August 15, 2023

VIA ELECTRONIC FILING

Russ Mantifel, Director of Market Initiatives, Bonneville Power Administration, P.O. Box 3621, Portland, OR, 97208-3621

RE: DAM Participation Evaluation

Dear Mr. Mantifel,

The Washington Utilities and Transportation Commission (UTC), Washington Department of Ecology (Ecology), Washington State Energy Office (Energy Office), Oregon Public Utility Commission (OPUC), Oregon Department of Environmental Quality (ODEQ), and Oregon Department of Energy (ODOE), collectively known as the State Agencies, appreciate the opportunity to comment on the two questions presented at the July 14 discussion of Bonneville Power Administration's (BPA) Public Engagement Process for Establishing a Policy Direction on Potential Day Ahead Market (DAM) Participation:

- What unique elements for DAM participation should be included in BPA's principles that may have not been captured in its principles for EIM/WRAP?
- What granularity should BPA be aiming for in these principles?

The State Agencies offer these comments as the state agencies responsible for protecting the public interest and ensuring the effective implementation of Washington's and Oregon's principal climate and clean energy laws.

Washington's principal climate and clean energy laws include the state's comprehensive cap-and-invest program, the Climate Commitment Act (CCA), and 100 percent clean electricity law, the Clean Energy Transformation Act (CETA). Individually, the UTC regulates in the public interest Washington's three investor-owned electric utilities and ensures that rates and services are fair, just and reasonable for Washington households and businesses served by those utilities. Ecology regulates the greenhouse gas emissions of electricity generation and imports under the CCA. The Energy Office, within the Department of Commerce, is responsible for developing and monitoring energy policy. It authored Washington's 2021 State Energy Strategy, which calls for the development of regional wholesale energy markets. In addition, the Energy Office developed the rules for and monitors the implementation of CETA by Washington's consumer-owned utilities.

Oregon's principal climate and clean energy laws include House Bill 2021, which established a 100 percent clean electricity standard for two of Oregon's investor-owned utilities; the Climate Protection Program; and the Renewable Portfolio Standard. OPUC regulates Oregon's three investor-owned electric utilities to ensure safe, reliable and fairly priced utility services that advance state policy and promote the public interest. ODEQ requires the reporting of and regulates the greenhouse gas emissions of electricity provided by investor-owned utilities to serve Oregon load, including imports. ODEQ also administers the Climate Protection Program—which imposes a declining cap on fossil fuel emissions outside the electricity sector. ODEQ also administers the state's mandatory greenhouse gas reporting program that enables the implementation of the two aforementioned programs. ODOE administers the state Renewable Portfolio Standard and develops the state's energy strategy.

The State Agencies recognize that this is the first opportunity to comment on BPA's DAM participation, and that at this time BPA has requested comments on evaluation principles. As the respective potential DAMs in the West, CAISO's Extended Day Ahead Market (EDAM) and SPP's Markets+ proposal, continue to develop, the State Agencies may discuss additional principles and granularity at Bonneville's Sept. 11 and 12 workshops and in subsequent comment periods. The State Agencies generally support the proposed principles presented at the July workshop. In particular, the draft reliability principles presented at the workshop are critical. However, the State Agencies believe the principles BPA used for its decision to join the Western Energy Imbalance Market (WEIM) and the Western Resource Adequacy Program (WRAP) are not sufficiently granular to be the basis of a decision by BPA for whether and how to participate in a DAM, as BPA has publicly framed the decision in light of a potential future Regional Transmission Organization. In addition to the discussion and comment opportunities ahead, the State Agencies request that BPA revisit principles at future workshops to provide transparency about BPA's priorities and objectives, and provide opportunities for commenters to make more granular and specific proposals while keeping the conversations on schedule.

The State Agencies highlight that BPA's decision to join a regional day ahead market is not just a choice between EDAM and Markets+. Utility commissioners from five states across the West have proposed the creation of an entity that could serve as a means for delivering a West-wide market that includes market participants across all states in the Western Interconnection, including California, with independent governance shared across all states. The proposed entity is envisioned to eventually assume governance of the EIM and EDAM. The commissioners' proposal reflects a common commitment in seeking benefits shown in multiple studies that demonstrate the most favorable electricity market for consumers is one that includes a West-wide market footprint.[1] Such a market would avoid the issue of "seams" from separate markets across major portions in the West, and result in an optimized use of the broad diversity in resources to meet the broad diversity in loads across the majority of the interconnection. It would also maximize carbon emissions reductions at least cost. The State Agencies encourage BPA to engage with the utility commissioners and stakeholders as they evaluate this opportunity and collaborate on the design and structure of the proposal.

