



BPA's Public Engagement for Establishing a Policy Direction on Potential Day-Ahead Market (DAM) Participation

Comments of the NW Energy Coalition

February 28, 2025

NWEC appreciates the opportunity to provide comments on the Bonneville Power Administration's Day-Ahead Market Workshop #10 on January 29-30, 2025.

Bonneville is preparing to issue a Draft Letter to the Region on March 6, 2025 that will indicate the agency's intended direction on joining a day-ahead market. The final Letter to the Region and an accompanying Record of Decision are anticipated in early May.

Workshop #10 provided some important information but also left key issues unresolved, particularly on the financial arrangements proposed by the Southwest Power Pool for Phase 2 of Markets+ development. As discussed below, there is now more clarity on that matter that raises concern about Bonneville's process for making a potential day-ahead decision to the highest level.

This is not the time to make a major decision that will require significant staff and financial resources during a period of unprecedented uncertainty, let alone make such a decision through a process where it appears a decision has already been made. Maintaining the safety and reliability of the system and services on which all of the Northwest depends, as well as confidence in Bonneville's candor and transparency, must be the paramount focus at Bonneville now and going forward.

NWEC recommends in the strongest possible terms that the Bonneville Power Administration decide that it will not make a day-ahead market choice at this time, and retain its membership in the Western Energy Imbalance Market (WEIM).

1. Day-Ahead Market development fees. At the January workshop, Bonneville discussed prospective development costs for both Markets+ and Extended Day-Ahead Market (EDAM).

In general, if Bonneville joins EDAM its development fees will be approximately \$2 million. This relatively small cost leverages substantial prior work by BPA to prepare for

joining the Western Energy Imbalance Market that now delivers substantial benefits to BPA customers and the region.

In contrast, to develop Markets+ from scratch and commence operation in 2027, SPP now plans to spend \$150 million for Phase 2 development over two years for staff, systems and training, an amount so large it requires an outside bank loan backed by irrevocable financial commitments from participants.

At the January workshop, Bonneville did not respond to numerous requests to provide an estimate of its share of Phase 2 costs and the terms and conditions of a financial commitment to SPP.

Based on recent filings, however, we now know Bonneville's total share of Phase 2 development is \$40 million, subject to adjustment if there are additional participants. As described below, Bonneville's financial commitment, if it has not already occurred, is due on February 28, 2025 and will become fully binding shortly thereafter.

Markets+ Phase 2 Funding Agreement

On February 21, SPP sought Federal Energy Regulatory Commission approval of the Funding Agreement for Phase 2, attaching a copy of the final form of the Agreement and requesting a Commission order no later than March 24, 2025.¹

Under the Funding Agreement there are special provisions for Bonneville's participation. In particular, Bonneville must provide its Phase 2 financial commitment on February 28. Other participants are not required to provide their commitments until after the issuance of the FERC order on or before March 24.

As stated in Sec. 16 of the Funding Agreement:

As a federal entity, BPA cannot provide the Collateral described in Section 6. However, for purposes of satisfying collateral requirements of Lender, BPA will provide a letter of assurances from BPA's Chief Operating Officer setting forth BPA's authority to enter into this Agreement and statutory obligation requiring BPA to pay its Stage 1 Phase 2 Obligation or Phase 2 Obligation, whichever is effective at the time, pursuant to this Agreement (the "Letter"). BPA will provide the Letter within ten (10) Business Days of certification by SPP of Funding Threshold.

¹ Southwest Power Pool, Submission of SPP Markets+ Phase 2 Funding Agreement and Request for Expedited Action, Shortened Comment Period, and Waiver of Sixty-Day Prior Notice Requirement, FERC Docket No. ER25-1372.

The Letter must be effective prior to the effective date of the Loan Agreement.

Funding Agreement, Sec. 16(b), emphasis added

In its tariff filing, SPP explains:

The Funding Threshold under the Agreement occurs when entities that are, or represent, at least two contiguous Balancing Authorities and not less than 200,000 GWh of 2023 Net Energy for Load (“NEL”) execute the Agreement. Funding Threshold was satisfied as of February 13, 2025. This Funding Threshold sets a floor for the Funding Participants’ funding obligations.

