

Submitted via Tech Forum on October 15, 2023

RE: BPA's September 11 Day-Ahead Market Workshop

The Public Power Council (PPC) appreciates the opportunity to comment on BPA's ongoing day-ahead market participation workshops. PPC is optimistic about the potential for BPA's participation in a day-ahead market to create benefits for the agency's preference customers, but additional exploration is needed to assure customers that the market of BPA's choice will protect or enhance the value that customers currently receive from BPA's products and services. PPC is concerned that with half of the originally planned workshops completed, BPA has yet to demonstrate the benefits of market participation to stakeholders and that the agency has not yet begun exploring issues raised by PPC and others regarding BPA's ability to participate in the market while continuing to meet its statutory obligations.

PPC supports BPA pursuing a leaning on market participation consistent with its proposed timeline, but only if BPA can sufficiently vet and analyze issues, resulting in a well-supported decision on that timeline. Critical to this support will be BPA providing compelling analysis on the potential impacts market participation has on the value of its products as outlined in additional detail below. Timely evaluation and response to the questions raised by PPC and others will not only better inform the agency's decision on participation in a day-ahead market but could also lead to more compatible market design options through BPA and customers' advocacy. Both the need to make a decision quickly and the increasingly limited opportunity to make design changes to market options make timely vetting of these issues critical.

We understand the workload challenges associated with developing responses to these questions while engaging in the development of day-ahead market options. PPC appreciates the ongoing participation of BPA staff in the development of day-ahead market options and is sympathetic to the demands that work has made on agency staff. However, questions around the impact of BPA's participation on its products and services are equally important and need to be addressed before the end of this process.

PPC's support for BPA's continued investment in market options and eventual participation in a day-ahead market is predicated on the agency's ability to demonstrate that its participation will enhance, or at the very least, not harm its customers. We look forward to partnering with BPA to explore outstanding critical issues in the coming months.

PPC Supports BPA Investing in Development and Exploration of Day-Ahead Market Options

While PPC has identified questions that must be vetted through this process, these questions should not be misconstrued as a lack of support for BPA's eventual participation in a day-ahead market. PPC continues to be optimistic regarding the potential benefits of leveraging market participation as a tool that will enhance the value of BPA's products and services. However, such a fundamental change to the manner in which BPA serves its customers, as described more fully below, requires a careful and deliberate approach to avoid unintended consequences. This is the genesis for PPC's questions.

In May 2022, members of PPC's Executive Committee [issued an open letter](#) encouraging BPA's investment in Markets+ development, so that the agency would have options in considering its day-ahead market participation. This support for building and exploring organized market options has not waived since the Executive Committee's letter. PPC continues to support BPA's evaluation of both EDAM and Markets+ during its decision process. In order to do so, it will be critical that BPA is able to continue to invest in the Markets+ option that is still developing, as long as BPA and its customers continue to see value in this option.

BPA Must Continue to Invest in the Markets+ Option Until a Decision is Made

As stated above, PPC has been and continues to be supportive of BPA's investment in the development of Markets+. We understand that the Southwest Power Pool (SPP) may be looking for a funding commitment for the next phase of Market+ development early next year. PPC is concerned about the potential that this timeline will not align with BPA's ability to make a fully vetted and well supported decision about whether to participate in a day-ahead market and, if so, which day-ahead market to participate in. We are particularly concerned that this misalignment may result in BPA being unprepared to fund the next phase of Markets+ if it treats the decision on participation as a prerequisite for that funding decision. Additionally, treating a decision to participate in Markets+ as a prerequisite for funding Markets+ Phase 2 could create pressure for BPA to make a decision before it has adequately evaluated its options and addressed customer questions. This is an equally undesirable outcome.

In order to ensure that BPA is able to support the next phase of Markets+ funding while taking the needed time to fully vet market participation issues with customers, PPC and its members support BPA funding the next phase of Markets+ on the timeline proposed by SPP regardless of whether BPA has issued its leaning on day-ahead market participation. This support is subject to the following conditions:

- SPP pursues its “Option 2” funding option for Phase 2, which would focus on lower cost implementation items during the period that the Markets+ tariff is under review at FERC. This approach aligns well with BPA’s timeline. It would give BPA additional time to complete its evaluation and would provide certainty regarding FERC’s ruling on the Markets+ tariff before BPA faces a higher funding obligation.
- BPA clarifies with SPP and other parties that its additional funding for Phase 2 past this initial stage is contingent upon the both the completion of the agency’s decision process, as well as a favorable outcome from FERC regarding the Markets+ filing that does not materially impact the value proposition of BPA participating in Markets+.
- BPA provides a clearer timeline of when it will answer customers’ outstanding questions related to its statutes, the value of its products in day-ahead market participation, and at a high level how BPA will deliver the products it has described in its Provider of Choice policy through a day ahead market.

These conditions are critical given that BPA has not yet justified participation in any market and given the potential for changes to Markets+ tariff and policies following FERC’s tariff review.

Again, PPC continues to see the Markets+ option as a valuable potential option for BPA’s future market participation. PPC members support BPA making an investment in the continued viability of Markets+, regardless of whether BPA has issued a leaning supporting participation in Markets+ at the time of the *initial* Phase 2 funding.

Evaluation of Market Options Should Be Holistic and Transparent

In previous comments, BPA has heard some stakeholders’ perspectives on the importance of considering the benefits of a large or single market footprint in its evaluation of market options. PPC supports the objective of reducing seams to maximize market efficiency and agrees that consideration of the market footprint should be included in BPA’s evaluation. However, BPA must consider the benefits of a larger market footprint holistically with other key factors. BPA must weigh the potential benefits and risks of the market’s footprint, governance, and market design together to inform its decision. Additionally, there are potential opportunities for limiting seams, even within a two-market solution. Given recent announcements from several Mountain-West entities that have committed to join SPP’s RTO West, it is clear that the entire Western Interconnect will not be participating in a single market footprint.

As part of evaluating the benefits and risks of each market’s design, the customer impacts – to business models, timelines, quality of service they can provide their end-use customers, and rate impacts – must all be central to BPA’s review. These impacts must

be explicitly considered in the agency's evaluation and should be given significant weight in making BPA's decision.

Preference Customers' Rights to Service from the Federal System

BPA has suggested that while participating in a day-ahead market, it will continue to serve load in much the same way it does today. That argument is quickly undermined by BPA's acknowledgement that the Provider of Choice contracts will need to include provisions requiring customers to assent that their firm power load can be bid into a market and optimized via the day-ahead market. These provisions are necessary because the load service paradigm in a day-ahead market is, indeed, quite different than the bilateral relationship between the federal resources and consumer owned utilities' net requirements loads which exists today and was envisioned by BPA's statutes. From PPC's perspective, the new load service paradigm is not necessarily untenable and BPA's power customers may voluntarily agree to it so long as BPA acknowledges this foundational change, recognizes the existing rights of the consumer-owned utilities, and works with PPC members to ensure that the value of those rights is preserved – and maybe even enhanced – through a day-ahead market.

In general, a day-ahead market severs that bilateral relationship between load and resources and treats all generation (resources, including any federal resources) bid into the market as a commodity – differentiating supply based only on the attributes defined by the market. The market identifies the least-cost way to dispatch all available resources to meet load in the market footprint, essentially treating all generation as a fungible commodity. Load is then served by the market with an amalgamation of market resources, and the bilateral generation-to-load relationship we are accustomed to today no longer exists.