Reducing carbon emissions is a regional and global imperative. Companies, customers, communities and states across the West have made commitments to decarbonize, and a decarbonized electricity system through a single, West-wide market has been shown to be the most cost-effective way to meet regional climate goals, while maintaining resource adequacy and grid reliability under increasingly stressed weather conditions.

The State Agencies commend BPA for its recent interconnection reforms as a first step toward demonstrating climate leadership. BPA needs to continue to demonstrate climate leadership and, indeed, must prioritize carbon emissions reduction in its evaluation of market options. EDAM, Markets+, and a single, West-wide market offer different carbon emissions reduction opportunities and it is of the upmost importance that BPA select a market that best accelerates carbon emissions reduction, not slows or, worse, slides backward on regional efforts to reduce greenhouse gas emissions.

BPA's ultimate decision will determine the electricity market for many Pacific Northwest utilities, both investor-owned and consumer-owned, regardless of whether they are BPA preference customers. It will also determine the electricity market for states with carbon emission reduction requirements and those that remain fuel agnostic. Further, BPA's decision could overwhelmingly influence the decision of other market participants. BPA must not rush to a decision. Doing so could jeopardize the ability of utilities to comply with state laws, cause long-term economic harm to households and businesses, and hamper

[1] For example, see the State-Led Market Study, available at https://www.westernenergyboard.org/wp-content/uploads/2-MOYER-State-Led-Market-Options-Study-CREPC.pdf.

regional collaboration efforts, including the development of a single, West-wide electricity market. BPA's decision to participate in a DAM must prioritize efficient carbon emission reduction and aim to maximize economic value, system reliability, and efficient use of the grid across the entire Western region.

The State Agencies have deliberately focused our proposed principles and revisions on five categories:

- Opportunity costs
- Carbon emission reduction
- Governance
- Statutes
- Market design.

1. Opportunity Costs

Principle 1*:* BPA's decision to participate in a DAM must aim to maximize economic value, long-term resource adequacy, market and grid reliability, carbon emission reduction opportunity costs, and efficient use of the grid across the entire Western Interconnection.

BPA's market decision will play a pivotal role in whether the West splinters into two different DAMs or pursues a single, West-wide market that includes California. This is a monumental decision, potentially with direct implications on the eventual development of a regional transmission organization. It deserves weighing the short-term benefits of joining any market that splits the West and potentially excludes California against a thorough evaluation of the long-term opportunity costs of forgoing a single, West-wide market. BPA's decision to join a DAM should be informed and guided by a region-wide customer benefit analysis.

2. Carbon Emission Reduction

Principle 2: BPA's decision on DAM participation must prioritize efficient carbon emission reduction across the West.

Carbon emission reduction is a regional and global imperative. Oregon and Washington have both passed laws requiring electric utilities, including BPA's preference customers in Washington, to provide clean energy to their in-state customers; and in Montana and Idaho, utilities and large customers have made commitments to clean energy. Given these commitments and requirements, BPA must prioritize cost-effective carbon emission reduction in its evaluation principles, and provide leadership in implementing them. There is immense potential to reduce CO2 emissions from electricity through harnessing the geographic diversity of renewable resources, from California and Arizona solar to Montana and Wyoming wind. The Western Energy Imbalance Market has already generated $4.2 billion in gross benefits for market participants since Nov. 2014 and cost-effectively reduced 814,746 tons of greenhouse emissions since 2015.

EDAM and Markets+ represent two different electricity market designs and footprints that hold different potentials for reducing carbon emissions. Yet numerous studies have shown a single, West-wide market provides the greatest promise of carbon emission reduction at least cost. BPA can be a regional and national leader in the fight against climate change, and that begins with prioritizing least-cost carbon emission reduction in its market choice.

3. Governance

Principle 3: BPA's participation in a market requires independent, open, transparent, and representative governance that aligns with the Multi-state Organization Principles agreed to by states across the West.[2]

The decisions made by market administrators through their respective governance processes have profound impacts on electricity end users and the ability of utilities to comply with state laws. It is important for BPA to ensure the market BPA chooses provides independent, transparent, open, and representative governance for all market participants, and allow utility commissions, state energy offices, consumer advocates, and other interested organizations to meaningfully participate in crucial market decisions that impact the public interest.

