

December 16, 2024

The Honorable Patty Murray
U.S. Senator
154 Russell Senate Office Building
Washington, DC 20510

The Honorable Senator Ron Wyden
U.S. Senator
221 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Maria Cantwell
U.S. Senator
511 Hart Senate Office Building
Washington, DC 20510

The Honorable Jeff Merkley
U.S. Senator
531 Hart Senate Office Building
Washington, DC 20510

Dear Senators Murray, Wyden, Cantwell and Merkley:

The Public Power Council (PPC) has a vested interest in ensuring that the Bonneville Power Administration (BPA) makes the very best decision regarding the agency's consideration of a day-ahead energy market. The outcome of this decision will have a significant impact on our utilities and the communities we serve. As consumer-owned utilities that have a fiduciary responsibility to our customers, we write today to respond to a letter you sent to BPA's Administrator, John Hairston, on December 13, 2024.

Concerns expressed in your letter highlight important considerations in BPA's day ahead market choices, and we offer that a closer examination of available analyses, including from the Public Power Council (PPC), point to significant advantages that the Southwest Power Pool's (SPP) Markets+ option offers in comparison to the California Independent System Operator's (CAISO) Extended Day-Ahead Market (EDAM). It is critical to holistically address the issues of cost, governance, and long-term risk exposure that underpin BPA's evaluation of market options.

Addressing Cost Concerns

The studies you cite in your letter, including E3 and Brattle Group's projections of cost increases under Markets+, merit careful scrutiny. PPC was in your offices last week to share with you and your staff that the assumptions used in these models do not fully account for the qualitative and quantitative benefits that Markets+ provides, particularly for BPA, Northwest utilities, and many utilities in the Southwest. In fact, the analytical assumptions underpinning these modeled approaches omit many real-world differences between Markets+ and EDAM that have significant reliability and economic consequences to Northwest ratepayers that far exceed any estimates produced by E3 and the Brattle Group. Beyond the limited scope of the analysis, the underlying assumptions can drastically change the results.

For example, in their most recent updated E3 analysis, BPA included sensitivities that more accurately reflect the actual cost of potential market seams and those results increased BPA Markets+ benefits by over \$150 million dollars – to levels on par with those stemming from BPA's participation in EDAM. Ignoring a wide range of additional market

design choices embedded in the Markets+ option that are not considered in the E3 and Brattle studies creates an incorrect perception that EDAM is assured to create materially greater economic benefits. Other significant factors omitted include:

- **Transmission Utilization Efficiency:** Markets+ is designed to fully optimize the use of BPA’s extensive transmission network, unlike EDAM, which limits optimization to contractual levels. Markets+ ensures that Northwest transmission assets are not unduly utilized for external benefit without reciprocal advantages.
- **Price Transparency and Congestion Management:** Markets+ is structured to provide clearer, more equitable pricing mechanisms that better reflect the value of transmission and generation in the Northwest. The Northwest has long benefitted from the economic and reliability benefits of the Federal Columbia River Power System that is funded through BPA rates, primarily by PPC members. The market design embedded in EDAM is intentionally organized to lower costs to California ratepayers – allowing them to receive the benefits of these assets without equitable compensation, ultimately harming Northwest ratepayers.
- **Overstated Benefits of EIM Participation:** Modeled results appear to overstate the benefits that BPA currently receives through its EIM participation. While BPA’s actual participation in EIM is somewhat limited and primarily consists of purchasing low-cost generation in non-peak hours, the modeled results indicate significant benefits from BPA selling surplus generation into the EIM at relatively high prices – a trading pattern that is not observed in real world data.
- **Impacts of Extreme Events:** The occurrence of “extreme” events, including sustained high temperatures and significant winter storms, are becoming more and more common. These types of events can have significant impacts, sometimes on a magnitude that would outweigh the differences in modeled benefits between Markets+ and EDAM participation. For example, Northwest utilities faced cost exposures related to “congestion” on the CAISO system of over \$100 million during the MLK day winter storm last year. Such extreme events are not reflected in the referred-to studies.
- **Risk of Unknown Costs in EDAM:** While EDAM may appear to have lower upfront costs, the absence of independent governance structures with equal obligations to serve all participants, particularly those in your respective states, introduces significant financial uncertainty. Without meaningful independent governance, participants in EDAM risk exposure to decisions that could disproportionately benefit California at the expense of the entire Northwest; this includes all the states in BPA’s footprint – Oregon, Washington, Idaho, western Montana, and portions of Wyoming and Nevada. This uncertainty has not been adequately modeled in financial projections and has been borne out time and again over the past decade.

