



November 29, 2023

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 3

Dear Mr. Mantifel,

The Oregon Public Utility Commission, Oregon Department of Energy, and Oregon Department of Environmental Quality (State Agencies) appreciate the opportunity to comment on the Bonneville Power Administration’s (BPA) day-ahead market evaluation. These comments respond to the information presented in BPA’s third stakeholder workshop on October 23, 2023, which focused on the results of the Western Markets Exploratory Group cost-benefit study performed by E3 (WMEG Study). The WMEG Study compared the costs and benefits of a variety of market footprints including a “Business as Usual” scenario representing today’s bilateral market and current participation in the Western Energy Imbalance Market (EIM), an “EDAM Bookend” scenario representing a single West-wide day-ahead market footprint that includes California, and several scenarios where the West is split between Extended Day-Ahead Market (EDAM) and Markets+ in different footprint configurations.

In these comments, we urge BPA to 1) extend its evaluation schedule to give market options more time to mature, 2) publish the WMEG Study results for the EDAM Bookend scenario in 2030 and 2035, including an EDAM Regional Transmission Organization (RTO) scenario on par with the Markets+ RTO scenario, and 3) consider additional factors, not included in the WMEG Study, in its cost-benefit comparison of market options. Consistent with our previous comments in this stakeholder process and considering the significant benefits differential demonstrated in the WMEG Study, we continue to highlight the importance of including the option for a west-wide EDAM with independent governance in BPA’s comparative analysis of market options.

1. BPA should extend its evaluation schedule to give market options more time to mature.

BPA has set an internal deadline of Q1 2024 to set its policy direction regarding potential day-ahead market participation. This self-imposed deadline will cause BPA to set its policy direction before having sufficient information to make a sound decision. As BPA noted in the workshop, it is conducting this evaluation amid a rapidly changing external environment. The State Agencies offer four examples of such changes that justify BPA taking more time to evaluate its market decision.

First, the WMEG Study clearly shows that a single West-wide day-ahead market footprint that includes California (the EDAM Bookend scenario) provides the greatest economic benefit for BPA and its customers. Additionally, the economic benefit quantified in the WMEG Study reflects only the cost savings achieved through more efficient dispatch in the day-ahead market and does not reflect the additional environmental and operational benefits that have been demonstrated in the Western EIM.¹ While acknowledging these benefits, BPA has expressed concerns about joining EDAM due to the lack of independent governance for EDAM and a potential future RTO under the California ISO.² It is in response to these governance concerns that the West-Wide Governance Pathways Initiative (WWGPI) was launched – to create a pathway to independent governance for EDAM and a future RTO.³ Overcoming the governance barrier would enable the West to capture the economic benefits of the largest possible market footprint that includes California loads and resources. BPA has urged the WWGPI to prioritize legal analysis to demonstrate that such a pathway to independent governance is viable.⁴ In response, the WWGPI is moving very quickly to scope and conduct such legal analysis. BPA should wait for the results of that dialogue and the work underway to understand the feasibility of policy change in California prior to deciding its policy direction.

Second, the California ISO and market participants have already made successful incremental steps to overcoming barriers to independent governance in the Western EIM and EDAM. The barriers to independent governance result, in part, from the West's incremental approach to regionalization and the resulting differences in commitment by the market participants to the regional market operator. California utilities are compelled to participate in the CAISO and thus in the Western EIM and EDAM, while other utilities are not. The differences in perceptions about the autonomy, optionality, and commitment within the Western EIM and EDAM are real, but history shows they can be overcome. Since 2014, repeated dialogue has produced incremental steps, including joint authority between an independent Western EIM Governing Body and the California ISO. The Western EIM Governing Body has been elevated to have significant voice and veto power in all but the most extreme circumstances over the majority of the market tariff and much of the operation of the ISO. While BPA still has concerns with joint authority, it must recognize that there is a significantly longer history of success, leading to billions of dollars of benefits for customers, than there is a history of steps backward. This successful dialogue to date has laid the groundwork for the continued evolution of market governance.

Third, the growing interdependence of entities in the West is forcing the California ISO to balance market interests. This has been demonstrated repeatedly by actions taken in the Western EIM to manage stressed grid conditions. The California ISO and the Western EIM entities have grappled with a rapidly changing grid, new supply and demand dynamics, and stressed grid conditions for the last nine years. Although BPA has articulated a risk that the California ISO will discriminate against non-California market participants because of its governance structure, there is no evidence that the ISO has discriminated against market participants in a manner that is beyond the norm for any balancing authority's obligations

¹ See Western EIM Benefits Report, Third Quarter 2023, available at <https://www.westerneim.com/Documents/iso-western-energy-imbalance-market-benefits-report-q3-2023.pdf>.

² See BONNEVILLE POWER ADMINISTRATION MOTION TO INTERVENE AND COMMENT ON THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION'S DAY-AHEAD MARKET ENHANCEMENTS AND EXTENDED DAY-AHEAD MARKET INITIATIVES in FERC Docket No. ER23-2686, November 21, 2023, p. 8-10, available at <https://elibrary.ferc.gov/eLibrary/filedownload?fileid=D81B25B8-2D5B-C9A0-A45A-8AB99C800000>

³ See <https://www.westernenergyboard.org/wwgpi/>.

