

February 23, 2024

John Hairston, Administrator and CEO
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

RE: WPUDA Priorities for the Bonneville Power Administration's Evaluation of Alternative Day-Ahead Markets.

Dear Administrator and CEO Hairston:

The Washington Public Utility Districts Association (WPUDA) is aware that multiple parties, including Washington Governor Jay Inslee, are providing comments regarding whether, how and when the Bonneville Power Administration (BPA) should participate in the alternative regional day-ahead electricity market mechanisms under development. We respect the public process and each party's right to provide input aligned with their own interests. Nevertheless, we hold that the utility-specific knowledge and experience of BPA's customers uniquely situates them to contribute to BPA's assessment of the pros and cons of each alternative: join CAISO's Day-Ahead market; Join SPP's Market+ mechanism; or stay independent.

Non-profit, community-owned, public utility districts (PUD) in Washington state are critical to the region's electric system:

- In 2022 PUDs delivered 39 percent of retail electricity in Washington;
- At 2799 MW, Washington PUDs collectively make up nearly 40 percent of BPA's draft Contract High-Water Marks (CHWM).¹

WPUDA's utility members are important and long-standing BPA customers. They are acutely attuned to BPA decision-making and the follow-on consequences to utility operations and, ultimately, utility customers. Throughout their long history of public service, WPUDA members' central objective has been, and continues to be, to provide Washington citizens with safe, reliable, and affordable electricity. Towards that end, WPUDA members' policy priorities related to cost, reliability, environment, and governance guide both present day operations and forward-looking investment decisions. These are far more expansive than the evaluation criteria advocated by many stakeholders, which seems to boil down to making the market footprint as large as possible. This singular focus ignores other priorities that WPUDA asserts are more important. WPUDA asks you to fully vet and thoughtfully consider the following priorities prior to deciding whether, when and which regional market BPA is to join.

¹ Data sources: USDOE Form EIA-861, Annual Electric Power Industry Report and Form EIA-861S (the shortform); BPA's Provider of Choice, Post 2028 Contract High Water Mark Calculation Model, released July, 20, 2023. The figures include data for Snohomish Co. PUD which is not a WPUDA member.

1. **Reliability:** The Pacific Northwest has traditionally enjoyed very reliable electric service. However, the January cold snap stressed our regional grid; to maintain service we were forced to import hundreds of thousands of MWhs of electricity. CAISO's policies make energy wheeled through the CAISO Balancing Authority Area to the Pacific Northwest vulnerable to administrative actions that supersede normal market allocations of energy. This is a circumstance that we understand to have happened to the Desert Southwest in 2022 and which would have threatened reliability in the Northwest if it had occurred. The challenge to reliability will only grow the continued additional variable energy resources, electrification of transportation and buildings, congested transmission lines and the shuttering of dispatchable thermal generation. BPA must require any regional energy trading market mechanism it joins to have operating rules that prohibit any state from blocking the transfer of electricity to an entity outside of that state's boundaries so as to retain that electricity for its own use.
2. **Cost:** Preference power customers of BPA, have by right of statute, access to cost-based electricity produced by Columbia River generation. Recently, some PUDs have exceeded, or are at risk of exceeding their allotment of this electricity. WPUDA generally agrees with the Western Market Exploratory Group's (WMEG) Day-Ahead Market Study that under normal, unstressed operations, a single west-wide centralized market offers the least cost approach to addressing such deficits. However, this finding may turn upside down if events of grid stress are added. Additionally, the WMEG study essentially evaluates the impacts of different market footprints. It did not consider operational differences among the market alternatives. WPUDA expects that the effect of these market rules will have meaningful impacts on market outcomes and allocation of costs and benefits.

For example, WPUDA is aware of alleged concerning patterns with regards to exchanges with California's independent system operator's (CAISO) market. Again, pointing to the January cold snap, to keep the lights the Pacific Northwest paid entities outside this region several hundred million dollars for power and another hundred-plus million for congestion. It is our understanding that a majority of this imported power was sourced outside of California, yet the CAISO Balancing Authority Area retained a large portion of the high costs paid by Northwest entities. (WPUDA is hopeful that BPA will soon put an exact figure to its spending during this period). Another area of concern are side payments for energy services made by CAISO outside of the market clearing price calculation. BPA must require any regional energy trading market mechanism it joins to have operating rules and other market features designed to fairly and equitably allocate costs and benefits so that those providing resources are appropriately compensated for their contributions.

WPUDA also notes that the WMEG Study revealed that regional market mechanisms did not evenly spread benefits among participants; for some participants costs went up. WPUDA asks that you include in the Record of Decision, the financial implications of each market alternative to every BPA preference customer.

3. **Environment:** Washington PUDs provide retail customers with some of the cleanest electricity in the nation. This is due in large part to the carbon-free hydropower that BPA provides to preference customers. WPUDA has many questions regarding how a regional, centralized energy market mechanism will implicate Provider of Choice contracts and the allocation of environmental attributes of BPA's hydropower. Will, for example, preference customers with electric loads beyond their CHWMs receive excess BPA power when available? Will BPA retain and allocate to preference customers the

environmental attributes of power it sells through the market mechanism? How will participation in each market alternative affect the Asset Controlled Supplier calculation for CO2e in the electricity that BPA sells? Fundamentally, it is the operating rules of a regional, centralized energy trading market that will answer these questions. BPA must require any regional energy trading market mechanism it joins to have operating rules that convey the environmental attributes of electricity generated by the Columbia River System to preference customers.

4. **Governance:** Washington PUDs are strongly committed to local governance of services and retail rates and regional partnerships to support grid reliability and, where appropriate, pool investments. WPUDA holds that a true regional partnership gives all entities an equal seat at the “governance” table. We reject any system of governance that allows a single entity or a minority group of entities to establish or veto any energy market rule or operating procedure. BPA must require any regional energy trading market mechanism it joins to be governed under an inter-state compact or similar structure where policies are established through cooperation and consensus.

WPUDA members are grateful for the leadership BPA has provided in the development and funding of alternative energy markets. We urge you to maintain a continued focus on your utility customers, who directly serve the people of the Northwest. Towards that end, WPUDA asks that you wholistically consider benefits and costs both of each alternative, both during normal operations and especially in episodes of high grid stress. Finally, we ask that your decisions be consistent with the priorities articulated above.

Sincerely,



Liz Anderson, Executive Director
The Washington Public Utility Districts Association