

Submitted via Tech Forum on January 5, 2024

RE: BPA's November 29 Day-Ahead Market Workshop

The Public Power Council (PPC) appreciates the opportunity to comment on BPA's ongoing day-ahead market participation workshops. PPC continues to find the agency's engagement in the development of emerging regional market options important and is optimistic about the potential for market participation to provide additional benefits to BPA's preference customers. PPC welcomed the initial analysis presented at the last workshop, but more detail on BPA's evaluation of the market options is needed prior to the agency issuing a decision on its day-ahead market participation. We look forward to working with BPA in the coming weeks to ensure that the decision made at the end of this stakeholder process is appropriate given the analysis completed at that time. As part of the agency's "leaning" at the end of this stakeholder process, it will be critical that customers are provided some certainty as to the timing and forum in which any outstanding questions or issues will be addressed. PPC would like to reiterate the importance of ensuring that the day-ahead market decision process is well coordinated with other ongoing BPA processes such as the Provider of Choice initiative. Before participating in a day-ahead market, the agency must demonstrate that the products and services it offers are compatible with and benefit from day-ahead market participation.

BPA's Decision Process and Timeline

PPC members have asked for BPA to take a leadership role in regional market development. We appreciate the efforts and commitments the agency has made to do so. PPC understands that for BPA to be a regional leader, it must strive to act swiftly and decisively as its decisions will have meaningful impacts on decisions of other prospective market participants. BPA operates a significant portion of the Western transmission grid and has considerable generation resources; a timely decision on market participation may have an important role in shaping western market development. PPC continues to support BPA developing a well-supported decision on day-ahead market participation as quickly as possible. At the same time, in order for PPC to support any leaning or decision resulting from this process, those leanings or decisions will need to be adequately vetted with BPA customers. We acknowledge that BPA will need to balance the desire to move quickly with the need to explore outstanding questions. PPC anticipates for BPA to achieve this objective, some issues will be considered "decided" after this initial process while others will remain open for further discussion. The sooner

that BPA can provide clarity as to what decisions will be made at the end of this process, the better customers can focus their engagement on those immediate issues.

Additionally, better defining the actions that BPA will take as a result of its “leaning” will allow customers to identify what level of analysis is needed to support those actions. For example, PPC has previously stated that it supports BPA supplying the initial funding for the second phase of Markets+ development (Phase 2A) based on the information that is available today, even absent any “leaning” resulting from this stakeholder process¹. EDAM requires no such investment for further development if the agency decides that is the preferred path. If BPA’s “leaning” will result in additional actions beyond an initial investment to continue to explore its preferred market option, PPC would need to better understand any commitments that will be made at the end of this process.

PPC Supports Continued Funding of Markets+

In previous comments, PPC has described the value of the Markets+ option and the need to continue to invest in that option as BPA evaluates potential market participation. As described in further detail below, PPC sees significant value in the governance, market design, and stakeholder process that have resulted from the Markets+ effort. PPC members want to ensure that BPA is able make its determination about its day-ahead market participation while this valuable option is still viable.

PPC looks forward to additional engagement with BPA leading up to the final workshops in this process to better understand the next steps following an initial “leaning.” Important to this conversation will be identifying when and in what forum issues will be resolved to the extent that they remain outstanding after the agency’s initial leaning is issued.

Foundational Questions on BPA Statutory Obligations and Value to BPA Customers

PPC appreciates BPA’s discussion of the “PPC value lenses” in the last workshop. These “lenses” were developed by PPC as a tool for describing the benefits that our members receive today through BPA meeting preference customers’ net load obligations with the federal system per BPA’s statutory obligations described in section 5(b) of the Northwest Power Act. As explained in PPC’s previous comments², BPA is obligated to meet customer’s net requirements load with generation from the federal system. Preference customers receive significant value as a result of BPA meeting this obligation and would like to ensure that these benefits, which are bestowed upon preference customers by law

¹ <https://www.ppcpdx.org/wp-content/uploads/PPC-Comments-on-BPA-Day-Ahead-Workshop-10.15.23-with-Attachment.pdf>

² *Id.*

and are also the result of continued investment and funding of the federal facilities through power rates, are protected or enhanced through market participation.

