should consider increasing the nameplate threshold for non-federal resources that customers can run against load without listing them in their BPA power contract from 200 kW to 10 MW or higher. The current threshold creates an unnecessary administrative burden on BPA's power customers to ensure that these small resources satisfy the myriad of timelines and requirements under the applicable BPA Power and Transmission processes. It would

be more appropriate and efficient to increase the threshold to 10 MW or higher and to treat such small resources as an offset to load, similar to energy efficiency.

2. *Eliminating or shortening resource election notice deadlines and commitment periods.* Under the current Regional Dialogue contracts, BPA's power customers must provide as much as three-years advance notice prior to each four or five-year commitment period of whether they intend to serve their Above-RHWM load during the commitment period with non-federal resources or with BPA's Tier 2 rate. According to BPA, the timeline was originally intended to comply with resource adequacy requirements adopted by the Northwest Power and Conservation Council by encouraging resource development and discouraging reliance on the spot market for serving load growth. However, in practice, the purchase period and notice deadlines in the current contracts do not appear to be serving their intended purpose of facilitating and encouraging non-federal resource development. Public Power proposes that BPA and its customers explore other notice and commitment options for the next contract.
3. *Resource Support Services: Simplified modifications to customer delivery requirements and/or integration costs.* As articulated in the System Capacity Section above, Public Power desires a more simplified alternative to RSS that allows for more streamlined non-federal resource integration, consistent with cost causation principles.

Proposals to allow exchanges of RHWM. Under the take-or-pay construct of the current contracts, BPA's power customers are required to purchase at the Tier 1 Rate the lesser of their RHWM or their Net Requirement. For some customers, the inflexibility of this take-or-pay obligation serves as a disincentive for developing new non-federal resources. For others, it can impair their ability to bring the non-federal resources they have already developed to their loads (e.g., when a customer is forced to temporarily undesignate a New Resource dedicated to serve their A-RHWML or, for Slice-Block customers, an Existing Resource in the second year of a rate period, when their annual Net Requirement is below their RHWM). For such customers, it may be preferable to have less RHWM for a given rate period or periods. On the other hand, there may be other customers who, for any number of reasons, would prefer more Tier 1 power for a given rate period or periods than allocated to them under their RHWM. Allowing these two types of customers to transfer RHWM between themselves would help both meet their respective needs as they may change over time while honoring (i) the underlying intent of the take-or-pay construct by keeping BPA neutral from a revenue standpoint and (ii) the requirements under § 5(b)(1) of the Northwest Power Act regarding BPA's obligation to serve the Net Requirement load of its preference customers. To this end, Public Power makes the following proposals for BPA's consideration:

1. **Transfers of RHWM between customers with A-RHWML.** BPA and customers should explore mechanisms that would allow power customers to reduce or opt out of

their requirements power purchase during a rate period by substituting a non-federal resource to meet their needs and simultaneously transferring their BPA power purchase obligation to another preference customer with an unmet requirements power need. This mechanism would allow a power customer with RHWL equal to or less than their Net Requirement to transfer, on a bilateral basis and upon notice to BPA, all or a portion of their RHWL to another power customer whose Net Requirement exceeds its RHWL up to the receiving customer's Net Requirement. Under such circumstances, the transferor would commit to use a non-federal resource to serve its load in an amount equal to the transferred RHWL for the duration of the transfer period to ensure that the transfer does not result in an increase to BPA's service obligation. For its part, the transferee would commit to meet the take-or-pay obligation associated with the transferred RHWL to ensure that the transfer is revenue neutral to BPA. Under this proposal, the transferor's RHWL would be returned upon conclusion of the defined transfer period. Such a mechanism would provide additional mechanisms to help customers who are developing their own non-federal resources to better manage the interplay between the uncertainties in the timing of resource development with the uncertainties in the timing of load growth. It would also provide a means to power customers who want and are willing to pay for more BPA Tier 1 power at the Tier 1 Rate while keeping the benefits of the FCRPS within Public Power and BPA neutral from a revenue standpoint.

2. RHWL Exchange. See System Size and Allocation section above.

Environmental Attribute Related Off-Ramps. As mentioned in the Clean Energy Products and Services section above, increasing regulations on both the state and federal levels (e.g., state carbon legislation) have brought renewed value to BPA's dispatchable, low-carbon content power. However, if, for whatever reason, the carbon content of BPA's power substantially increased, it could place many of BPA's customers at risk of not meeting their regulatory obligations depending on how much carbon content is attributed to BPA's power. Under such circumstances, BPA customers must be able to reduce their purchase from BPA so they can take action to ensure that they source power from resources that can help them comply with the applicable laws and regulations. One option is to set predefined environmental attributes or system capability benchmarks for the federal system, which if exceeded, would trigger an opportunity for customers to exercise contractual off-ramps to reduce some increment of their BPA load if a predefined carbon, system attribute, or system capability benchmark triggers. BPA can protect itself and its remaining customers from the risks created by such offramps by adopting Public Power's proposals under the Clean Energy Section above, undertaking additional cost control actions, redistributing released CHWLs to remaining customers who request it, and/or requiring make-whole payments.

