



Department of Energy

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

INTERGOVERNMENTAL AFFAIRS

August 21, 2024

In reply refer to: AIR-7

The Honorable Maria Cantwell
United States Senate
Washington, DC 20510

Dear Senator Cantwell,

I am responding to your letter with Senators Murray, Wyden, and Merkley expressing your concern about the Bonneville Power Administration's (Bonneville) decision schedule for participating in a day-ahead electricity market. You raised a number of considerations and questions for Bonneville's potential decision. I appreciate the opportunity to respond.

I fully appreciate the magnitude of the decision to participate in a day-ahead market. With recent developments, including some Western utilities announcing they have selected a day-ahead market platform, I want to continue the deliberate public process we initiated in July 2023 to ensure that our decision is right for our customers and the region. I am extending our decision timeline to next spring, with a draft decision for public comment in March 2025 and a final decision in May 2025. This schedule aligns with both day-ahead market development process timelines.

Bonneville is considering participation in a day-ahead electricity market for the potential to reduce costs for its customers. Other benefits could include more efficient use of transmission assets and more effective and reliable integration of clean energy resources. While weighing those potential benefits, we are not losing sight of our primary responsibility to meet our statutory obligations to the Pacific Northwest region.

Bonneville seeks to participate in a market that has a durable, effective, and independent governance structure which provides fair representation to all market participants and stakeholders. Our current choices are the Markets Plus alternative that is proposed to be operated by the Southwest Power Pool with an independent board of directors; and the Extended Day-Ahead Market (EDAM) proposed by the California Independent System Operator (CAISO), under the shared authority of an independent Governing Body and the CAISO Board of Governors appointed by the governor of California.

Bonneville released its staff recommendation in April, which summarized analysis relevant to several of the questions in your letter. In my responses, I will refer to the staff recommendation,

where appropriate, and have attached it for your reference. I want to emphasize that Bonneville shared the staff's preliminary analysis to acknowledge regional input received to that point and clarify next steps in the process for continued evaluation and regional consultations regarding potential participation in a day-ahead market.

The April staff recommendation addressed the potential benefits of a single West-wide market. The paper acknowledged recent studies demonstrating that a single market could be of value if its benefits are equitably distributed. The paper noted, however, that Bonneville's participation would need to align with the evaluation principles we established for participation in organized markets. Notably, independent market governance is an essential requirement to maintain equity among market participants, including in times of stressed system conditions.

Since release of the April staff recommendation, key factors for Bonneville's decision continue to develop. As I have mentioned, other regional utilities have declared their own market platform choices. These decisions affect the footprints of the two market alternatives and, therefore, the relative net economic benefits of each. Also, during this time, the West-Wide Governance Pathways Initiative, led by several Western state utility regulators and a number of regional stakeholders, produced its Step 1 recommendations for improving CAISO market governance through measures that likely will not require California legislation. The Pathways participants continue to work on additional options that may be considered next year by the California Legislature. These developments are another reason for extending Bonneville's decision timeline.

Bonneville's decision for day-ahead market participation will play a critical role in the energy and capacity market landscape for the region. I am pleased to share with you the considerations that must be part of this decision. I welcome your continued interest and perspectives on behalf of the region and the role Bonneville plays in its economic and environmental vitality. Below are responses to the questions in your letter.

1. Which of the day-ahead markets does BPA expect will result in lower energy costs for the Northwest—including both federal and non-federal power? Please explain your analysis and provide any evidence used to come to your conclusion.

We continue to analyze the impacts on energy costs for Bonneville's system. The difference in costs and benefits continues to depend on the market footprint. The continued changes in market participation and accompanying benefit propositions are one reason we are taking more time for any decision on day-ahead market participation. In addition, there are significant differences in the benefits over time, with legitimate questions about the value of participation for the Northwest in the long-term time horizon.

We continue to emphasize that our decision rests on market governance as well. We seek to participate in a market with transparency, equitable standing for participants, and independent governance.

