



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

EXECUTIVE OFFICE

December 13, 2024

In reply refer to: MTM-3

Dawn Lindell
General Manager, CEO
Seattle City Light
700 5th Avenue
P.O. Box 34023
Seattle, Washington 98124-4023

Submitted electronically

Dear Ms. Lindell:

I am responding to your letter of November 14, 2024, expressing your concern about the Bonneville Power Administration's (Bonneville) decision analysis for participating in a day-ahead electricity market. You raised several considerations and questions for Bonneville's potential decision. I appreciate the opportunity to respond.

I fully appreciate the magnitude of Bonneville's decision to participate in a day-ahead market and the due diligence you reference to carefully weigh all the variables and customer impacts. With recent developments, including some Western utilities announcing they have selected a day-ahead market platform, we are continuing the deliberate public process we initiated in July 2023 to ensure that our decision is right for our customers and the region.

Bonneville's participation must align with the evaluation principles it has established with customer input in the areas of statutes, reliability, business, strategy, governance, customer impacts, and greenhouse gases. These principles were shared during our September 11, 2023, Day Ahead Market Workshop for participation in organized markets.

Economic Analysis

As discussed throughout our public process and during our November 4 Public Workshop, production cost model results are important factors in our economic analysis, but they are heavily dependent on the assumptions made in the model. While the range of numbers provided by Seattle City Light are largely accurate, they are only accurate under specific market conditions and footprints which include a single west wide market. The Western Interconnection appears certain to have multiple day-ahead markets as entities have signed implementation

agreements and issued declarations (or intent) for specific day-ahead markets. The expected materialization of benefits under a single west-wide market footprint should be viewed with significant skepticism. When examining production cost modeling results and associated benefits, Bonneville suggests focusing on results that utilize footprints with multiple markets such as Alt Split 4A and 2NV, which can be found along with all study results on Bonneville's [Day Ahead Markets page](#). The production cost modeling results for Alt Split 4A tested the sensitivities of market hurdle rates. As friction was lowered in Alt Split 4A, Bonneville observed an increase in forecasted benefits that eclipsed the forecasted benefits of the business-as-usual case in two of the three sensitivities. Removing a portion of transmission costs from the hurdle rate reflects the reality that many transactions do not require incremental transmission purchases as the study assumes. However, Bonneville recognizes that minimizing hurdle rates through enhanced coordination and seams agreements comes with challenges.

Seattle City Light also notes that remaining in the Western Energy Imbalance Market (WEIM) will produce higher benefits for Bonneville's customers than joining the Southwest Power Pool's (SPP) Markets+. Bonneville expects that the shifting market footprint will erode existing EIM benefits as numerous WEIM participants have already declared their intent to participate in a DAM. As EIM entities move to the Extended Day-Ahead Market (EDAM) proposed by the California Independent System Operator (CAISO), there is no guarantee WEIM will continue to be offered as a standalone program, which is a risk to the potential benefits and long-term viability of a WEIM-only scenario for Bonneville.

There are numerous other market design elements that have an economic impact on expected benefits that are not captured in a production cost model analysis. For example, a production cost model study does not capture the material impacts of GHG treatment, fast-start pricing, scarcity pricing, bid caps, market power mitigation, out-of-market actions, and other differences in market design nor do they accurately reflect actual behavior and prices during extreme stress events due to the focus on average prices. Production cost models also do not consider changes to market rules or the lack thereof that are influenced by a given market's governance structure, which may impact the transparency of prices and influence market outcomes.

Reliability

Bonneville acknowledges the complexities inherent in operating multiple separate market footprints in an interconnected system. Bonneville has the experience of creating bi-lateral and multi-lateral agreements including the Coordinated Transmission Agreement, which enabled the successful initial participation of several Northwest utilities in CAISO's WEIM and use of Bonneville's transmission system prior to Bonneville joining the WEIM. Bonneville expects to undertake a similar exercise if necessary to manage day-ahead market seams and acknowledges these agreements take time to develop and are complex to implement. Regardless of

Bonneville's decision, the west is poised to enter an era with multiple day ahead market operators in the western interconnection and Bonneville will approach that future with preservation of the reliability of the Northwest system in mind.

Bonneville believes that continued development of the Western Resource Adequacy Program (WRAP), which includes most Western utilities outside of California, will help ensure system reliability. The Markets+ design requires Load Responsible Entity participants to participate in WRAP. The EDAM proposal's lack of a common resource adequacy metric makes it difficult to assess whether the market or its participants will be resource adequate in the planning horizon for the market. Without a market wide mandate for resource adequacy program participation, EDAM does not provide the same assurance for long term benefits of a resource adequacy program that is provided by Markets+.

Governance

Bonneville continues to communicate our expectation that acceptable market governance provides independent administration, operations and fair representation to all market participants and stakeholders. As matters stand, our current DAM choices are Markets+ which is proposed to be operated by the SPP with an independent board of directors; and the EDAM proposed by CAISO, under the shared authority of an independent Governing Body and the CAISO Board of Governors appointed by the governor of California.

We are actively considering the progress of the Pathways Initiative in our decision process. The work of the Pathways Initiative was a factor in Bonneville's August 2024 decision to extend our DAM decision timeline. While Bonneville did not join the Launch Committee for the Pathways Initiative, senior staff members have been valuable participants in Pathways Step 2 workgroups and contributed to improvements in stakeholder engagement and public interest provisions. Bonneville's insistence on independent governance and continued engagement in Step 2 workgroups is a positive factor in the Pathways process continuing to sustain momentum. While we recognize that success may come incrementally, we hold to our vision for what an independent market looks like. Bonneville has communicated to the Pathways Launch Committee that we find three areas of continued dependence concerning in the final Step 2 proposal:

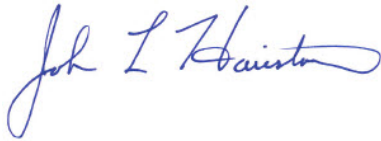
- First, the market will remain under a single integrated tariff that is shared with CAISO.
- Second, the market operations and supporting staff and management functions remain under the authority of the CAISO board.
- And third, CAISO would remain the counterparty in contracts with market participants.

While we are hopeful of progress to address these concerns, we are mindful that the Step 2 proposal will require California state legislation. We appreciate Pathways Launch Committee's

optimism for a positive legislative outcome, but such efforts have repeatedly failed to secure the California Legislature's approval. It also remains to be determined what legislative conditions and constraints may be introduced that would impede an independent governance structure. Bonneville will continue to monitor Pathways developments during our decision process, continue to engage in its public review, and will explore how to contribute funds to the Pathways Initiative.

Again, thank you for your letter and your questions. I will continue to keep you informed on Bonneville's evaluation of DAM participation. If you have additional questions, please do not hesitate to contact me or Ashley Donahoo, Director of Market Initiatives, at addonahoo@bpa.gov.

Sincerely,



John L. Hairston
Administrator and Chief Executive Officer