



Comments on BPA Policy Direction on Potential Day-Ahead Market Participation

November 20, 2023

The NW Energy Coalition, supported by the Oregon Citizens' Utility Board, appreciates the opportunity to provide additional comments on the Bonneville Power Administration's Public Engagement for Establishing a Policy Direction on Potential Day Ahead Market Participation, including issues raised at the October 23 BPA workshop and other recent developments.

Summary of Recommendations:

Based on the information presenting to date in this process, NWECC and CUB recommend that BPA:

- Not issue a "leaning" on its day-ahead market choice at this time
- Continue a transparent and fully participatory process to develop a Day Ahead Market Policy for public review and comment
- Broaden the scope of its review of day-ahead market considerations and criteria for making a decision

Refining principles for the Day Ahead Market policy

NWECC and CUB believe that BPA has taken positive steps with the initial proposed principles, and supports BPA's continuation of a transparent and fully participatory process to develop a Day Ahead Market policy. However, we believe the scope should be broadened to include all of these factors in a balanced fashion:

- Improving all aspects of customer value – cost, reliability and equity
- Compliance with federal and state statutory obligations and regulatory requirements, including fish and wildlife protection and recovery
- Adherence to contractual obligations
- Integration and diversification of the full range of clean resources: renewable generation, storage, and customer side resources (energy efficiency, demand response, distributed generation and storage)

- Support for participation and flexibility by BPA power and transmission customers in western markets and programs
- Alignment with other BPA and regional program efforts

BPA should not issue a “leaning” on a day ahead market choice at this time

The BPA Day Ahead Market Policy should provide principles and a roadmap for assessment, analysis and modeling to inform BPA’s decision about joining a day-ahead market. Given the wide range of implications for market selection, we strongly urge BPA not to proceed with a “leaning” on day ahead market choice at this time. Relevant ongoing developments include:

- Filing of the CAISO Extended Day Ahead Market (EDAM) tariff, currently awaiting a decision by the Federal Energy Regulatory Commission (FERC).
- A highly accelerated process for development of the SPP Markets+ tariff, which is raising significant questions concerning timing, funding, filing and FERC review. Of the many substantive issues remaining to be resolved before a planned tariff filing in the 1st quarter of 2024, we highlight in particular the need to incorporate the feedback from state regulators across the West, including ensuring that the market design accommodates the regulatory requirements of the Washington Climate Commitment Act and Oregon’s HB 2021.
- The implications of market participation for the Provider of Choice long-term contracts are significant and deserving of focused attention. As suggested in the customer presentation at the November 14 POC workshop, additional in-depth discussion should be devoted to the operational, regulatory and legal aspects of POC/market interactions and flexibility.
- Rapid progress is being made on the West-Wide Governance Pathways Initiative toward creating a balanced, effective and accountable governance body for expanded western markets.
- Continuation of the first full nonbinding cycle of the Western Resource Adequacy Program (WRAP).
- Development of the Western Power Pool’s proposed West-Wide Transmission Plan and the Western States Transmission Initiative.
- Ongoing negotiations for modification of the Columbia River Treaty.

The WMEG study is not a sound basis for decision-making on DAM participation

NWEC appreciates BPA’s public release of a range of materials from the Western Markets Exploratory Group (WMEG) study. In addition to the Western Day Ahead Market

Production Cost Impact Study (“WMEG report”) this includes other helpful documents and modeling summaries.

Having reviewed the material, NWEC and CUB strongly believes that while the WMEG report may hold insights on specific issues, it does not provide solid ground for a directional choice on BPA’s market participation.

In NWEC’s comments at the October 23 workshop, we focused on two main concerns. First, as the WMEG report notes, it is only a production cost (“energy”) study, and does not assess longer term effects on reserve requirements, new resources and transmission (“capacity”). In contrast, the State-Led Market Study did incorporate both energy and capacity assessments, concluding that in combination there would be considerably higher value and a better balance of net benefits across the west than shown in the WMEG report.

Second, the use of a zonal approach for production cost modeling cannot effectively model grid dispatch, operations and costs at the level of detail needed for reviewing different market configurations and footprints. With about 80 zones, the WMEG modeling does not represent the location-specific power flows and constraints at many thousands of nodes across the western grid.

While the WMEG report notes that the zonal approach had lower computational cost and allowed for more scenario testing, the downside is the inability to clearly view patterns of unit commitment and dispatch. transmission connectivity, revenues and congestion costs, seams effects, scarcity pricing and other key concerns.

Other regional market assessments have used nodal modeling which closely approximates security constrained economic dispatch for an actual market, with results that in our view are more robust, especially at a granular level.

Even with our misgivings about the study design, one overall conclusion bears some weight:

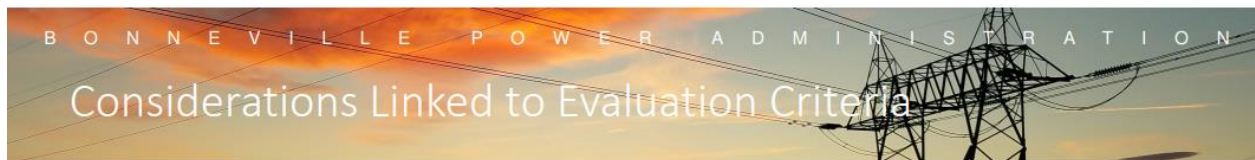
The increase in regionwide production costs in the cases with two markets (Markets+ Bookend and Main Split) is due to reducing the size of the WEIM’s geographic footprint. **The increase in production costs due to a smaller WEIM footprint outweighs the savings that accrue from the addition of two day-ahead markets for the EDAM and Markets+ footprints.”**

WMEG report, p. 13, emphasis added

In short, the WMEG report finds that creating two day-ahead markets would increase costs compared to retaining the status quo WEIM footprint. Given the significant investment that the region has made in WEIM, and the significant benefits that we are currently receiving from WEIM participation, this finding alone should give BPA significant pause about pursuing a two-market pathway.

Continuing development of the Day Ahead Market policy

In further work on the Day Ahead Market policy, we encourage BPA, customers and other stakeholders to consider adding elements to the criteria shown in the October 23 workshop:



*Considerations linked to business evaluation criteria		**Considerations linked to customers evaluation criteria
Out of market actions (price suppression measures)	Market Liquidity	Out of market actions (price suppression measures)
Viability of Market Operator for further market developments (RTO Optionality value)	Transmission Cost Shifts	Effective use of the Transmission system
Effective use of the Transmission system	BPA implementation costs	Generation/Load benefit estimate (E3)
Compensation for Flexible Capacity	Market funding	Compensation for Flexible Capacity
Generation/Load benefit estimate (E3)	Market price levels	Market Liquidity
	RC change cost	Transmission Products and Services
		Market price levels

We propose adding the following elements of day ahead market scope and participation:

- Seams effects, costs and reliability impacts
- Effects on holders of BPA long term transmission rights
- Net benefits for BPA revenues from market participation driven by new investments in transmission, renewable generation, storage and customer side resources

- Risk mitigation, especially for periods of extended resource and market prices and reliability constraints, and for the effects of climate and weather change on generation and especially on demand variability
- Greenhouse gas impacts on BPA’s system mix

Considering the many ongoing developments and issues noted above, and to support comprehensive and transparent review, NWEC supports further extension of the timeline for adoption of the Day Ahead Market policy.

Thank you for your consideration of these comments.

/s/

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