

*Sent Via Electronic Mail*

August 15, 2023

John Hairston  
Administrator  
Bonneville Power Administration

**RE: BPA's Upcoming Decision on Day-Ahead Market Participation and Critical Considerations for Preference Customers**

Dear Administrator Hairston:

Thank you for positioning BPA as a leader in the day-ahead market options being considered for the West. PPC has consistently encouraged the agency to ensure that these options advance the needs and objectives of the agency's preference customers and enable BPA to meet its statutory obligations while participating. We appreciate BPA's strong engagement with both the CAISO Extended Day-Ahead Market and SPP Markets+ forums and are pleased that the agency has embraced its leadership role in the region.

While timely decision making is an important aspect of BPA's leadership, BPA must also consider what the agency's participation in a day-ahead market means for its customers – their business models, the products and services they purchase from BPA, and their statutory rights. These questions are critically important to PPC members, and the PPC Market Development Committee wishes to emphasize that importance with this letter.

We are optimistic about potential opportunities for organized markets to enhance BPA products and services for the agency's customers. Still, these products as they exist today are vital for PPC members' ability to provide service to their customers and any changes to the provision of those products must be thoroughly vetted. Changes to these products and how they are offered can significantly impact the cost and quality of services PPC members provide to their communities and their entire business models. BPA must understand and consider such impacts as part of its decision-making process.

***BPA's Process Must Result in an "Eyes Wide Open" Analysis of Potential Impacts***

BPA's proposed process to evaluate participation in the day-ahead market is relatively short requiring agency staff to work quickly and closely with customers to vet the alternatives BPA is considering. The decision in this process, along with upcoming decisions on BPA's Provider of Choice power contracts, will mark a new era for BPA and its customers. The agency's

participation in a day-ahead market has the potential to significantly impact the value of BPA power contracts and transmission services.

The agency must work with preference customers to ensure that BPA and customers go into any potential market participation with “eyes wide open” by fully vetting issues to determine how preference customers will be impacted from operational, legal, financial, and contractual perspectives. Customers will need sufficient time to understand and evaluate those impacts, along with the associated benefits and risks. It is critical that in vetting these issues, there be intra-agency dialogue between operations, legal, power, and transmission. BPA’s potential participation in any day-ahead market necessitates staff to understand the convergence of issues mentioned above and work together and with customers in pursuit of common understanding and solutions.

It is also important that the decision reached at the end of this process account for the level of certainty associated with the market design options upon which the decision is based, given that elements of one or both of the market options being considered may still be under development at the time of BPA’s decision. As such, any decision should be conditional on the basis that relevant design elements will not change through the process of achieving a FERC approved tariff or in the development of market protocols. The business case should clearly identify specific market elements providing value to BPA and those relevant elements should be identified as being required for maintaining the provisional decision made at the end of this process. Such a conditional approach should allow for BPA to reconsider its decision in the event of material change during design and/or tariff filing processes.

***BPA Should Seek to Maximize Strategic Goals While Operating Within Limited, but Critical, Constraints***

As BPA establishes principles for this decisions process, the agency should differentiate between areas where it seeks to maximize benefits – consistent with its strategic goals – from areas where certain constraints must be met in order to enable customers to support BPA’s participation. PPC has adopted this approach in establishing our market evaluation criteria. This helps distinguish between requirements or “must-haves” for the market, and areas of opportunity and potential benefit that could be increased through market participation.

PPC members have identified several objectives to be maximized through the establishment of a day-ahead market:

1. Reduce the future costs for PPC members’ ratepayers through (i) lowering power supply costs, and (ii) providing full compensation for the value FCRPS and FCRTS.
2. Efficient operation and timely expansion of the transmission system.
3. Integration of additional carbon free resources.

At the same time, PPC members have acknowledged several parameters an organized market must operate within. These are essentially “must-haves” for market participation:

1. Maintain grid reliability.
2. Preserve the statutory rights of the preference customers to cost-based, Federal load service.
3. Strong and effective independent governance structure which does not unduly discriminate in favor of or against specific market participants or jurisdictions.