The initial thoughts related to each of the PPC lenses shared at the last workshop are a helpful start, but additional details are needed to help preference customers understand the potential impacts to the value and quality of the service they receive from BPA, particularly under “edge” case scenarios where there are supply shortages or transmission constraints within the market footprint. Some specific areas where additional analysis would be helpful include:

- Supply lens – inclusion of an example where there is inadequate supply in the market footprint, including evaluating whether there are any additional risks to serving customers’ load in a day-ahead market context as compared to today.
- Delivery lens – inclusion of an example where transmission constraints limit BPA’s ability to serve load. This would most likely be a situation where there are constraints between the BPA BAA and a neighboring BAA which could impact transfer service deliveries.
- Environmental attributes lens – inclusion of examples demonstrating how GHG accounting would work for entities in or out of the BPA BAA and in or out of Washington.

These examples will help demonstrate to preference customers the potential impacts they may experience as part of BPA’s market participation. The “impacts” demonstrated by some of these scenarios may be positive or negative, and help customers understand the potential trade-offs of market participation. On the whole, PPC members will be looking for these scenarios to demonstrate that they are not worse off in a day-ahead market than they are today. To the extent that potential negative impacts are identified, PPC would be interested in exploring market design options or tools to mitigate those effects. In conducting these scenarios, it would be helpful to evaluate both market options to demonstrate any differences in market policies or tools which could help inform BPA’s decision on a preferred day-ahead market.

In addition to expanding on the evaluation of the PPC lenses, we continue to seek additional clarity on BPA’s position regarding meeting its 5(b) obligations in a day-ahead market. In our comments on the September workshop, PPC extensively discussed the agency’s statutory obligations to use the federal system to meet preference customers’ net requirements load. Discussion at the workshop in response to PPC’s comments on this issue was confusing and unclear regarding BPA’s analysis of its authority to require customers to have load service optimized through an organized market. It is particularly unclear what will occur if a preference customer declines to have its generation optimized through an organized market. While PPC agrees that broad optimization of load service through the market has the potential to provide the greatest regional benefits, BPA has

not yet demonstrated that preference customers will equally share in these benefits and thus some preference customers – absent that compelling business case – may choose to seek exclusion from the market.

At this time, there is not sufficient information available for preference customers to determine if participation in a day ahead market would be beneficial to them. Before BPA determines it will participate in a day ahead market, it must demonstrate the value proposition of participation more clearly to customers, including specific examples demonstrating how the products being developed in BPA’s Provider of Choice initiative will be delivered through a day ahead market construct. We would like to better understand where such examples might be discussed, including the timing of that discussion and how it will impact BPA’s decision regarding day ahead market participation.

PPC appreciates BPA’s continued commitment to meet its statutory obligations and we are committed to working with the agency as quickly as possible to resolve our remaining questions and identify a potential path forward for day ahead market participation, given that the agency identifies meaningful benefits of participation to its customers.

Evaluation of BPA’s Day-Ahead Market Business Case Considerations

PPC appreciates the initial work BPA has shared on comparing and evaluating the CAISO Extended Day-Ahead Market and Southwest Power Pool Markets+. The initial evaluation of business case considerations provided at the last workshop was a helpful starting point for understanding BPA’s decision criteria when evaluating prospective day-ahead market options. We look forward to working with the agency and other stakeholders to continue the development of this initial evaluation. In that spirit, PPC offers some additional perspectives on the criteria highlighted during the November 29 workshop and our perspectives on how they influence the overall business case of BPA day-ahead market participation.

While the extensive list of considerations and criteria that were identified during this process are important to consider, some must be given much more weight than others. In future discussions it will be important for BPA to clarify the relative importance of the various considerations and how they meet BPA’s principles and objectives. As explained above, to help analyze how various elements of day-ahead market participation could impact the value of BPA’s products to preference customers, PPC developed the three “value lenses” - firmness of power supply, certainty of delivery, and environmental attributes. These quality of service “value lenses” are a critical element in PPC’s evaluation of day ahead market options. Additionally, the impact of participation on BPA’s economic competitiveness and ability to retain reliable service are the most critical elements of a well-reasoned business case for day-ahead market participation.

PPC will also heavily weight consideration of each market’s governance structure, as those structures will impact the trajectory of future market rules, including determining whether all market participants, including BPA, receive equal consideration by decision-makers in establishing market policies.

Based on discussions with BPA and PPC’s experience in Markets+ and EDAM development, these components will have the greatest impacts on the long-term value of BPA’s day-ahead market participation for its preference customers. An initial analysis of these key areas is summarized below.

