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

Date Submitted: October 13, 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") September 11, 2023 Day-Ahead Market (DAM) Evaluation Public Workshop.

BPA and the region are at a critical juncture in the evolution of markets in the West. As decarbonization efforts continue and increasing renewable penetration occurs, the opportunities for organized markets have come into sharper focus and efforts to develop a day-ahead market (DAM) in the West have emerged. WPAG commends BPA's engagement and leadership in both the CAISO's EDAM and SPP's Markets+ efforts to design a voluntary day-ahead market option. BPA now has the opportunity and the obligation to demonstrate to its customers how its participation in a DAM will preserve or enhance the benefits of the federal system to its customers. WPAG strongly believes the key to BPA's success in this process (outcome aside) will be to prioritize a thorough, transparent and robust evaluation of these alternatives. In addition, it will be essential for BPA to align and avoid compatibility issues between the policy goals, product design and contractual needs in the Provider Choice Process and BPA's decision-making with respect to a DAM; as well as assure compatibility with the Western Resource Adequacy Program (WRAP).

B. DAM Evaluation Process and Timeline

In order to succeed, BPA's DAM evaluation process must provide sufficient opportunity and time to thoroughly explore BPA's business case and the essential statutory questions that must be answered to understand whether joining a DAM is in the best interest of BPA and its customers. BPA has provided a schedule of 5 workshops over a 7-month period which will culminate in a policy direction on BPA's DAM participation and a "leaning" as to which market BPA intends to join. As WPAG noted at the September 11 workshop, BPA's decision process to join EIM was a 5-phase effort that spanned three years, and its decision process to join the WRAP was a two-phase process that spanned 14 months with 10 workshops. The WPAG members are concerned that this evaluation process and timeline is very constrained by comparison. BPA provided helpful clarification at the workshop that it intends to have an additional process following the February, 2024 "leaning" policy direction, including additional public engagement and a policy record of decision to support any final decision regarding whether to join the specific market that BPA throws its leaning behind. WPAG appreciates and supports this approach which will both allow BPA to indicate a policy leaning on DAM participation and, potentially, another leaning on which market it may join, while also ensuring its final decisions of whether to join a specific market is fully informed by:

1. The outcome of the regulatory approval process for SPP's Markets+ and CAISO's EDAM,
2. A fully developed qualitative and quantitative business case,
3. The Provider of Choice policy, product design, and contracts, and

4. A robust and thorough vetting of the statutory, regulatory, and contractual concerns identified in WPAG's comments submitted in response to BPA's July 14th workshop (submitted August 15th, 2023), which concerns are repeated below and remain outstanding.

WPAG respectfully requests that BPA update its public engagement timeline and clearly explain the additional process and decisions that will occur after the February 2024 policy direction.

C. BPA's Draft Principles

WPAG supports the development of Day-Ahead Market Principles to help guide the policy development of BPA's DAM evaluation. WPAG largely supports BPA's principles, however, WPAG strongly recommends two modifications as shown below. With respect to the modification to the Customer principle, simply considering the operational and commercial impact on BPA's market products and services of BPA joining a DAM, does not go far enough to ensure customers affirmatively benefit, or are not harmed from BPA joining a DAM. For example, it could be clear and certain that a DAM would have disastrous commercial and operational impacts on BPA's products and services, but, as currently written, BPA's proposed Customer principle would be satisfied provided BPA transparently considered such impacts. That is not and should not be good enough—BPA has a fiduciary duty to hold itself to a higher standard. Accordingly, the Customer principle should be modified to clearly state that BPA's participation in a DAM preserves or enhances the value of BPA's products and services. In regard to the GHG principle, likewise, this principle as written, does not go far enough to ensure that the value associated with the low-carbon nature of the federal system is delivered to preference customers. The low carbon content of the FBS is of tremendous financial benefit to BPA's preference customers, especially those who are subject to Washington's Clean Energy Transformation Act (CETA) or similar requirements. If BPA were to bid its low carbon FBS resources into the market and the market operator allocated through its GHG tracking process more carbon intensive power to preference customers, this would result in increased carbon compliance costs for preference customers subject to such regulations. This outcome would materially reduce the financial benefits of their statutory preference rights. BPA must demonstrate that the market operator, its tariff and business practices, have a means for ensuring that the environmental attributes of the FBS will be attributed to preference customers before joining a DAM. This principle should be re-written, to remove the qualifying language "to the extent possible."

