

NIPPC Comments-- BPA Day Ahead Market workshop November 5, 2024

The Northwest & Intermountain Power Producers Coalition (“NIPPC”) offers the following comments in response to BPA’s Day Ahead Market Workshop held on November 5, 2024.

NIPPC is a membership-based advocacy group representing competitive electricity market participants in the Pacific Northwest and Intermountain region. NIPPC has a diverse membership including independent power producers and developers, electricity service suppliers, transmission companies, marketers, storage providers, and others. Nearly all NIPPC’s members purchase transmission service from BPA. All NIPPC’s members will be impacted by BPA’s decision to join a day-ahead market.

BPA’s Day Ahead Market Workshop on November 5, 2024 focused on two significant topics where EDAM and Markets+ differ: governance and economic benefits. On governance, BPA staff recognized the progress that the Pathways Step 2 Proposal made toward satisfying BPA’s governance principles but suggested that the Markets+ governance was still superior to EDAM’s. On benefits, BPA reviewed additional production cost modeling that E3 performed exploring additional sensitivities and market footprints, which confirm yet again that BPA and its customers realize greater benefits under EDAM, all else being equal.

NIPPC’s overall recommendation at this juncture is that BPA delay its timeline for making a day-ahead market decision until the end of 2025, so that the governance reforms of EDAM recommended in the Pathways Initiative have an opportunity to be effectuated. NIPPC also urges BPA to remove the preference for Markets+ from its current staff leaning and instead adopt a neutral position. NIPPC notes that the production cost modeling shared by BPA itself suggests that the status quo (participation merely in EIM) would be preferable economically to prematurely joining Markets+.

Governance:

After reviewing the governance reforms proposed by the Pathways Initiative’s Launch Committee in its Step 2 Proposal, BPA staff concluded that those proposed reforms continue to fall short of BPA’s ideal governance principles for a day-ahead market. BPA suggests that the Step 2 Proposal, while establishing an independent board, does not achieve fully independent governance because of the CAISO’s continued long-term role in market operations and at least short-term role as a counterparty on market-related contracts and as tariff administrator.

NIPPC suggests that BPA’s conclusions that the Pathways Step 2 recommendation falls short of independent governance misses the forest for the trees and introduces new considerations that represent a shifting litmus test for independence. The initial governance structure of the Pathways Step 2 Proposal (“Option 2.0”) by itself represents a sea-change change in governance, with sole FERC filing rights and market policy decision-

making authority resting with a new independent board. Yet this initial and meaningful outcome is explicitly not the final stage of governance reform recommended by the Pathways Launch Committee for CAISO-operated energy markets. Rather, it has been recommended as the next incremental, transitional step in a longer process towards achieving more thorough independence. The Step 2 Draft Proposal and Final Proposal both describe the full nature of being a “public utility” under the Federal Power Act and holding ultimate responsibility over the energy markets, as well as how the new Regional Organization (RO) recommended by the Launch Committee could assume that responsibility. NIPPC offers a basic correction that BPA’s position on the Pathways Step 2 outcome, at least as put forward at the November 5 workshop, appears to skip over these details.

Furthermore, BPA’s apparent conclusion that the California legislature is unlikely to pass the necessary changes to enable the Pathways Step 2 recommendation is both premature and fails to account for public endorsements by prominent opponents of prior versions of legislation. While legislation must still be enacted, and any legislative process is uncertain, passage in 2025 appears to be far more plausible than in the past. After over a decade of market governance debates, it would be remarkably unfortunate for BPA to write off a plausible legislative reform on the eve of its passage.

Previously, BPA staff indicated a desire for CAISO and the Pathways Initiative to demonstrate progress towards independent governance. CAISO’s rapid adoption of the Pathways Step 1 proposal and the Launch Committee’s completion of the Pathways Step 2 proposal both demonstrate this progress in a meaningful way. During the November workshop, however, BPA staff recommended that Pathways could meet BPA’s governance principals only by proceeding to Pathways “Option 4” – a complete spinoff of the market operation function from the CAISO to the regional market operator, and effectively a dissolution of the CAISO as a market operator. Assuming this is BPA’s overarching recommendation (as opposed to an ideal preference), this represents a new demand from BPA for reform of EDAM’s governance that was not previously part of BPA’s list of governance principles.

In NIPPC’s view, BPA, in its shifting reaction to the Pathways recommendations, has lost sight of the fundamental problem that has made independent governance of CAISO-operated markets problematic since the launch of the EIM. The fundamental problem is that the West has lacked a governing board—meaning the final decision-making body that determines market rules and filings at FERC—that is formed on an independent basis rather than picked by a single state’s governor. This fundamental problem is what the Pathways Step 2 proposal solves.

NIPPC acknowledges that governance is a multi-faceted issue and there are other important implementation details, such as how the CAISO participates in RO deliberations under Step 2 as a balancing authority and how quickly the RO moves to a more thorough form of institutional responsibility in Step 2. But overall, NIPPC is troubled by how quickly

BPA has dismissed the substance of the Pathways Step 2 reforms and how prematurely BPA appears to have written off the chances of legislative success in California. Neither BPA's substantive dismissal nor its rush to choose a market indicate a sufficiently open-minded, deliberative process.