PPC will be looking for BPA to clearly and specifically evaluate the extent to which each market option achieves these objectives. We will also expect the agency to demonstrate alignment with these constraining parameters in making its decision about potential participation in a day-ahead market.

### ***Foundational Analysis – Statutory Obligations***

Because BPA is a creature of statute, its analysis must begin with whether BPA has the authority to participate in an organized day-ahead market. A key part of that analysis will be how the agency's participation would comply with its statutory obligations while participating in the market. After this foundational analysis is complete, BPA should move on to analyzing the business case, which would answer the question of *whether* BPA should participate, after having decided that it *can* lawfully participate. To be clear, this foundational analysis is in no way intended to be a barrier to BPA's participation in an organized market. To the contrary, PPC has been advocating for BPA to conduct this analysis since 2021 and attempting to work with BPA to identify ways the agency can ensure market participation would be consistent with its statutory obligations. PPC has been raising these questions consistently in an effort to ensure there is sufficient time to identify any potential conflicts between participation and BPA's existing statutes, identify potential ways to address any such conflicts, and vet any potential solutions with the potential market operators and other stakeholders. To the extent specific considerations are needed to enable BPA's participation, those will require support from other stakeholders – this underscores the importance of timely vetting.

The statutes which establish benefits for Northwest consumer-owned utilities and currently govern BPA predate the concept of organized markets and envision a direct bilateral relationship between the Federal resources and consumer-owned utilities' net requirements. An organized or centralized market essentially treats all generation (resources, including any Federal resources) bid into the market as a commodity – differentiating supply only based on attributes defined by the market. The market identifies the least cost way to dispatch all available resources to meet load in the market footprint, again essentially treating all generation as a fungible commodity. Load is then served by the market with an amalgamation of market resources, potentially severing the direct generation-to-load relationship envisioned by Congress.

As part of this foundational analysis, PPC members will look to BPA to ensure that potential market participation would preserve the value of their right to service from the federal system. PPC will be looking through several risk “lenses” to evaluate whether there is any increased risk to customers continuing to receive the same valuable federal service they receive today, specifically with regards to:

- Firmness of power supply: customers are currently assured of the firmness of the federal system to meet their needs based on a robust planning process conducted by BPA;
- Certainty of delivery: curtailments of BPA firm transmission are exceedingly rare, which offers customers a high level of certainty that generation purchased from BPA will be delivered to preference load. Firm transfer service also provides a high level of confidence in federal deliveries; and
- Low carbon content: BPA's generating portfolio dominated by hydro with nuclear generation and limited purchases from unspecified resources results in a federal base system with very low carbon content.

Customers will need to understand whether participation in a day-ahead market introduces any additional risks to these three critically valuable aspects of the service they receive today. This is particularly true given the impending signing of new long-term contracts between BPA and its preference customers. Some specific questions which must be addressed in writing during this decision process include:

- How will BPA meet its obligations to serve preference load from the federal system?
  - It is unclear how a market with no relationship between load and generation will meet this requirement.
  - Preference customers must be assured that they receive the value of the federal base system (which includes firm power, delivery obligations, and low carbon content) just as they do today.
  - As BPA answers this question it must consider potential impacts to transfer customers who may be in a Balancing Area that is in the same market footprint, a different market footprint, or outside any organized market.
- How will BPA meet its obligation to provide preference customers with the first right of access to surplus?
  - BPA must ensure that federal generation won't be used to serve other regional needs ahead of Northwest Consumer Owned Utilities in a day-ahead market paradigm as compared to the status quo.
  - Processes need to be established for how day-ahead needs of preference customers will be considered when BPA is bidding into the market.
- How will BPA meet its obligation to serve preference customers at cost?
  - We understand that rates will be set through a different process, but BPA will need to explain generally how it will establish the cost of service if all transactions are settled through the day-ahead market.
  - BPA should indicate how costs incurred through market deliveries (congestion, dynamic losses, market uplift, etc.) will be assigned and whether this will be different based on power product type.
- How will preference customers continue to receive the environmental attributes of the FCRPS?
  - BPA must ensure the firm attributes of its power and transmission are supported or enhanced by market participation.

