



March 1, 2024

**VIA ELECTRONIC FILING**

Russ Mantifel  
Director of Market Initiatives  
Bonneville Power Administration

**Re: State Agency Comments on Bonneville Power Administration's Day-Ahead Market Participation Evaluation, Workshop 5 held on February 1, 2024**

Dear Mr. Mantifel,

The Oregon Public Utility Commission, Oregon Department of Energy, and Oregon Department of Environmental Quality, Washington Utilities and Transportation Commission, Washington State Department of Ecology, and Washington Energy Office at the Washington State Department of Commerce (State Agencies) appreciate the opportunity to comment on the Bonneville Power Administration's (BPA) day-ahead market (DAM) evaluation. These comments respond to the information presented in BPA's fifth stakeholder workshop on February 1, 2024, in which BPA provided updates on its DAM decision process and timeline and reviewed some stakeholder comments.

The State Agencies greatly appreciate that BPA extended its decision-making timeline as outlined in the February 1 workshop in response to stakeholder input.

In these comments, we provide thirteen specific requests to BPA in four areas:

- A. Incorporate new information in BPA's DAM evaluation;
- B. Conduct additional analysis to augment the Western Markets Exploratory Group (WMEG) study, the results of which were presented to stakeholders at the October 23 workshop;
- C. Consider full costs and benefits of DAM options using a nodal analysis;
- D. Provide explanations in BPA's Policy Letter, currently scheduled to be issued April 4, indicating BPA's initial DAM leaning.

**A. Incorporate new information in BPA's DAM evaluation**

The State Agencies appreciate the commitment BPA made in the February 1 workshop to continue to re-evaluate its market options as new information becomes available after it issues its DAM Policy Letter on April 4. We specifically ask BPA to incorporate new information resulting from the West-wide Governance Pathways Initiative (Pathways Initiative), as described below.

- 1. At the May 8 workshop, and each workshop thereafter, BPA should describe how it is evaluating progress made in the Pathways Initiative, including the results of the legal analysis currently underway.**

The State Agencies request that BPA stay up to date on the Pathways Initiative status by engaging regularly with its Power Marketing Administration sector representative on the Pathways Initiative Launch Committee, and respond to future requests for comment issued by the Pathways Initiative. We specifically emphasize the importance of considering the results of the legal analysis currently being performed in the Pathways Initiative, which may not be available in time to inform BPA's April 4 DAM Policy Letter.

## **B. Conduct additional analysis to augment the WMEG study**

At the February 1 workshop, BPA stated that it may request additional modeling from its vendor to augment the WMEG study. BPA stated, "We believe that analysis of additional footprint variants may be helpful in augmenting the [cost benefit analysis]." <sup>1</sup> . BPA stated that such supplemental analysis would likely include the following topics:

- Friction between market seams in 2026
- BPA not joining a DAM when other entities do join
- EDAM-specific market benefits beyond 2026
- Below-average hydro generation in low-water years

The State Agencies strongly encourage BPA to perform the additional analysis described below to supplement the WMEG study.

- 2. BPA should consider the indirect market seams issues identified by the study performed by Energy Strategies and Gridwell Consulting for the Western Power Trading Forum (WPTF) and Public Generating Pool (PGP).<sup>2</sup>**

The State Agencies support BPA's suggestion to further explore the impact of friction between market seams. The recent WPTF/PGP study identified numerous indirect seams issues that are not factored into the seams friction costs assumed in the WMEG study. The WPTF/PGP study concludes, "Along with economic seams issues between two day-ahead markets, there are indirect seams issues that may increase the challenges associated with transmission optimization, policy compliance/resource procurement, GHG design, and competition in markets."<sup>3</sup> BPA should consider all of these indirect seams issues in its DAM evaluation.

- 3. BPA should analyze the impact of DAM market footprints on reliability in extreme events.**

The State Agencies are concerned about the impact of introducing market seams that would crosscut interregional transmission paths currently being relied upon for managing reliability across the West during increasingly frequent extreme weather events. While the Western Resource Adequacy Program's operational program will provide important coordination, we observe the growing pressure on the hydro system and regional grid during extreme events has necessitated

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<sup>1</sup> See BPA response to question 7.15 presented in the February 1 workshop presentation, slide 20, available at <https://www.bpa.gov/-/media/Aep/projects/day-ahead-market/dam-workshop-5-presentation-20240201.pdf>.

<sup>2</sup> "Exploring Potential Seams Issues Between Proposed Western Day-Ahead Electricity Markets", prepared for WPTF and PGP, January 2024, available at: [https://www.wptf.org/files/Western\\_Day-Ahead\\_Seams\\_Exploration\\_FINAL\\_240116\(2\).pdf](https://www.wptf.org/files/Western_Day-Ahead_Seams_Exploration_FINAL_240116(2).pdf)

<sup>3</sup> *Id.*, p. 60.

extensive regional and interregional coordination as new constraints have rapidly emerged. Market footprints, and particularly the seams they could create across high-value/high-volume transmission paths, must take this new operational reality into account to safeguard regional reliability.