To be clear, NIPPC has viewed the Markets+ governance structure as a defensible approach to independent governance of markets, while acknowledging there are a number of outstanding governance topics under review by a formal taskforce in Markets+ formed for that purpose. Indeed, NIPPC has consistently held the view that Markets+ has had a governance advantage over EDAM, all else being equal (including market footprint and economics)—unless and until the California legislature acts. Accordingly, NIPPC is not recommending at this juncture that BPA staff shift their “leaning” preference to EDAM: such a shift would be as premature as staff's current leaning toward Markets+. But if the Pathways Step 2 proposal is indeed implemented, then in NIPPC view, the functional governance advantage of Markets+ would disappear. Some differences would certainly remain between the two governance models, but those differences would cease to count among the primary criteria for making a market choice.

Economic Benefits to BPA and Its Customers Clearly Favor EDAM

NIPPC points out that governance differences between markets are only one of the primary considerations in selecting a market. The actual footprint, topology, and economics of each market are equally important to market participants and consumers. BPA should not dismiss or minimize the results of production cost modeling, a respected industry forecasting practice, in reaching its market decision. BPA's own commissioned production cost modeling, including the recent supplemental modeling performed by E3, confirms the results of multiple other studies by E3 and Brattle that BPA achieves far more economic benefits from joining EDAM compared to Markets+. While the magnitude of benefits may change depending on various study assumptions, regardless of the respective market footprints or sensitivities performed, BPA always realizes more benefits as part of EDAM over Markets+. BPA's own numbers also indicate in every scenario that merely staying in EIM and joining neither day-ahead market is economically preferable. In the context of significant power and transmission rate pressure in the Northwest, NIPPC is baffled by BPA's insistence that the obvious economic conclusion from the updated E3 results should be more or less ignored.

BPA Will Be Impacted by EDAM Even If It Chooses to Join Markets+

BPA clearly recognizes the value of independent governance in a day-ahead markets. But even if BPA formally joins Markets+, BPA will continue to have an interest in the governance of EDAM and CAISO. BPA has preference customer loads located in Balancing Authority Areas which have already committed to EDAM. BPA's secondary sales are likely to continue to be predominantly to loads in CAISO and to other EDAM market participants. Furthermore, BPA will continue to be a participant in the EIM through at least October 2027.

For these reasons BPA should commit to participating (and funding if necessary) further development of independent governance through Pathways to encourage continued development of independent governance for CAISO, EIM, and EDAM.

BPA should also develop a mechanism to solicit input from its transmission customers regarding the positions BPA takes in market development discussions at both EDAM and Markets+. Admittedly, BPA customers can (and do) engage directly in both EDAM and Markets+ market design discussions. To the extent independent power (whether through NIPPC or through direct engagement by individual companies) participates in EDAM and Markets+ market design, however, their focus in those fora is on independent power as an equal participant in the market, not as transmission customers of BPA. In addition, not all of BPA's transmission customers may be planning to be active participants in either day ahead market. BPA has an obligation to consider the interests of its transmission customers as it engages in market development activities. To fully weigh those interests, BPA needs develop a mechanism to solicit and incorporate the feedback of transmission customers in its market design engagement and decisions.

BPA Should Allocate the Costs of a Day Ahead Market to the Beneficiaries

Regardless of its ultimate market choice, BPA should assign costs of market implementation to customers who receive benefits. As BPA prepared to join the EIM, BPA assigned the costs of EIM implementation based on function. Since much of the software and other upgrades needed for EIM were performed by transmission employees, transmission customers bore a significant portion of the costs of EIM implementation through transmission rates. Transmission customers, however, have received limited or no benefits from EIM participation. BPA has still not allowed non-federal generation to become participating resources in the EIM because of other critical upgrades needed to BPA's Automatic Generation Control system. Furthermore, the decision to join the EIM required BPA to discontinue options that customers had successfully used to reduce their need for balancing reserves, shifting ancillary service costs back to transmission customers. NIPPC recommends that in its day-ahead market decision BPA commit to assign the future costs of implementation to the customer classes that receive benefits, not based on which business line employees do the implementation work. Transmission customers will continue to purchase long term transmission at OATT rates but may face cost shifts as short term transmission use adapts to the new day ahead market structures. Any implementation costs of joining a day ahead market should be allocated to transmission customers should be based on quantifiable benefits to transmission customers. Most costs of day ahead market implementation should be allocated to the power business.

Conclusion

In light of the updated production cost modeling numbers, combined with the Pathways Step 2 recommendation and a plausible legislative path in California, BPA staff should reconsider its preference for Markets+. The economic benefits of joining a day-ahead

market continue to favor EDAM. As EDAM governance reforms make their way through the necessary processes, they continue to narrow the advantages of Markets+'s governance structure over EDAM's.

NIPPC recommends that BPA delay its timeline for making a day-ahead market decision until the end of 2025, so that the governance reforms of EDAM recommended in the Pathways Initiative have an opportunity to be effectuated. In the meantime, NIPPC also urges BPA to remove the preference for Markets+ from its current staff leaning and instead adopt a neutral position. Finally, NIPPC notes that the latest production cost modeling shared by BPA itself suggests that the status quo (BPA participation merely in EIM and not in EDAM) would be preferable economically to prematurely joining Markets+.