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March 7, 2023

MEMORANDUM

TO: Power Committee

FROM: Jennifer Light, Director of Power Planning

SUBJECT: Briefing on Bonneville's Provider of Choice (Post-2028 Contract Negotiations) and Resource Program

BACKGROUND:

Presenters: Kim Thompson, Vice President, Requirements Marketing
Bill Leady, Vice President, Generation Asset Management

Summary: Kim Thompson and Bill Leady will present their Post-2028 Contract Negotiations (aka Provider of Choice) and Resource Program efforts.

Kim will provide an overview of the contract negotiation process and timeline. She will also highlight key areas of discussion that Bonneville is working through with the region. Bill will provide an overview of the upcoming 2024 Resource Program and its relationship to the post-2028 contract negotiations process. These presentations kick-off discussions between the Council and Bonneville on both topics.

Relevance: The 2024 Resource Program will provide insights into the post-2028 contract negotiation process. These long-term contracts, and the program's methodology used to determine rates, will dictate the direction of public power resource acquisition.

Staff has been closely tracking the post-2028 discussion process and is already working closely with Bonneville staff on its development of the

2024 Resource Program. This conversation is expected to be the first of many to ensure that the Council is well informed on these regional discussions, since the decisions made in the next two years will dictate resource acquisitions for Bonneville and its customers for 20 years.

Workplan: Coordinate with regional utilities on integrated resource planning and other activities relevant to the Council's planning efforts.

Background:

Post-2028 Contract Negotiations

[Provider of Choice](#) is Bonneville's name for the post-2028 contract negotiations and is part of Bonneville's broader Post-2028 Initiative. Current contracts, called Regional Dialogue contracts, began in 2008 and expire in 2028. In July of 2022, Bonneville released a Provider of Choice Concept Paper that launched the policy development to inform future product offerings.

Since then, Bonneville has worked with the region to refine and finalize a policy for the post-2028 contracts by early 2024. This will then lead to actual contract development, with a goal of signed contracts by the end of 2025, well ahead of the start of power delivery in 2028.

Discussion so far has focused on replicating the Regional Dialogue template: contract duration of 20 years with a focus on preserving the benefits of the Federal Based System (FBS) – the output of the federal hydropower system and Columbia Generating Station.

Based on current discussions, it appears likely that Bonneville will continue the concept of the tiered rate structure to then allocate the output of the FBS. Both the Regional Dialogue contracts and the post-2028 contract negotiation processes differ from the shorter duration "subscription" contracts that focused on Bonneville acquiring resources and then melding those costs into the FBS.

The final term and shape of the contracts is still to be determined, however. During the Power Committee discussion, Kim Thompson will present the overall process and highlight a few of the key topics of discussion with regional stakeholders. This includes, but is not limited to:

- Load Growth: What is the best approach for addressing load growth in the region? What should Bonneville's role be in acquiring resources to meld into the FBS?
- Carbon: How should Bonneville support utility carbon goals, recognizing they are not currently in a position to provide 100 percent clean energy due to existing market purchases?

- Peak Net Requirements: What methodology should Bonneville use to determine a utility's peak net requirements?
- Conservation: How should past conservation achievements acquired through self-funding of energy efficiency be counted in determining a utility's share of the FBS?

Resource Program

Bonneville's Resource Program is an analysis of its potential system needs and the resources available to meet those needs. Under the Act, Bonneville's resource acquisition decisions are to be consistent with the Council's power plan. The resource program can provide additional information to inform Bonneville's resource acquisition strategies.

Bonneville is expected to complete the upcoming resource program in fall 2024. As Bonneville is early in the process, Bill Leady will highlight the overall role and process of this effort. The discussion will also touch on how the program will inform the post-2028 contract negotiation process.

More Info:

- The Provider of Choice concept paper, workshop material, and comments received are all available on the Provider of Choice website: <https://www.bpa.gov/energy-and-services/power/provider-of-choice>
- Bonneville's 2022 Resource Program is available here: <https://www.bpa.gov/-/media/Aep/power/resource-program/2022-resource-program.pdf>



Provider of Choice

March 14, 2023

Kim Thompson, Vice President
Northwest Requirements Marketing

PROVIDER OF CHOICE

**POST
2028**



Provider of Choice At a Glance

Provider of Choice is Bonneville's process to design and offer replacement long-term power sales agreements, ahead of when the current long term "Regional Dialogue" contracts expire in 2028.