Expanded Resource Dedication Optionality. Increased optionality for preference customers to be able to dedicate and undedicate non-federal resources under the BPA power contract could greatly enhance customer optionality and value. For this reason, customers are interested in exploring either changes to BPA’s 5(b)/9(c) Policy and/or increased flexibility in its implementation for the next contracts. Similar to the proposals above regarding off-ramps, BPA can protect itself and its remaining customers by undertaking additional cost control actions, redistributing released CHWM/RHWM to remaining customers who request it, and/or requiring make-whole payments of customers that choose to make such changes.

Additional Opportunities to Switch Products. The value proposition of specific BPA power products may change over the course of the post-2028 contracts due to any number of factors. This could include a material loss or change in the product’s value proposition to a particular customer. To better address such circumstances, the next contract should include more meaningful and frequent ways for customers to switch products while minimizing concerns over cost recovery. If products and rates are designed appropriately, providing customers the option to select a different BPA product that better meets their needs as they have evolved over time could not only have minimal impacts between customers, but also help ensure that the post-2028 contracts are better deserving of their “Provider of Choice” moniker.

Overall Contract Re-Evaluation. The rate of change to the regulatory and operational environment that BPA and its customers conduct business is accelerating, and this is unlikely to abate up to and during the post-2028 period. If realized, some of the potential changes could be so significant that they fundamentally undermine the value proposition of the post-2028 contracts for BPA, its preference customers, or both. Even to the point where it would be better to start over with a different contract than to soldier on under the then current one. Accordingly, Public Power is interested in working with BPA to identify a limited number of potential “trigger events” that, if they were to occur during the term of the post-2028 contracts, would give preference customers the opportunity to vote (based on a supermajority) on whether to simultaneously terminate all their BPA power contracts early so that a new contract that better address the change in circumstance could be negotiated and entered into.

OTHER ISSUES

Transfer Service. For customers not directly connected to BPA’s existing transmission system, BPA meets its requirements to serve preference customers by utilizing “transfer service” through third-party transmission owners. Under current operations, BPA utilizes transfer to serve more than half of its preference customers. As of 2020, 83 of BPA’s 134 customers with long-term power sales agreements had at least one transfer point of delivery, and 55 customers were served solely by transfer service. BPA’s current transfer policy provides a benefit to customers by allocating costs through a larger cost pool that includes other preference customers.

However, the electric industry is in a time of great change and Public Power recognizes that if market conditions change and/or a new market construct such as a regional transmission organization were to form, it could present alternative cost-effective ways to meet transfer service customers' needs. During the next contract period Public Power would like BPA to be open to consider these possibilities.

Public Power believes a solution can be incorporated in the post-2028 BPA contracts that looks largely similar to how transfer service operates today, provided contract provisions are consistent with the other concepts in this paper.

Irrigation Rate Mitigation Product (IRMP). Public Power proposes that BPA's post-2028 contracts retain an irrigation rate discount as an essential component to any power product and corresponding rate design. BPA has a long-standing history, dating back to the early 1940s, of providing a discounted power rate to irrigation loads, in recognition of the importance of supporting the agricultural sector across the region. The discount also helps address the high costs of serving rural areas versus urban areas, because lower numbers of customers in rural areas can lead to higher costs per customer. Since its inception, BPA's discounted power rate for irrigation has provided a much-needed boost to the agricultural sector and the broader ruraleconomy that is dependent on agriculture. As we look forward to working with BPA to craft post-2028 contracts that will replace Regional Dialogue contracts, we want to stress the importance of including a discount for irrigation loads in future contracts. Termination of the IRMP would have immediate and detrimental impacts on the communities dependent upon agriculture for their local economies.

Low Density Discount (LDD). Public Power proposes that BPA's post-2028 contracts retain a low density discount as an essential component to any power product and corresponding rate design.

APPENDIX: Product Enhancements to the Slice/Block and Block products

Slice/Block customers have identified several potential enhancements to the Slice/Block product for the post-2028 contracts to better meet customer load service needs, customer's 5(b) peak and energy Net Requirements, and customer's resource adequacy needs.