This paradigm represents a fundamental shift in BPA's service of the consumer-owned utilities' net requirements, one that BPA has been puzzlingly reluctant to acknowledge. Currently, BPA meets its power customers' firm power needs from the FCRPS by selling federal power as a "system sale" through bilateral contracts with consumer-owned utilities.¹ Under this approach, BPA meets its power obligations by using all the electric power produced in aggregate by the Federal Columbia River Power System and any power it acquires from non-federal resources.² Importantly, BPA is authorized to acquire power from non-federal resources only if its federal resources are not sufficient to meet its contractual power sales obligations.³ In other words, BPA's purchases of non-federal resources are intended to supplement the federal resources only to the extent the federal

¹ See Administrator's Record of Decision, "Energy Imbalance Market Policy," September 2019 (hereinafter "BPA EIM ROD) at 64.

² See BPA EIM ROD at 64.

³ 16 USC § 839d(a)(2).

resources are not sufficient to meet BPA’s power sales contracts. This paradigm produces a federal “system mix” of a certain quality, comprised mostly of federal resources with certain attributes that many PPC members value.

One obvious aspect of that quality, for example, is the low carbon content of the federal system mix, which is important for many consumer-owned utilities. As BPA itself has previously explained, the federal dams and the Columbia Generating Station produce carbon-free power.⁴ Because BPA sometimes purchases power on the market as described above, and that power has a certain amount of carbon emissions attributed to it, a small amount of carbon emissions is associated with the federal system mix. But these unspecified market purchases make up only 3 to 12 percent of BPA’s total annual power supply, resulting in a BPA CO₂ emissions factor that is dramatically lower than the regional and national averages.⁵ In 2016, for instance, carbon-free hydroelectric power made up 85 percent of BPA’s system mix, and in 2023, BPA’s system mix was comprised of 87 percent carbon-free hydroelectric power and 10 percent carbon-free nuclear power, with only 4 percent of power coming from firm contracts and other resources.⁶ Receiving power from BPA’s low-carbon system mix is important because, as BPA has acknowledged, policies that put a price on carbon increase the value of BPA’s power⁷ and many PPC members are now required to comply with those policies. The value of low carbon generation is not limited to those utilities subject to state-wide carbon pricing rules. For example, some PPC members have adopted their own community-driven carbon goals and BPA’s system mix can have a large impact on whether utilities are successful in delivering on those goals for their customers. Additionally, economic development opportunities for PPC member communities can be driven by the utility’s ability to deliver a low-carbon generation mix.

BPA now seems to suggest that as long as BPA facilitates the supply of “electric power” to the consumer-owned utilities in the amount agreed under the contract, BPA meets its firm power sales obligations under section 5(b) of the Northwest Power Act⁸. BPA, it seems, argues that because it currently meets its firm power sales obligations by delivering *some* power from non-federal resources through market purchases (between 3

⁴ BPA Fact Sheet, “The carbon-free footprint of BPA’s hydropower supply,” September 2019, retrieved from <https://www.bpa.gov/-/media/Aep/about/publications/fact-sheets/fs-201901-The-carbon-free-footprint-of-BPA-hydropower-supply.PDF>.

⁵ *Id.*

⁶ BPA Facts, March 2023, retrieved from <https://www.bpa.gov/-/media/Aep/about/publications/general-documents/bpa-facts.pdf>.

⁷ BPA Fact Sheet, “The carbon-free footprint of BPA’s hydropower supply,” September 2019, retrieved from, <https://www.bpa.gov/-/media/Aep/about/publications/fact-sheets/fs-201901-The-carbon-free-footprint-of-BPA-hydropower-supply.PDF> (“Policies that put a price on carbon could increase the value of BPA’s surplus sales because of an increased premium for low-carbon power. For example, California’s existing cap-and-trade program has created value for low-carbon generation. Demand for BPA’s low-carbon power has resulted in surplus sales to California at a premium over other wholesale market prices.”).

⁸ 16 U.S.C. § 839c(b).

and 12 percent as noted above) as part of its system mix, serving consumer-owned utilities' loads with power comprised of *all* market purchases would also be consistent with its current practices and the law. And because section 5(b) refers to BPA supplying "electric power to meet the firm power load" of consumer-owned utilities and not "federal electric power," BPA suggests that serving preference customers' net requirements entirely through the market is consistent with the intent of section 5 of the Northwest Power Act. This argument is contrary to the Congressional intent that federal resources be operated for the benefit of public entities and the statutory directives that entitle consumer-owned utilities to priority access to federally-generated electric power, and also conflicts with BPA's own recent interpretations of its obligations. There is simply no question that Congress intended BPA to use federal resources to meet the firm power load of consumer-owned utilities and to rely on market purchases only to the extent the federal resources are not sufficient to enable BPA to meet its contractual obligations to serve load.

Section 5(a) of the Northwest Power Act reaffirms⁹ the application of preference to "[a]ll power sales under this chapter," including sales under section 5(b),¹⁰ and the fact that Congress intended the federal resources to be operated for the benefit of consumer-owned utilities and their customers. The legislative history clearly explains these preference provisions "were enacted to insure that Federal hydroelectric generating facilities would be operated for the benefit of the general public," noting that the "general public" were domestic and rural customers served by the public bodies and cooperatives like PPC members.¹¹ The Committee made it clear that specific sections, including 5(a), 5(b)(6) and others, were incorporated into the Act "to protect the entitlement of both existing and new preference customers the full Federal base system."¹² Indeed, section 10(c) of the Northwest Power Act reaffirms that "[n]othing in this chapter shall alter, diminish, abridge, or otherwise affect the provisions of other Federal laws by which public bodies and cooperatives are entitled to preference and priority in the sale of federally generated electric power."¹³

⁹ Originally enacted in 16 U.S.C. § 825s ("Preference in the sale of such power and energy shall be given to public bodies and cooperatives."); and 16 U.S.C. § 832c(a) ("**In order to insure that the facilities for the generation of electric energy at the Bonneville project shall be operated for the benefit of the general public, and particularly of domestic and rural consumers**, the administrator shall at all times, in disposing of electric energy generated at said project, give preference and priority to public bodies and cooperatives." (Emphasis added.)); and 16 U.S.C. § 832d(a).

¹⁰ 16 U.S.C. § 839c(a).

¹¹ H.R. REP. NO. 99-976, pt. 1 at 34 (1980); *see also* 16 U.S.C. 839c(b)(6), which provides that sales to preference customers cannot be restricted to less than the full amount of power from Federal base system resources.

¹² H.R. REP. NO. 99-976, pt. 1 at 34 (1980).

¹³ 16 U.S.C. § 839g(c).