More specifically, over the past several years, California has changed transmission access rules to benefit their native load over other regions in a limited stakeholder process right before summer, resisted providing equitable compensation to out-of-state hydro generation on par with their own internal generation, and reinforced market designs that result in California receiving a disproportionate share of the value of the inter-regional trade that occurs between California and the Northwest. These are all recent examples of

the types of factors posing economic harm to Northwest ratepayers not reflected in the modeled differences between EDAM and Markets+.

Independent Governance Is Foundational

Your letter correctly identifies governance as a key consideration as BPA evaluates market options. In fact, when we visited your offices last week, we emphasized this point as being foundational to a market decision; the inherent risks posed by EDAM's governance framework far outweigh the cost/benefit considerations.

We continue to affirm that there is unequal representation and protections in EDAM for entities outside of California – so much so that if BPA's only choice of a day ahead market option is to go with CAISO's EDAM offering, then BPA is better off not being in a day ahead market at all. CAISO's governance is fundamentally tied to the state of California's regulatory framework, which limits its ability to operate as a truly independent market. This creates inherent risks for non-California participants, as decisions may prioritize California's interests over those of regional stakeholders. We care too much about Northwest electricity customers to put them second in line behind those in California.

Meanwhile, in stark contrast, Markets+ has prioritized developing a governance structure that includes equal representation for all participants, ensuring that the Northwest's unique interests are safeguarded. The continually evolving energy landscape and the economic impact of these markets on the Northwest places critical value on having an equitable voice in market development. This consideration supersedes the importance placed on studies trying to estimate the benefits of an unknown market a decade into the future.

Long-Term Strategic Benefits of Markets+

While short-term cost projections are an important factor, BPA must also consider long-term strategic implications of its markets decision, including:

- **Greenhouse Gas (GHG) Reductions:** Markets+ aligns with Northwest GHG reduction goals by incorporating renewable energy resources more efficiently. Unlike EDAM, Markets+ avoids potential double-counting of emissions reductions, ensuring integrity in carbon accounting. Markets+ has also developed important GHG accounting tools which facilitate BPA's preference customers' continuing to receive the clean resources they have funded through BPA and to which they have a statutory right.
- **Regional Reliability:** The Northwest's hydropower resources play a critical role in grid stability. Markets+ provides a framework that applies consistent and equitable requirements for participants to contribute to long-term regional reliability. EDAM's design is focused more on the short term. We are concerned that the inconsistent approach to meeting long term resource adequacy prioritizes California's grid needs, potentially undermining regional reliability.
- **Meeting Its Statutory Obligations:** The stakeholder driven nature of Markets+ has allowed BPA to work with other stakeholders to develop tools that will help it meet its statutory obligations to PPC members by ensuring that BPA preference customers

continue to receive the benefits of being served by the Federal Columbia River Power System. These are benefits which are directly passed on to Northwest ratepayers.

The Path Forward

We are confident in the timeline and open and transparent process BPA has established for the day ahead market evaluation, with a preliminary decision expected from BPA in March of 2025 and a final decision in May. It is unclear what additional information would be available to inform BPA's decision if the agency were to further delay its determination. Additionally, a delay inappropriately disadvantages BPA in comparison with other utilities that have already made their market participation decisions and are actively pursuing implementation.

While we acknowledge the concerns raised in your letter, the evidence suggests that Markets+ offers a more balanced, equitable, and strategically advantageous option for BPA and the Northwest. We urge continued support for a decision-making process that prioritizes the long-term interests of the region and its ratepayers.

Sincerely,



Bear Prairie,
General Manager
Idaho Falls Power
Chair, PPC Executive Committee



Chris Robinson
General Manager
Tacoma Power
PPC Vice Chair, Market Development
Committee



Scott Simms
CEO & Executive Director
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