

**COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP  
REGARDING BPA'S DAY-AHEAD MARKET EVALUATION PROCESS**

Date Submitted: August 15, 2023

**A. Introduction.**

The utilities that comprise the Western Public Agencies Group (WPAG) appreciate the opportunity to submit these comments in follow-up to the Bonneville Power Administration's ("BPA") July 14, 2023 Day-Ahead Market (DAM) Evaluation Public Workshop.

BPA's decision to join or not join a day-ahead organized market will have far-reaching, transformative impacts on BPA, its power and transmission customers, the bilateral market, and ultimately the region's retail electric customers. Today, BPA determines whether and when the FBS is dispatched, and which loads the FBS is dispatched to serve, e.g., BPA dispatches the FBS to serve the loads of its preference customers and, to the extent there is surplus FBS supply, to serve exports out of the BPA balancing authority area (BAA). In a DAM, these determinations would largely be made by the market based upon economic offers BPA submits to the market operator. This would be a foundational paradigm shift for BPA, its preference customers, and the FBS. What is more, joining a DAM would require BPA to manage its resources and its obligations to preference customers according to the market design rules of the market operator and approved by the DAM's governing body. This too would be a fundamental change in that it could constrain BPA's ability to make independent decisions or take unilateral action when it determines necessary. Given the scope of these tradeoffs, before BPA can join a DAM, it is incumbent on BPA to:

- (i) Explain in detail what specific objective(s) it would achieve by joining a DAM;
- (ii) Prove that can meet its statutory, regulatory, and contractual obligations while participating in a DAM, generally, and in its chosen DAM, specifically;
- (iii) Demonstrate that its preference customers will be materially benefited by BPA joining a DAM; and
- (iv) Make provision for BPA to be able to expeditiously exit the market in the event BPA fails to meet its objectives for joining the DAM, BPA's participation in market comes in conflict with its statutory, regulatory, and contractual obligations, and/or the anticipated material benefits of joining a DAM for BPA's preference customers are not realized.

Accordingly, any decision by BPA regarding whether it should join a day-ahead organized market and, if so, which market to join, must be carefully evaluated through a robust process that is supported by a strong and transparent business case that considers the various costs, benefits, and impacts across differently situated customers. A future day-ahead market has the potential to

both offer benefits to and impose new costs/challenges on BPA and its customers, and BPA and its customers must fully evaluate and understand such benefits and costs/challenges.

As a preliminary matter, WPAG notes that this DAM evaluation process is unique in that BPA is seeking to determine a policy direction on potential DAM participation without first identifying which market (CAISO's EDAM or SPP's Markets+) it is seeking to join. Moreover, neither day-ahead market offering is fully formed, further adding to the challenge for BPA and its customers in making this evaluation. WPAG supports BPA engaging with customers now and exploring key issues that can be addressed with respect to participation in any day-ahead market. However, given that BPA is conducting and expecting to conclude this process while the development of the very markets it is considering joining is still very much in-flight, we are skeptical that BPA and the region will have sufficient information to make a fully informed decision at the end of BPA's aggressively short timeline. For instance, BPA's process timeline indicates that BPA expects to make a final decision in March of 2024, which is some three months after FERC is expected to rule on CAISO's proposed EDAM Tariff and two months prior to when FERC is expected to rule on SPP's yet to be proposed Markets+ Tariff.<sup>1</sup> Compared to the three plus years BPA took to decide whether to join the Western Energy Imbalance Market ("EIM"), which was fully formed and operating at the time of BPA's evaluation, the approximate nine months BPA has allotted for this process appears wildly short on both time and established specifics on the DAMs BPA will be evaluating. This is particularly true when one considers that the stakes of BPA participating in a DAM are much higher than in the EIM. For these reasons, WPAG recommends that BPA's March of 2024 decision of whether to join a DAM be a preliminary decision and that BPA reserve making a final decision until after the market development work currently underway is settled and after BPA completes the proofs and evaluations identified in these comments.