- Without maintaining these attributes there would be little that would differentiate BPA's products as compared to products offered by other power marketers.

We look forward to the agency's analysis of these issues and others as they arise throughout the decision process. It will be critical that legal, operational and policy perspectives are considered in that evaluation. To the extent that BPA plans to use the power supply contract to clarify how it will meet its statutory obligations while participating in the market, PPC members expect to see draft contractual language prior to the agency making its decision on day-ahead market participation.

We understand that BPA is working with PPC staff to vet these issues through a series of tabletops that will feed into the agency's decision process. We support that work and urge you to complete this work in a timely manner.

### ***Product Design and Value Are Important Considerations That Must Be Vetted***

While participation in a day-ahead market in many ways builds off of participation in an energy imbalance market, expanding participation to a day-ahead market opens up many new questions as to how BPA's existing products and processes will be impacted. BPA must work with its preference customers to answer outstanding questions on operational, financial, and legal issues.

While demonstrating that BPA will be able to continue to meet its statutory obligations is foundational to the discussion, it alone is not sufficient justification to participate in a day-ahead market. The agency should seek to demonstrate the expected value that its preference customers will receive from participation in a day-ahead market and explain how customers can expect to realize those benefits.

An important aspect of this evaluation will be ensuring that BPA's business case considers impacts to customers' business models, not just to BPA as a whole. This will require the agency to demonstrate how benefits flow through to customers, as well as considering potential impacts to existing business models and processes closely tied to and significantly impacted by BPA's products, rates, and operational processes. Impacts to BPA's products are important for customers to understand and PPC members are eager to work on these issues with BPA.

PPC members also expect the decision will be made based on a robust business case which will include quantitative and qualitative analysis of risks and benefits. BPA must carefully weigh these risks and benefits and evaluate how different options advance the strategic direction of the agency, and help customers meet their individual objectives.

To satisfactorily evaluate whether participation will advance the objectives of its customers, BPA must demonstrate that participation should ultimately *enhance*, or at the very least not harm, the value of its products and services. To make that demonstration, more detailed considerations need to be made evaluating potential product revisions in advance of BPA's decision on day-ahead market participation. We anticipate that the agency's power products will be differently impacted by BPA joining a day-ahead market. This information is critical for informing customers' decisions for the upcoming Provider of Choice contracts. BPA needs to clearly establish when it will work with customers to scope product-specific issues to ensure

products retain value. This scoping should begin soon to provide customers with the best information for making their contract decision, and also inform this day-ahead market decision process. While all implementation details may not be complete before the conclusion of this process, an initial scoping of product impacts is something that should begin before the agency issues its decision on day-ahead markets.

**Conclusion**

We remain optimistic about the potential value that day-ahead market participation could have for preference customers. While similar questions to those raised above have been seen in the past as a barrier to market participation, we assure you that is not the intent. To the contrary, PPC members are raising these issues hopeful that addressing them as early as possible will help us overcome what has been unsurmountable in past market development efforts. Working together on these issues is the only way for BPA and the region to move into a new era successfully and transparently. We ask that you direct your staff across the agency to work with PPC staff and utility staff to vet these issues as quickly as possible to allow a decision on BPA’s proposed timeline. Much work is needed to achieve the “eyes wide open” goal we established above. It will take all of us working together to achieve that outcome.

Regards,



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Chair, PPC Executive Committee



Chris Robinson,  
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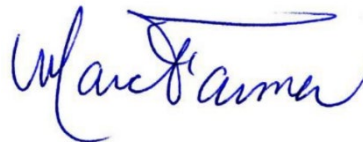
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