

Sent via Electronic Mail

November 14, 2024

John Hairston
Administrator
Bonneville Power Administration

RE: Seattle City Light response to BPA's E3 study sensitivities & Markets+ Phase 2 Decision

Dear Administrator Hairston:

Seattle City Light (City Light) appreciates Bonneville Power Administration's (BPA) ongoing engagement with customers regarding its day-ahead market (DAM) decision process and the November 4, 2024, workshop sharing the results of its Western Markets Exploratory Group (WMEG) Follow-up Analysis completed by Energy + Environment Economics (E3). This new analysis updates assumptions about available market footprint and connectivity based on recent market decisions of regional utilities. As noted by BPA, the economic benefits, as well as the operational capabilities of the grid will be significantly impacted by market footprint,¹ so this new analysis is critical for understanding the implications of BPA's DAM decision.

According to BPA, this new economic evaluation favors the California Independent System Operator's (CAISO) Extended Day Ahead Market (EDAM) over the Southwest Power Pool's (SPP) Markets+ by **\$69 to \$221 million per year**.² Despite these dramatic economic differences, BPA has stated that the results "have not shifted the Bonneville Power Administration's staff recommendation to join the Southwest Power Pool's Markets+."³

City Light is alarmed by this statement. BPA has a fiduciary obligation to carefully weigh the variables and impacts to its customers before making any market decision. BPA should not make a significant, long-term investment in either DAM without a business case that supports such a decision. BPA's continuing preference for Markets+ gives the impression that BPA is unconcerned about costs or benefits associated with its market decision and is intent on pursuing a specific path regardless of the results of any economic analysis. Based on BPA's analysis, City Light estimates that the \$69 to \$221 million loss in benefits to BPA's preference customers from BPA joining Markets+ rather than EDAM has the potential to negatively impact City Light customers in increased power costs by between \$6 million to \$21 million per year.⁴ Furthermore, it cannot be ignored that a decision to remain in WEIM and join no day-ahead market produced higher benefits for BPA's customers than joining Markets+.

¹ BPA's August 2024 Response Letter to Senators Merkley, Wyden, Cantwell, and Murray (Response to Senator Letter), pp. 2, 5.

² BPA's Public Engagement for Establishing a Policy Direction on Potential Day Ahead Market (DAM) Participation - Workshop 9, November 4th, 2024; Slide 30.

³ BPA's October 31, 2024 Press Release PR-20-24; "[BPA gains valuable insight from supplemental cost study](#)".

⁴ Based on multiplying the changes in the per TOCA Composite and non-Slice rates with City Light's FY2025 TOCA %.

City Light is also concerned that **a fragmented market footprint with limited connectivity between regions creates a higher likelihood of reliability challenges** for BPA, its customers, and the west-wide region. The forecasted increases in load, the changing needs and challenges of the region, and the likely increased reliance on imports underscore the need for greater visibility, coordination, and optimization, not less.

BPA has stated that independent governance is the primary reason for its preference of Markets+ over EDAM despite the \$69 to \$221 million annual difference in benefits. The West-Wide Governance Pathways Initiative was launched in summer 2023 to address concerns around the current governance structure for EDAM. BPA was invited to join the Launch Committee for this effort and declined, BPA did not substantively engage in the development of governance proposals under this effort and has declined to provide any funding to develop this initiative.

BPA has indicated that it intends to sign an agreement committing it to fund Phase 2 of Markets+, at an estimated cost of \$25 million.⁵ This is in addition to the approximately \$2 million that BPA funded for the first phase of Markets+ development.⁶

If BPA were conducting a fair analysis of market options, we would expect to see them engaging in and funding solutions to each market equally. Instead, we have seen BPA continue to favor Markets+ and provide significant staff time and funding to this market, while identifying concerns with EDAM but not engaging in efforts to resolve those concerns despite the consistently better economics related to EDAM.

It is not reasonable that BPA fund Phase 2 of Markets+ or continue to recommend that it join Markets+. City Light strongly urges BPA to reconsider its decision to proceed with the \$25 million commitment. We also strongly encourage BPA to support the next steps of the Pathways Initiative, which has asked for \$25,000 from interested entities. This reasonable cost commitment will ensure that BPA supports the effort to achieve the governance changes advocated for by BPA and its customers.

Markets+ is Higher Cost for BPA and its Customers

Since BPA issued its Staff Leaning in April 2024, several regional utilities have indicated their preference for the Extended Day Ahead Market (EDAM) or the Western Energy Imbalance Market (WEIM).⁷ **Based on these decisions, the potential Markets+ footprint is significantly limited, and there is no potential contiguous Markets+ footprint connecting the Pacific Northwest to other sub-regions**

⁵ While BPA stated that its commitment to fund Phase 2 of Markets+ does not bind the agency to join, it is nevertheless a considerable cost that will flow through to customers. City Light estimates that its share of this cost is \$1.6 million.