In the below comments, WPAG offers suggestions on issues we believe will be essential to evaluate in future workshops and provides feedback on guiding principles for BPA's DAM evaluation.

## **B. Key Issues for DAM Evaluation.**

### **1. Consistency with BPA's Statutory, Regulatory, and Contractual Obligations.**

Among the foundational questions that BPA must address and answer as part of its DAM process is whether BPA will be able to meet its statutory, regulatory, and contractual obligations if it were to join a DAM. From WPAG's perspective, a non-exhaustive list of such issues includes:

- **If BPA joins a DAM, how will BPA ensure that its public body and cooperative customers receive preference and priority in the sale of federally generated power when BPA faces the prospect of load shedding in its BAA due to stressed system conditions within the DAM footprint?** For example, under the CAISO's final proposal for EDAM, EDAM transfers must be afforded "a priority equal to load throughout stressed, 'edge' or 'corner' case conditions, i.e., conditions where neither

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<sup>1</sup> See [final-presentation-for-20230714-dam-customer-workshop.pdf \(bpa.gov\)](#) at 13.

the market nor operational tools have adequately resolved the reliability conditions, and the EDAM BAA faces the prospect of load shed.”<sup>2</sup> This means that, under extreme circumstances where load shedding is required in BPA’s BAA, BPA’s load and EDAM transfers out of BPA’s BAA (including EDAM transfers of federally generated power) will be curtailed on a pro-rata basis.<sup>3</sup> However, BPA is duty bound under its statutes to give preference and priority to public bodies and cooperatives in the sale of federally generated power “at all times.”<sup>4</sup> Indeed, this responsibility is triggered when BPA receives “conflicting or competing” applications for federally generated power,<sup>5</sup> which is exactly the scenario when BPA has insufficient power within BPA’s BAA during stressed conditions to meet both loads and EDAM transfers. Under such circumstances, BPA’s statutes require that all federally generated power be used to serve BPA’s preference customers first. It appears on its face that EDAM would, at the very least, make it difficult for BPA to meet its statutory obligation. Although it is currently unclear whether a similar issue presents itself in Markets+, BPA must prove that it can square this conflict in favor of its statutory obligation before deciding whether it can join a DAM and, if it determines that it can join, before determining which DAM market to join.

- **If BPA joins a DAM, how will BPA ensure that the power rates paid by BPA’s preference customers are based on the cost of the FBS and other resources acquired by the Administrator?** The federal power that BPA’s public body and cooperative customers have preference and priority to must be sold at rates established pursuant to NWPA §7.<sup>6</sup> Among other applicable provisions, §7(b)(1) requires that the rates charged by BPA to such customers be based first on the costs of that portion the FBS<sup>7</sup> resources needed to supply such loads until such sales exceed the capability of the FBS and, once the capability of the FBS is exceeded, the cost of additional electric power as needed to serve such loads. Under today’s bilateral construct, BPA’s implementation of rates based on the cost of the FBS is relatively straight forward given that there is a direct link between the FBS resources BPA uses to serve preference customer loads and the rates paid by those customers based on the costs of such resources. However, in a DAM the direct line between FBS resources and preference customer loads would not be so clear cut. Instead, the market would optimize and settle all generation and loads using locational marginal pricing and congestion revenue rights.. It is an open question whether the combination of locational marginal pricing and congestion revenue rights would be a legally sustainable substitute for the cost-

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<sup>2</sup> [FinalProposal-ExtendedDay-AheadMarket.pdf \(caiso.com\)](#) at 23.

<sup>3</sup> *Id.*

<sup>4</sup> See, Bonneville Project Act §4(a) (16 USC §832c(a)); Northwest Power Act (“NWPA”) §§5(a) (16 USC § and 10(c) (16 USC §10(c)); Flood Control Act §5 (16 USC §825s),

<sup>5</sup> *Aluminum Co. of Am. v. Cent. Lincoln Peoples' Util. Dist.*, 467 U.S. 380, 393 (1984).