Strong Independent Governance and Collaborative Stakeholder Process

A strong, independent governance framework is critical for ensuring that market outcomes are equitable for all market participants and must be a requirement of BPA’s prospective participation. The governing structure of a market will impact all aspects of the market design based on the direction provided by the decision-making body. Any valuable day-ahead market will include a diverse set of market participants and stakeholders with sometimes competing objectives and needs. If market governance allows one set of participants to have undue influence, there is the potential for market outcomes where the benefits and costs of participation are not equitably distributed among all participants.

FERC can play a role in ensuring equity in organized markets, but the Commission is limited in its scope of review and its ability to evaluate different market options. The recent FERC order in response to the CAISO Day Ahead Market Enhancements and Extended Day Ahead Market filing is a good reminder of this. In its ruling FERC pointed out that a filing party, “...need only demonstrate that its proposed revisions are just and reasonable, not that its proposal is the most just and reasonable among all possible alternatives.”³ FERC is limited to evaluating the proposal in front of it and does not have the opportunity to evaluate other options advanced by stakeholders. This can limit FERC’s ability to improve equity among market participants in some instances. This makes the role of the decision-making body determining what is filed with FERC all the more important.

PPC also believes that a strong independent governance structure includes a stakeholder process where all market participants and stakeholders have a roll in determining what issues are considered, how they are developed, and what ultimately goes to the decision-making body. Without this process, even with an independent decision-making body, the market design and policies may not be balanced across all interests.

³ *California Independent System Operator*, 185 FERC ¶ 61,210 at P 176 (2023).

We continue to have concerns that the current CAISO governance structure does not ensure all market participants equal consideration. While the improvements advanced by the Governance Review Committee demonstrate a willingness for current stakeholders to support joint decision-making by bodies representative of interests both inside and outside of California, without legislative change, there are limitations to the durability of this decision-making structure which is a flaw in the current CAISO governance. PPC is aware of the ongoing West Wide Governance Pathways Initiative and will be tracking the outcome of that process. Substantial improvements to the independence and durability as compared to the current governance structure would be needed to meet PPC's expectations of a strong governance model.

PPC is supportive of the representative and independent governance proposed for Markets+. Both the Markets+ Independent Panel (MIP) and the SPP Board are independent decision-making bodies, with the MIP set to be seated by a nominating committee comprised of Markets+ stakeholders. Additionally, the use of the Markets+ Participant Executive Committee allows all stakeholders and participants to have a direct voice in the process of developing and approving proposals. This incentivizes a greater amount of consensus among stakeholders as they must work together to build majority support for proposals to advance them through the MIP, as opposed to appealing exclusively to staff of the Market Operator or the decision-making body. This incentive has been evident throughout the Markets+ process, where stakeholders have worked together and with SPP staff to refine and rework proposals, incorporating recommendations from across stakeholder sectors and regions, to gain broad support for proposals.

Consistency with Statutes

As explained above, PPC has foundational questions on how BPA's participation in a day-ahead market will be consistent with the agency's statutory obligations. At a minimum, PPC members are seeking outcomes that maintain or enhance the value customers receive today from BPA meeting its statutory obligations. The value to preference customers from having their net requirements load served by the federal system is significant and organized market participation should not undermine the value customers receive from their statutory rights. PPC believes this is an achievable outcome and is encouraged by many of the tools that are being developed as part of the day ahead market design and which could be utilized by BPA. In particular, PPC believes Markets+ is developing many tools that could retain value under the three PPC "lenses." These include a GHG framework that would give BPA discretion on how the environmental attributes of its system are allocated, pre-market schedules that could serve as a tool for resource attribution and reflect transmission priority, and a market framework which

identifies and enables high priority exports and delivery for WRAP and preference obligations. PPC looks forward to additional discussion on these items.

Fair Compensation of the Federal Power and Transmission Systems

A well-functioning day-ahead and real-time organized market can help meet environmental goals and more efficiently utilize existing transmission and generation resources. Ultimately, a well-functioning market can improve reliability and lower costs for BPA preference customers. The Federal Power and Transmission systems will play a key role in the West realizing the benefits of organized markets and PPC strongly supports the role the federal system can play in achieving western energy goals. At the same time, it is critical that BPA is fairly compensated for its contributions to the market – particularly flexible, firm generation financed by its Power customers, and its expansive transmission system funded through BPA transmission rates. BPA’s secondary revenue is a significant determinant of its Power rates, and BPA should pay close attention to how different approaches to market design can impact the value BPA receives for its surplus. To be clear, PPC is not advocating for higher prices, rather PPC believes a market design with fair and equitable compensation should be a critical element of any business case.