⁶ This includes an initial payment of \$1.5 million through the tariff filing, and BPA's share of monthly payments since April 2024 which ranged between \$74,940 and \$87,243 per month. See, [Markets+ Exhibit A Phase 1 Funding Agreement](#).

⁷ Since March 2024, Idaho Power, Portland General Electric, NV Energy, the Balancing Authority of Northern California and Public Service Company of New Mexico have announced they will join EDAM; Black Hills Energy announced it will join WEIM; Western Area Power Administrator—Desert Southwest Region and the Arizona Electric Power Cooperative (AEPSCO) withdrew support for Markets+, and the Arizona G&T cooperatives in its balancing area are pursuing EDAM participation.

in the West. The make-up of the initial Phase 1 Markets+ funders represented a broad, somewhat interconnected footprint. However, with recent decisions, *this is no longer the case*. City Light is concerned that a limited market footprint will unnecessarily increase costs and risks for BPA and its customers.⁸ This lack of connectivity has significant implications for BPA's economic outcomes, as shown in every economic analysis completed to date, including BPA's most recent WMEG analysis.

BPA's analysis specifically accounted for the changes to market footprint based on the decisions of other entities in the West, and considered key sensitivities, including low water years and stressed load conditions, as well as different seams costs. The analysis tells an important story about how BPA's DAM benefits are driven by footprint and connectivity. The results found that a broad, west-wide market would result in the greatest benefits, with economic outcomes deteriorating as the footprint became more fragmented and disconnected. These results make clear that **the only remaining potential Markets+ footprint, which is smaller, less diverse, and more disconnected than other scenarios analyzed, results in worse outcomes for BPA than EDAM or WEIM only.**⁹

Findings of the updated WMEG analysis include:

- For the year 2026, this new economic evaluation favors EDAM over Markets+ by \$69-\$221 million per year. This considerable difference in benefits between Markets+ and EDAM remains sizable even in later years (2030 and 2035).¹⁰
- BPA would achieve \$79-\$129 million in greater benefits annually by continuing participation in the WEIM than it would from joining Markets+ —even if all other regional market participants join a DAM.
- E3 analyzed multiple sensitivities to test whether stressed conditions, low-water years, improved market-to-market coordination, or increased transmission capability between the Northwest and Southwest would produce different outcomes. While changing assumptions that reduce the negative impacts of seams and limited connectivity somewhat improved the outcomes for Markets+, **there were no scenarios in which the remaining viable Markets+ footprint provided a net benefit to BPA over EDAM.**

The results favoring EDAM are clear and overwhelming. Even by changing assumptions to reduce the costs and risks of seams and limited connectivity, Markets+ still resulted in considerably worse outcomes for BPA.¹¹ BPA indicated that it will rely on the improved market-to-market assumptions to

⁸ In its August 2024 Response to Senator Letter, BPA noted that the market decisions of other regional utilities affect the relative net economic benefits of each market, and were a key reason the agency took more time on its DAM decision, p. 2.

⁹ BPA's analysis also included a look at two larger Markets+ footprint options (Scenarios Main Split and Non-CA West-wide Markets+), but these footprints included entities that have made decisions to join EDAM, and thus, only provide context to BPA's decision, but do not represent an actual option for BPA.

¹⁰ This finding is notable, as BPA had previously indicated in its August 2024 Response to Senator Letter that it believed there are significant differences in benefits of each market footprint over time, with legitimate questions about the value of participation for the Northwest in the long-term time horizon. (p. 2)

¹¹ In those scenarios, the difference between EDAM and Markets+ remains sizable, with a West-wide EDAM footprint providing between \$70-\$154 million more benefits. (BPA did not analyze the different seams assumptions for the smaller EDAM footprint.)

inform its preference for Markets+. However, it is not reasonable to presume this type of best-case-scenario assumption around seams will occur, as the inherent costs and inefficiencies associated with seams are well-documented and are difficult if not impossible to resolve.¹² The benefit of organized markets is the ability to optimize transmission and generation across market participants in a region. Seams create artificial barriers and result in a non-optimal outcome, increasing cost and risk. City Light believes the only reliable way to ensure that BPA does not incur the costs and risks of a market seam is to be in the same market footprint as its neighbors.

At a time when City Light and other utilities throughout the region are working to contain costs for our customers, and against the backdrop of proposed double-digit rate increases for both BPA Power and Transmission customers, BPA's disregard for the economic benefits to customers is alarming.

