



October 18, 2023

***VIA ELECTRONIC FILING***

Russ Mantifel  
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P.O. Box 3621  
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**RE: Joint State Agency Comments on Bonneville Power Administration's Day-Ahead Market Participation Evaluation, Workshop Two**

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 Bonneville's principles presented at its Sept. 11, 2023, workshop on establishing a policy direction for potential day ahead market participation.

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 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 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 second opportunity to comment on BPA’s DAM participation, and that the principles chosen by BPA will be the evaluation criteria for determining potential market participation. The State Agencies generally support the proposed principles presented at the September workshop. However, the State Agencies believe the principles are not sufficiently granular to be the basis of a decision by BPA for whether and how to participate in a DAM, particularly given that BPA has previously publicly framed the decision as a potential step toward joining a 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 emphasize that BPA’s decision to join a regional day ahead market is not just a choice between EDAM and Markets+ as they are structured today. Through the West-wide Governance Pathways Initiative, utility commissioners from five Western states have proposed the creation of an entity that could administer a West-wide market that includes 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 Western EIM and EDAM, retaining the value created by optimizing 80 percent of the load in the West while accomplishing independent governance. 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.<sup>1</sup> Such a market would avoid the issue of “seams” from separate markets operating across major portions in the West, such as across key trading hubs, and would enable an optimized use of the broad diversity in resources to meet the broad diversity in loads across the majority of the interconnection. The broadest footprint possible, including seamless, intra-hour optimization of many states’ extensive renewable energy investments, 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 the largest market possible has been shown to be the most cost-effective way to achieve a decarbonized electricity system and meet regional climate goals.

The State Agencies commend BPA for its recent interconnection reforms, which represent a first step toward demonstrating climate leadership. BPA needs to continue to demonstrate climate leadership and,

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<sup>1</sup> 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>.

indeed, must prioritize carbon emissions reduction in its evaluation of market options. EDAM under the current joint authority or under an independent governance and Markets+ offer different carbon emissions reduction opportunities. It is of the utmost importance that BPA select a market that best accelerates carbon emissions reduction and does not slow, or worse, impede regional efforts to reduce greenhouse gas emissions.

Additionally, the existing rapid optimization of 80 percent of the Western load through the Western EIM has already demonstrated value supporting grid reliability under increasingly stressed weather conditions. The State Agencies are concerned that adding seams to the existing footprint and reducing the scale of the current optimization will both reduce grid reliability and require new transmission and generation capacity that could otherwise be avoided. Siting and affordability challenges across the West point to the value of decisions that minimize the need to deploy capital, consume land and increase customer costs.

**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 regional collaboration efforts, including the development of the largest possible 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.**

We respectfully submit the following comments on BPA's proposed DAM evaluation principles.

### **1. Statutory Principle**

The State Agencies support BPA's proposal to formalize a principle ensuring that DAM participation will not conflict with BPA's existing statutory, regulatory, and contractual obligations. When applying this principle to its decision-making, we encourage BPA to evaluate how participation in the proposed day-ahead market frameworks could impact the legal obligations and limitations established by the Pacific Northwest Consumer Power Preference Act. In that Act, Congress clearly indicated an intent for electricity generated by the Federal hydropower system in the Pacific Northwest to be used to meet the power needs of the Northwest region. While the Act authorizes BPA to sell surplus energy and capacity for use outside the Pacific Northwest, the Act also clarifies that any market demand for hydropower in the Pacific Northwest must be met before surplus energy may be exported for sale outside of the region. We urge BPA to evaluate the implications of these statutory limitations under a DAM, as well as under a scenario in which two DAMs operate simultaneously within the Pacific Northwest region.

Additionally, in a future where regional load growth and the pressure of a changing climate are both reducing the surplus energy and capacity available during high stress and thus high-cost times, BPA must deeply consider how a DAM choice will support reliability and cost minimization when surplus is limited.

### **2. Business Principle**

The State Agencies support BPA's proposed business principle, which requires BPA's market participation decision to be supported by sound business rationale. Consistent with this principle, we reiterate our August 15 comment that the business rationale should consider a thorough evaluation of the long-term

opportunity costs of foregoing the largest West-wide market possible, which is at least the 80 percent of load participating in the Western EIM today. This evaluation should compare the impact on BPA priority firm rates of different market scenarios, including a West-wide market footprint. It should include a full cost estimate for market implementation, including the transition cost, technology risk and lost benefits of transitioning from the Western EIM. Further, BPA's economic analysis of different market scenarios must evaluate both capacity and energy costs. It is our understanding that the production cost impact study prepared for the Western Markets Exploratory Group does not include potential capacity savings achieved by market participation or the cost of transmission necessary to create a fully liquid market across the footprint and therefore may provide an insufficient basis for evaluation. Finally, the State Agencies urge BPA to transparently share with stakeholders all modeling assumptions and inputs used by BPA in its evaluation.