- Customers – ~~Bonneville's evaluation of DAM participation includes transparent consideration of the commercial and operational impacts on its products and services.~~ **BPA's participation in a DAM preserves or enhances the values of BPA's products and services.**

- GHG – Bonneville will evaluate how participation will impact greenhouse gas emissions attributed to the federal system and customers' ability to comply with state carbon programs. Participation must maintain the value of the low-carbon nature of the federal system **for preference customers** ~~to the extent possible.~~

D. Business Case

As BPA has described in its public process thus far, the end product of BPA's DAM evaluation process will be a policy direction that includes an indication as to whether BPA intends to pursue joining a DAM, a high-level business case as why BPA is establishing this direction, and an indication of which DAM BPA intends to join pursuing. As WPAG noted in our August 15th comments, we agree that BPA's business case must first answer the threshold question of whether BPA should join a DAM and why. However, this analysis should go beyond a high-level business case and should include detailed information and analysis as to the business and operational drivers for joining a DAM, including the costs, operations, rates and reliability risks of *not* participating in a DAM.

During the September 11th workshop, some stakeholders shared the perspective that BPA's decision to join a DAM is a foregone conclusion, given the commitments by other entities in the region to join a DAM and the impacts to BPA of not joining and remaining in a bilateral market that is currently very illiquid and may not exist in a DAM future. WPAG would like to better understand this issue and other risks BPA perceives of not participating in a DAM. WPAG recommends that BPA describe and quantify the risks of not participating in a DAM, including the bilateral market liquidity risks, and include them in its business case, rather than relying on anecdotal statements. WPAG agrees with comments made by stakeholders at the workshop that the footprint of a day-ahead market and the connectivity it can achieve with its participants will have a strong bearing on the benefits of the market to BPA and its customers. WPAG encourages BPA to share existing analyses or how it plans to analyze these factors as part of its business case.

Lastly, as noted in our previous comments, while we generally understand BPA's desire to use a qualitative assessment in this process, we believe that sound business principles would require BPA to perform a quantitative analysis to support its business case prior to committing to join a specific market. If this is ***not*** BPA's intention, WPAG believes further discussion will be needed to understand how a business case that is not specific to a particular market design and is primarily qualitative in nature will be able to demonstrate whether a DAMand if so, which one, is in the best interest of BPA and its customers.

E. Alignment with BPA Provider of Choice Process, Products, and Policy

WPAG seeks to ensure that the new Provider of Choice (POC) products and contract as well as a decision on a DAM, preserve or enhance the value of the FBS for BPA and its customers and do not interfere with BPA's statutory obligations to its preference customers.[1] BPA has the challenge and obligation to ensure that it will be able to deliver on the promises and policies that BPA assumes in its Provider of Choice process, including the products and contracts therein, and that BPA's participation in a DAM will facilitate or, at the very least, not hinder its ability to do so. For example, WPAG understands that BPA's intent in the POC process is to ensure customers retain the value and environmental benefits of associated with the FBS and that BPA intends to

[1] A related, but tangential point, is assuring that BPA's DAM and Provider of Choice decisions are also reconciled with its pending participation in the WPP WRAP reliability initiative. WPAG is concerned that we have not seen the internal coordination that will be required for BPA to be successful in all three endeavors as they move forward in parallel.

enable this by providing 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. In approaching the decision to join a DAM, BPA must adhere to this intent and demonstrate that its decision to join a DAM would preserve the environmental value of the FBS for preference customers. Put differently, the DAM market operator BPA selects will have to have a tariff, business practices and an institutional commitment to respecting BPA's statutory obligations and the rights of its preference customers.

