



April 15, 2025

The Honorable Bob Ferguson
Governor of Washington
PO Box 40002
Olympia, WA 98504-0002

Re: Bonneville Power Administration (BPA)'s Day-Ahead Market Draft Policy

Dear Governor Ferguson,

We appreciate your ongoing interest in the energy issues that impact all residents of Washington. It is critical that everyone involved in the energy sector remains proactive to meet the rising energy demand in affordable ways, including opportunities to optimize energy trading through centralized day-ahead markets. Your April 8, 2025 letter to BPA Administrator John Hairston demonstrates your recognition of the significance and impact of a decision by BPA, and other utilities in Washington, to make a commitment to an energy market.

We are writing to share the perspective of Washington stakeholders. Together we provide electric service to approximately 1.5 million households and businesses in Washington. Over the past few years, we've worked to ensure there is a market option developed by and for Western utilities. Many of us have been concerned that the only available centralized market in the region is solely controlled and governed by the State of California. Thankfully, due to our efforts, and many others in the West, that is no longer the case. Southwest Power Pool's Markets+ provides an opportunity for a centralized market with independent governance.

Washington Utilities have Supported the Development of Markets+ and the Decision by BPA to Join Markets+

In recent years as electric utilities across the Western U.S. have considered options for a centralized day-ahead market, many became concerned that the only option was the Extended Day-Ahead Market (EDAM) being developed by the California Independent

System Operator (CAISO). Those concerns centered on CAISO's governance, which, by statute, is designed to favor customers in California. Because of that concern, many stakeholders asked the Southwest Power Pool to develop an alternate option.

Thirty-one entities across the West funded and participated in Phase 1 of Markets+ development, which is now concluded. That phase involved crafting market rules and ultimately obtaining Federal Energy Regulatory Commission approval. The rules were developed through an open and democratic process where all participants had both a voice and a vote. Those Phase 1 participants included BPA as well as five electric utilities in Washington.¹

Concurrent to the development of Markets+, BPA engaged in a thorough and transparent public process to guide BPA's market decision. BPA was a participant in EDAM development as well as Markets+. BPA's market decision process spanned two years and included ten public workshops with multiple opportunities for comments and feedback to BPA. BPA's Day-Ahead Market Draft Policy is an appropriate culmination of a rigorous process, and eight public utilities serving electricity customers in Washington submitted comments to BPA supporting BPA's decision to join Markets+.²

One Washington-based electric utility has opposed BPA's decision to join Markets+. Every utility in Washington is a meaningful stakeholder in regional market development. Throughout its two-year process to consider a day-ahead market decision, BPA has listened to and addressed all stakeholder concerns. One utility's preference for EDAM should be considered in the context of many other Washington electric utilities that prefer Markets+ and that have significantly contributed to the development of Markets+.

Washington Electric Utilities Support Markets+ for Many Reasons, Including Independent Governance, Market Operations, and Market Design

Many stakeholders across the West, including several Washington electric utilities, have contributed to the development of Markets+ because of growing concerns EDAM could become the only option for a centralized day-ahead market.

It is impossible to have confidence in a market operator with legal obligations to the state with the world's fifth largest economy. That imbalance of market power puts the value of the Pacific Northwest hydropower fleet at risk against the interests of the merchant generators and other California interests. This dynamic is one reason multi-

¹ Chelan County PUD, Grant County PUD, Puget Sound Energy, Snohomish County PUD, and Tacoma Power.

² Joint and separate comments supportive of BPA's decision to join Markets+ were submitted in response to BPA's Day-Ahead Market Draft Policy by Puget Sound Energy, Franklin PUD, Tacoma Power, Modern Electric Water Company, PUD No. 2 of Pacific County, Chelan PUD, Cowlitz PUD, Snohomish PUD.

state electricity markets have never succeeded in the U.S., where one state dominates others in size, resources, load, and influence.³

The West-Wide Governance Pathways Initiative developed a potential scenario to modify the governance issues in EDAM. But the current proposal being considered by the California Legislature involves several years of implementation toward a governance structure that is still meaningfully less independent than Markets+. It would be operated by CAISO, sharing its tariff with CAISO, the same entity that will be a participating balancing authority within EDAM. True independent governance would not even be considered until additional studies are conducted many years into the future.

