Long Term Marketing Strategy Update: Cost Plus Contract Negotiations

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12/6/21

Why We Are Here

- Update Board on Long Term Marketing Strategy Cost of Production Plus (COP+) Negotiations
- Seek Board Feedback

CHELAN COUNTY P.U.D.

3/15/21 Presentation on LTMS

- Shift of 50/30/20 to 40-50/20-30/20-30 – cost plus/market/retail load
- Still significant emphasis on longer term COP+ Contract’s
- Consistent with LTMS presentation – begin to implement Cost Plus work
- End of Cost of Production in sight –
  - Post 2028 for Alcoa
  - Post 2031 for Puget Sound Energy (PSE)
- Actions – Define principles and Explore Market for Post Alcoa/Puget
- Identified “COP+ working group” – broad cross section of District
  - Objectives:
    1. Review/Define principles – portfolio/cost plus
    2. Update cost plus contract template in preparation for negotiations
    3. Look at market opportunities for cost plus and begin discussions with interested counterparties

Next Steps from 7/6/21 Presentation

- Share template concepts in draft with interested potential Counterparties ✓
- Complete remaining work ✓
- Develop final costs estimates and calculations for specific charges ✓
- Finalize concentration limits ✓
- If successful – back with agreement in principle and seek Board feedback

Today's Presentation

Benefits of COP+

Benefit	District	Purchaser
1. Hedge against market	X	X
2. Keeps interests aligned between District & Purchaser		
a. Ensures cost recovery	X	X
b. Columbia River Treaty	X	X
c. Relicensing	X	X
d. Hydro value – provides and preserves economic and environmental value of hydro for region (dam removal, renewables/carbon free, climate, environmental)	X	X
3. Lock in value of hydro for parties (environmental attributes, capacity and carbon)	X	X
4. Protects District against purchasers walking away from or selling contract	X	
5. Provides for significant market structure changes, RTO, EIM	X	X
6. Provide Resource Adequacy value to purchaser		X
7. Provides capacity, pond, and storage value	X	X
8. Provides a below market price product		X
9. District is covered against streamflow, outage and cost risk	X	

P.U.D. CHELAN COUNTY

COP+ Contract Guiding Principles

1. Maintain District flexibility and control of all operations and maintenance decision making for hydro systems and network transmission systems
2. Maintain District flexibility and control of all asset investment and financing decision making related to the District's hydro systems and network transmission systems
3. Ensure the costs of power reflect all costs of the District's production and delivery of energy, capacity and other ancillary services products
4. Include the ability to pay for capital improvements as we go as determined by the District
5. Ensure that all contractual commitments align with independent operations and potential future coordination
6. COP+ contracts should include all costs associated with hydropower generation and transmission including contributions towards "pay as you go" capital investment and debt related costs
7. Ensure counter-party support on legislative and regulatory issues of mutual interest to protect and enhance the value of hydro and network transmission systems
8. "Future proof" the template to the extent possible regarding legislative and/or regulatory changes that could negatively impact, or enhance, the value of the District's finances and operations
9. Seek to capture a portion, but not all, of the difference between cost-based and market-based pricing creating value for the District's customer-owners and power purchasers to promote long-term collaborative partnerships and revenue stability

COP+ Guiding Principles (cont.)

- COP+ contract modernizes Cost Plus contract and captures more of market value
- Contract provides right to output consistent with operating requirements of RR/RI
- Counterparty takes risk of improved or degraded hydro capability from actions such as Columbia River Treaty entitlement return reductions or environmental regulatory impacts
- Contract retains in Chelan
  - All operational decisions
  - All investment decisions while providing a contribution to capital commensurate with the ratio of size of purchase to RR/RI capacity
  - Discretion to join EIM/RTO

COP+ Guiding Principles (cont.)

- Contract requires
  - Payment for a share of Chelan costs for hydropower production
  - Recovery of transmission costs
  - Commitment to pay for capital consistent with existing contract
- Contract includes:
  - Essentially the same provisions for capital and debt recovery charges
  - Committing counter-party to support Chelan in seeking to maintain and enhance the value of RR/RI

COP+ Guiding Principles (cont.)

- If Purchaser doesn't take power anymore, what happens?
  - While in default we can sell energy – keep surplus revenue, purchaser makes up deficiency
  - Collateral draw if market prices are not high enough
  - Roughly 3 months of operating and maintenance (O&M) costs
  - Can terminate other agreements with Counterparty

Portfolio Guiding Principles

1. Retain sufficient power for Chelan County's current and long-term needs for retail load growth for under 5 MW loads.
2. Provide power products to support larger than 5 MW loads within strategic plan guidance to support economic development without raising retail rates by more than 5% cumulative related/resulting to/from economic development
3. Seek to provide adequate revenue to support stable and predictable retail rates that reasonably assures increases do not exceed inflation through 2035, while achieving strategic goals for hydro system capability, distribution reliability and safety
4. Create take or pay contract "templates" that will be used for all fixed market price and cost of production plus contracts for ease and consistency of administration and understanding
5. Have high assurance of not being short to meet District obligations during wholesale price spikes
6. Provide a strategic mix of fixed market price and cost of production based contracts that reduces streamflow and outage risk
7. Concentration of wholesale sales should be diversified by counterparty and geography

Portfolio Guiding Principles (cont.)