Markets+ Footprint Reduces Reliability

Aside from the negative economic outcomes for BPA's customers, City Light is also concerned that a fragmented market footprint with limited connectivity between regions creates a higher likelihood of reliability challenges. The Pacific Northwest Utility Conference Committee's (PNUCC) 2024 Regional Forecast estimates that loads in the Northwest will increase by 7,400 average megawatts in the next 10 years.¹³ While the region is planning for this unprecedented increase, the changing needs and challenges of the region, and the likely increased reliance on imports, underscore the need for greater visibility, coordination, and optimization, not less.

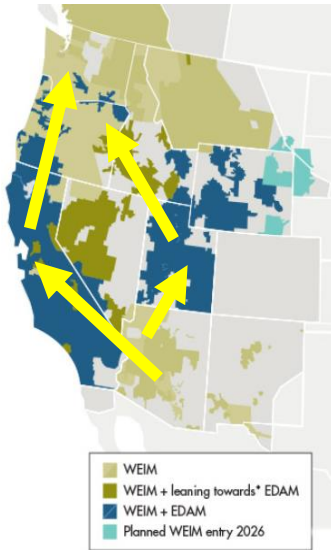
The 2024 Martin Luther King Jr. weekend multi-day, cold weather event showcased how imports from throughout the West were needed to support the reliability and operations of utilities in the Pacific Northwest. This event demonstrated reliance on neighbors to the South in the event of a winter extreme event. At its peak, the Northwest utilized transmission throughout the West to import more than 6,000 MW of energy from California and the Desert Southwest to help meet demand.¹⁴ Over the course of the weekend, the WEIM economically rebalanced supply across the WEIM footprint to meet demand and manage congestion.¹⁵ The map below is illustrative of how the transmission connectivity across the West was used to move generation to serve loads in the Pacific Northwest, through both bilateral trading and the WEIM. Notably, these flows rely on the transmission systems of entities that will join EDAM.

¹² The Public Generating Pool and Western Power Trading Forum partnered with Grid Strategies to develop information for its members and stakeholders regarding seams issues. Available at: https://www.publicgeneratingpool.com/s/Western-Day-Ahead-Seams-Exploration-FINAL_240116.pdf. Grid Strategies also produced a report in June 2024, "Market Configuration Matters: Effects of Market Choices on Consumers in the Northwest US." Available at: <https://gridstrategiesllc.com/wp-content/uploads/Market-Configuration-Matters-June-2024.pdf>

¹³ See, <https://www.pnucc.org/wp-content/uploads/2024-PNUCC-Northwest-Regional-Forecast-final.pdf>

¹⁴ See, Northwest Power and Conservation Council January 2024 Cold Weather Event Memo (Council Memo), page 4. Available at: https://www.nwcouncil.org/f/18649/2024_03_5.pdf

¹⁵ See, CAISO Winter Conditions Report for January 2024, available at: <http://www.caiso.com/Documents/WinterMarketPerformanceReportforJan2024.pdf>



Unfortunately, there is a prevalent narrative around the events of MLK weekend that greatly misrepresents what occurred, incorrectly blaming the congestion and high prices for exports at Malin on CAISO’s market policies rather than as a product of limited transmission capacity and high demand, in other words—simple economics and physics.¹⁶ This problem was further exacerbated by the fact that there was no import capability to BPA’s system on the Pacific DC Intertie, due to an outage. While City Light understands that the events of that weekend caused considerable economic hardships for many utilities in the region, we are concerned that this incorrect narrative is driving a perception that leaving WEIM/CAISO to join Markets+ will result in improved outcomes in future extreme weather events, both in terms of cost and reliability. **However, the opposite is likely true; reduced connectivity and coordination will result in greater congestion, as well as less visibility and capability to economically and efficiently redispatch the generation and transmission to meet demand.** This scenario makes the

region more susceptible to high prices and reliability concerns during stressed conditions.

This challenge will be particularly acute in a scenario where the Northwest is separated from other Markets+ participants in the region because the market will not be able to economically rebalance supply and demand across its entire footprint in real-time without dynamic transmission connectivity between the Markets+ sub-regions.¹⁷ As a result, the real-time operations of the West will be balkanized into islands of load and resources that are not coordinated with neighboring areas. This outcome deteriorates existing reliability. The WEIM has facilitated unprecedented coordination of real-time operations over the past decade that has been largely ignored by BPA staff in their DAM decision-making. Dividing the region into pockets of load and resources with limited connectivity between them creates a new risk, particularly in cases of stressed grid conditions.

Pathways Initiative is Creating Real Change in Governance for Western Markets

BPA has stated that independent governance is the primary reason for its preference of Markets+ over EDAM. BPA should consider closely the considerable advances that are on the horizon in the West-Wide Governance Pathways Initiative (Pathways Initiative) and actively engage in the Pathways Initiative.

