



Department of Energy

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

INTERGOVERNMENTAL AFFAIRS

December 31, 2024

In reply refer to: AIR-7

The Honorable Ron Wyden
United States Senate
Washington, DC 20510

Dear Senator Wyden:

Thank you for your letter with Oregon and Washington's other Senators expressing concerns about the pending decision of the Bonneville Power Administration (Bonneville) on whether to participate in a day-ahead wholesale electricity market. I appreciate your interest, your questions, and the significance of any decision for Bonneville's customers and the Pacific Northwest.

I want to confirm that Bonneville has neither made a decision to participate in a day-ahead market, or what market it may join. Bonneville must be assured that it can meet all of its statutory obligations if it elects to join and participate in a day-ahead market.

We expect to issue a draft policy letter in March 2025 on whether to adopt the Bonneville staff's recommendation of April 2024 to participate in the Markets+ platform operated by the Southwest Power Pool. The policy letter may propose to monitor developments in governance and other issues to consider participation in the Extended Day-Ahead Market (EDAM) that will be operated by the California Independent System Operator (California ISO) or to not participate in any day ahead market at this time. Bonneville could continue participating in the California ISO's real-time Western Energy Imbalance Market (WEIM) while continuing to evaluate the development of EDAM and Markets+.

I am proud of the distinctly open and transparent process that Bonneville has conducted since initiating its day-ahead market participation evaluation process in July 2023. We have held nine public workshops, and we have made public our economic analysis and assessment of the characteristics of market design. We continue to be committed to ensuring transparency. With that said, your letter asks important questions about our analysis and the care we are taking in our evaluation process, and I am very happy to respond.

1. How will you ensure that BPA's obligations under its guiding statutes, including the Northwest Power Act, will in no way be compromised in any day-ahead market decision? Does BPA currently have concerns in this regard?

Bonneville is committed to ensuring that wholesale market participation is consistent with its statutory authorities, including the Northwest Power Act. We released a preliminary legal

analysis alongside the staff recommendation in March that may be accessed [here](#)¹. We will also provide our updated legal analysis in our policy letter for day-ahead market participation describing how any proposed action meets our statutory obligations.

Satisfying our legal obligations is of paramount importance. I am determined to ensure that any decision advances the benefits of the Federal power and transmission systems for the people of the Pacific Northwest and the region's economic and environmental health, consistent with Bonneville's statutory obligations.

Market design, including governance, resource adequacy and sufficiency, and operations will affect Bonneville's obligations, including its environmental commitments, system reliability, and affordability. Bonneville is weighing costs to serve electric load, the enhanced value of carbon-free Federal power, and safe and reliable system operations. We understand that participation in a market may provide Bonneville with access to a broader portfolio of resources from which to serve load. Bonneville is carefully considering how market design and governance may impact its ability to meet its statutory and contractual obligations.

2. BPA's own analysis shows that joining no market may be better financially than joining either day-ahead market; however, joining Markets+ remains BPA staff's preferred option. Governance issues appear to be the driving factor for this preference, but at what point does BPA determine that the financial cost outweighs any other net benefits from joining either market? Please enumerate all key factors and how you are weighing these various factors versus the financial cost to ratepayers. Is BPA going to do additional analysis into the viability of not joining either market?

Bonneville's analysis used production cost modeling, which simulates electric system generation and transmission, to broadly estimate comparative values of market participation based on different scenarios and, importantly, with different assumptions about market conditions in the near term and in future years. Production cost model results are important factors in our economic analysis but they are only representative of outcomes under specific market conditions and levels of participation, including the unlikely scenario of all Western balancing authorities in a single market. It now appears certain that the Western Interconnection will have at least two day-ahead markets as other entities have signed implementation agreements and issued declarations in favor of both EDAM and Markets+. For this reason, we believe that modeled benefits under a single West-wide market footprint should be viewed with some skepticism. We also note that modeling shows that Bonneville could accrue significant benefits through reductions in transmission hurdle rates between markets and increased market-to-market coordination.

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 resource adequacy requirements, greenhouse gas accounting, fast-start pricing, scarcity pricing, bid caps, market power mitigation, out-of-market actions, and other differences in market design between EDAM and Markets+. As

¹<https://www.bpa.gov/-/media/Aep/projects/day-ahead-market/2024/03-dam-march-policy-paper-attachment-2-preliminary-legal-assessment.pdf>

we explained in our November 4, 2024, workshop, production cost modeling does not assess market participant 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 and influence market outcomes depending on the process for updating market rules. Bonneville will continue to outline these interacting assumptions, and we will consider them in our decision for day-ahead market participation.

Bonneville is evaluating potential day-ahead market participation based on the following evaluation principles, which we have shared and reviewed in our public workshops and staff recommendation.