Market design features like fast-start pricing, reasonable market power mitigation, and compensation for flexible capacity provided to the market are all common industry practices used to send accurate price signals and to fairly compensate supply. These design choices have the potential to outweigh any other impacts on the total economic benefit or cost of BPA’s market participation. Currently Markets+ includes “fast start” pricing which reflects the value of quick start generation (including hydro generation) and “scarcity pricing” which captures the value of resources available in times of tight supply. CAISO is exploring changes to its policies under its “price formation” initiative but is not pursuing a similar pricing structure at this time. Fair compensation for the use of BPA’s transmission system and the allocation of congestion rent to those that fund the system is also an important consideration. These market design elements and policies will help ensure the value of BPA’s market participation are shared both by the market footprint and BPA’s preference customers that fund the federal system.

Additional Areas of Consideration

PPC also supports evaluation of the additional areas of consideration identified by BPA as important elements to inform the agency’s participation decision. Included as an appendix to these comments is additional feedback on the specific considerations presented at the last customer workshop.

Greenhouse Gas Accounting

At the November workshop, BPA provided additional information on the development of greenhouse gas accounting methodologies. This issue is very important to PPC members, and we appreciate the specific attention given to this challenging topic. The environmental attributes of the federal power system are critical for enabling preference customers to meet environmental goals from state mandates, utility goals, and business relationships. In looking at prospective day-ahead market participation, it is important that a market provides BPA the appropriate discretion in how and to whom the environmental attributes of the federal system are applied. A market design that removed BPA's ability to ensure its preference customers within and outside a state with environmental mandates were able to claim the environmental attributes of the federal system would be problematic. This could occur either through: 1) BPA supply being "deemed" as delivered into a carbon zone in excess of what was prudent for BPA to deliver (essentially deeming low carbon generation as bound for other market participants when it was intended for preference customers), or 2) a market not "deeming" BPA to supply generation into the zone even if the federal system was generating to serve loads in the zone. These issues may create uncertainty for BPA customers within and outside a state with environmental mandates. A market design that explicitly includes functionality to address the issues should be highly prioritized.

We appreciate the hard work of BPA staff participating in the GHG accounting discussions in both Markets+ and EDAM. In particular we note that BPA's advocacy for tools like the "Type 1A import" and "Threshold Enhanced Floating Surplus" approaches developed in Markets+ is helpful in retaining the value of BPA products for preference customers.

Conclusion

Thank you for the opportunity to comment on BPA's ongoing day-ahead market decision process. PPC remains committed to collaborating with the agency to identify the best path forward regarding its potential day-ahead market participation.

Appendix: PPC Comments on Specific “BPA Observations”

<p>DAM Participant Roles & Responsibilities</p>	<ul style="list-style-type: none"> • It is important that the market operator does not take on the role of the Balancing Authority Area (BAA). • PPC continues to have some concerns about the challenging role that CAISO has as a Market Operator and BAA participating in the market. • Markets+ is still working on clarifying the relationships between different types of market participants – BAA vs. Load Responsible Entity vs. direct load/gen participant. These distinctions will be important to better define.
<p>Governance</p>	<ul style="list-style-type: none"> • PPC has significant concerns with the statutory limitations to the delegation of authority outside of a state appointed board in CASIO. <ul style="list-style-type: none"> ○ PPC will be tracking the “Pathways” process to understand proposals as they are developed. ○ PPC will be seeking a path forward that provides durability as well as equity among participants. • PPC is supportive of the representative and independent governance in Markets+. <ul style="list-style-type: none"> ○ The Markets+ Participant Executive Committee (MPEC) allows all stakeholders and participants to have a direct voice in the process. ○ Both Markets+ Independent Panel (MIP) and SPP boards are independent. ○ The Markets+ design and policies are developed through consensus among stakeholders and forwarded to MIP for approval. CAISO staff and executives have ultimate say in policy and market design that reaches CAISO board.
<p>Ancillary Services</p>	<ul style="list-style-type: none"> • PPC looks forward to additional discussions on ancillary services including ways that BPA could explore holding out less of its capacity to provide ancillary services.
<p>Transmission Requirement</p>	<ul style="list-style-type: none"> • PPC looks forward to additional analysis from BPA transmission to better understand any operational impacts that may arise from market participation. • PPC would like to better understand what topics would be addressed through “seams” agreements with CAISO and SPP. • PPC would like to better understand the potential impacts to transfer service if a preference customer is in a different market than BPA. • The ability to have certain transmission “opt out” of the market, while less optimal than “within market” functionality, may be necessary in some cases. PPC is hopeful the priority of WRAP deliveries and BPA serving its preference customers’ load consistent with statute can be achieved through market functionality. However, carve-outs may be a last resort.
<p>Transmission Scheduling</p>	<ul style="list-style-type: none"> • PPC is optimistic that Markets+ will include transmission scheduling functionality that has significant value to BPA. This includes “Pre-Market Schedules” which may be an important tool in resources attribution. They may also serve as a “fallback” in the case the market optimization