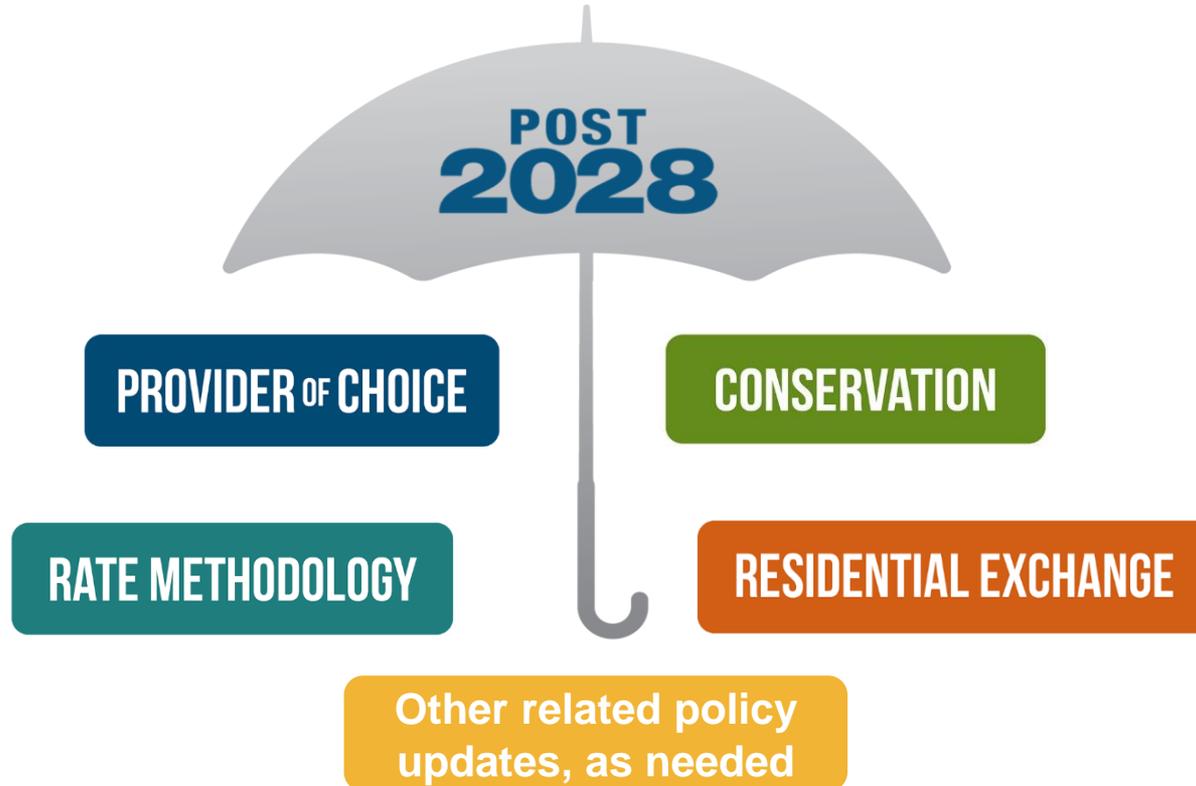
The **Provider of Choice Concept Paper**, released **July 2022**, provides a high-level framework for proposed post-2028 contract policies, products, and services. Concepts build off the existing Regional Dialogue policy and contracts.

A **Draft Policy** is slated to be released Summer 2023.



Post-2028 Processes

Provider of Choice is one of the processes under the Post-2028 Initiative.



Other processes outside of Post-2028 include the **2024 Resource Program**.

Timelines



Backdrop



At the start of Regional Dialogue, the region was expecting explosive load growth prior to increases in efficiencies (like new technology and conservation) and the Great Recession.

But the Pacific Northwest faces an ever evolving energy landscape:

- Changing resource mix.
 - Early retirement of fossil fuel generators.
 - Increasing demand for intermittent renewables like wind and solar.
- Regional efforts driving a focus on clean, carbon-free power.
- Electrification of both buildings and vehicles increasing demand for energy.
- New markets and programs expected to provide the region with new opportunities to integrate renewables and improve transmission access.

Foundational Elements

- Since April 2022, BPA has held public workshops to help inform development of a Provider of Choice Draft Policy.
- As part of this process, in January 2023, BPA laid out an updated proposed framework for tiered rates, setting Contract High Water Marks, and setting a Tier 1 system size.
 - This framework has largely been accepted by public power, though it should be noted that additional comments have suggested specific changes from this framework, e.g. different adjustment levels for setting CHWMs and a larger Tier 1 system overall.
 - Additional workshop discussions will continue in March 2023, and include consideration of the treatment for self-funded conservation in access to power at Tier 1 rates.
- Under Provider of Choice, BPA intends to offer more customer flexibility to add non-federal resources.



Load Growth Considerations



- There is a keen focus on expected load growth during the next contract term, specifically due to electrification.
- Customers have reaffirmed desire to continue with tiered rates in order to better insulate the costs of load and/or resource decisions one customer makes from all other customers.
- With an assumption of larger loads, and if BPA is requested to serve these loads, BPA could see a need to acquire new resources.