There already exists a set of Multi-state Electric Organization Principles. They were set forth by commissioners across the West and were adopted by WRAP. These principles include:

- Board independence
- Active stakeholder engagement
- Role of a States Committee in policy development and decision-making
- State Committee access to data and information
- State Committee staffing and funding, and
- Independent board selection.

The additional granularity provided in the original multi-state electric principles should be included in the guiding principles adopted by BPA.

Adoption of these Multi-state Electric Organization Principles recognizes that the joint governance developed for EDAM is an interim solution to achieving this principle, and the ongoing conversation for a single, West-wide market provides a path forward for deeper regional coordination to wholly meet this principle.

4. Statutes

Principle 4: BPA's DAM participation should not jeopardize the ability of electric utilities to meet their statutory requirements.

BPA's choice of a DAM market should not push Washington or Oregon utilities into a position where they would have to choose between the economic benefits of an organized wholesale power market and their compliance with state clean electricity and climate laws. Many issues remain unresolved across the markets being developed. How these issues are resolved will impact whether utilities will be able to comply with state laws and the risks they may face when joining a market. Under these conditions, the State Agencies do not view principles to "respect" state laws as sufficient. BPA must ensure that any market it joins allows for compliance with state laws. To this end, the State Agencies offer more granular principles below.

- **Sub-principle 4a**: Unspecified resources are treated in a manner that complies with state clean electricity and greenhouse gas laws and regulations, and market rules should minimize, to the extent reasonably feasible, the amount of electricity transacted as unspecified.

[2] Please find the Multi-state Electric Organization Principles as presented at the April 25, 2022 CREPC-WIRAB meeting here: https://www.westernenergyboard.org/wp-content/uploads/Multistate-Governance-Principles-4-25-22.pdf.

One of the biggest issues BPA must contemplate when considering which market to join is the treatment of unspecified resources, and how each market will ensure compliance with state greenhouse gas laws and regulations. For markets that rely on a "zonal approach," this includes the selection of the emissions rate for unspecified resources exported by the market to a GHG zone, as well as the time frame identified for the emissions rate. Relatedly, it is still unclear how such a design will allow for the assignment of unspecified electricity for purposes of compliance to individual entities conducting electricity transactions.

Another concern raised by a zonal approach is the assignment of the unspecified attributes of fossil fuel generation sources to the balancing authority where a plant is located in cases where the electricity generated at that facility was not used to serve customers in that balancing authority. This could be a significant risk for utility compliance with Washington's 2030 greenhouse gas neutral standard and Oregon's clean electricity standards. It would make utilities located in those balancing authorities non-compliant with the clean electricity standards.

- **Sub-principle 4b*:*** Data is made available to states for purposes of tracking participants and ensuring compliance with state regulations.

For Ecology and ODEQ, the most important factor in accommodating a market design is the availability of data for the purposes of tracking participants and ensuring compliance with state regulations. Under current proposed market options, it is unclear what information would be made available to states or how that information would be shared with regulators. There are additional concerns on how a market that relies on a third party to provide data will ensure that market transactions are compatible with existing statutory and regulations.

- **Sub-principle 4c**: BPA's decision should not create barriers to future linkages between jurisdictions with cap and invest systems to help maximize carbon emissions reductions in the West.

An important component to maximizing carbon emission reductions across the West is to facilitate approaches that may help to link cap and invest programs and create a common carbon market in the West. If BPA makes a market choice that encourages different greenhouse gas programs to require different market designs that choice may make linkages between greenhouse gas reduction programs in the West more difficult. It will also amplify the problems associated with the creation of "seams" between markets, increasing costs and complexity for all concerned. Conversely, linkage between cap and invest programs will help reduce costs and regulatory burden in the electricity sector throughout the West.

- **Sub-principle 4d*:*** BPA's market choice must be able to preserve the ability of Washington utilities to use for CETA compliance the renewable energy credits (RECs) associated with renewable electricity transacted in the DAM.

