

December 5, 2024

Bonneville Power Administration  
905 NE 11th Ave.  
Portland, OR 97232  
*Sent via electronic mail to [techforum@bpa.gov](mailto:techforum@bpa.gov)*

Re: DAM Participation Evaluation

Dear Members of BPA's Public Engagement Team for DAM Participation:

The Washington Public Utility Districts Association (WPUDA)<sup>1</sup> greatly appreciates the immense amount of work Bonneville Power Administration's (BPA) staff has put into evaluating and comparing the California Independent System Operator's (CAISO) **Enhanced Day-Ahead Market (EDAM)** and the Southwest Power Pool's (SPP) **Markets+** day-ahead electricity trading market mechanisms. BPA's measured and transparent process has allowed stakeholders to learn a great deal about opportunities and risks of each alternative. The November 4 public meeting was an example of this open process where E3 presented its updated economic assessment followed by a robust dialogue regarding analytic assumptions, input data, modeling processes and the projected benefits among BPA personnel, E3 staff and stakeholders representing multiple interests.

Before engaging on E3's modeling results WPUDA reminds BPA staff of our February 23, 2024, letter to Administrator Hairston. That letter urged BPA to fully evaluate the Cost, Reliability, Governance and Environmental attributes of each alternative prior to selecting a market mechanism. A careful weigh and balancing of these criteria is needed to protect the long-term interests of BPA's statutory preference customers. Furthermore, the selected market mechanism must meet minimum expectations for each criterion. For example, participating entities must demonstrate that they have the resources and transmission necessary to meet their forecasted load multiple months into the future. This "multi-month forward showing" is necessary to ensure grid reliability.

### **E3's Updated Economic Analysis**

WPUDA's comments henceforth focus on the information provided at the November 4 discussion of E3's update to its analysis of the two market mechanisms. E3's modeling indicates that for 2026 EDAM would provide \$65M to \$221M more financial benefit than would Markets+. The range in

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<sup>1</sup> WPUDA represents 21 of BPA's preference customers, who in 2023 delivered 1805 aMW of BPA power to 600,000 residential accounts (and another 100,000 business and industrial ratepayers) in Washington state. Together, our purchases account for about 25 percent of BPA's Tier 1 power load.

outcomes is derived from multiple scenarios E3 modeled. While informative, these results do not definitively demonstrate that EDAM provides superior long-term economic benefits. We point to the following concerns:

1. **Long-Run Wholesale Prices and BPA's Load-Resource Balance:** EDAM's superior economic benefit appears to primarily come from higher projected whole market prices which allows BPA more revenue from the surplus power it sells. This outcome depends on BPA remaining surplus and EDAM's market prices remaining relatively higher than Markets+. We question the long-term validity of both assumptions. First, load is growing quickly in the Pacific Northwest. A recent PNUCC report projects that our region will see a 30% increase in retail load by 2035.<sup>2</sup> BPA's own analysis indicates a tightening of its load-resource balance and even near-term deficits under firm water conditions<sup>3</sup> (when wholesale prices tend to skyrocket). The E3 model does not appear to consider the long-term financial implications of the potential for BPA to become a net power purchaser (at least in dry years) – an outcome that WPUDA sees as real possibility. Second, California continues to add significant amounts of solar and storage resources that should reduce wholesale prices overall, and hourly variations thereof. It is unclear to WPUDA whether the E3 model sufficiently accounts for these impacts to wholesale prices in their financial forecasts.
2. **Transmission:** In its original study, E3 assumed that trades between the Markets+ and EDAM markets would require additional purchases of transmission. Many commenters pushed back on this assumption noting that about 90% of transmission rights are already assigned and paid for. These commenters asserted that the electricity traded across and within the two market footprints under these existing rights will not face new transmission costs. In its revised study, E3 included a M2M3 scenario with a seams cost of \$5.25/MWh (50% of Weighted average OATT + \$3/MWh friction) which increased the BPA's financial benefit from the Markets+ mechanism by about \$150M. While the M2M3 scenario clearly better aligns with transmission ownership and costs, it still appears to overstate potential transmission costs resulting from trades between markets. We ask that an additional model run be performed to estimate the financial impact if transmission assets were 90% pre-allocated. We suspect that the modeled difference in economic benefit between the two market mechanisms will further narrow under this more representative scenario.
3. **Range of Error:** No model perfectly recreates the system it is trying to mimic. There are always simplifications, uncertainties of interactions, unknown secondary and tertiary effects, and inaccurate inputs. At the meeting, WPUDA specifically asked for the "range of error" around the modeled point estimates. E3 chose not to opine on the precision of their model estimates. As such, we have no way of knowing if modeled results \$5M (or \$25 M) apart are, in

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<sup>2</sup> Northwest Regional Forecast of Power Loads and Resources, 2024 through 2034, Pacific Northwest Utility Coordinating Council.

