

Sent via Electronic Mail

March 6, 2024

John Hairston
Administrator
Bonneville Power Administration

RE: Seattle City Light Response to PPC Support for BPA's Proposed Timeline and Continued Pursuit of Markets+ Participation Letter

Dear Administrator Hairston:

Seattle City Light (City Light) strongly supports the Bonneville Power Administration's (BPA) interest in joining a Day Ahead Market (DAM). BPA's DAM decision is consequential for the future landscape of Western energy markets, and, accordingly, has attracted significant attention throughout the region. The Public Power Council (PPC) distributed a letter on February 23, 2024, encouraging BPA to indicate a market leaning in favor of Markets+ in the Policy Letter BPA intends to publish in April. While City Light is a member of PPC, we did not review the letter and it does not represent City Light's perspective which we believe is important to be considered by BPA.

City Light is the tenth-largest public power utility in the United States, serving almost one million residents in the Central Puget Sound area; we are also BPA's second-largest preference power customer and its eighth-largest transmission customer. Further, City Light is one of only two members of PPC that is a participant in the Western Energy Imbalance Market (WEIM) operated by the California Independent System Operator (CAISO). Thus, we feel it is particularly important that City Light differentiate our position on this issue.

The evolution of wholesale markets in the Northwest to include a DAM offers an opportunity to expand upon the successes of WEIM. City Light applauds BPA's active participation and leadership in developing market options and advocating for market design and governance that would facilitate BPA's participation in a DAM that ensures benefits for its preference customers. We are actively engaged in BPA's DAM Participation evaluation process, which has provided stakeholders the opportunity to explore the potential benefits and risks of BPA's participation in a DAM. City Light appreciates BPA's willingness to extend the timeline for its process in response to customers and the evolving DAM situation.

With additional time now available, City Light believes BPA endorsement of a specific market in its April Policy Letter is premature and we recommend that BPA focus on the broader questions of whether BPA can or should join a DAM, the overall potential benefits of a DAM, and BPA's strategic vision. In the

remaining process, it is critical that BPA fully address the following issues and how they will be weighed as a part of BPA's market decision:

- *Existing Benefits of EIM*—The WEIM leverages a wide-area footprint covering most of the West and has created benefits for BPA and the region as a whole. BPA's market decision should not undermine these benefits without evidence that doing so would produce better results for its customers in the Northwest.
- *Benefits of Wide-Area Footprint and Connectivity*—Studies consistently show that market footprint and transmission connectivity are the overriding drivers of economic benefits and reliability in an organized market. The Western Markets Exploratory Group (WMEG) analysis that BPA shared in its stakeholder process indicates that BPA would benefit the most from a single market that maximizes BPA's interconnection with a wide-area footprint of diverse loads and resources. A wide-area footprint also results in the greatest reductions in greenhouse gas emissions and fewest curtailments of renewable resources.
- *Challenges Associated with Market Seams*—Market seams in the West will reduce market benefits and reliability for BPA and its customers and will be complicated and time-consuming to resolve. Due to the more complex footprint in the West, lessons from RTOs in the East may not apply to Western markets. City Light urges BPA to have a detailed discussion of the issues created through market seams, how those might be resolved through seams agreements, how those actions would result in improved outcomes for BPA, and the likelihood of accomplishing this goal.

As BPA continues to evaluate its DAM options, it should continue to support and engage with both DAMs. Additionally, City Light implores BPA to fully engage in the West-Wide Governance Pathways Initiative (Pathways Initiative). Regardless of which market BPA ultimately joins, it will need to engage with CAISO. BPA and the Northwest will benefit from a robust independent governance structure. The Pathways Initiative has broad support and is actively working to resolve concerns around CAISO's current governance structure.

WEIM Has Created Benefits for Participants and their Customers

As one of the few WEIM participants *and* BPA preference power customers, City Light offers a unique perspective on organized market participation. Based on our experience over the past decade, CAISO is a trusted partner and a leader in market design for a decarbonized grid.

Our interactions with CAISO have been positive and productive as we have engaged on policy, implementation, and operations issues. Further, we have seen positive financial benefits from WEIM participation that translate into benefits for our customers. As of December 2023, CAISO's analysis indicates that [City Light has achieved \\$53M](#) in benefits since joining the WEIM in April 2020 and BPA has achieved \$62M in benefits since joining WEIM in 2022. The WEIM has collectively resulted in \$5.05 billion of benefit for participants since its inception in 2014.

Comprised of 22 Balancing Authority Areas (BAA) across 11 Western states and covering roughly 80 percent of load in the Western Interconnection, the WEIM has facilitated an unprecedented level of coordination across the West. City Light does not support BPA's adoption of any market alternative that would undermine those benefits without evidence that doing so would produce better results for its customers.