In the Administrator’s Record of Decision on the Energy Imbalance Market (EIM) Policy, BPA explained:¹⁴

Bonneville’s system sales approach is not only a historical artifact; Bonneville adopted the system sales approach to comply with various statutory and executive directives. These directives appeared in the early marketing authorizations and were refined in the Northwest Power Act.²⁰⁸ These directives fall into three general categories:

- *Directives to integrate and operate the federal projects as a single system to efficiently and economically market energy;²⁰⁹*
- *Directives to meet the firm power load obligations of Bonneville’s customers using “Federal base system resources” (note that resources is plural not singular);²¹⁰*
- *Directives to recover the “total system costs” of the FCRPS.²¹¹*

BPA further explained that participating in the EIM with federal generation would “require specific information on the source of the federal generation being used to respond to EIM dispatches,” and the legal question was whether BPA could provide that information while still complying with the statutory and executive directives described above.¹⁵

Specifically with regard to meeting the firm power load obligations of the consumer-owned utilities using federal resources, BPA concluded that “participation in the EIM with specific federal projects will not pose a risk to Bonneville’s ability to meet its firm power sales obligations” and that “[t]hese obligations will continue to be met from the collective system resources of the FCRPS.”¹⁶ Regarding the specific mechanism BPA would use to continue to meet firm power sales obligations to the consumer-owned utilities, BPA explained that the “EIM preserves this functionality by allowing Bonneville to include these aggregated obligations as part of the ‘base schedule’ that

¹⁴ BPA EIM ROD at 65 (footnotes 208, 209, 211 omitted; footnote 210 provides “The Northwest Power Act, § 3(10), defines “Federal base system resources” as “(A) the Federal Columbia river Power System hydroelectric projects; (B) resources acquired by the Administrator under long-term contracts in force on December 5, 1980; and (C) resources acquired by the Administrator in an amount necessary to replace reductions in capability of the resources referred to in subparagraphs (A) and (B) of this paragraph.” 16 U.S.C. § 839a(10). The Regional Preference Act, § 2, provides that “the sale, delivery, and exchange of electric energy generated at, and peaking capacity of, federal hydroelectric plants in the Pacific Northwest for use outside the Pacific Northwest shall be limited to surplus energy and surplus peaking capacity.” 16 U.S.C. § 837a. This language refers to federal hydroelectric plants. Because it is in the plural form it is language that encompasses the whole, or interconnected, system of federal hydro projects.”); *see also* BPA EIM ROD at 68 (“These [statutory] requirements include directives to: ... (2) meet firm power load from federal resources....”).

¹⁵ BPA EIM ROD at 66.

¹⁶ BPA EIM ROD at 66.

Bonneville submits to the EIM” and “[a]s such, Bonneville will retain its current discretion to meet these obligations from the federal projects as a single system.”¹⁷

In response to comments from stakeholders, BPA doubled down on its conclusion that it can comply with the statutory directive to “meet firm power load from federal resources”¹⁸ while participating in the EIM because it would retain control over federal generation. BPA said its “contractual obligations call for power from its system to serve load on a firm basis,” and participation in the EIM would not undermine BPA’s ability to meet those obligations because BPA would choose the base schedule for each generator, putting a hard cap on how much capacity from each federal hydroelectric project the EIM can use.¹⁹ Because it retained this level of control in the EIM, BPA concluded that the level of disaggregation of federal resources for EIM purposes “is largely irrelevant.” BPA explained:

*Bonneville could disaggregate federal generation into two, five, or a dozen generators, and the legal and operational question would be the same: Do Bonneville and its federal partners retain control over the operations of federal generation? If the answer is “yes,” then legally, there is no substantive difference. So long as Bonneville is able to choose what federal generators operate and when, Bonneville will always have the ability to reflect its system sale obligations (and indeed any of its obligations) in its EIM base schedules and bid curves.*²⁰

Likewise, BPA concluded that “bidding in capacity from specific federal projects will not impair Bonneville’s ability to recover its ‘total system costs’” because “Bonneville will continue to sell firm requirements power to its regional customers under long-term contracts from system resources at rates set by Bonneville’s statutory directives.”²¹ Those statutory rate directives confirm what the discussion above makes clear – BPA shall use federal resources to meet the firm power loads of consumer-owned utilities.²² BPA’s rates for consumer-owned utilities are mandated to be sufficient to “recover the costs of that portion of the Federal base system resources needed to supply such loads,”²³ with “Federal base system resources” defined as (A) the Federal Columbia River Power System hydroelectric projects; (B) resources acquired by [BPA] in long term contracts ...;

¹⁷ BPA EIM ROD at 66 (footnotes omitted).

¹⁸ BPA EIM ROD at 68.

¹⁹ BPA EIM ROD at 70.

²⁰ BPA EIM ROD at 70.

²¹ BPA EIM ROD at 66 (footnotes omitted).

²² BPA EIM ROD at 65 n. 211 (“The Northwest Power Act directs the Administrator to establish rates “based upon the Administrator’s total system costs” and for requirements customers to “recover the costs of that portion of the Federal base system resources needed to supply such loads. . . .” 16 U.S.C. §§ 839e(a)(2)(B), 839e(b)(1). **These rate directives align with the system sale paradigm in that they direct Bonneville to set rates to recover the costs of the entire federal system, which presumes that Bonneville is using the entire system to serve its customers’ loads.**” (Emphasis added)).

²³ 16 U.S.C. § 839e(b)(1).

and (C) resources acquired by [BPA] in an amount necessary to replace reductions in capability of the resources referred to in subparagraphs (A) and (B) of this paragraph.”²⁴

Of course, consumer-owned utilities have the right to agree to a particular treatment of their loads under section 5(b), including agreeing that BPA will bid their firm power loads into a day-ahead market and those loads will be served not by the federal system mix, but by an amalgamation of market resources dispatched based on an economic price curve. Under this construct and by assenting to the new power sales contract provisions that BPA plans to include in the Provider of Choice contracts, utilities signing the contracts essentially agree to not challenge this treatment of BPA’s statutory load service obligations. Paramount in that decision, is the demonstration that the power consumer-owned utilities would be receiving from the market is of comparable quality to the federal system mix, or that BPA will use all available market mechanisms to preserve the values of the federal system mix for the consumer-owned utilities even when the market mix is serving the consumer-owned utilities’ firm power loads.

Retaining or Enhancing the Value of BPA’s Products for Consumer-Owned Utilities

As explained above, even if BPA does decide to participate in a day-ahead market, consumer-owned utilities will retain the statutory right to be served by the federal base system. Customers could agree to an alternative treatment, including having their load served through an optimized market dispatch. In order for customers to agree to such a provision, they must understand the implications of that change and whether that fundamental shift has any impact on the value that they receive from BPA’s products and services. These considerations will be important both in the context of BPA’s day-ahead market participation process and in the customers’ evaluation of products offered under the agency’s Provider of Choice contracts.

PPC has repeatedly highlighted the importance of understanding how BPA’s products would interact with its potential participation in an organized market and will again emphasize those points here. BPA needs to be evaluating whether it will be able to provide the products it is designing in the Provider of Choice process through an organized market, and if so, provide some initial details as to how that will be done. This is not to suggest that the agency must have vetted every implementation detail before deciding to participate in a day-ahead market or before issuing its Provider of Choice policy, but it will be critical that BPA demonstrate that it has begun to think through the interactions of its products with the organized market and is able to confirm the continued value that its products have in an organized market context.

²⁴ 16 U.S.C. § 839a(10); see also *Pacific Northwest Generating Co-op. v. Department of Energy*, 580 F.3d 792, 800 (9th Cir. 2008).

To date BPA has been reluctant to address these issues, both in the context of the Provider of Choice conversations and in its exploration of participating in a day-ahead market. PPC and our members continue to implore that the agency does its due diligence in both of these processes to set BPA and its customers up for success as we potentially pursue a fundamental change in how BPA customers' loads are served today. Executives on PPC's Market Development Committee felt so strongly about the importance of this due diligence that in response to BPA's last workshop they sent [a letter to Administrator Hairston](#) asking for an "eyes wide open" review of the impacts of BPA's potential market participation. PPC emphasizes that we see potential benefits from this fundamental shift; however, we must approach that shift deliberately and with much consideration – consideration that we have not yet seen in either of the Provider of Choice or Day-Ahead Market decision processes.