**4. BPA should publish the WMEG Study results for the EDAM Bookend scenario in 2030 and 2035, including an EDAM RTO scenario on par with the Markets+ RTO scenario.**

The State Agencies already made this suggestion in our comments on the WMEG study results. BPA added this suggestion to its Public Comment Tracker as Comment #27.8, but simultaneously issued a response to the comment indicating that our suggestion was answered in detail at the October 23 workshop. The State Agencies' suggestion was not, in fact, answered in the October 23 workshop. Rather, the suggestion resulted from the October 23 workshop. Therefore, the State Agencies restate our original suggestion and its justification in its entirety below and respectfully ask BPA to implement the suggestion or publish a response in the Public Comment Tracker with an explanation of why it will not do so.

The WMEG Study analyzed how the economic benefits to BPA of a split market might change in the future as Markets+ progresses over time from a day-ahead market to a full RTO.<sup>4</sup> In this analysis, the friction costs across the transmission seam between the Markets+ and EDAM footprints are reduced through improved market-to-market coordination in 2030, and then the Markets+ footprint transitions to a full RTO in 2035.<sup>5</sup> The economics of these future cases are based on the forecasted load and resource diversity in those future years.

However, in presenting the results of this analysis, BPA compares the economic benefits of improved market coordination in 2030 and a full RTO in the Markets+ footprint in 2035 to the economic benefits of the EDAM Bookend scenario in 2026.<sup>6</sup> This is not valid comparison because 2026 load and resource data was used in the EDAM Bookend scenario, and the benefits of a full RTO in the EDAM footprint were not shown. BPA should present a valid comparison by using the 2030 and 2035 forecasted load and resource data in both cases and presenting a future RTO in both cases. Even though BPA believes that governance is a barrier to a full West-wide RTO in the EDAM footprint, BPA should model it as a possible future scenario, respecting the efforts of the Pathways Initiative to eliminate that barrier. The State Agencies ask that BPA update the results of its comparative analysis by replacing the 2026 EDAM Bookend data with the economic benefits for the EDAM Bookend scenario in 2030 and a full West-wide RTO in the EDAM Bookend footprint in 2035.

**5. BPA should transparently include in its DAM evaluation its share of the implementation costs for EDAM and Markets+, including both initial startup costs and ongoing development costs, such as those seen to date in the Western Energy Imbalance Market (WEIM).**

Market implementation costs were not included in the WMEG study, but are real costs that should be considered. Implementation costs should include the cost to transition away from WEIM. The State Agencies originally made this suggestion in our comments on the WMEG study, but it was not

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<sup>4</sup> This analysis used the "Main Split" scenario, which is described in E3's October 23, 2023, workshop presentation, slide 7, available at <https://www.bpa.gov/-/media/Aep/projects/day-ahead-market/e3-wmeg-benefits-study.pdf>.

<sup>5</sup> E3's October 23, 2023, workshop presentation, slide 27, available at <https://www.bpa.gov/-/media/Aep/projects/day-ahead-market/e3-wmeg-benefits-study.pdf>.

<sup>6</sup> BPA's October 23, 2023, workshop presentation, slides 32-33.

recorded in the Public Comment Tracker. Other parties have since made similar comments. PacifiCorp and TransAlta have both commented that BPA should transparently discuss how market implementation costs will be allocated between BPA’s transmission and power customers and how those costs will affect power and transmission rates.

- 6. BPA should conduct sensitivity analyses to explore the impact of hydro variability – specifically sensitivities that test (i) extreme summer conditions involving coincident low Northwest hydro, high gas price, and high demand, and (ii) fall/winter conditions involving coincident low Northwest hydro, high gas price, and low Northwest wind and solar.**

The State Agencies appreciate that BPA mentioned hydro variability as a likely topic for additional analysis. We originally made this suggestion in our comments on the WMEG study, but it was not recorded in the Public Comment Tracker. Therefore, we reiterate our request that BPA conduct sensitivity analyses, not just for hydro variability, but also certain conditions coincident with low hydro availability.

- 7. BPA should explain how it is (or why it is not) using the transmission costs from the WMEG study in its DAM evaluation. If BPA is not relying on the WMEG study transmission costs, BPA should identify the assumptions it is making about transmission costs in a DAM, and/or clarify the data will it seek from supplemental analysis.**

During the October 23 workshop, BPA indicated that the lost wheeling revenue identified in the WMEG study is likely not accurate and that BPA would perform its own analysis of transmission revenue risk. To our knowledge, BPA has not yet shared the results of its own analysis with stakeholders.