SPP tariff filing, ER25-1372, Feb. 21, 2025 at 5

Thus it appears BPA must submit its “letter of assurances” by no later than February 28, 2025, 10 business days following the Funding Threshold on February 13.

Once FERC has issued a tariff order and all participants have provided their financial commitments in late March or soon thereafter, SPP will secure a bank loan for \$150 million and the Funding Agreement commitments will become fully binding on the parties.

In summary, under the Phase 2 Funding Agreement, BPA is required to provide its financial commitment on February 28, prior to the draft Letter to the Region on March 6, 2025. That commitment of up to \$40 million will become fully binding and irrevocable in late March or shortly thereafter, well before BPA’s mid-May issuance of the final Letter to the Region and Record of Decision on day-ahead market participation.

Therefore, NWECC poses two inquiries that Bonneville must address in its March 6 draft Letter to the Region, if it decides to pursue Markets+:

1. Whether or not Bonneville’s participation in the Phase 2 Funding Agreement and the required provision of a “letter of assurances” are a binding financial commitment to SPP and a functional commitment to join Markets+ that will pre-date a Record of Decision.
2. On what legal basis will Bonneville provide the “letter of assurances” with a binding and irrevocable commitment of up to \$40 million prior to the final Letter to the Region and the Record of Decision.

To summarize, in line with our strong recommendation that Bonneville should not pursue joining a day ahead market at this time and continue as a participant in the Western Energy Imbalance Market, NWEC further recommends that Bonneville immediately cancel its “letter of assurances” if issued, and withdraw its participation in the Markets+ Phase 2 Funding Agreement.

2. Low Hydro Study. Bonneville commissioned E3 to produce a Hydro Operational Limitations Scenario in addition to the main market comparison study provided in 2024. After an extensive presentation from E3 and a wide range of queries from the floor, the numerical and graphical results lacked clarity and NWEC is still not entirely clear about the overall findings of the supplemental study.

One general conclusion is clear from the study: while a smaller market footprint for Bonneville might raise market prices for its diminished surplus sales and the amount of net revenue to Bonneville during hydro-constrained seasonal periods, that comes at a cost to the Northwest as a whole.

In addition, the low hydro cases also move the focus away from the underlying finding of the main E3 study that larger market footprints offer Bonneville a much better net revenue-positive baseline to begin with. Thus, apparent net benefits to Bonneville under low hydro conditions with a smaller market may result in higher short-term revenues but do not erase the disadvantages of the smaller market footprint over time.

Finally, as NWEC stated during the discussion, a scenario substantially lowering hydro output only for federal hydro and not for other Northwest hydropower operated by the Mid-Columbia PUDs, other public power and IOU hydro utilities and BC Hydro, does not represent a viable real-world case.

3. Seams. The final section of Workshop 10 covered the many aspects of inter-market seams issues. We commend Bonneville and other workshop participants for a thorough, balanced and in-depth discussion of the many complex and problematic aspects of seams agreements, operational impacts and the prospect of major and ongoing costs. A glaring omission by BPA was any explanation of the process to negotiate seams agreements, prospects for agreements that are beneficial to BPA customers, or any timeline for resolving this essential issue.

NWEC made reference to two important seams studies that are directly relevant,² and does not offer further detailed comments at this time. However, it is clear that the terms of any necessary seams agreements will substantially increase the costs of joining a second, separate and geographically smaller day ahead market in the Northwest.

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² *Exploring Potential Seams Issues Between Proposed Western Day Ahead Electricity Markets*, prepared for Public Generating Pool and Western Power Trading Forum by Energy Strategies and Gridwell Consulting, January 2024, https://www.publicgeneratingpool.com/s/Western-Day-Ahead-Seams-Exploration-FINAL_240116.pdf
Market Configuration Matters: Effects of Market Choices on Consumers in the Northwest US, Grid Strategies, June 2024, <https://gridstrategiesllc.com/wp-content/uploads/Market-Configuration-Matters-June-2024.pdf>