<sup>6</sup> NWPA §5(a).

<sup>7</sup> Per the NWPA §3(10), the FBS is a closed system defined to only include “(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).”

based rates required under BPA's statutes. Accordingly, before BPA decides to join a DAM, it must prove how it will meet its cost-based rate directives in a DAM setting.

- **If BPA joins a DAM, how will BPA ensure that it meets its treasury payment obligation?** In setting rates, BPA's primary obligation is to establish rates that are sufficient to assure repayment of the Federal investment in the Federal Columbia River Power System over a reasonable number of years after first meeting the Administrator's other costs.<sup>8</sup> BPA meets this mandate through a combination of cost-based rates and risk mitigation tools. One of the chief risks that BPA's risk mitigation tools is intended to address is secondary revenue risk, i.e., the risk that BPA may have less secondary inventory to sell and/or that the actual price BPA receives for such inventory is less than the market price BPA forecasted in the applicable rate case. In DAM setting, the market price risk for BPA will be exponentially larger than it is today. This is because under a DAM setting, the rates for *all* energy bought and sold by BPA will be determined by the market rather than based primarily on BPA's costs (with some market exposure for secondary sales and balancing purchases). This leads to several questions that BPA must prove it can answer before it can join a DAM, including: Can BPA meet its 95% Treasury Payment Probability Standard in a DAM? What happens if/when the net revenue BPA receives in a DAM is insufficient for it to meet its annual treasury payment obligation? What specific and detailed changes will be needed to BPA's rates and risk mitigation tools to ensure that BPA can meet its TPP standard and/or its treasury payment obligation in a DAM?
- **If BPA joins a DAM, how will it ensure that its public body and cooperative customers receive the environmental attributes associated with the Federal Base System (FBS)?** BPA's preliminary determination in the Draft Provider of Choice Policy is that it would provide separate REC conveyance for power purchased at PF Tier 1 rates, PF Tier 2 rates, the NR rate, and the IP rate based on the number of RECs generated by the specific resources assigned to the respective rate pools. "For example, a PF customer purchasing power at a PF Tier 1 rate would receive RECs based on the number of RECs generated by the resources assigned to the Tier 1 cost pool."<sup>9</sup> For PF Tier 1, such RECs would be based on the FBS as well as market purchases made by BPA to balance the FBS, which together is approximately 95% carbon free. This policy position is consistent with the entitlement of BPA's preference customers "to preference and priority in the sale of *federally generated power*" from the FBS, which includes preference and priority to all attributes of such power. Historically, BPA and preference customers have ensured preference through bilateral power (and transmission) contracts that create a direct service link between the FBS and the loads placed on BPA by its preference customers. However, in a DAM there is no direct link between specific resource(s) and a specific load(s). Instead, the market optimizes and settles all generation and load. This has the potential to create carbon compliance risk for BPA's preference customers compared to the status quo. The low carbon content of the FBS is of tremendous financial benefit to those of BPA's preference customers

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<sup>8</sup> NWPA §7(a).

<sup>9</sup> [draft-provider-of-choice-policy.pdf \(bpa.gov\)](#) at 34.

who are subject to CETA or similar requirements. Without sufficient guardrails, a DAM has the potential to undermine this benefit if BPA were to bid its low carbon FBS resources into the market and preference customers received from the market in return more carbon intensive power.<sup>10</sup> With this increased carbon intensity could come increased carbon compliance costs for preference customers subject to such regulations, resulting in a significant reduction to them in the financial benefits of (i) their statutory preference rights and (ii) the aforementioned determination under the Draft Provider of Choice Policy. This would be an unacceptable outcome from both a legal and a policy perspective. Accordingly, BPA must prove that it has a means for ensuring that the environmental attributes of the FBS will be attributed to preference customers before joining a DAM.