- 8. BPA should describe how BPA’s transmission customers will be affected by BPA’s DAM decision, including the impact to a BPA transmission customer if BPA joins one DAM and the transmission customer joins a different DAM.**

In previous comments, the State Agencies noted the need for BPA to “assess and consider the transmission cost implications of different market footprints ... and how transmission costs will be passed on to customers.” (See Comment #21.03 in the Public Comment Tracker.) Other stakeholders have similarly asked for clarity about how transmission costs are being considered in BPA’s DAM evaluation. PacifiCorp has asked how customer rates would be impacted due to changing transmission usage under a split market footprint.<sup>7</sup> TransAlta noted that the WMEG study raised uncertainty about a DAM’s impact to transmission revenues and asked for clarity on how BPA will consider transmission revenues in its DAM evaluation.<sup>8</sup> The State Agencies note that the regulated utilities in our states are BPA transmission customers and may or may not end up in the same DAM as BPA.

- 9. BPA should provide stakeholders with the opportunity to understand and comment on the scope of the additional analysis, adding a workshop prior to May 8, if needed, to meet BPA’s overall decision timeline.**

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<sup>7</sup> PacifiCorp’s comments on BPA’s November 29 workshop, available at <https://www.bpa.gov/-/media/Aep/projects/day-ahead-market/pacificcorp-comments-on-bpa-workshop-4.pdf>.

<sup>8</sup> TransAlta’s comments on BPA’s November 29 workshop, dated January 1, 2024, available at <https://www.bpa.gov/-/media/Aep/projects/day-ahead-market/temus-participation-evaluation-comments-20240105.pdf>.

For any supplemental analysis performed, the State Agencies request that BPA provide stakeholders the opportunity to review and comment on the scope of the analysis.

### **C. Consider full costs and benefits of DAM options using a nodal analysis**

The impact of BPA's DAM decision on the entire West cannot be overstated. BPA's decision must be informed by a complete assessment of the costs and benefits of its DAM options.

#### **10. BPA should perform a nodal analysis, and should consider other benefits, additional to production cost savings, that have been identified in other nodal analyses, including generation capacity benefits and optimized resource procurement, in its evaluation of DAM options.**

The State Agencies agree with NW Energy Coalition's (NWECC) assertion that the zonal analysis performed in the WMEG study does not provide a complete accounting picture of all the costs and benefits of a DAM.<sup>9</sup> The State Agencies point to the WMEG study's own recognition that production cost savings represent just one category of potential benefit from market development, and that other categories, such as generation capacity benefits and optimized resource procurement, have been found to yield cost savings two to ten times greater than dispatch cost savings.

Nodal analyses are best practice and common among entities considering participation in regional electricity markets, both in the Northwest and across the country. In particular, nodal analysis is necessary to better understand how benefits appear to be allocated between entities in different footprints in light of such complex seams that can encumber co-optimization of supply and demand side resources across connected energy systems. The State Agencies believe a nodal analysis is necessary before BPA announces a policy leaning. BPA's decision on a regional electricity market is the biggest energy decision our region has faced in at least the last half-century, and it is imperative that we have the best information possible when announcing a leaning in the April 4 Policy Letter and when BPA makes its final decision. Smaller entities often do these analyses when deciding whether to join a market, and the State Agencies expect the same if not greater level of care be taken by BPA in the completeness of its analysis. The State Agencies request that BPA conduct a nodal analysis and consider these broader benefits and clearly describe how these other potential benefits will be assessed to ensure that BPA's evaluation of DAM options consider the full accounting picture of all costs and benefits.

### **D. Provide explanations in BPA's April Policy Letter**

BPA's April Policy Letter provides an opportunity to explain how various criteria were evaluated and prioritized under BPA's evaluation principles. The State Agencies request that BPA address the following questions in its Policy Letter to ensure a complete analysis of this momentous decision.

#### **11. The Policy Letter should explain how BPA has weighed the potential for each DAM to expand to a full RTO in its initial decision.**

The State Agencies note that at the February 1 workshop, BPA said that it will factor into its decision the capability of a DAM to expand to become an RTO, and at the same time reiterated that RTO

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<sup>9</sup> NWECC and CUB comments dated November 20, 2023, available at <https://www.bpa.gov/-/media/Aep/projects/day-ahead-market/20231120-bpa-day-ahead-market-nwec-cub-comments.pdf>.

participation is not in scope for this decision process. We are thus unclear about how *future* RTO participation is being considered in this decision.

**12. The Policy Letter should explain how BPA has considered the public interest in its initial decision, in particular the broad economic and greenhouse gas emissions impact on the northwest regional grid.**

The State Agencies note that BPA's DAM decision will have broad-reaching effects on the costs borne by customers of load-serving entities across the region and the emissions associated with energy serving those customers.

**13. The Policy Letter should clearly state that BPA will consider the legal analysis produced by the Pathways Initiative in its ultimate decision.**

The State Agencies reiterate that the Pathways Initiative legal analysis may not be completed prior to the issuance of BPA's Policy Letter. The results of that analysis, as well as other governance developments in the Pathways Initiative, must be considered in BPA's ultimate DAM decision.

The State Agencies reiterate our appreciation for BPA's extension of its decision timeline, and for the opportunity to offer these comments on the February 1 workshop.

Respectfully submitted,




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