- 2. Which of the day-ahead markets does BPA expect will provide the greatest improvement in grid reliability in the Northwest? What are the anticipated seasonal differences between the two? Please explain your analysis and provide any evidence used to come to your conclusion.**

Bonneville believes that the greatest foundation for system reliability is through the continued development of the Western Resource Adequacy Program (WRAP), which includes most, but not all, Western utilities outside of California. The Markets Plus 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. California's state-mandated resource adequacy metrics do not align with WRAP requirements, and the EDAM proposal will accept participation from entities outside of California who have not committed to join the WRAP.

- 3. Which day-ahead market scenario—including a single West-wide market—does BPA expect will provide the greatest reduction of greenhouse gas emissions? Please explain your analysis and provide any evidence used to come to your conclusion.**

We expect that actual greenhouse gas (GHG) emission reductions will depend on the situations of individual utilities and whether they are subject to state compliance obligations or their own commitments. Bonneville's own generating resources are entirely carbon free. Bonneville is evaluating day-ahead market participation with consideration for the state-mandated GHG compliance obligations of some of its preference power customers. Many of Bonneville customers are not subject to state GHG accounting requirements.

In the Markets Plus process, participants have made progress in developing GHG accounting and tracking that will allow Bonneville's public power customers with long-term power sales contracts to meet their obligations under Washington's program and, where applicable, under Oregon's carbon requirements. This is especially significant for compliance in states with non-pricing approaches.

Our continuing concern with CAISO's EDAM design is that California is able to deem a disproportionate share of carbon-free market-traded resources as delivered to California, to the disadvantage of utilities in the Northwest and their ability to meet their state goals.

4. What circumstances particular to BPA compel it to make a choice between these two day-ahead markets now, while there are remaining uncertainties associated with both options?

As stated in our introduction, we are extending our decision timeline because of the continuing uncertainties with both market designs. Again, we have supported having at least two viable options for day-ahead market participation and have based our decision schedule on the timelines for implementation decisions of both alternatives. As previously stated, Bonneville's neighboring utilities are continuing to make decisions on a faster timeline, which impacts regional benefits. Bonneville is balancing the need for a deliberative, transparent process with the urgency created by the decisions of our neighbors.

5. As competition has improved both day-ahead market offerings, why should BPA not wait until one—or both—options have demonstrated stronger viability?

We intend to consider the current viability of both markets in making our participation decision. Our options include not participating in a day-ahead market if both markets are determined not to be viable by the definitions in our principles. Again, neighboring utilities are making decisions on a much faster timeline, which materially impacts benefits. Bonneville is balancing the need for a deliberate, transparent process with the urgency created by the decisions of our neighbors.

6. Should California adopt Steps 1 and 2 of the governance changes proposed in the Pathways Initiative, does BPA believe they can sufficiently address EDAM's governance issues? If not, what specific concerns remain outstanding?

The Pathways Initiative Step 1 proposal may be approved by the CAISO Board of Governors without approval of the state legislature. Bonneville believes that Step 1 does not make sufficient changes to the existing governance structure. Our specific concern is that, with only Step 1 in place, the market governance remains under the ultimate authority of California.

The Pathways Step 2 concept will require California state legislation. While we appreciate the Pathways' sponsors optimism for a positive outcome, such efforts have repeatedly failed to secure legislative approval. It also remains to be determined what legislative conditions and constraints will continue to impede an independent governance structure. The CAISO will also remain the market operator while being the largest participant in the market.

7. What are the benefits and risks associated with each market option during extreme weather events? How would joining one market impact the availability of energy resources from the other?

These are considerations we continue to evaluate in assessing the market alternatives. The operational capabilities in extreme weather events will be influenced by the market footprints and existing constraints between regions.

8. What are the benefits and costs for BPA and its customers if BPA departs the Western Energy Imbalance Market, including stranded costs from leaving the market, to join Markets+? What external and internal analyses are BPA relying on?

Bonneville incorporates the benefits and costs for continued participation in the Western Energy Imbalance Market (WEIM) versus departure in its business case analysis as well as any benefits due to switching markets. Our current summary of this analysis is in the April 2024 staff recommendation. Bonneville will update the analysis in its business case as it continues to evaluate the staff recommendation.

9. In evaluating Markets+ and EDAM, has BPA identified particular advantages or disadvantages in market design for hydropower-intensive utilities? If so, please elaborate.