- **What impacts will DAM(s) have on transfer service and transfer customers?** Based on the Draft Provider of Choice Policy, it appears that BPA will continue to provide transfer service to preference customers located outside BPA's BAA. The upcoming workshops should include discussion on the potential service and rate implications a DAM could have on (i) BPA's ability to provide transfer service; and (ii) transfer customers specifically. Such discussions should include scenarios where a transfer customer is located in a BAA that is either in a different DAM than BPA or not in DAM at all as well scenarios where the transfer BAA is in the same DAM as BPA's BAA.
- **What impact (if any) would a DAM have on Residential Exchange Program (REP) costs and benefits?**
- **Could BPA's participation in a DAM help reduce the cost of the REP to preference customers by creating new opportunities to make in lieu acquisitions under NWPA §5(c)(5)?**
- **If BPA joins a DAM, how will it calculate the cost-based NR rate pursuant to NWPA §7(f) to serve NLSLs and IOUs?**
- **What are the impacts a DAM will have on BPA's Western Power Pool (WPP) Western Resource Adequacy Program (WRAP) participation?** BPA has previously announced its intention to participate in the WPP's WRAP to enhance regional reliability. WPAG is concerned that BPA has yet to describe in sufficient detail the nature of its participation, or how it will treat its large industrial loads, including but not limited to New Large Single Loads (NLSLs), for which the WRAP tariff provides an "opt-out" opportunity. WPAG's members believe that clarity on the nature of BPA's WRAP participation, interactions with a DAM, including how it intends to treat industrial loads who opt-in or opt-out of WRAP, will be helpful in the Administrator's eventual determination of whether to participate in a DAM; as well

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<sup>10</sup> Indeed, our understanding is that this has been BPA's experience in the EIM. However, the deleterious impacts to BPA's preference customers of such an outcome in DAM could be exponentially larger.

as the decisions BPA’s customers must make regarding industrial load participation in the WRAP, NLSL or not.

## **2. Business Case.**

As noted in our introductory comments, which introduction is incorporated into this section by this reference, BPA’s process to come to a policy decision on day-ahead market participation is unique in that BPA is exploring whether to join a day-ahead market generally, and to determine a “leaning” as to which market (CAISO’s EDAM or SPP’s Markets+), rather than evaluating and coming to determination on a specific market or program to join. When BPA sought to join the EIM and the Western Resource Adequacy Program (WRAP) it was evaluating a specific market or program service offering, which allowed for development of a business case that was specific to the design of the offering. In the case of EIM, BPA’s evaluation was supported by a comprehensive quantitative benefits analysis and a gap analysis performed by third party consultants. As noted in our earlier comments, WPAG believes that BPA is obligated to explore fundamental issues with respect to statutory preference rights and other key issues in this process. BPA has noted that it expects its business case “to focus on potential qualitative benefits from DAM participation”<sup>11</sup> given that SPP’s Markets+ design, in particular, is likely not far enough along to evaluate in a quantitative manner.

As a preliminary matter, a business case that focuses only on the qualitative *benefits* from DAM participation would be insufficient, in and of itself, to answer the threshold question of whether BPA should join a DAM in the first instance. Instead, such analysis must, at the very least, provide BPA’s analysis as to the need for BPA to join a DAM. For instance, although BPA did provide a single slide in its July 14<sup>th</sup> presentation as to why it is considering joining a DAM, BPA’s obligation to act in accordance with sound business principles requires that the business case provide much more detailed information and analysis as to the cost, operations, rates, and reliability risks of the DAM and the non-DAM alternatives (e.g., with respect to the latter, what is BPA doing today that it will not be able to do in the future if it does not join a DAM and what are the adjustments that BPA can make to meet the challenges its foresees without joining DAM).

Lastly, while we generally understand BPA’s desire to use a qualitative assessment in this process, we believe that BPA’s statutory obligation to act in accordance with sound business principles requires BPA to perform a quantitative analysis to support its business case prior to committing to join a specific market. A business case that is not specific to a particular market design and is primarily qualitative in nature will not be able to demonstrate whether the market is in the best interest of BPA and its customers. Finally, WPAG would also like to better understand if and how BPA plans to leverage the results of the Western Markets Exploratory Group (WMEG) in a business case.