<sup>3</sup> 2024 Pacific Northwest Loads and Resources Study, BPA.

fact, functionally equivalent. Given this uncertainty, WPUDA suggests that you use 5% of the total annual value of energy traded in the market as a reasonable “error band.” Under this approach BPA would consider modeled runs whose difference is smaller than that 5% figure to be functionally equivalent.

Also noted at the meeting are several financial issues that do not lend themselves to production cost modeling:

**Scarcity Pricing:** During the January Cold Snap retail prices far exceeded marginal production costs and needing to purchase power BPA sent several hundreds of millions of dollars to California entities to keep the lights on. E3’s economic forecast does not consider how times of scarcity would affect the relative benefits of the two market mechanisms.

**Congestion Pricing:** During the January cold snap approximately \$120M in congestion rents were allocated to California entities even though the congested transmission line was co-owned and co-operated by BPA. As WPUDA understands it, while E3’s model projects transmission congestion rents it does not appear to consider differences in congestion rent allocation policies and how that might affect the relative benefits of the two market mechanisms.

**Market Power Mitigation:** Each alternative market mechanism includes processes to prevent the exercise of market power. As WPUDA understands it, EDAM’s process “mitigates” or reduces the resource’s bid prices whenever there is the potential for an entity to exercise market power whereas Markets+ limits mitigation to those situations where market power is actually suspected of increasing prices. E3’s economic forecast does not consider how these different approaches might affect the relative benefits of the two market mechanisms.

**Reliability and Emergency Operations:** While reliability is one of the four fundamental criteria WPUDA asks to be considered when selecting a day-ahead market mechanism, it also has an economic component. EDAM’s does not require a multi-month forward showing of sufficient resources which could allow participating entities to “lean” on others or, in extreme circumstances, undermine the reliability of the market to meet electricity demand. Both these outcomes have potential implications for the relative benefits of the two market mechanisms.

A related concern involves “exigent circumstances” where a state organization may block the transfer of electricity to entities outside of that state’s boundaries so as to retain that electricity for its own use. It does not appear that E3’s model in any way accounts for how this authority might affect the relative benefits of the two market mechanisms. Also unclear is the criteria a state organization might use to declare such an emergency.

### **Also Discussed at the November Meeting**

Several entities argued that BPA should delay its decision pending action by California’s legislature on the Pathways Initiative Step 2.0. WPUDA disagrees. California’s legislature has chosen not to act on previous proposals to revise its California centric energy market statutes and BPA has already delayed

its decision. Further delay will not significantly increase information about this decision and could hinder the continued development of the Markets+ mechanism. We hold that it is time to close this process and move forward to a decision. Towards this end, WPUDA supports BPA's timeline to issue a draft decision next March and a final decision in May 2025.

**Conclusion**

WPUDA reiterates our appreciation for BPA's leadership and its diligent and transparent assessment of the potential benefits of participating in either the EDAM or Markets+ mechanism (or neither). We especially call out BPA's staunch advocacy for the interests of preference power customers and by extension, the interests of all who live in the northwest. In making any the final decision, we ask that BPA preferentially weigh the principles of cost, reliability, governance, and environmental accountability outlined here and elsewhere. Thank you for your consideration and ongoing partnership.

Sincerely,



Liz Anderson, Executive Director  
Washington Public Utility Districts Association

- cc: Senator Joe Nguyen
- Senator Liz Lovelett
- Senator Drew MacEwen
- Representative Beth Doglio
- Representative Sharlett Mena
- Representative Mary Dye
- Representative Alex Ybarra
- Commissioner Milt Doumit
- Commissioner Ann Rendahl
- Derek Nixon
- Joel Creswell
- Michael Furze
- Glenn Blackmon