

COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP REGARDING BPA'S DAY-AHEAD MARKET EVALUATION PROCESS

Date Submitted: November 15, 2023

A. Introduction.

The utilities that comprise the Western Public Agencies Group (WPAG) appreciate the opportunity to submit these comments in follow-up to the Bonneville Power Administration's (BPA) October 23, 2023 Day-Ahead Market (DAM) Evaluation Public Workshop.

Although there are just three workshops remaining under BPA's DAM process timeline, there are many foundational issues still outstanding as to whether BPA's participation in a DAM is compatible with BPA's statutory, regulatory, and contractual obligations, including those to its preference customers. This, despite detailed questions and requests made multiple times by WPAG and other stakeholders.¹ Time to address such questions under BPA's DAM process schedule is running out. In addition, although the October 23 workshop shed some light on potential quantitative benefits/costs of a DAM and differences in costs/benefits depending on potential market footprint, as discussed more fully below, the results ultimately introduced more questions regarding BPA's business case than they answered. Such business case related questions must also be addressed before BPA decides to join any DAM.

Accordingly, for the above reasons, WPAG respectfully and urgently requests that BPA provide a transparent roadmap for its DAM evaluation process which specifically outlines the topics that will be addressed at each remaining workshop, the final decision(s) that will be made in the March policy Record of Decision (ROD), and any future processes and decisions that will be made after the March policy ROD. The decision to participate in a DAM will have widespread impacts to BPA and its customers and a robust process is absolutely essential to determine whether a DAM will preserve or enhance the value of Bonneville's system. It is incumbent on BPA to demonstrate how and when it will explore essential issues on the current timeline it has proposed for this process.

B. WMEG Results and BPA's DAM Business Case.

WPAG appreciates BPA sharing the results of the Western Markets Exploratory Group (WMEG) E3 production cost study. WPAG's primary takeaways from the study are as follows:

- **Assumptions with respect to whether a DAM would reduce BPA's wheeling revenue are a key driver of BPA's net costs/benefits in both core market footprint scenarios**, so much so that BPA experiences net *costs* in any DAM footprint where it is assumed that most of BPA's wheeling revenues would be eliminated and net

¹ See: WPAG August 15, 2023 comments: <https://www.bpa.gov/-/media/Aep/projects/day-ahead-market/wpag-day-ahead-202310.pdf>, WPAG October 13, 2023 comments: <https://www.bpa.gov/-/media/Aep/projects/day-ahead-market/wpag-day-ahead-202310.pdf>, NRU October 13, 2023 comments: <https://www.bpa.gov/-/media/Aep/projects/day-ahead-market/nru-day-ahead-202310.pdf>, PPC October 13, 2023 comments: <https://www.bpa.gov/-/media/Aep/projects/day-ahead-market/ppc-day-ahead-202310.pdf>.

revenues in any DAM footprint where it is assumed that BPA's wheeling revenues would not change.

- **Between the core scenarios, EDAM bookend and Main Split, BPA experiences more benefits in the EDAM bookend compared to the Main Split.** Assuming almost no wheeling revenues in a DAM, the net costs for the Main Split to BPA are \$80 million higher than the net costs for the EDAM bookend. Assuming all wheeling revenues for BPA are unchanged in a DAM, the net revenues to BPA are approximately \$100 million higher in the EDAM Bookend compared to the Main Split.
- **Among the market split scenarios, BPA sees the most benefits in “Alt Split 2” where it and the rest of the Pacific Northwest (PNW) are in CAISO’s EDAM and Desert Southwest (DSW) entities are in SPP’s Markets+.**
- **WMEG did *not* explore the impacts of a scenario where BPA does not join a DAM, but all or a subset of other entities join either SPP’s Markets+ or CAISO’s EDAM.**