## **3. Day-Ahead Market Impacts on BPA Products and Contracts.**

BPA must evaluate in detail the impacts its participation in a day-ahead market participation on contracts and products in its DAM evaluation business case. This must include a detailed evaluation of what will happen to each of its power products in a DAM as well a detailed

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<sup>11</sup> [final-presentation-for-20230714-dam-customer-workshop.pdf \(bpa.gov\)](#) at 9 (italics added).

evaluation as to what impact participation will have on the price of such products. Because such impacts will materially affect BPA's customers as well as the products and services they receive from BPA, this evaluation must be completed and shared with such customers for their own evaluation and feedback before BPA can decide to join a DAM. For instance, one of the areas that has been flagged as a potential challenge in the Provider of Choice discussions is the compatibility of the slice/block product scheduling timelines within a day-ahead market. BPA must evaluate the viability or major changes to products available to customers in its DAM evaluation business case. In the Provider of Choice public process, BPA has noted that impacts of day-ahead market participation on products and contracts will be further explored in the upcoming contract development phase that begins in 2024. As stated previously, WPAG believes that BPA must also evaluate and consider with its preference customers the impacts a DAM will have on its products as part of its business case evaluation and before any decision to join a DAM.

### **C. Day-Ahead Market Evaluation Principles.**

WPAG supports the development of Day-Ahead Market Principles to help guide the policy development of BPA's DAM evaluation. To this end, BPA proposes to use the following principles it used in its evaluation of the WRAP and EIM to help start drafting DAM evaluation principles:

- **STATUTES:** BPA's participation is consistent with its statutory, regulatory and contractual obligations.
- **RELIABILITY:** BPA will maintain reliable delivery of power and transmission to its customers.
- **BUSINESS:** BPA's participation is consistent with a sound business rationale.
- **STRATEGY:** Bonneville's participation is consistent with the objectives of Bonneville's Strategic Plan.
- **CUSTOMERS:** BPA's evaluation of EIM participation includes transparent consideration of the commercial and operational impacts on its products and services.
- **VOLUNTARY** (used in EIM but not WRAP): BPA's participation is discretionary, and BPA retains its ability to effectively exit the market in the event participation is no longer consistent with these principles.

In addition, BPA cited to the NW Public Power Principles developed by PNGC, NRU, PGP and WPAG as another starting place for DAM principles.<sup>12</sup> These principles reflect the common position of these organizations regarding the design of a day-ahead market that enables

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<sup>12</sup> NW Public Power Organized Market Design Principles, May 2023, are included an Attachment to these comments.

our utility members to achieve their primary objectives of providing reliable and least-cost service to the customers and communities they serve.

WPAG appreciates BPA's early consideration of the NW Public Power Principles and views them as complementary to the higher-level principles BPA developed for WRAP/EIM. WPAG supports the WRAP/EIM Principles but also encourages BPA to include more granular principles on market design and governance, as informed by the NW Public Power Principles, on the grounds that doing so would provide a more detailed framework for evaluating specific market design options.

Lastly, WPAG suggests that BPA's principles should include consideration of the interaction between BPA's potential DAM participation and the participation of NLSL loads and should also reflect BPA's obligation to provide reliable service to all its customers. WPAG notes that these concepts may be generally captured in the "Reliability" and "Customers" principles that BPA is considering as a starting point for DAM evaluation principles but should be further evaluated in use cases that test these principles under different scenarios. Said another way, WPAG encourages BPA to explore specific scenarios that test the impacts of day-ahead market participation on its products and services and its ability to provide reliable service, one of which should specifically include impacts on NLSL loads of day-ahead market participation.

#### **D. Conclusion.**

Thank you for the opportunity to comment. WPAG looks forward to participating in the upcoming workshops and helping BPA explore the key issues that will be necessary to ensure that BPA's participation in a day-ahead market is beneficial to BPA and its customers and respects BPA's statutory obligations to its preference customers.