BPA Should Engage in the West-Wide Governance Pathways Initiative to Solve Regional Governance Concerns

City Light acknowledges the importance of governance and has been actively participating in the Pathways Initiative. The Pathways Initiative has broad support both within and outside California and is productively engaging stakeholders to resolve the longstanding concerns about the independence of CAISO's governance structure. City Light is impressed with the rapid pace of the initiative, which is driven by a shared desire across the West to resolve the issues at hand. Given the importance of CAISO's governance to the West, we implore BPA to fully engage in the effort to make sure its unique interests are represented.

Transmission Connectivity and Market Footprint are the Biggest Drivers of Market Benefits

Results from regional studies consistently show that market footprint and transmission connectivity are overriding drivers of benefits in an organized market construct and market seams impair optimal market operations. We are very concerned about the potential implications of unwinding the interconnectedness and reliability benefits of the broad market footprint we leverage today through WEIM without an indication that the market alternative would provide BPA with considerably improved outcomes. Without sufficient connectivity with other market participants and load and resource diversity, the market will be limited in the benefits it can provide.

Markets will not function as intended if there is not adequate footprint and connectivity to allow the market to be optimized across a broad and interconnected footprint. This outcome is demonstrated in the WMEG study, which found that both EDAM scenarios modeled would result in a more favorable outcome for BPA than any of the Markets+ scenarios. BPA's benefits in the West-wide EDAM scenario exceed the benefits anticipated from the widest Markets+ scenario by \$105.9 million annually—more than 3.5 times greater than the total anticipated benefit of Markets+.

The WMEG results, which indicate that BPA would benefit the most from a single market that maximizes BPA's interconnection with a footprint of diverse loads and resources, including California, are directionally aligned with several other studies evaluating day-ahead markets, all of which indicate that wide-area footprints provided the greatest value to participants. These studies also indicate that a wide-area footprint results in the greatest reductions in greenhouse gas emissions and minimizes curtailments of renewable resources.

As the market footprint begins to take shape in coming months, it is incumbent on BPA to incorporate new information about potential market footprint into its DAM analysis, business case, and market determination to be issued later this year. If BPA indicates a leaning in April, City Light asks that BPA

provide a clear roadmap to customers of how it will reassess its initial leaning as new information becomes available.

Market Seams Will Reduce Benefits to BPA and Its Customers in the Northwest

In a two-market footprint, seams between markets are a practical reality and, while not impossible to mitigate, solutions are highly complex and time-intensive. The current discussion around seams underestimates how difficult it will be to capture potential benefits through coordination. Seams are not likely to be resolved efficiently or effectively. Even Eastern markets that have been operating for decades took many years to establish seams agreements for market-to-market transactions, and still lack adequate solutions that minimize risk and maximize trading opportunities. Notably, these challenges arise despite carefully crafted seams agreements.

A seam between Markets+ and EDAM will be further complicated by the multiple BAAs and multiple transmission service providers that will remain independent in the DAM structure. Seams agreements are most conducive between two fully independent system operators (ISO) or regional transmission organizations (RTO)—where there is a common BAA and transmission operator for all market participants. In the West, seams management for DAMs is likely to require multiple agreements between the various BAAs or multiple parties to each agreement.

Additionally, market interconnections in the Eastern RTOs comprise *de minimus* transmission capability relative to market size. By contrast, the AC and DC interties between the Pacific Northwest and California are capable of exporting roughly a quarter of the Pacific Northwest generation and supplying 15% of the CAISO load, representing numerous potential seams transactions.

Further, the complexity of seams in the West could produce unique transmission congestion. In the East, market boundaries are largely drawn around states, creating distinct regions. In the West, seams boundaries will be around multiple large transmission owners within the same region, likely producing pockets of congestion that will not benefit from real-time economic dispatch for relief. This type of congestion may not have a comparable case in the East, and we will not be able to draw upon the experience of those who have gone before us and charted a best practice to effectively mitigate these effects.

Conclusion

City Light urges BPA to utilize the remaining DAM Participation Evaluation process to analyze realistic market footprint scenarios and the impacts of transmission connectivity and provide information on how seams agreements could meaningfully mitigate risks and where they might fall short. Additionally, City Light encourages BPA to engage in the Pathways Initiative and consider its developments in its DAM consideration. Finally, if BPA opts to provide a DAM leaning in the April Policy Letter, it will be crucial that BPA also provide a clear roadmap for how BPA will incorporate new information and reassess its leaning as it learns more about the DAM options and potential footprints.



In conclusion, City Light believes that a wide-area footprint across the West, including California, is in the best interest of the Northwest, BPA, and its preference customers. We value the collaborative efforts of the West-Wide Governance Pathways Initiative and advocate for careful consideration of all factors, centering on operational issues, before making a decision that will have long-lasting implications for the region's energy landscape.

Warm regards,

A handwritten signature in blue ink that reads "Dawn Lindell".

Dawn Lindell
Interim General Manager and CEO
Seattle City Light

CC: Jennifer Granholm, Secretary, U.S. Department of Energy
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