From WPAG’s perspective, the results of the WMEG study show either modest production cost savings in a DAM, or cost increases, depending on transmission wheeling revenue assumptions, and do not provide a compelling case for BPA’s participation in a DAM. Accordingly, additional justification will be essential to support any decision for BPA to join a DAM. Further, any decision that leans toward a market option that does *not* provide the most production cost savings benefits to BPA will require even more justification and rationale. Given the modest production cost savings (or increases depending on assumptions) of DAM participation, BPA should also evaluate the production cost impacts of BPA **not** joining a DAM, when all other entities choose to participate in Markets+ or EDAM. This analysis would provide a helpful bookend in understanding the impacts to BPA if it were to remain entirely outside a DAM when all other participants join, including the impacts of any reduced bilateral market liquidity that BPA may face. WPAG believes it would also be helpful to explore a scenario where BPA does not join a DAM, and other entities are split between participating in a DAM (either Markets+ or EDAM) and not joining a DAM like BPA.

Finally, WPAG believes it will be imperative for BPA to provide additional insights on its interpretation regarding how much weight it believes should be afforded the WMEG study results and why. WPAG’s specific questions and recommendations with respect to WMEG results and BPA’s business case are summarized below:

- **How will WMEG study results and key assumptions be incorporated into BPA’s business case?**
BPA indicated during the October 23rd workshop that it believes the assumption that BPA wheeling revenues will remain unchanged in a DAM is appropriate. WPAG agrees with BPA that it is unlikely BPA will no longer receive any wheeling revenues in a DAM. However, given that this assumption is the key driver of net production costs to BPA from DAM participation, WPAG requests that BPA provide additional support

behind its thinking and provide additional insights into this assumption. For example, how do other production cost studies treat wheeling revenues? What portion of BPA's wheeling revenues are from long-term contracts vs. short-term purchases? Which of these does BPA believe would continue in a DAM and why?

- **Will BPA ask E3 to evaluate a scenario where BPA does not join a DAM but most of the West does?**

At its July 14th workshop, BPA claimed that one of the keys reasons it is evaluating whether to join a DAM is because "if most of the West is participating in a DAM, bilateral liquidity from the day ahead timeframe is expected to significantly decrease" which according to BPA could significantly impact its ability to make balancing purchases and surplus sales if it does not likewise join a DAM.² Unfortunately, the WMEG study does not address this critical assumption. Instead, the WMEG group contracted with E3 to perform a cost benefit study aimed to understand the benefits and costs to the region and specific utilities of participating in a DAM with different market footprints and different key design features. The E3 study, therefore, did not look at scenarios where certain entities did not participate in a DAM, since the purpose of the study was not to evaluate whether to join a DAM or not, but rather which market footprint provides more benefits. However, BPA's decision in this process is whether to join a DAM and ultimately which one. Therefore, it is absolutely critical to understand the cost/benefits to BPA of not participating in a DAM when all other entities, or a subset of entities do join a DAM. This is even more true because the production cost savings of BPA DAM participation are modest across the scenarios. For these reasons, WPAG recommends that BPA contract with E3 to evaluate an additional set of scenarios where BPA does not a join a DAM, and all other entities do join, and where BPA does not a join a DAM and some entities do join (either Markets+ or EDAM) and other entities to do not join.

- **Does BPA believe additional study work that is more precise to its system would be valuable?**

WPAG understands that not all utilities considering joining a DAM believe the results of the WMEG study are sufficient to support a decision to join a DAM and plan to contract for additional study work specific to their utility's system.³ Does BPA believe the WMEG study results are adequate support for the quantitative component of its business case? If not, it would seem to be important for BPA to conduct additional study work it does believe is sufficient.

- **What are the other components of BPA's business case and how much weight will BPA afford to each component, including WMEG results, in its overall decision to join a DAM?**

WPAG appreciates BPA sharing additional business case considerations and how these relate to its DAM evaluation principles in the October 23 workshop materials. WPAG respectfully requests that BPA elaborate on the considerations linked to the business

² See [final-presentation-for-20230714-dam-customer-workshop.pdf \(bpa.gov\)](https://www.bpa.gov/-/media/20230714-dam-customer-workshop.pdf) at 6.

