



Department of Energy

Official File

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EXECUTIVE OFFICE

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In reply refer to: A-7

To BPA Customers, Constituents, and the Public:

The Pacific Northwest's power and transmission grid is on a path toward greater integration through the adoption of day-ahead energy markets. The business case for greater coordination through such markets shows tremendous upside. Less clear, however, is which path potential market participants will choose to take. Understanding that Bonneville's decision will directly impact many other entities' decisions, we are sharing this staff recommendation and preliminary legal assessment for the sake of transparency and to provide further opportunity for comment.

This is not a final decision, nor is it an endorsement of one market option over another. Rather, it is intended to provide greater insight into the analysis of Bonneville staff and their recommendations based on information gathered to date. The staff findings, in their most concise form, are that Bonneville and its customers would benefit from participation in a day-ahead market. Bonneville's customers and electricity consumers across the Pacific Northwest may achieve more benefits from participants coalescing around one regional market in the West; still, there are many considerations to weigh in evaluating market design from the standpoint of Bonneville's participation. These include the distribution of benefits and Bonneville's need to have sufficient confidence that its interests and those of its customers and others are adequately represented in the governance of the market for it to proceed.

Bonneville staff have been closely involved in the development of both the California Independent System Operator's Extended Day Ahead Market and the Southwest Power Pool's Markets+. From the outset, the goal of our participation in these efforts has been to ensure we have the option of two viable markets that are compatible with Bonneville's statutory obligations. Given the possibility of Bonneville serving preference loads in both market footprints, we must remain active in the development processes, implementation, and eventual operation of both markets, irrespective of whether Bonneville decides to participate in either option.

At this time, staff's recommendation is for Bonneville to pursue participation in a day-ahead market, and they have identified Markets+ as the preferable option of the two based on their current design and governance features. Staff analyzed the governance structure and design features of both markets through the evaluation principles established at the start of Bonneville's decision process. The attached staff recommendation paper explains this assessment in detail.

Potential benefits of participating in a day-ahead market include optimizing dispatch from a larger, more diverse pool of loads and resources with the objective of lowering the cost of power

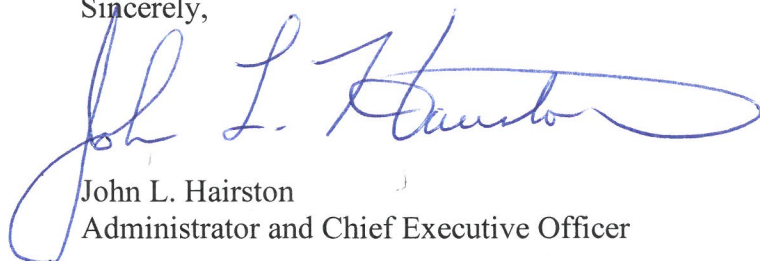
for consumers. A day-ahead market is expected to enable more efficient use of existing transmission, result in transparent price formation, enable more efficient integration of variable energy resources, provide appropriate compensation for flexible resource capability, and more. Several studies demonstrate that a single West-wide market may yield significant benefits. Bonneville acknowledges that a single market could be of value if benefits are equitably distributed. For Bonneville to participate, such a market would need to align with the evaluation principles set forth in the staff recommendation paper. Notably, as discussed in section 7 of the staff recommendation paper, independent market governance is an essential requirement.

It is important to stress that the market designs and their footprints will continue to evolve, and Bonneville's ultimate decision will take these future developments into consideration. One market feature we expect will evolve is the treatment of environmental attributes. Our public power customers have stressed this as a top concern, given the evolving state requirements for emissions reduction and clean energy procurement. As discussed in section 11 of the staff recommendation paper, we will continue to advocate for the best outcome for our customers, including ways for the low-carbon attributes of the federal system to flow to those who have contracted with Bonneville for federal power. At this time, Bonneville staff believes Markets+ provides the greatest assurance that this will occur.

Bonneville welcomes comments on these materials and the day-ahead market evaluation process. Please submit comments at BPA's Open Public Comment Period page by May 3, 2024. We will hold our next public workshop on this process on May 8, 2024. The workshop will include a discussion with customers and constituents regarding these materials, as well as other topics. Bonneville's draft policy on day-ahead market participation will be opened for formal public comment in the fall, with a final decision expected before the end of year. Any decision regarding Bonneville's potential participation would need to be finalized in rate and tariff cases.

I hope these assessments enhance your understanding and awareness of our decision process. Feedback on the attached staff recommendation will better position us to promote the market design features that best benefit Bonneville, our customers and constituents, the public, and the Pacific Northwest region as a whole. I greatly appreciate your ongoing engagement in this process and look forward to continuing the dialogue about Bonneville's potential market participation.

Sincerely,



John L. Hairston
Administrator and Chief Executive Officer