⁴ See Comments of the Bonneville Power Administration West-Wide Governance Pathways Initiative Phase One Straw Proposal, October 13, 2023, available at <https://www.westernenergyboard.org/wp-content/uploads/Bonneville-10-13-23-comments-on-WWGPI-Phase-one-straw-proposal.pdf>.

to native load. The California ISO's Governor-appointed board has consistently sought to balance the needs of all market participants, recognizing explicitly the interdependence of the entities. While the California ISO has taken steps to ensure native load service within its balancing area, as all balancing authorities must do in times of scarcity, it has proactively established clear rules to prevent future conflicts, such as through the policy initiatives and subsequent tariff changes approved by FERC to manage transmission availability for entities wheeling power through California. In parallel, the California policymaking apparatus has instigated an expensive and politically costly resource adequacy and transmission buildout that dwarfs actions in the rest of the West. This buildout will benefit all market participants. BPA should recognize that this deepening interdependence is a strong incentive for California to continue to collaborate towards independent governance. BPA should support these collaborative efforts in order to leverage the greatest market benefits for its customers.

Fourth, the WMEG Study shows that when the West is split into two markets, BPA still receives substantial economic benefit when it is part of the EDAM footprint ("Alt Split 2" scenario), but not when it is part of the Markets+ footprint. The economic results of the four split-market scenarios that include BPA in the Markets+ footprint vary widely, with two scenarios resulting in dramatically reduced benefits ("Main Split" and "Alt Split 1" scenarios) and two scenarios resulting in significant increased costs for BPA and its customers ("Alt Split 3" and "Alt Split 4" scenarios).⁵ These results indicate that BPA will assume risk of potential cost increases if it commits to Markets+ before knowing which entities will be included in the Markets+ footprint. Across the West, entities are still gathering information on the market design, governance, and potential economic benefits. For this reason, BPA should not rush to a decision on a self-imposed deadline.

BPA noted in the meeting that it is unrealistic to change markets after joining a market. It makes sense, therefore, for BPA to take the time needed to make a well-informed decision that will stand the test of time.

2. 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 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.⁶ In this analysis, the friction costs across the 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 2035.⁷ 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 2026.⁸ This is not valid comparison because 2026 load and resource data

⁵ See BPA's October 23, 2023, workshop presentation, slide 30, available at <https://www.bpa.gov/-/media/Aep/projects/day-ahead-market/102323-dam-workshop-presentation.pdf>.

⁶ 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>.

⁷ See 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>.

⁸ See BPA's October 23, 2023, workshop presentation, slides 32-33.

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 WWGPI to eliminate that barrier. We 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.

3. BPA should consider additional factors, not included in the WMEG Study, in its cost-benefit comparison of market options.

First, BPA should describe to stakeholders how it is considering the costs of implementing EDAM and Markets+ in its cost-benefit analysis. Market implementation costs were not included in the WMEG Study. Implementation costs should include initial startup costs, as well as ongoing development costs, such as those seen to date in the Western Energy Imbalance Market (WEIM).

Second, BPA indicated at the workshop that it plans to conduct sensitivity analyses to explore the impact of hydro variability. The State Agencies strongly support this. We recommend that BPA consider sensitivities for coincident low Northwest hydro, high gas price, and high demand (an extreme summer condition) and for coincident low Northwest hydro, high gas price, and low Northwest wind and solar (a late fall or early winter condition). 2023 WEIM data shows that the Pacific Northwest's recent low hydro condition has resulted in significant, unprecedented south-to-north power flow from California. The ability to import low-cost energy from California during drought conditions provided substantial economic benefits for customers of large hydro operators.⁹ It will be important for BPA to consider the impact of these hydro sensitivities when comparing the economics of the market options.

In a future where hydro may be further constrained and extreme weather conditions and load growth are expected to pressure the load-resource balance in the Pacific Northwest, splitting the existing Western EIM footprint raises reliability risks that must also be evaluated. The ability to seamlessly move energy across such a large footprint has produced significant reliability benefits, at least anecdotally, in Oregon when thermal units have experienced unexpected outages. BPA customers must weigh the risk to reliability that seams may create.

Finally, the State Agencies note that BPA serves some of the most energy burdened households in Oregon and Washington. BPA cost and reliability risks have a direct impact on the states' most vulnerable communities. BPA has always shown a deep regard for its responsibility to these customers. Additionally, BPA's leadership role as a transmission owner impacts all customers across the region. In this time of extraordinary transition and cost pressure, leading entities must seek to maximize benefits while minimizing the many disparate risks. In conclusion, we encourage BPA to take a holistic and region-wide view, to value the economic benefits and consider ways to manage risks, and to participate in developing options that minimize risks while maximizing benefits.

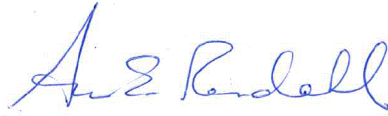
Again, the State Agencies appreciate the opportunity to offer these comments.

⁹ See California ISO WEIM benefits and market update presentation, November 8, 2023, slide 6, available at <https://www.westerneim.com/Documents/WEIMBenefitsandMarketUpdate-Q32023-Nov2023.pdf>.

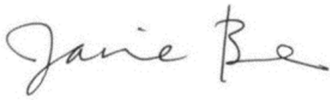
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