Another key area where impacts and alignment between POC and DAM must be explored is with respect to the different products. WPAG appreciates the additional workshops BPA has established for this fall to address this topic, and the initial discussion at the September 20th meeting that kicked off that process. WPAG further requests that BPA include the key findings and potential impacts to products and services in its business case analysis in the DAM evaluation process.

F. Consistency with BPA's Statutory, Regulatory, and Contractual Obligations and Requested Scenarios

WPAG appreciates BPA's recognition that a foundational question it will need to address and answer as part of its DAM process is whether BPA's participation in a DAM, generally, and in any given DAM, specifically, is compatible with BPA's statutory, regulatory, and contractual obligations, including those to its preference customers. WPAG appreciates the initial tabletop scenarios at the September 11th workshop that demonstrated how load is served today and how it would likely be served under a DAM. WPAG requests that BPA build upon these tabletops to include the following scenarios at the November 15th workshop:

- **Negative Pricing Scenario**
    - **Intent: How will negative prices and BPA's oversupply management protocol function in the context of a DAM Scenario**? Provide a scenario that demonstrates how negative pricing is settled in the market today, and how it would be settled in a DAM.
- **Load Shed Scenarios**[2]
    - **Intent: 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?**
    - **Scenarios:** Run a scenario that demonstrates how BPA will 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.
- **Congestion Rent Scenarios**[3]

[2] See pages 2-3 of WPAG's comments submitted on August 15th.
[3] See pages 3-4 of WPAG's comments submitted on August 15th.

- **Intent: 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?**
- **Questions:**
  - Is BPA planning to use the same approach for congestion rent distribution under both EDAM and Markets+?
  - How does BPA plan to distribute congestion rents to preference customers based upon various transmission products? Which transmission customers are anticipated to receive a congestion rent allocation? Those who purchase long-term (greater than 1 month) transmission service including firm network service, 6NN network service, firm point-to-point, conditional firm point-to-point? Would BPA propose to allocate congestion rents for short-term firm service (one month or less) including for hourly firm point-to-point?
  - In the event a transmission customer's reservation provides counterflow, are there instances where the transmission customer will be charged the locational price difference between its generation and load? If not, would this create a risk of under-collection in the day-ahead market so that there is insufficient congestion rent to make all transmission customers who are eligible for such rent whole?
  - In the event of a transmission outage after the monthly allocations, how is the shortfall distributed back to transmission customers?
  - In the event the quantity of transmission customers eligible for congestion rents cannot be funded by the day-ahead market overcollection, how is shortfall distributed back to transmission customers? Would there be a tiering of distribution based on either the firmness (e.g., firm vs. conditional firm/6NN) or duration of product?
- **Scenarios:**
  - Please run a scenario where the congestion rent allocation demonstrates that preference customers are not harmed by locational price differences between BPA generation and BPA load settlement price and that preference customers maintain benefit of low cost federal hydro system.
  - Please run a scenario where the congestion rent allocation is insufficient to mitigate locational price differences between BPA generation and BPA load settlement for preference customers.

- **Transfer Service Scenarios**
  - **Intent:** The potential service and rate implications a DAM could have on (i) BPA's ability to provide transfer service; and (ii) transfer customers specifically.
  - **Scenarios**: Please run three scenarios where a transfer customer is:
    - **L**ocated in a BAA that is in a different DAM than BPA,
    - Not in DAM at all, and
    - Where the transfer BAA is in the same DAM as BPA's BAA.

WPAG further requests that BPA specifically address in future workshop materials the following statutory questions that were included in our August 15th comments on BPA's July 14 workshop, but have not yet been addressed:

- **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. 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 a 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 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 value of all 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." 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 who are subject to CETA or similar requirements. Without sufficient guardrails in the form of acceptable market operator tariff provisions and business practices, 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. 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 demonstrate that it has taken steps to ensure that the environmental attributes of the FBS will be attributed to preference customers before joining a DAM.

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

G. Conclusion.

Thank you for the opportunity to comment. WPAG appreciates BPA's engagement with customers on these key issues and we look forward to participating in future workshops in partnership with BPA and other stakeholders.