Both day-ahead market proposals consider price formation with relevance to the capabilities of hydropower-based utilities and value for the attributes of hydro. Bonneville staff reviewed the specific approaches in both the Markets Plus and the EDAM designs. While the staff recommendation states a preference for the Markets Plus design, in part because it distinguishes between hydro resources with and without storage, the approaches to appropriate pricing of flexible hydro resources in both markets continue to evolve. The CAISO, for example, has continued stakeholder initiatives in price formation enhancements. We will evaluate the strengths of both market designs as we continue to consider day-ahead market participation.

10. Has BPA identified any key transmission connections or corridors that materially affect the economics of a given market footprint and therefore should weigh more heavily on BPA's decision? If so, please elaborate, including specific transmission assets.

In general, the breadth of transmission connectivity within a market footprint is a very important consideration. As potential market footprints evolve, with decisions of other utilities to join one market or the other, Bonneville will continue to take into account the consequent effects on the economics of each market alternative. We will report on our analysis in the scope of a draft policy for day-ahead market participation. We have not, however, examined in any detail the incremental value to either market alternative of specific transmission corridors or projects.

- 11. Is there quantitative analysis comparing the system costs and efficiencies for BPA customers— both power and transmission—that arise if Northwestern utilities and customers acquire electricity through multiple day-ahead markets when compared to a single day-ahead market?**

Bonneville has used multiple scenarios of market footprints in its business case analysis, as have independent entities in recent years. Our current analysis is summarized in the April 2024 staff recommendation and will be updated in the business case for a draft and final policy.

- 12. If the region’s electrical transmission is split by market seams, what best practices has BPA identified for managing these seams? How would BPA plan to incorporate such practices into a two-market west-wide power transmission landscape?**

Bonneville has the experience of the Coordinated Transmission Agreement, which enabled the successful initial participation of several Northwest utilities in CAISO’s Western Energy Imbalance Market and use of Bonneville’s transmission system prior to Bonneville joining the Western Energy Imbalance Market. Bonneville expects to undertake a similar exercise if necessary to manage day-ahead market seams.

- 13. Can BPA ensure that the treatment of hydropower in both day-ahead markets is consistent with BPA’s obligations under federal law?**

As stated in our introduction, this is fundamental to any decision for our market participation. We will support any decision with our analysis of how Bonneville’s participation is consistent with its statutory obligations, including providing preference in the sale of power to public utilities along with other Pacific Northwest customers.

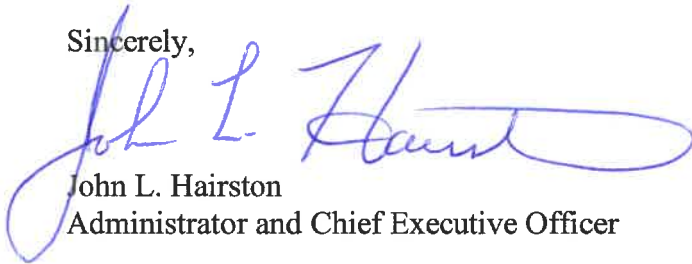
- 14. In March the Oregon Department of Energy, the Oregon Public Utility Commission and the Oregon Department of Environmental Quality submitted a list of requests to BPA in order to help inform the process. The Washington Department of Commerce and Washington Utilities and Transportation Commission have similarly submitted joint comments and questions several times to BPA in the same vein. On July 3, these state agencies in both states (along with the Washington Department of Ecology), jointly submitted detailed questions, requests, and comments to BPA. How have you responded to these questions and requests? Please share those responses with us.**

The energy and environmental quality agencies of both Oregon and Washington have commented several times during our process. We are committed to responding to their comments

in our decision on market participation. We have met with Oregon and Washington's utility regulators to discuss their questions and to help inform our analysis.

Again, thank you for your letter and your questions. I will continue to keep you informed on Bonneville's evaluation of day-ahead market participation. If you have additional questions, please do not hesitate to contact me or Sonya Baskerville, Bonneville's Director of Intergovernmental Affairs, at slbaskerville@bpa.gov.

Sincerely,



John L. Hairston
Administrator and Chief Executive Officer

Attachment: Day-Ahead Market Policy Paper, April 2024

cc:

Senator Ron Wyden
Senator Patty Murray
Senator Jeff Merkley