In order to provide its preference customers with the assurance that BPA's products will be consistent with the Provider of Choice policies and will retain significant value for BPA's customers, the agency must continue to work with customers to address outstanding questions as described in more detail below. The additional Provider of Choice workshops added this fall are a decent start, but PPC is concerned that the narrow scope intended for those workshops will not sufficiently address customers' fundamental questions. It will be critical that the BPA's markets and Provider of Choice teams are well coordinated in exploring these questions and develop a common understanding for how BPA's products will interact with the market. The agency needs to provide customers with a clear explanation of the interactions between BPA's products and the organized market and this understanding needs to be shared among all aspects of the agency – power, transmission, legal, operations, policy, etc.

In the interest of this coordination, PPC is attaching our recent comments on BPA's Provider of Choice process for reference, which reiterate the same points and questions raised here.

Specific Questions Regarding Retaining Value of BPA Products in Organized Markets

As stated above, PPC has continued to ask BPA to demonstrate that the products it is pursuing in the Provider of Choice discussions will continue to provide similar or enhanced value to its customers when delivered through an organized market. PPC members have statutory rights related to service from BPA that have real, demonstrable value that they would like to see retained. For example, Northwest consumer-owned utilities have the first right to federal surplus.²⁵ BPA has not yet explained how it would

²⁵ BPA EIM ROD at 59 ("Pursuant to section 5(f) of the Northwest Power Act, federal power remaining after Bonneville has met all of its section 5(b), (c), and (d) power obligations, may be sold as "surplus" power.184 As with other sales of power from the federal system, Bonneville is required to give preference and priority to public body and cooperative (preference) customers when it offers to sell surplus power." (Footnotes omitted.)).

continue to meet its obligations to first offer federal surplus to preference customers before more broadly making surplus available through market dispatch consistent with this statutory obligation. Another example is BPA's obligation to serve customers at cost. While PPC understands that not all details associated with rates for BPA's power products will be addressed in the Provider of Choice policy paper nor in BPA's Day-Ahead Market participation decision, some understanding of how market exposure, associated risk, and costs and benefits will be allocated to various products if the agency does participate in an organized market is important for BPA customers to evaluate the product options they are being offered. BPA will also need to describe how its planned approach with allocating these risks, costs, and benefits is consistent with its obligation to provide service to preference customers "at cost."

As thoroughly explained above, BPA has the statutory obligation to meet preference customer's net peak loads using generation from the federal base system. While BPA has suggested that not much will change if it participates in an organized day-ahead market, there are, in fact, foundational and structural changes to the way loads will be served through leveraging optimized dispatches by the organized market as described above. While BPA makes market purchases today to optimize the dispatch of its resources, participation in an organized market fundamentally changes how those purchases occur, likely the magnitude of those purchases, and requires a rethinking about the contractual tools that are used today to allow entities to claim they are being served by the federal system mix.

In thinking about the value that PPC members receive through the statutory obligation that BPA has to meet their net load with the federal base system resources, PPC has identified three "value lenses" that we would like BPA to use to demonstrate how the value received from service from the federal system is retained when BPA's customers are essentially served by the organized market:

1. Firmness of power supply: customers currently have a high level of confidence that generation from the federal system will be available to serve their net load and that BPA will be able to deliver on its contractual agreements. Customers have this confidence based on a robust planning process conducted by BPA and funded through customers' power rates. Today, when generation from the federal system is available, customers can be assured that serving their load will be the primary use of that generation.
2. 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 fairly high level of confidence in federal deliveries; and

3. Environmental attributes: BPA's generating portfolio is dominated by hydro and augmented with nuclear generation and limited purchases from unspecified resources. This results in a federal base system with very low carbon content. Today it is clear that these attributes are associated with BPA's power products and that BPA's customers can claim these attributes for the portion of their power supply coming from BPA.

PPC looks forward to analysis from BPA that demonstrates how the value associated with each of these lenses is retained or enhanced through BPA's participation in an organized market to ensure the continued value of BPA's products.

In addition to demonstrating how the value of preference customers' statutory rights are maintained in an organized market, there are additional questions that BPA should be exploring with customers to inform their product decisions. We are concerned that BPA is viewing these questions as "implementation details" when really these are issues that materially impact the value of BPA's products for its customers. Topics where policy directions must be set/clarified include:

- Policy decisions related to market exposure and direct market participation opportunities for each of the products.
 - What "risk" is directly assigned to customers through market settlements?
 - What risk is shared through BPA rates?
 - How does this assignment of risk vary based on product?
 - Are there options within each product to determine the level of exposure that each customer has?
 - Is the level of market exposure for each customer consistent with how the market assigns costs and benefits? (e.g. if the market is directly allocating congestion rent to the customer is that consistent with the customer's exposure to congestion costs based on how BPA allocates them to each product?)
- Clarifications on the opportunities that customers have to bid BPA supply into the market.
 - Can BPA products be bid into the market? Which ones?
 - Will customers be able to bid their own resources into the market regardless of product choice?
 - If customers are unable to offer BPA products or their own resources into the market what are the specific barriers?
- Generally, describe the mechanisms that BPA is planning to use to deliver products through the market.

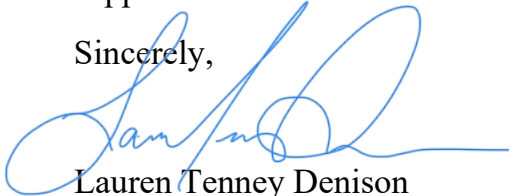
- To what extent does BPA plan to offer its generation to be optimized by the market and what does this mean for the value of its power products (what if any impacts are there to the three lenses discussed above)?
- Are there any tools within the market that BPA plans to use to help retain the value of customers' statutory rights?
- BPA should address customers' options if they do not want to be served through economized market dispatches.
 - What if customers do not agree to BPA's proposed contractual language which would facilitate market participation?
 - What if a customer wants to participate in a different market than BPA?

PPC stresses that setting general policy directions on these questions are not implementation details. Customers need to have a sense of how BPA's products will work in the market, how that interaction will impact their business models, and the type of financial and operational exposure customers would experience under various market options. These are all foundational to understanding the value of the products that BPA is offering and must be addressed before customers are asked to sign the Provider of Choice contracts or support BPA's day-ahead market participation. Additionally, a discussion of any market tools that BPA plans to use in the market to retain the value of its products is helpful for increasing customer confidence in accepting load service optimized through the market. It could also be informative in differentiating and evaluating the market options being considered by BPA.

We look forward to working with BPA quickly to explore the questions and issues identified above. Without a better understanding of these issues PPC will struggle to support both the current timelines proposed for the Provider of Choice initiative for BPA's proposed "leaning" on participating in a day-ahead market.

PPC appreciates the opportunity to engage with BPA and comment on its day-ahead market decision process. We look forward to continuing these discussions and remain supportive of BPA's efforts in this area.

Sincerely,



Lauren Tenney Denison
Director of Market Policy & Grid Strategy
Public Power Council

Attachment: PPC Comments on BPA Draft Provider of Choice Policy

October 13, 2023

John Hairston, Administrator
Bonneville Power Administration

Submitted electronically

RE: PPC Comments on Draft Provider of Choice Policy

Introduction and Overall Considerations

The Public Power Council (PPC) appreciates this opportunity to provide formal comments on BPA’s Draft Provider of Choice Policy. PPC is the broadest trade association of Northwest public power, representing the full diversity of utilities with preference rights to purchase wholesale power and transmission services from BPA.