Independent governance also impacts market design. Unlike EDAM, Markets+ will operate under market rules developed by those who will participate in the market. Accordingly, Markets+ will include market features more beneficial to its participants, and especially to the hydroelectric fleet of the Pacific Northwest.

Production Cost Models Provide an Incomplete Evaluation

Opponents of Markets+ have relied heavily on specific numbers and scenarios selected out of the multiple production cost studies that have evaluated potential day-ahead market costs and benefits. Some who oppose Markets+ have selectively quoted discrete aspects of cost studies outside of a full context to incorrectly claim Markets+ would result in hundreds of millions in cost increases to BPA. Those claims are inaccurate when considering all issues that impact costs and benefits.

Economic models produce the results of their inputs and assumptions. And the models evaluating costs and benefits of day-ahead markets are good at one thing: comparing various geographic market footprint scenarios and the direction of the flow of benefits. But market footprint scenarios are determined by the decisions of many utilities and stakeholders and are not within the control of any entity, including BPA.

Additionally, the economic models that have studied Western day-ahead markets all suffer from two inherent deficiencies. First, they have uniformly overestimated the costs of trade that crosses the borders of EDAM and Markets+. Once both markets become operational, both will have economic incentives to negotiate and enact provisions to minimize those costs. When the economic models are adjusted to account for the likely outcomes of those future negotiations, the results for BPA for EDAM and Markets+ become similar, as evidenced by the analysis presented by E3 Consulting at BPA's November 4, 2024 workshop. Second, economic models do not evaluate the financial benefits that will result from the market design features of Markets+ that provide more open trading opportunities for the Pacific Northwest hydroelectric fleet. Details about

³ New York and Texas operate as single-state system operators, as CAISO's day-ahead market does today. Florida doesn't participate in a regional electricity market. Efforts to make California the first state to overcome that obstacle have continued to run up against the refusal of the California legislature and other stakeholders to provide sufficient control to market participants.

those market designs are included in many of the comments Washington utilities and others have provided to BPA.

The costs of initial implementation of Markets+ are higher, as utilities need to transition software and programming to the Markets+ system. However, those initial up-front costs are quickly offset by ongoing savings and are not indicative of the total cost of joining Markets+. In fact, ongoing per transaction costs in Markets+ are approximately half of those in EDAM.

It is also important to understand that these study results should not be equated to rate impacts. Actual market outcomes are one factor, among many, that contribute to overall rates. For example, some utilities in the Northwest have seen large rate increases over the last few years, while at the same time reporting hundreds of millions of dollars of annual benefits from the Western Energy Imbalance Market.

Conclusion

Most electric utilities serving Washington customers participated in the development of Markets+ and support BPA's process and market decision. Only one Washington-based electric utility has taken a different position in opposition to Markets+. Additionally, most public power entities in the Northwest support BPA's decision to join Markets+. All electric utilities in Washington are operating in good faith to make the best decisions for their customers, but it is important to recognize the meaningful benefits that many Washington utilities recognize Markets+ will bring to the region.

We would be happy to meet with you or your advisors to discuss these issues further. We offer our perspective as an invitation to continue the dialogue on this complex and evolving issue, and to engage you and your team more fully in the conversation as it progresses.

Sincerely,

Chelan County Public Utility District

Douglas County Public Utility District

Grant County Public Utility District

Puget Sound Energy

Tacoma Power

cc: Kate Brouns, Climate and Energy Policy Advisor to Governor Ferguson
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The Honorable John Hairston, Administrator, Bonneville Power Administration