

Sent Via Electronic Mail

August 15, 2024

John Hairston
Administrator
Bonneville Power Administration

RE: PPC Support for BPA Funding Phase 2 of Markets+

Dear Administrator Hairston:

The PPC Executive Committee appreciates your leadership as the agency considers its options with regards to participation in an organized day-ahead market. We appreciate your commitment to transparency and to ensuring that the option selected by BPA will be consistent with its statutory and contractual obligations to its preference customers, which is critically important. We appreciate your focus on ensuring that BPA's selection will create benefits to preference customers over the long run. The agency's decision on whether and which day-ahead market to participate in will have ramifications that will last decades, and the decision should be viewed through this long-term lens. We are writing today to reiterate PPC's position that the agency should continue to pursue the Markets+ day-ahead option and invest in the next phase of development for Markets+ to ensure it remains a viable option for BPA and other stakeholders in the West.

We are aware of the significant attention the agency's day-ahead market decision has received from BPA customers, BPA stakeholders, and broader interests across the West. We commend the agency for hosting continued public workshops to share information with PPC members and other stakeholders as part of its decision process. We agree with other stakeholders that a transparent process is important to this decision, and the regular workshops held by BPA and open discussion between agency staff and interested stakeholders meet this expectation, as do the regular opportunities for submission of written feedback. A thoroughly documented record of decision at the end of this process is important to formalize the outcomes of what has already been an inclusive and transparent process from PPC's perspective. We look forward to additional details on the planned structure and content of that decision document.

It is our current understanding that BPA is reflecting on the next steps of its process following the postponement of its recent stakeholder meetings. PPC members look forward to working with BPA to better understand its next steps as the timing for its day-ahead market participation decision is critical. The agency must act both diligently and expediently – ensuring it has sufficient information to make the best decision for it and ratepayers across the Northwest while

also taking timely action to set a strong course in the regional discussions on a day-ahead market for the agency and other utilities across the West. Since beginning its public process, BPA has been under considerable pressure to make a market selection on the basis of what creates the broadest benefits for the “West,” even potentially at the expense of its benefits to its own preference customers in the Northwest. The PPC Executive Committee would like to reiterate that while BPA is undoubtedly an engine of economic development and well-being for the West, it has statutory obligations and a historical mission to serve Northwest public power, who have been long standing funders of BPA’s generation and transmission systems and will continue to be into the future. The perspectives and desires of its preference customers should be prioritized as such.

PPC has been consistent in our view of the significant value of the Markets+ option. While some others in the region have placed a primary or sole focus on the potential market footprint and justified their stance through production cost models, PPC remains focused on evaluating the larger picture of long-term and strategic costs, benefits, and risks in evaluating market options. During its public process, there has been significant political pressure for BPA to pursue participation in EDAM, largely to ensure BPA’s significant generation and transmission resources benefit EDAM and its participants. This pressure has been amplified through the focus on production cost model results and associated anticipated regional benefits that examine the impacts of market footprint but omit many other considerations. This focus on production cost models alone ignores several areas of significant concern for PPC, including governance, BPA’s ability to meet its statutory obligations – as well as contractual commitments it plans to make in the next long term contracts – and the potential impact of no action or delayed BPA action.

As PPC has stated repeatedly in previous comments, we continue to have concerns with the current governance structure of the Extended Day-Ahead Market. While improvements are under consideration, there are currently no assurances on the specifics of those proposals, nor the certainty that any proposal advanced by the “Launch Committee” will result in legislative change that is consistent with PPC members’ expectations of independent governance in a timely manner. Likewise, there are market design elements in EDAM that have meaningful economic consequences for PPC members where PPC has advocated for change; production cost models do not sufficiently model these impacts on an economic basis, and certainly do not capture potential reliability, strategic, or practical impacts of such differences. PPC continues to evaluate developments in the governance and market design of EDAM, but to date, these concerns have not been sufficiently addressed.

BPA’s market participation decision is particularly impactful for preference customers as they are currently negotiating their next long-term power contract with BPA. These contracts represent the agency’s continued commitment to meet its statutory obligations to serve the needs of its preference customers under the Northwest Power Act. Both BPA and its preference customers will need to have a high level of confidence that in any market that the agency participates, the Market Operator and other stakeholders will be committed to working with the agency, in a transparent way, to develop proposals that are amenable to all parties to facilitate continued delivery of BPA’s products consistent with its various statutory obligations. This is

something that BPA, SPP, and other stakeholders have already successfully achieved in Markets+ through a public, stakeholder-led policy development process.

As we consider the options before BPA, it is also critical that we understand the potential impact of no action or delayed action, which eventually will become its own choice. While EDAM is a voluntary market, for entities to not participate in that market, there needs to be some other “option” for entities to continue their trading practices in the West. If the West moves towards a single market “option,” such an option eventually becomes an inevitability as bilateral market liquidity disappears. We cannot assume that trading in the West outside of the organized market stays the same as today; this is a critical consideration in evaluating how BPA strategically positions itself in the future and in its decision on day-ahead market participation.

These factors drive PPC again to conclude that the Markets+ option has a high level of value for BPA and its customers. While the costs of implementing the next phase of Markets+ are not insignificant, they pale in comparison to the longer term financial and strategic costs of not pursuing Markets+.

PPC encourages BPA to commit to funding Phase 2 of Markets+ consistent with SPP’s proposed timeline for Phase 2 commitments to ensure Markets+ remains a viable option for BPA and other stakeholders in the West. This commitment should be formalized in a letter to the region, capturing the agency’s evaluation of market options to date. We acknowledge that this may result in a timing difference between BPA’s decision to fund the next phase in Markets+ and BPA’s overall decision on day ahead market participation. Given the intense interest across the West in BPA’s actions regarding Western markets, it would also be helpful for the agency to continue to emphasize in any funding or final decisional letters the unique statutory elements the agency is obligated to as it evaluates market opportunities, as these may sometimes get lost in the larger conversation.

PPC notes that individual members will continue with their own market participation decisions and will make their own decisions about funding the next phase of Markets+ where applicable.

PPC again thanks you and your team for your dedication to this issue. We look forward to working together closely to address outstanding questions, further developing the case for BPA’s participation in a day-ahead market.

Regards,

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