PPC members rely on these services to provide reliable, economic, and environmentally responsible power supply to the communities and businesses they serve at cost. PPC members provide the majority of the funding that supports BPA’s operations and obligations to repay the federal and private investments in the federal system. This includes final “take or pay” responsibility for costs of the power system under long-term contracts. The success of BPA and Northwest public power is closely intertwined, as it has been for over 80 years.

The most important theme for these comments is ensuring that the Provider of Choice Policy supports the highest long-term value of post-2028 power contracts for the communities and businesses served at cost by Northwest public power. Achieving this outcome will require BPA to recognize the interdependent nature of its policy choices and make decisions on a holistic basis. Ongoing and timely engagement with customers will be needed to give the best chance of success.

While these comments will address a wide range of specifics in the draft policy, PPC continues to believe the value of post-2028 contracts must be built on the following three

foundational elements (as previously described in the Public Power Post-2028 Concept Paper¹):

1. Service of Net Requirements. Like all BPA power contracts since the Northwest Power Act was passed in 1980, the post-2028 power supply contracts must ensure that BPA will meet the energy and peak capacity Net Requirements of all its preference customers upon request. This includes helping all requesting preference customers to meet their resource adequacy requirements for both capacity and energy.

2. Full Application of Preference. The ultimate success of the post-2028 power supply contracts will largely depend on whether they help preference customers meet their expanding obligations. For many utilities, meeting these new regulatory and compliance obligations while keeping the lights on at the lowest possible cost will remain as a paramount concern into the future. These obligations breathe renewed life into the value of the Federal Base System (FBS) resources serving the Net Requirements of preference utilities and first right of access to those resources at cost, which Public Power views as a fully bundled power product with first in right entitlement to all the energy, capacity, and environmental attributes (e.g., Renewable Energy Credits and low carbon attributes) of such resources. The post-2028 contracts must fully address this preference right by ensuring that BPA does not offer to sell any portion of the energy, capacity, and/or environmental attributes of the Federal system to non-preference customers before providing a timely and meaningful opportunity to its preference customers to exercise their preference rights.

3. Tiered Rates. Public Power proposes that BPA and preference customers use a tiered rates framework as the starting point for ... post-2028 contract negotiations. This is due to two main factors. First, Public Power continues to see a benefit to using a tiered rate structure to ensure consistently low rates over time for that portion of a customer's load served by the FBS (as it may be defined and augmented for the post-2028 period). Second, as further discussed below, Public Power believes that a tiered rate structure coupled with an allocation of environmental attributes presents one of the best opportunities within the post-2028 contracts to (i) ensure that utilities can meet their respective regulatory obligations, (ii) preserve and enhance the low carbon attributes of the Tier 1

¹ Available on the PPC website at:
<https://www.ppcpdx.org/wp-content/uploads/FINAL-Post-2028-Concept-Paper-3-30-22.pdf>

System for the benefit of preference customers, and (iii) encourage renewable resource development for purposes of serving preference customer load....

The products and rates offered by BPA must work for all preference customers, consistent with these foundations. As described in greater detail below, this means an array of load following and planned products options under Tier 1 along with a range of Tier 2 options. The range of priority firm products and rates must be priced equitably based on their characteristics and allow for the efficient development of new generating resources (both federal and non-federal). It is especially important to adequately define how BPA's products will function and continue to provide requisite value to preference customers under potential new market structures in the region.

PPC encourages BPA to retain adequate flexibility to equitably address circumstances that arise that were not expressly contemplated in the development of the policy. Such circumstances will be inevitable given the diverse set of customer circumstances. In trying to close policy gaps among public power, PPC has found it valuable to seek solutions that fulfill the promise of "Provider of Choice" contracts by leaving customers with options as good as they have today and/or minimizing harm of policy changes wherever possible.

Adaptability is also an important policy objective in a time of substantial evolution in the energy industry in terms of technology, regulation, and market development among others.

Given the industry changes around us, BPA and public power face a daunting amount of work in the next phase of the Provider of Choice process to achieve BPA's desired timeline for contract signing. Preference customers need adequate certainty and information in key areas to be able to sign long-term power supply contracts consistent with their own fiduciary obligations to their end-use customers and communities. These contracts, which will govern tens of billions of dollars in power sales over their life, are simply too important to leave key elements to chance. To that effect public power is ready to explore alternatives to the proposed process timeline if needed, including delaying contract signing until necessary key elements are resolved. Success, especially on the desired timeline, will require a collaborative approach between BPA and public power, including a constructive mindset open to creative and practical solutions.

Tier 1 "System Size" and "Allocation"

PPC appreciates BPA's proposal for a generally fixed Tier 1 "system size" of 7,250 aMW. This is consistent with the compromise recommendation of the PPC Executive

Committee as previously communicated to BPA. This represents a balanced approach across customer interests that can offer equitable access to Tier 1 power while preserving the cost and environmental characteristics of the existing federal system.

PPC supports a balanced approach for development of Contract High Water Marks (CHWM). To be equitable and broadly acceptable to public power, the policy must balance the diverse interests of utilities and recognize investments and decisions made during the contract period to meet Regional Dialogue policy goals (including energy efficiency and generating resources) as well as the different rates of load growth across the region. PPC does not have specific recommendations on applying adjustments to CHWMs for load growth, energy efficiency, new resources, and other factors but recognizes BPA's attempt to balance these considerations in the draft policy.

PPC emphasizes that it is essential for equity among public power that augmentation over the existing capability of the system be shared, at least primarily, on a proportional basis. While various approaches could be taken to achieve this objective, PPC is concerned about the scenario where the proposed 200 aMW "Proportional Share Adjustment" could be substantially reduced. PPC does not believe this result would be broadly acceptable to public power.

PPC would also like to express continuing support for the proposed treatment of returning public utilities, consideration for very small utilities, potential new public utilities, and a tribal utility adjustment. Regarding the tribal utility adjustment, PPC supports this adjustment being available for the entire contract period, applying to annexation of new loads, and believes the amount should be separate and distinct from the amounts set aside for new publics.

PPC appreciates BPA's responsiveness to customer proposals for an economic adjustment to account for large loads that were not operating at their normal historical levels during the FY 2023 test year. The proposal in the draft policy is helpful to public power communities. PPC also encourages BPA to give consideration to the comments submitted by the Alliance of Western Energy Consumers (AWEC), Northwest Requirements Utilities (NRU) and the Western Public Agencies Group (WPAG) on this issue.

We also note that CHWM development is a salient issue area where BPA would be well served to exercise reasonable flexibility and discretion to handle unique utility circumstances in a manner that achieves balanced outcomes across public power.

While fixed CHWM amounts are generally desirable, consideration must be given to how to handle major changes in federal resource output, both positive and negative. PPC generally supports major enhancements to federal resource output being made available to the Tier 1 pool. There may also be instances during the contract where changes to system output could pass a point where the underlying assumptions of the contract structure no longer make sense. In particular, it is untenable for customers to have a take-or-pay obligation for unlimited system augmentation in the face of major resource loss or output changes.

PPC looks forward to working with BPA during the implementation phase to explore contractual and process options to address extreme changes in resource output during the course of the contract.