- **Statutes:** Bonneville meets its statutory, regulatory, and contractual obligations.
- **Reliability:** Bonneville maintains efficient, economical, and reliable delivery of power and transmission service to its customers.
- **Reliability:** Market design includes resource sufficiency and/or resource adequacy frameworks that ensure reliability.
- **Business:** Bonneville's participation is supported by a sound business rationale.
- **Strategy:** Bonneville's participation is consistent with its 2024-2028 Strategic Plan.
- **Governance:** The market has a durable, effective, and independent governance structure which provides fair representation to all market participants and stakeholders. Decision-making and stakeholder engagement occurs in a transparent and inclusive manner.
- **Customers:** Bonneville's evaluation of day-ahead market participation includes transparent consideration of the commercial and operational impacts on its products and services.
- **Greenhouse Gas (GHG):** Bonneville will evaluate how participation will impact GHG emissions attributed to the federal system and customers' ability to comply with state carbon programs. Participation must maintain the value of the low-carbon nature of the federal system to the extent possible.

3. Do you believe that not joining a day-ahead market is a viable option in the short term? How about in the long-term?

Bonneville will only join a day-ahead market if we confirm that doing so meets the principles listed in the response to Question 2. In the immediate future, we believe it is a viable option to not join a day-ahead market and continue to market surplus power and make short-term purchases through bilateral trading and optimize real time activity in the WEIM. In the long term, we are concerned, however, that most of our potential trading partners will be in a day-ahead market themselves and create challenges in relying on a bilateral market. We will continue to evaluate the development of Western electric markets to assess the potential costs and benefits of participation.

4. SPP characterized dedicating \$25 million as “essentially a market decision”. Does BPA agree or disagree with this characterization?

Bonneville disagrees with this assertion. We understand that the characterization is from briefing material published several months ago by SPP before current negotiations of terms for funding commitments for Phase 2 of SPP’s Markets+ development. Phase 2 funding is not a commitment to joining Markets+; it is a commitment to continue funding development of the market. Our understanding is that SPP has corrected their briefing material to reflect the change.

5. Is BPA planning to conduct further independent economic analysis on this decision?

Bonneville has completed most of the independent economic analysis. One outstanding item for analysis is for a local low hydro scenario with all other variables remaining the same as in the other studies. This will be presented in Bonneville’s January 28, 2025, public workshop.

6. Why did you decide not to invest \$25,000 toward developing the Pathways Initiative?

Bonneville is completing a contribution of \$25,000 to fund the Pathways Initiative. The effort to contribute \$25,000 to fund the Pathways Initiative has been underway internally for some time. We did not make a public commitment because we had to ensure Bonneville’s funding would be legally compatible with a different, much larger grant from the U.S. Department of Energy.

Bonneville has been, and expects to continue to be, a steady participant in the Pathways Initiative. We have participated in the public meetings of the Pathways Initiative since its beginning and provided extensive and constructive comments at every stage. In addition, Bonneville senior staff participated in work groups that developed the Pathways Step 2 proposal.

Bonneville’s Pathways work follows our long engagement in the development of the California ISO’s WEIM and EDAM, including participation on the Governance Review Committee that resulted in shared authority over the WEIM by an independent governing body. Bonneville staff serve on the WEIM’s Regional Issues Forum, which is actively improving stakeholder engagement opportunities in California ISO policy development, and in a liaison role on the WEIM Body of State Regulators.

We will continue to monitor whether the California Legislature will consider enacting legislation allowing the California ISO markets to be placed under independent governance. The Pathways Initiative has proposed a limited scope of independent authority initially, with the vision that full independence can be pursued incrementally, including through a separate tariff and autonomous

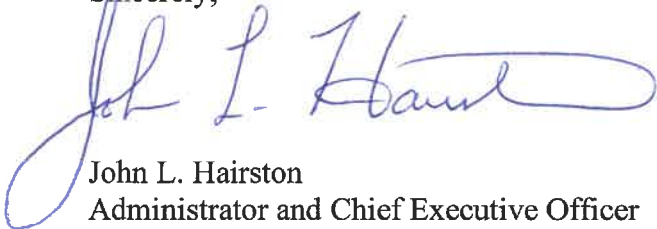
operations and administration. It will be important to see if the Legislature will approve a full scope of independence.

7. What process has BPA set up for engaging in formal government-to-government consultation with affected Tribes?

While Bonneville's public process for day-ahead market participation is inclusive, it is not intended to replace formal consultation with Federally recognized sovereign tribal governments when requested or required. Bonneville will continue to engage and consult with tribes consistent with its Tribal Policy and will meet with tribal governments that request formal government-to-government consultation on any issue of concern, including wholesale electric market participation policies and related issues.

Thank you for your questions and your continued engagement with these important issues. If you have additional questions or seek more information, please contact me directly or Sonya Baskerville, Bonneville's Director of Intergovernmental Affairs at slbaskerville@bpa.gov.

Sincerely,

A handwritten signature in blue ink that reads "John L. Hairston". The signature is fluid and cursive, with a large loop at the end of the last name.

John L. Hairston
Administrator and Chief Executive Officer

cc:

Maria Cantwell, United States Senator
Jeffrey A. Merkley, United States Senator
Patty Murray, United States Senator