The Pathways Initiative continues to make real, demonstrable forward progress in enhancing and enacting meaningful governance changes in California and facilitate expanding upon the significant success and connectivity that has been achieved in the Western Energy Imbalance Market (WEIM). The Step 2 Draft proposal released on September 25, 2024, is a considerable accomplishment.

¹⁶ CAISO shared an update regarding the misconceptions surrounding the MLK weekend event at the September 27, 2024, Regional Issues Forum. Presentation available at: <https://www.westerneim.com/Documents/Presentation-WEMRegionalIssuesForumCRRs-CAISO.pdf>.

¹⁷ To facilitate real-time dispatch between the disconnected Markets+ regions, participants will need dynamic transfer capacity on EDAM transmission providers. However, to date, no entity has provided evidence that it can facilitate these flows.

Step 2 is likely to result in a crucial governance change that BPA and others have sought—an independent regional organization that sets and decides market policy. The proposal lays out a detailed and realistic path for how governance can continue to evolve and has benefited from an exceptional level of regional collaboration and coordination not previously experienced.¹⁸ Legislation to effectuate the Step 2 proposal will be crafted this fall and introduced in 2025. While the proposal may not accomplish every outcome at once, it represents a sea-change in the governance overseeing the regional markets administered by CAISO. The results of the Pathways Initiative should be celebrated as a major accomplishment in the region. Creating an independent governance structure for the operations of a regional market is no small feat and City Light does not believe this work should be discounted or criticized for not going far enough. The West has a proven track record of success through incrementalism. Pathways and the creation of a Regional Organization is no different and is the beginning to what will assuredly be further augmentation in the governance of western markets.

Recommendation and Conclusion

It is not reasonable that BPA fund Phase 2 of Markets+ or continue to recommend that it join Markets+. Markets+ is the more expensive option based on BPA's economic analysis and has negative impacts on reliability. Additionally, there are significant governance changes likely to occur through the Pathways Initiative. **Furthermore, it cannot be ignored that a decision to remain in WEIM and join no day-ahead market produced higher benefits for its customers than joining Markets+.** City Light strongly urges BPA to reconsider its decision to proceed with the \$25 million commitment. We also strongly encourage BPA to support the next steps of the Pathways Initiative, which has asked for \$25,000 from interested entities. This reasonable cost commitment will ensure that BPA supports the effort to achieve the governance changes it advocated for by BPA and its customers.

We understand that some BPA customers are concerned that BPA is being pressured to join EDAM, in order "to ensure BPA's significant generation and transmission resources benefit EDAM and its participants."¹⁹ While WMEG and other analyses indicate that there are EDAM participants that would benefit from BPA's participation, those same studies also show that BPA would mutually benefit from EDAM participation. Further, there are participants in either market that will benefit from BPA's generation and resources, and this argument could be made about Markets+ participants as well. For example, Puget Sound Energy,²⁰ as well as utilities in the Desert Southwest²¹ have all indicated that they would benefit from BPA in Markets+. **The key difference is that in EDAM, BPA will also benefit.** As

¹⁸ See, "California Labor, Public Power to Sponsor Pathways Legislation", *RTO Insider*, October 30, 2024, available at: <https://www.rtoinsider.com/90828-california-labor-public-power-sponsor-pathways-legislation/>

¹⁹ August 15, 2024, Letter from the PPC Executive Committee to Administrator John Hairston, RE: PPC Support for BPA Funding Phase 2 of Markets+, p. 2.

²⁰See, Puget Sound Energy Day-Ahead Market Presentation to Washington Utilities and Transportation Commission, Docket No. UE-240537, August 7, 2024, p. 16, available at: <https://www.utc.wa.gov/casedocket/2024/240537/docsets>

²¹ See, APS Resource Planning Advisory Council Presentation, September 23, 2023, p. 25, Available at: https://www.aps.com/-/media/APS/APSCOM-PDFs/About/Our-Company/Doing-business-with-us/Resource-Planning-and-Management/September_2023_RPAC_Meeting_Presentation.

BPA considers its DAM options, the larger consideration should be which market will provide BPA with the best outcomes for its customers, not who is denied benefits.

City Light's position has been clear and consistent throughout this process. We believe BPA's market decision should be based on the physics and economics of the system. We believe markets are a way to mitigate upward rate pressure and to promote efficient usage of the region's transmission system. However, joining no DAM appears to be more prudent than joining the wrong market. We appreciate the Administrator taking these comments and look forward to continuing our partnership in the process.

Sincerely,



Dawn Lindell
General Manager/CEO
Seattle City Light

Cc: WA Congressional Delegation
David Turk, Deputy Secretary U.S. Department of Energy