Tier 1 Options

PPC strongly supports an array of load following and planned product options to meet diverse customer needs. A load following product is essential to meet customer net requirements on an hourly basis and provide certainty of load service. PPC also agrees with BPA that planned products should give assurance in advance of the amount and degree of flexibility of power that will be provided. PPC further supports equitable value propositions across product types achieved through the specifics of products features and rate design.

Planned products, and particularly Slice, provide significant value to BPA and customers. This includes financial certainty for BPA and maximum flexibility for integrating non-federal resources. These characteristics provide value for all customers, including those that ultimately choose Load Following.

In order for planned products to meet this intent and realize their value, more progress needs to be made on peak net requirements issues and potential for limitations of capacity as well as market compatibility issues. As discussed later in these comments, PPC remains gravely concerned about the potential implications of BPA's proposed peak net requirements definition.

Simply put, a planned product that does not provide reasonable advance assurance on power delivery is untenable. To the extent BPA feels it must leave the door open for capacity limitations of planned products, this must recognize the need for public process to address potential capacity shortfalls, multiple years of advance notice for customers, and the opportunity to switch products.

PPC strongly supports a slice product offering that is at least comparable to the Regional Dialogue product. PPC is also encouraged by BPA's willingness to examine a WRAP compliance product.

PPC notes that “solutions” that push Slice/Block and Block customers to take Load Following do not help BPA or customers address underlying issues related to capacity, resource adequacy, or load service. Any operational uncertainty regarding Slice power BPA experiences in the day ahead timeframe would be replaced by at least comparable peak and energy load uncertainty for BPA, along with additional load uncertainty in longer planning horizons. The Slice product does carry some administrative overhead, but that would be replaced by a potentially greater initial and ongoing administrative burden to work with customer resource operations (particularly hydro resources with complex constraints).

Market compatibility issues are discussed at greater length later in these comments, however PPC notes that all BPA’s product offerings must be adaptable to evolving market structures while maintaining the core value of net requirements service at cost and preference for public power utilities. Particular to Slice, PPC has not yet seen compelling reason that the product would be fundamentally incompatible with a day-ahead market.

PPC appreciates the additional workshops that BPA has added to its public meeting schedule this fall to address product issues.

Tier 2 Options

PPC strongly supports a range of options and flexible paths for Tier 2 service, including long-term, short-term, and vintage products. PPC appreciates the evolution from BPA on Tier 2 options in response to customer comments earlier in the process that is reflected in the draft policy. PPC supports the proposal to make firm surplus power available first for Tier 2 service at equivalent Tier 1 costs as part of an overall package that is broadly acceptable to public power. PPC looks forward to working on further refinements and more detailed implementation in the next phase of contract and rate development.

Resource Planning and Acquisition

Given the various factors in the changing energy landscape and the potential for significant load growth, PPC believes that it is very likely that significant amounts of new generating resources will be needed to meet public power loads post-2028. The decisions made by BPA and customers on resource development will be a major driver of success during the contract period, and likely further into the future.

More work is needed in the next phase to provide specificity on processes, transparency, and customer input for resource acquisition strategy (for both Tier 1 augmentation and Tier 2 service). This is an area where customers are seeking a collaborative approach without encroaching on BPA’s requirements and discretion, and believe that outcomes will be enhanced with that mindset.

PPC members have a strong interest in engaging BPA on its modeling approaches, assumptions, and decision-making framework. Most immediately, the 2024 Resource Program analysis must be executed correctly to give customers the best possible indicative information in making planning decisions and commitments.

There are competing objectives and mirrored risks that must be balanced in making resource decisions. Acquiring resources without ironclad contracts and certainty of demand creates risks of stranded costs that may have to be recovered through Tier 1 rates. Conversely, waiting too long to make resource investments puts at risk BPA's ability to meet its net requirements service obligation.

In an extended period of adequate dispatchable capacity in the region, BPA and customers have grown accustomed to the luxury of being able to rely on a deep and liquid wholesale market. For various reasons, reliance on unspecified market purchases for long-term load service is becoming increasingly risky and potentially untenable in the future. This means that BPA and customers will need new resource strategies and balance of risk tolerance between potential stranded costs from forward resource development and potential resource inadequacy for load service.

There is no single "right" answer to this balance through time, and it will be up to BPA and customers to work together to make investment decisions based on the best available analysis and information.

Capacity and Peak Net Requirements Issues

A substantial amount of work is required in the next phase of the Provider of Choice process on capacity issues. This includes capacity treatment for Tier 1 service, Tier 2, and non-federal resources (including integration and balancing services).

At a high level to date, the workshop process has heavily emphasized the load following product as the best option for customers seeking flexible capacity from BPA. For the reasons discussed above, PPC does not view this as the best approach and believes a viable range of load following and planned products is beneficial to both BPA and customers.

With that said, given the customer uncertainty around the viability of planned products that has persisted in the process due to net requirements implementation and other issues, BPA must be prepared for all customers to seek load following products. Given this current reality, this scenario will need to be a central priority in the 2024 Resource Program analysis.

PPC has severe ongoing concerns regarding BPA's peak net requirements (PNR) definition and its potential implementation. PPC believes that the currently proposed

definition could negatively impact all BPA power customers and devastating outcomes for some consumer owned utilities.

Although BPA's proposed definition and potential implementation would most directly affect Slice and Block from an operational perspective, this issue is important to all customers as it impacts how BPA plans for and potentially charges for capacity needs, and also what WRAP QCC capacity might be considered "surplus" to preference customer needs.

Customers need a clear commitment to find workable solutions soon. PPC supports solutions that are workable for all customers and will not result in cost shifts. PPC is encouraged by BPA's stated commitment in the workshop process to meet both peak and energy net requirements (i.e., not violate energy net requirements as a result of a PNR definition and implementation). Affirming this commitment in the final policy is essential.

PPC staff has analyzed this issue extensively for over a year, including participation in the PNR Task Force. It is still unclear from a practical perspective what problem a capacity recall or limitation of the Slice product would solve during the course of the next contract. BPA and customers with hydro generation are not constrained by WRAP QCC, but rather by sustained generation under low water conditions and high demand. Therefore, curtailments of Slice capability would not address BPA's system limitations.

Additionally, it appears unlikely that there would be a situation where BPA would be short WRAP QCC *and* customers would be surplus to any significant degree. Key factors in this conclusion include the degree to which BPA is currently long in WRAP QCC as well as the fact that BPA has proposed that above high water mark service options will be fully WRAP compliant. Peak for Load Following service obligations would have to grow extremely disproportionately to average energy growth at the same time where this circumstance did not occur for "planned" product customers.

In the real world, Slice customers with large hydro resources are not long capacity currently in planning metrics besides WRAP QCC. These customers are not using Slice capability to market significant sales of forward capacity, but rather make energy sales similar to those that BPA makes and credits to the non-Slice pool. To the extent that there is a perceived or real issue with the equity of the Slice product from a value perspective, that is most appropriately addressed through rate design and not a PNR definition.

WRAP definitions may be part of a workable solution on PNR. However, WRAP QCC and a peak obligation that includes the Planning Reserve Margin (PRM) are inherently part of a system. A durable and equitable PNR solution must fully account for PRM at some point in the definition and implementation system.

In workshops BPA staff has made arguments that the design intent of the Slice product does not align with the provision of additional flexibility or capacity and that customers seeking federal power that matches their load shape more closely should look at other products (e.g., block with shaping or load following).

At the same time, Slice is unlikely to be commercially viable if a customer cannot have long term certainty that if they sign up for and commit to pay for a slice of the system that they may not receive that. If the design intent of the Slice product does not support provision of additional capacity or flexibility, it also does not support reductions.