³ See Seattle City Light's Comments on BPA's 9.11.23 Day Ahead Market Evaluation Workshop available here: <https://www.bpa.gov/-/media/Aep/projects/day-ahead-market/scl-day-ahead-202310.pdf>

evaluation criteria listed on slide 15 and excerpted below and describe how these will be considered specifically. For example, delineating which of these elements will be quantified versus those that are qualitative considerations would be a helpful start.

*Considerations linked to business evaluation criteria	
Out of market actions (price suppression measures)	Market Liquidity
Viability of Market Operator for further market developments (RTO Optionality value)	Transmission Cost Shifts
Effective use of the Transmission system	BPA implementation costs
Compensation for Flexible Capacity	Market funding
Generation/Load benefit estimate (E3)	Market price levels
	RC change cost

In particular, WPAG would like clarity on if and how BPA will quantify start-up and ongoing costs associated with participating in the different market options (EDAM and Markets+). For example, in EIM, BPA estimated start-up costs, which it explained were the costs BPA expects to incur in the initial period leading up to and just after joining the EIM, and these included labor and non-labor costs across different categories, including infrastructure, operations, and settlements. BPA also estimated ongoing costs of participating in EIM across these different categories.⁴ These costs were an important component of the overall cost/benefit analysis for BPA joining EIM and WPAG believes they should also be included in BPA’s DAM evaluation analysis.

Lastly, while BPA has outlined additional components or consideration of its business case, it has not shared how much weight it will afford each component. WPAG recognizes it may not be fruitful to try to specify exact weightings across each element of the business case, but we do think it would be helpful for BPA to share at a general level, which elements will be most impactful in its analysis and decision-making.

C. BPA’s DAM Evaluation Process Lacks Clarity.

It is essential at this stage in BPA’s DAM evaluation process, that BPA provide clarity and transparency on its decision-making framework for joining a DAM. It is both surprising and concerning to WPAG that there are a number of important issues, such as BPA’s statutory and legal ability to join a DAM, that have not yet been fully explored and there is no clear roadmap for when these and other key issues will be addressed at upcoming workshops. In addition, BPA has yet to clearly communicate what specific decisions will be made in the March policy ROD. BPA has indicated that the Policy ROD in March will include a decision on DAM participation and a

⁴ See BPA EIM Policy ROD, pp. 96-100, available at: <https://www.bpa.gov/-/media/Aep/projects/energy-imbalance-market/rod-20190926-energy-imbalance-market-policy.pdf>

leaning on which market it will participate in. Does this mean BPA will make a final determination on the business case and its legal/statutory ability to participate in a DAM in this policy ROD? What additional process will be required after BPA provides its “leaning” on which DAM it will participate in, and does BPA believe a “leaning” will enable or allow for additional funding commitments for a particular market option?

As soon as possible, BPA must provide a clear roadmap that outlines (i) which topics will be addressed at the remaining scheduled workshops, (ii) what final decisions will be made in the March policy ROD, and (iii) what issues BPA intends to address after the March policy ROD and when. WPAG encourages BPA to use a decision-making framework that is similar to that used in its decision to join EIM, which clearly outlined a series of incremental decisions involved in the decision to join EIM, how those were divided into different phases and clearly described in each phase what “final” decisions were being made.

D. Conclusion.

Thank you for the opportunity to comment. In addition to satisfying the other issues raised in our prior comments, any decision by BPA to participate in a DAM must also be based on a demonstration that BPA’s participation will enhance or, at a minimum, not harm its customers. BPA has not yet made this demonstration, and we are concerned that the public process may not afford the thorough evaluation that is required. BPA has the opportunity *now* to clarify for customers how it will make this demonstration and to course correct if additional workshops or additional time is required to get there.