Compliance with Washington's 100% clean electricity law, the Clean Energy Transformation Act, requires the retirement of renewable energy credits (RECs). Utilities must acquire and retire RECs that correspond with electricity generation used to serve 80% of their retail load beginning in 2030.[3]

[3] The Washington Department of Commerce has adopted rules defining what it means to "use" electricity under CETA's clean energy standards. A utility must do the following to use a REC toward the 80% portion of the 2030 greenhouse gas neutral standard:

- Purchase or generate the electricity bundled with the REC;
- Obtain the electricity from a source that can be delivered to the utility's service area or balancing area;

While Commerce and the UTC have sought to adopt rules to facilitate participation in regional electricity markets, while ensuring compliance with the statute's "use" requirements, any day-ahead or real-time market will need to include procedures that preserve the ability to use RECs for CETA compliance. This may not require that the market design transfer RECs associated with the electricity used to serve Washington customers. This topic needs to be addressed to ensure Washington utilities are able to meet their legal obligations under CETA.

- **Sub-principle 4e:** Market design must adequately address dispatch, regulations, leakage, and data needs of states that have adopted GHG regulations without carbon pricing.

Several western states, including Oregon, have implemented GHG reduction requirements that do not place a price on carbon emissions. This results in a seam between GHG pricing states and non-pricing states because the carbon price impacts dispatch. It must be resolved to maximize the integrity of the emission reduction goals of non-pricing states and avoid emissions leakage, while not inappropriately impacting customers in states that have not adopted carbon regulations.

5. Market Design

Principle 5: Households and businesses are not penalized through unreasonable uplift charges or any dispatch decision that favors a market participant by increasing costs to customers.

State legislatures through greenhouse gas laws and regulations have made a conscious decision on behalf of the public interest to avoid and reduce use of GHG-emitting sources. These policy choices will affect the cost of electricity in those states, avoiding some costs and incurring other costs. To the extent customers in these states continue to use fossil fuel electricity sources, greenhouse gases costs should be reflected in the costs for electricity used to serve these states. However, adding unnecessary, unjustified costs to the electricity bills of households and businesses is not in the public interest.

Principle 6: The market provides undifferentiated treatment of market participants.

Every market participant and transmission rights holder or owner should be treated the same, with no special terms or conditions for any participants. Different treatment for certain market participants to join a market distorts the market and creates inefficiencies that are paid by households and businesses. In addition, special treatment for any participant would create an uneven playing field that may stymie the development of new renewable resources. BPA needs to be transparent about the terms of its agreements and expectations and ensure undifferentiated treatment of market participants.

Principle 7*:* BPA's evaluation must include consideration of transmission costs passed on to customers, including the cost implications of the existing interregional transmission capacity (or lack thereof) between the different Western regions on different wholesale energy market designs and footprints.

- Develop a resource portfolio capable of serving 80% of its retail load with eligible electricity, demonstrated with an hourly analysis; and
- Not sell the associated electricity as renewable or specified power.

The 80% hourly-level showing prevents a utility from complying using excess renewable generation that could not be delivered to retail customers, while also preserving real-time operational flexibility to maintain reliability and pursue cost-saving wholesale transactions. The UTC is still conducting its rulemaking to determine what it means to "use" electricity under the standard.

Transmission cost allocation is key driver of costs for electricity markets. Leveraging the transmission capacity of existing regional and interregional transfer pathways to the fullest extent possible is a primary avenue for minimizing transmission costs. Different wholesale energy market footprints will have different transmission costs to transfer energy across the footprint to fulfill wholesale energy transactions. This includes differences in the need to build new transmission capacity and differences in any transfer (wheeling) costs on third party transmission pathways. Knowing how these transmission costs vary depending on market footprint, and how these transmission costs will be allocated in different market designs is crucial to determining whether households and businesses will benefit from a market. BPA's evaluation should have enough granularity to assess and consider the transmission cost implications of different market footprints at go live and at a reasonable future date and consider how transmission costs will be passed on to customers.

Conclusion

The State Agencies appreciate that BPA is engaging the public in its decision-making process. We encourage BPA to continue to be open and transparent about its process, share the analytical data and studies underpinning its evaluation and evaluate all the options on the table, including the development a single, West-wide market, inclusive of California, with independent governance.

Sincerely,

/s/ Dave Danner
Dave Danner, Chair
Washington Utilities and Transportation Commission

/s/ Megan Decker
Megan Decker, Chair
Oregon Public Utility Commission

/s/ Michael Furze
Michael Furze, Assistant Director
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/s/ Kathy Taylor
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