Taken together, PPC believes that a “status quo” Slice Product offering without the uncertainty of capacity/flexibility limitations should be the minimum offering in the Provider of Choice policy framework. This, in combination with a fixed Tier 1 system size, would offer customers the certainty they need to conduct their planning processes and make resource decisions. PPC has not seen any analysis to date to suggest that this approach would be unduly burdensome or risky for BPA or create issues across products. And again, to the extent there are relative value or equity considerations, those are more appropriately and productively addressed through rate design.

We look forward to working closely with BPA, our members, and other stakeholders to find solutions to PNR that are part of an overall package that is equitable, broadly acceptable, and will meet the needs of all customers in making BPA the “Provider of Choice” for post-2028 power supply. PPC also strongly encourages BPA to carefully consider the comments of current planned product customers on PNR issues.

Another capacity issue area for additional work in the next phase is storage and/or capacity only resources. Energy adequacy and impacts were understandably the major focus of the Regional Dialogue contracts, but given technological and regulatory changes, capacity and storage resources stand to play an increasingly important role in the future. The contract development and rate design for the Provider of Choice period must carefully consider implications for capacity and storage resources in order to take advantage of potential cost and reliability benefits. These potential benefits can be realized both in terms of power supply and transmission, requiring a holistic approach. Clear policy regarding storage and capacity resources will allow customers and BPA to

take advantage of available incentives to develop the most beneficial power and transmission portfolio.

Non-federal Resource Integration

PPC appreciates the efforts in the draft policy to add more flexibility for non-federal resources and looks forward to additional work in the next phase of the process. Balancing flexibility with the potential for additional risks or cost shifts will be crucial to the successful implementation of the Provider of Choice policy. Non-federal resource integration, including development of associated rates and services, is an area where it will be especially important to take a comprehensive approach in upcoming contract and rate development processes.

Rate Discounts

PPC supports the proposed treatment of the Irrigation Rate Discount and Low Density Discount in the draft policy as part of seeking an overall package that is broadly acceptable to public power. These rate discounts are long-standing and are of significant importance to the utilities and communities they affect, which are substantially rural and often economically disadvantaged.

Transfer Service

Similarly, PPC supports a generally “status quo” treatment of transfer service for non-federal resources as part of an overall package that is broadly acceptable to public power. This approach has the effect of making non-federal resources viable for a broader range of customers, consistent with policy objectives.

Regarding transfer service more broadly, PPC supports all necessary efforts to ensure that customers receive the best possible quality of service. This is an evergreen issue that goes beyond contract periods. Transfer service has clear economic benefits to the region but is premised on a baseline of service quality that is comparable to direct federal interconnection and meets customer needs. If this standard cannot be consistently met, the underlying assumptions of the plan of service need to be re-examined.

PPC also notes that BPA must be adaptable in its implementation of transfer service to ensure compatibility with market developments or other changes in the region.

Environmental Attributes and Carbon

PPC appreciates and supports the clear articulation of the rights of preference customers to the environmental attributes of the system. This is essential and appropriate from both policy and legal perspectives. PPC also supports BPA’s intent to provide distinct emissions accounting among priority firm and other products, which is necessary to allow customers to comply with their state and local regulatory obligations and policy goals.

PPC appreciates the directional statements BPA has made to date on carbon issues, but this is an area where much additional work remains to be done. PPC also recognizes the limitations of current technology and market structures in allowing BPA to guarantee future options of completely carbon free power supply during the Provider of Choice period. Within these limitations, PPC strongly encourages BPA to make the clearest possible commitments to work with customers on development of carbon free options going forward to meet customer needs without shifting costs.

Maximizing the Long-Term Value of FCRPS Assets and BPA Services

The long-term contracts contemplated under the draft policy involve a significant assumption by public power on the ongoing value of the underlying assets of the FCRPS compared to alternative power supply options. During the first part of the Regional Dialogue contract, the steep upward trajectory of BPA rates and costs were alarming to customers, even prompting questions on the wisdom of signing long-term take-or-pay contracts. The upward pressure was due to factors both within and outside of BPA's control.

Public power recognizes and appreciates the efforts BPA took to “bend the cost curve” and address customer concerns, ultimately placing the agency on a much more sustainable cost and rate trajectory.

PPC welcomes and supports the concepts alluded to in the “Long-term Cost Management” section of the Draft Provider of Choice Policy, particularly the intent to “continue to promote accountability, trustworthiness, and transparency to guide [BPA's] projected costs so that customers continue to have ample opportunities to understand and provide input.” Additionally, BPA has maintained venues for customers to regularly understand the causes of variances from planned spending amounts in actual operations.

A key public power goal in the Provider of Choice contract is a collaborative and transparent approach to cost and asset management that allows customers to have confidence that the long-term value of the federal system is being maximized.

The Regional Dialogue contract has had periods of greater and lesser success in this regard, which provides an excellent learning opportunity for post-2028.

PPC seeks the opportunity to work closely with BPA in the next phase of the process on specific approaches that can be taken in the contracts (or associated policies and practices) to give the best chance of success for maximizing the long-term value of the federal assets and BPA services. Public power wishes to memorialize policies and practices that allow us to support BPA making the right investments at the right time in the federal assets and workforce that we mutually depend on to fulfill our public service missions.

PPC hopes these comments make it clear that this a collaborative rather than adversarial goal, which goes significantly beyond just minimizing costs. Further, PPC fully understands BPA's obligation to recover its costs and is not interested in curtailing the Administrator's authority and discretion in fulfilling the agency's obligations.

New Large Single Loads

New Large Single Loads (NLSLs) are evolving and becoming a more significant part of the load service obligations of public power. In addition to existing NLSLs, more and more public power customers are receiving inquiries about potential new NLSLs.

PPC believes it is in the interest of both BPA and customers to seek enhancements to NLSL policies and practices that do not shift costs or create undue risks. PPC asks that BPA give consideration to the specific issues and suggestions raised in the NLSL Group comments on the draft policy.

Additional Contract Issues

While beyond the intended scope of the draft policy, PPC notes that there are many important contractual details to address in the next phase of the process. For example, PPC looks forward to working collaboratively with BPA to improve the administrative and data sharing requirements in the contracts to better and more efficiently meet both customer and BPA needs.

Residential Exchange Program Issues

While many Residential Exchange Program (REP) issues are outside the scope of the power contracts, the implementation and resulting costs of the program are a significant driver of power rates and therefore the value of Provider of Choice contracts for public power. REP issues must be addressed holistically in parallel with the Provider of Choice process.

Transmission and Delivered Power

Issues of transmission and deliverability of power are integral to the success of the Provider of Choice contracts. Although outside the scope of the power sales contracts themselves, PPC urges ongoing commitment from BPA to a cohesive overall approach to transmission strategy.

Regarding the deliverability of federal power to preference loads, PPC appreciates the work done with BPA staff to date in the process. PPC supports inclusion of specific language on federal power deliverability in the final policy decision.

Importance of Exploring Interactions with Organized Markets

PPC has been consistent in its support of exploring organized market participation as a tool to further enhance the value of BPA products and services for its customers. We remain cautiously optimistic about this opportunity; however, we have also stated the importance of BPA fully vetting how organized markets will be used to improve outcomes for its customers, and the need for the agency to demonstrate how PPC's members' statutory rights and value related to delivery of BPA's products under today's bilateral markets will be retained. We continue to advocate for the importance of making such a demonstration before customers sign up for twenty-year contracts under the Provider of Choice contract offering and in advance of BPA making a decision about whether it will participate in a day-ahead market.