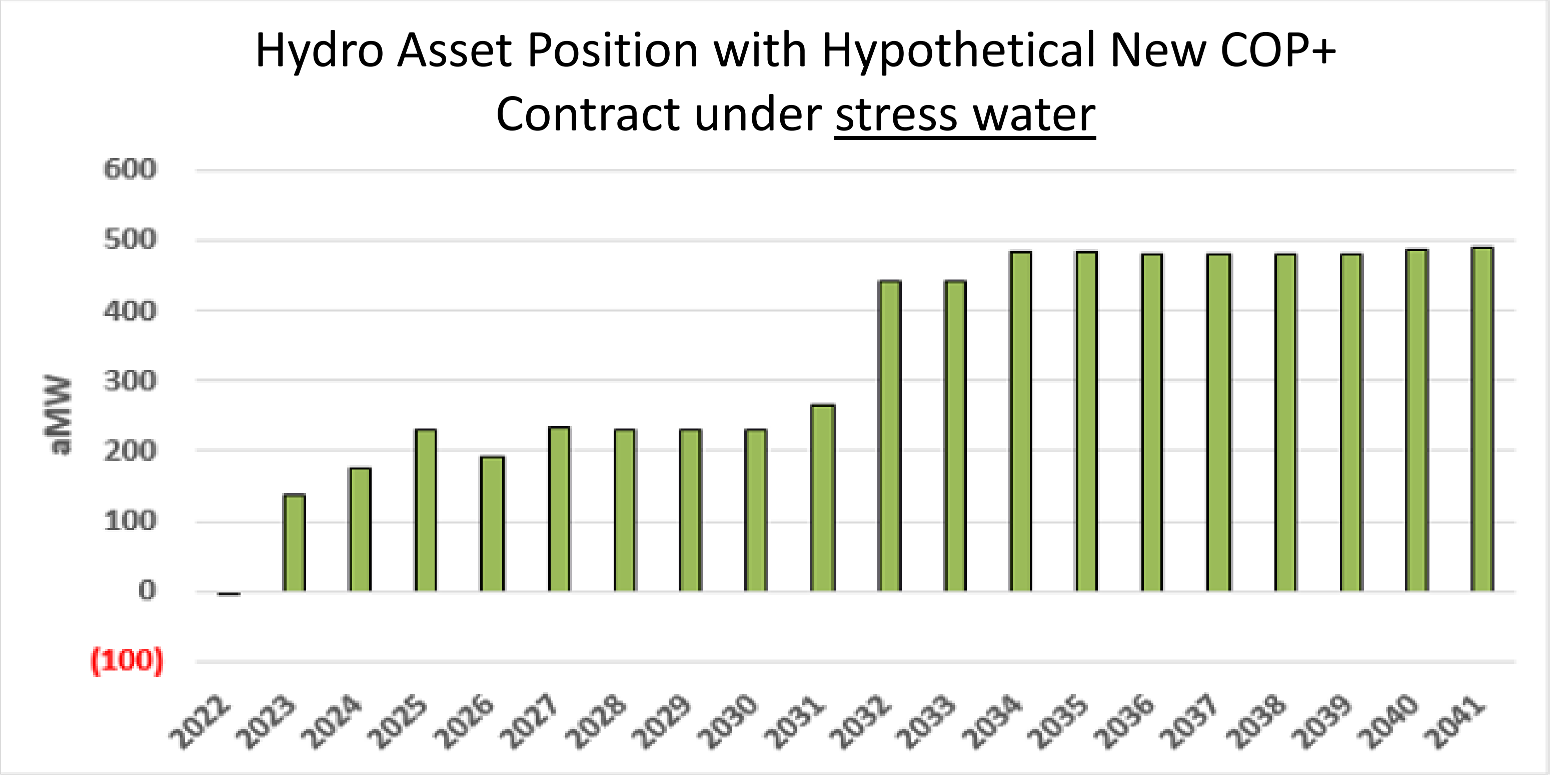
- Template has been created
- Pricing is competitive, but below market for today's carbon free energy and capacity markets without taking additional risk
- Added value represents roughly 30 percentage points above the “plus” value in the existing contracts
- This contract doesn’t address large load – we are addressing this separately

Current Market Environment

Market Segment	Segment Challenge
PNW IOUs	Procurement process
PNW publics	Not competing on price with BPA Accustomed to supplier relationship with BPA
Marketers	Long-term counterparty risk
California utilities	Transmission access Regulatory structure
External retail entities	Lack of retail access, would need partner

Have been focusing COP+ discussions with PNW IOUs

Portfolio Guiding Principles (cont.)



- COP+ Contract negotiations in the 5% to 25% range
- Furthest along Counterparty would be new to COP+
- Sufficient inventory for load growth & resource adequacy
- Flexibility to maintain Long Term Marketing Strategy percentages

Next Steps

- Obtain Board Feedback
- If Successful, Bring Back Contract and Resolution to Board for Approval