Broadly, these updates may be considered in two categories: (1) Block product updates specific to meeting Slice/Block customers' load service needs and (2) updates that may be broadly applicable to the Block product or Slice product regardless of the modifications listed in (1).

1. Block product updates in the Slice/Block product

Block Ratio Choice

Consistent with other proposed updates for the Slice Block product, additional optionality on the ratio of Slice at critical to Block, will help customers find the best match for their load service needs. An initial analysis conducted by Tacoma found that the optimal ratio mix for customers was heterogeneous – that is it would be expected that some customers may prefer more Slice and some may prefer more Block, largely dependent upon how correlated their load shape is to the federal system and how “peaky” their load is.

To help BPA plan for the wide range of potential customer ratio selections, the bounds of the ratio selection could be simplified for administrative purposes. For example, a range of ratios of the Slice at critical portion of the mix could be held between 40% to 60%, selected only in increments of 5%. This would yield a smaller set of options (40%, 45%, 50%, 55%, 60%), but would still provide more optionality than present, and help customers find a better match to their load needs.

Block Product Choice

Slice/Block customers are currently limited in the selection of which Block option to pair with Slice. Expanding the choices to include Monthly Diurnal Block, Monthly Diurnal Block with Shaping Capacity and/or a Targeted Tier 1 Resource Adequacy Capacity Product will allow customers more options to meet their Resource Adequacy obligations (where applicable), peak Net Requirements, and load service needs.

2. Block product updates (broadly applicable)

Rate Period Refreshing of Block Shaping Factors.

Customers are planning for the future, and seasonal loads are subject to change with customer behavior. The Regional Dialogue practice of a static, contract-long Block shaping factor for Block products that are more time granular than “Annual Block” (such as “Monthly Block”, and “Monthly Diurnal Block”) may not fit customers' evolving needs through time.

As an example, the air-conditioning load for residential customers in some communities is increasing as a result of technology and more frequent heat events, and outdated references to summer load may not be reflective of expected summer loads in those communities. Refreshing Block shaping factors for each Rate Period could help better match contract terms with customer and community needs.

Remove 60% Energy Maximum Restriction

Consistent with the explanation provided in the Rate Period refreshing of Block Shaping factors above, allowing the Monthly Diurnal Block product to better match retail load requirements would help customers better meet their needs. The current limitation of no more than 60% of monthly energy being allocated to the HLH period, may not reflect BPA customer needs in all months. Removing the 60% energy maximum restriction would update the product to better match customer needs.

3. Slice product updates in the Slice/Block product

Requirements Slice Output (RSO) Test

BPA should engage with customers to discuss modifications to customer demonstration of the RSO requirement which would facilitate customers meeting current and future needs, while ensuring BPA fulfills its statutory product requirements.

The Regional Dialogue Slice RSO test was designed to demonstrate that BPA is meeting its statutory obligations when selling preference power to a Slice customer by establishing that requirements Slice generation has been used to serve customer requirements load. Customers understand BPA's obligation; however, operationally the Regional Dialogue RSO test as implemented is overly complex. The current test disincentivizes the use of non-Federal power to serve load, which customers may need to comply with clean energy and carbon regulatory obligations. Further, the Regional Dialogue RSO test is in conflict with potential future market structures, complicating potential customer participation. Customers believe there are practical alternatives available, and Slice customers would value an update to the test while upholding the demonstration of BPA's statutory requirement, to help all parties prepare for operating their BPA contracts in the future.

4. Additional Capacity Products to serve unmet Peak Net Requirement needs.

After the options in part (A) above are selected by customers, any unmet peak net requirement needs would be served by a capacity product allocation in this section (B). There are two considerations for capacity products that may be offered to help meet these unmet needs.

Monthly HLH Shaping Capacity: Currently, the amount of monthly HLH Shaping Capacity prescribed in BPA's Regional Dialogue Products Catalogue is based upon a Slice/Block

customer's P50 peak load. Customers request that BPA consider allowing customers to choose HLH Shaping Capacity up to the planned peak load values under resource adequacy standards (e.g., P50 + Planning Reserve Margin). As this additional shaping capacity would result in additional costs to the utility and incremental demand revenues to BPA, and in keeping with the principles of the TRM it is assumed that Public Power and BPA would work together to ensure that BPA and customers are held harmless as a result of this alternative.

Targeted Tier 1 Resource Adequacy Capacity Product: In addition to, or as an alternative, to the Monthly HLH Shaping Capacity option, we request BPA consider a “Tier 1 Capacity Call Option” to meet any customer's unmet resource adequacy requirement.