In comments submitted in both the Provider of Choice process and BPA's day-ahead market decision process PPC has consistently highlighted the importance of understanding how BPA's products would interact with its potential participation in an organized market. The agency is currently evaluating participation in an organized day-ahead market, and it will be critical that in deciding about participating in a day-ahead market, or a future RTO, BPA has fully vetted the impacts on its power products. Particularly in the Provider of Choice context, BPA needs to be evaluating whether it will be able to provide the products it is designing in the Provider of Choice process through an organized market, and if so, provide some initial details as to how that will be done. This is not to suggest that the agency must have vetted every implementation detail before deciding to participate in a day-ahead market or before issuing its Provider of Choice policy, but it will be critical that BPA has begun to think through the interactions of its products with the organized market and is able to demonstrate the continued value that its products have in an organized market context.

To date BPA has been reluctant to address these issues, both in the context of the Provider of Choice conversations and in its exploration of participating in a day-ahead market. PPC and our members continue to implore that the agency does its due diligence in both of these processes to set BPA and its customers up for success as we potentially pursue a fundamental change in how BPA customers' loads are served today. PPC emphasizes that we see potential benefits from this fundamental shift; however, we must approach that shift deliberately and with much consideration – consideration that we have not yet seen in either of BPA's processes.

In order to provide its preference customers the assurance that BPA's products will be consistent with the Provider of Choice policies and that they will retain significant value for BPA's customers, the agency must continue to work with customers to address outstanding questions as described in more detail below. The additional Provider of Choice workshops added this fall are a good start, but PPC is concerned that the narrow

scope intended for those workshops will not sufficiently address customers' fundamental questions. It will be critical BPA's markets and Provider of Choice teams are well coordinated in exploring these questions and develop a common understanding for how BPA's products will interact with the market. The agency needs to provide customers with a clear explanation of the interactions between BPA's products and the organized market and this understanding needs to be shared among all aspects of the agency – power, transmission, legal, operations, policy, etc.

The interplay of BPA products and organized markets is just one example of an area where BPA has struggled with developing a timely and holistic approach to customer concerns. For example, the peak net requirement issue described above is exacerbated in a market context and BPA has yet to recognize this challenge.

Specific Questions Regarding Retaining Value of BPA Products in Organized Markets

As stated above, PPC has continued to ask BPA to demonstrate that the products it is pursuing in the Provider of Choice discussions will continue to provide similar or enhanced value to its customers when delivered through an organized market. PPC members have statutory rights related to service from BPA that have real, demonstrable value that they would like to see retained. For example, Northwest consumer owned utilities have the first right to federal surplus. BPA has not yet explained how it would continue to meet its obligations to first offer federal surplus to preference customers before more broadly making surplus available through market dispatch consistent with this statutory obligation. Another example is BPA's obligation to serve customers at cost. While PPC understands that not all details associated with rates for BPA's power products will be addressed in the Provider of Choice policy nor in BPA's day-ahead market participation decision, some understanding of how market exposure, associated risk, and costs and benefits will be allocated to various products if the agency does participate in an organized market is important for BPA customers to evaluate the product options they are being offered. BPA will also need to describe how its planned approach for allocating these risks, costs, and benefits is consistent with its obligation to provide service to preference customers "at cost."

The last example, which PPC has expanded on previously in comments in the day-ahead market decision process², is related to BPA's obligation to meet preference customer's net peak loads using the Federal Base System (FBS). While BPA has suggested that not much will change if it participates in an organized day-ahead market, there are, in fact, foundational and structural changes to the way in which loads will be served by

² https://www.ppcpdx.org/wp-content/uploads/PPC-MDC-Letter-on-BPA-Market-Decision-Process_final.pdf

leveraging optimized dispatches by the organized market. While BPA makes market purchases today to optimize the dispatch of its resources, participation in an organized market fundamentally changes how those purchases occur, likely the magnitude of those purchases, and requires a rethinking about the contractual tools that are used today to allow entities to claim they are being served by the FBS.

In thinking about the value that PPC members receive through the statutory obligation that BPA must meet their net load with the FBS, PPC has identified three “value lenses” that we would like BPA to use to demonstrate how the value received from service from the FBS is retained when BPA’s customers are essentially served by the organized market:

1. Firmness of power supply: customers currently have a high level of confidence that generation from the FBS will be available to serve their net load and that BPA will be able to deliver on its contractual agreements. Customers have this confidence based on a robust planning process conducted by BPA and funded through customers’ power rates. Today when generation from the FBS is available, customers can be assured that their load will be the primary use of that generation.
2. 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
3. Environmental attributes: BPA’s generating portfolio is dominated by hydro and augmented with nuclear generation and limited purchases from unspecified resources. This results in a federal base system with very low carbon content. Today it is clear that these attributes are associated with BPA’s power products and that BPA’s customers can claim these attributes for the portion of their power supply coming from BPA.

PPC looks forward to analysis from BPA that demonstrates how the value associated with each of these lenses is retained or enhanced through BPA’s participation in an organized market to ensure the continued value of BPA’s products.

In addition to demonstrating how the value of preference customers’ statutory rights are maintained in an organized market, there are additional questions that BPA should be exploring with customers to inform their product decisions. We are concerned that BPA is viewing these questions as “implementation details” when really these are issues that materially impact the value of BPA’s products for its customers. Topics where policy directions must be set/clarified include:

- Policy decisions related to market exposure and direct market participation opportunities for each of the products.
 - What “risk” is directly assigned to customers through market settlements?
 - What risk is shared through BPA rates?
 - How does this assignment of risk vary based on product?
 - Are there options within each product to determine the level of exposure that each customer has?
 - Is the level of market exposure for each customer consistent with how the market assigns costs and benefits? (e.g., if the market is directly allocating congestion rent to the customer is that consistent with the customer’s exposure to congestion costs based on how BPA allocates them to each product?)
- Clarifications on the opportunities that customers have to bid BPA supply into the market.
 - Can BPA products be bid into the market? Which ones?
 - Will customers be able to bid their own resources into the market regardless of product choice?
 - If customers are unable to offer BPA products or their own resources into the market what are the specific barriers?
- Generally, describe the mechanisms that BPA is planning to use to deliver products through the market.
 - To what extent does BPA plan to offer its generation to be optimized by the market and what does this mean for the value of its power products (what if any impacts are there to the three lenses discussed above)?
 - Are there any tools within the market that BPA plans to use to help retain the value of customers’ statutory rights?
- BPA should address customers’ options if they do not want to be served through economized market dispatches.
 - What if customers do not agree to BPA’s proposed contractual language which would facilitate market participation?
 - What if a customer wants to participate in a different market than BPA?

PPC stresses that setting general policy directions and intent on these questions are not “implementation details.” Customers need to have a sense of how the products will work in the market, how that interaction will impact their business models, and the type of financial and operational exposure customers would experience under various market options. These are all foundational to understanding the value of the products that BPA is offering and must be addressed before customers are asked to sign the Provider of Choice contracts.

We look forward to working with BPA quickly to explore the questions and issues identified above. Without a better understanding of these issues PPC will struggle to support both the current timelines proposed for the Provider of Choice initiative for BPA's proposed "leaning" on participating in a day-ahead market.

Thank you for your consideration of these comments.

Sincerely,



Michael Deen

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