	<p>cannot relieve an issue through economic bids and offers. PPC understands these “pre-market schedules” will not undermine pricing or the market optimization.</p> <ul style="list-style-type: none"> • PPC also believes Markets+ developing a framework to identify and facilitate high-priority transfers is critical to facilitating WRAP and preference deliveries. The CAISO approach does not include this framework for non-CAISO BAAs and the modifications adopted late in the EDAM process to accommodate concerns around compatibility with WRAP leaves much discretion to individual OATTs creating uncertainty.
Transmission Revenue Recovery	<ul style="list-style-type: none"> • Policies in both markets to prevent lost transmission revenues are important – the WMEG study results underscore this. • The recent FERC ruling rejecting the revenue recovery mechanism proposed in EDAM suggests there is some risk to approval of these mechanisms in both markets. PPC would appreciate additional discussion of this issue at the next customer workshop. • PPC encourages BPA to be vigilant in evaluating market participation impacts on transmission revenues to determine if revenue losses are occurring in excess of what had been expected.
Congestion Rent	<ul style="list-style-type: none"> • PPC believes direct settlement with the market operator would be a benefit to BPA customers and potentially reduce the burden on BPA settlements. • The Markets+ approach to distribute congestion directly to transmission rights holders on a constraint level will provide much more granular data to customers and provide a better hedge to customers. CAISO approach has limited avenues for a transmission customer to directly settle with the market operator and may lead to different treatment across different transmission providers, potentially making hedging more difficult. • PPC continues to have concerns around the EDAM proposal to include their ITC – COB and NOB – as internal congestion that would be 100% allocated to the BAA in the binding direction. PPC expects under EDAM, the COB and NOB ITC will bind much more frequently and result in a much greater share of the Southern Intertie being allocated to CAISO CRR holders rather than BPA OATT contracts.
Reliability	<ul style="list-style-type: none"> • PPC would like to understand if BPA anticipates any reliability impacts as the result of “seams” between markets. • BPA mentions CAISO’s curtailment methodologies – PPC has previously raised the potential negative impacts of those curtailment policies and remains concerned.
Settlements	<ul style="list-style-type: none"> • PPC sees the opportunity to choose to settle directly with the market operator as a potential benefit. • We would like to understand what additional tools would be available to BPA to better allocate costs and benefits within the BAA if customers continue to settle with the market operator. • PPC believes the “Internal Energy Schedule Settlement” concept in Markets+ could be a valuable tool for settling physical bilateral schedules. PPC understands the CAISO has similar tools within its market but is not included as a preliminary feature of EDAM.

Resource Adequacy (RA)	<ul style="list-style-type: none"> Participation in a consistent RA program within Markets+ provides significant benefits while maintaining equity. This allows participants to rely on one another’s capacity at some times without “leaning.” A common RA standard also relieves the need for a Resource Sufficiency (RS) test in the day-ahead timeframe. As experience with the Western EIM RS test has shown, solving adequacy problems in the short-term operating horizon is exceedingly difficult and changes to an RS test are hard to make after implemented.
Flexible Products: Procurement and Compensation	<ul style="list-style-type: none"> The CAISO day-ahead imbalance reserves are potentially valuable mechanisms for the explicit acquisition and pricing of flexible capacity. However, PPC remains concerned the CAISO approach to cap the price of IRU may discourage participation in supplying and the value of this product.
Green House Gas	<ul style="list-style-type: none"> PPC views the “Type 1A” import and “Threshold Enhanced Floating Surplus” approach in Markets+ as a very important tool in ensuring BPA has discretion in how the environmental attributes of the federal system are accounted for. PPC views these tools as important mechanisms for BPAs Washington load to receive the carbon value of their BPA products and eliminate the potential for the market algorithm to over deem deliveries to WA.
Price Formation	<ul style="list-style-type: none"> Ensuring the federal system is equitably compensated for services it provides is essential to a successful transition to a day-ahead organized market. Industry standard approaches to settling Locational Marginal Prices (LMP) such as fast-start pricing and graduated scarcity pricing will have large impacts on the value of BPAs secondary revenues.