Acquisition of Resources

- The Administrator has authority to acquire resources when necessary to meet firm loads.
- BPA requires ample time to secure resources. These efforts would be guided by the following:
 - Resource acquisition would be consistent with the **Northwest Power Act** and the Council's **Power Plan**. It would be further informed by **Bonneville's Resource Program**.
 - To acquire resources of greater than 50 aMW for a term of greater than five years, Bonneville must conduct a public process as directed by section 6(c) of the **Northwest Power Act**.
 - **6(c) of the Northwest Power Act** outlines the procedure for acquiring major resources, implementing conservation measures, paying or reimbursing investigation and preconstruction expenses, or granting billing credits.
 - Under the **National Environmental Policy Act (NEPA)** process, BPA would perform an environmental review up to and potentially including an Environmental Impact Statement (EIS) depending on the size of the acquisition.

Net Requirements

- **Northwest Power Act 5(b)(1)** - BPA shall offer to sell electric power to meet a requesting public body, cooperative and investor owned utility's regional consumer load to the extent the load is not served by firm energy or peaking energy from the customer's non-federal resources: 5(b)(1)(A) resources used in 1980; 5(b)(1)(B) resources used ("dedicated") after 1980.
- **The legislative history** regarding section 5(b) indicates that BPA should separately identify and calculate the firm energy capability of a customer's resources applied to its load from the peaking energy capability applied to that load. H. Rpt 96-976 96th Cong. 2d Sess. Part I.
- **BPA's contract offer of power is based on determining the requesting utility's firm power load and its resources, i.e., net requirements.**

Net Requirements (Cont'd)



- Under Regional Dialogue, BPA implemented an Energy Net Requirements process but made Peak Net Requirements (PNR) a dormant feature.
 - PNR addresses how BPA would calculate a customer's non-federal resource's peaking capability.
- Given BPA may face potential capacity deficits in the future, BPA plans to put PNR in place for the Provider of Choice contract term.
- BPA introduced an updated proposed PNR methodology at its February 21-22, 2023 workshop.
 - BPA would follow this methodology to implement PNR.

Carbon-free Resources and Products

- **BPA makes system sales.** A small amount of carbon emissions are associated with the federal system as a result of market purchases.
- **These purchases are needed** to balance resources and meet customers' demands beyond what the federal system can provide.



Carbon (Cont'd)

- Much of BPA's customer base is interested in a carbon-free product, particularly utilities in Washington subject to CETA.
- BPA cannot commit to a 100% carbon-free product at this point in time, but it will support customers in meeting their state GHG emission reduction and clean energy standards in a variety of other important ways:
 - Continued accurate and transparent accounting of fuel mix and GHG emissions.
 - Conveying attributes (RECs, emissions) consistent with power purchases and rate elections.
 - Considering cost-effective opportunities to achieve an even cleaner federal system.



Provider of Choice Contacts



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Find Us:

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External: [Provider of Choice - Bonneville Power Administration \(bpa.gov\)](https://www.bpa.gov)

BPA Resource Program

Bill Leady, Vice President
Generation Asset Management

Northwest Power and Conservation Council Power Committee
March 14, 2023



Outline

- Resource Program Background and Overview
- Timeline for 2024 Resource Program
- Provider of Choice and Resource Program

Resource Program Overview

- BPA began its Resource Program after the passage of the Pacific Northwest Electric Power Planning and Conservation Act in 1980 which established:
 - BPA's authority to acquire resources on a long-term basis to assure an adequate supply of power to meet the Administrator's contractual firm power obligations
 - Northwest Power & Conservation Council and the Council's Power Plan
- The Resource Program examines uncertainty in loads, water supply, natural gas prices, and electricity market prices to develop a least-cost portfolio of resources that meet BPA's obligations.

Note: The RP is a voluntary body of work, undertaken to inform acquisition strategies and provide valuable insight into how Bonneville can meet its obligations and strategic objectives cost-effectively. It is neither a decision document nor a process required by any external entity.

A Complex Planning Environment

- New long-term power contracts
- Regional clean energy policies
- Supply chain challenges
- Emergent technologies, markets, and programs

2024 Resource Program Timeline



Considerations for 2024 Resource Program

- Zonal Approach: more granular topology to further align BPA power planning with Western RA Program
- Two scenarios
 - Base case
 - Accelerated clean energy transition (Fast Transition)
- Sensitivity Analyses: designed to stress loads, generating resources, and reliance on wholesale power market

Resource Program Connection to Provider of Choice

To help inform BPA customer contract elections:

- Provides valuable insight into potential BPA resource portfolio sizes, costs, and compositions;
- Evaluates the implied fuel mix and carbon content of BPA system;

Resource Program Connection to Council Planning

- Council's Power Plan
- Conservation and 6(b) of the 1980 NWPA
 - BPA Energy Efficiency Action Plan (EEAP)
- “Major resources” and 6(c) of the 1980 NWPA
 - Planned capability greater than 50 aMW acquired for period of more than 5 years
- As in the past, BPA will work with the Council on future major resource acquisitions

Get in Touch

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2024 Resource Program Process