### **3. Strategy Principle**

The State Agencies support BPA's proposed strategy principle, which would ensure that BPA's participation in a DAM is consistent with its strategic plan. We agree that this is one of several principles that should incorporate stakeholders' concern that multiple markets could result in lost benefits for the region, and that this concern falls within the scope of BPA's strategic goal to enhance the value of products and services. The State Agencies appreciate that supporting regional carbon reduction efforts is a stated objective of this strategic goal. As we noted in our August 15 comments, reducing carbon emissions from electricity generation is a priority for states across the region, including Oregon and Washington. When applying the strategy principle to its DAM evaluation, we urge BPA to elevate its objective to support regional carbon reduction efforts and prioritize efficient, cost-effective carbon emissions reductions as a key decision-making criteria.

### **4. Governance Principle**

The State Agencies support the proposed principle that BPA's participation in a market requires independent, open, transparent, and representative governance. We encourage BPA to adopt the Multi-state Organization Principles agreed to by states across the West and outlined below.<sup>2</sup>

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 it chooses provides independent, transparent, open, and representative governance for all market participants, and allows utility commissions, state energy offices, consumer advocates, and other interested organizations to meaningfully participate in crucial market decisions that impact the public interest.

The Multi-state Electric Organization Principles set forth by commissioners across the West and adopted by WRAP 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

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<sup>2</sup> 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>

- Independent board selection.

The additional granularity provided in these Multi-state Electric Organization principles should be included in the guiding principles adopted by BPA.

## **5. Customers Principle**

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 "enables" compliance with state laws.

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. 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.

Through the adoption of greenhouse gas laws and regulations, state policymakers have made conscious decisions 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.

## **6. Greenhouse Gas Emissions Principle**

While the State Agencies appreciate BPA's efforts to refine its draft greenhouse gas evaluation principle, it is unclear how the currently proposed principle will influence BPA's decision-making process. We strongly agree with BPA's commitment to evaluate how its participation in a DAM will impact greenhouse gas emissions attributed to the federal system and its customers' abilities to comply with state carbon programs. However, it is unclear whether, how, and to what extent the findings from this evaluation might influence BPA's decision to join a DAM.

We suggest that as BPA considers which DAM design to select for its customers, it should do more than just passively evaluate the impact of those market designs on the ability of BPA and its customers to comply with state greenhouse gas regulatory and incentive programs. Instead, it should be actively considering ways that, given the proposed structures and commitments of those markets (e.g., tariff

language, stakeholder engagement history), BPA would be in a position to actively facilitate compliance and engagement with state programs for itself and its customers. Key variables to consider in this regard include the breadth and scope of data made available to both market participants and regulators, barriers to use of these data by those parties, and the flexibility embedded in the market designs and operational plans to adapt to changing needs of state regulators or future greenhouse gas programs. Also, more specifically for BPA than other parties, the ability for those data to be further processed or applied by BPA to its customers since it is likely that BPA will need to serve as a conduit between the market and its customers in terms of providing the appropriate data.

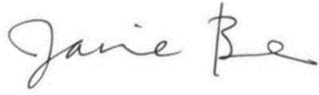
In addition, a key consideration should be the extent to which the market and its market operators are able to provide data and meet the needs of both explicit greenhouse gas emission pricing programs, such as cap and invest programs or carbon fee programs, as well as non-pricing programs, including emissions reductions mandates and resource-based energy regulation that addresses greenhouse gas emission indirectly by focusing on non-emitting and renewable energy resources. The ability for BPA to facilitate compliance with these non-pricing programs, and a lack of barriers to compliance from the market design, is also an important consideration. BPA should also take into account the demonstrated willingness of the markets under consideration to engage with these types of programs, and not just the existing carbon pricing programs in Washington and California.

BPA has proposed in its greenhouse gas emissions principle to “ensure that participation maintains the value of the low-carbon nature of the federal system to the extent possible.” While we agree with the principle’s assertion that DAM participation must maintain the value of the low-carbon nature of the federal system, it is unclear how BPA intends to accomplish this “to the extent possible.” It is also unclear what is meant by “value” in this proposition. Is it intended to refer more to maximizing monetary return, or is it primarily representing the environmental benefit claims users of the system may make? Pricing carbon inherently draws low carbon energy towards the load under the pricing regime, often at a premium. As BPA serves loads that do not price carbon but seem to value claiming the low carbon nature of the resource and also faces a monetary incentive to sell clean power into high value zones, it is unclear how the principle would be applied. What does a market design need to accomplish or enable to ‘maintain the value’ of the federal system?

We encourage BPA to strengthen the proposed greenhouse gas principle to clarify how it will apply these considerations into its decision-making. BPA can provide additional clarity by revising the second sentence of the greenhouse gas principle as follows: *Participation in a day-ahead market must maintain the value of the low-carbon nature of the federal system and must not impede customers’ abilities to comply with state carbon programs.* We also encourage BPA to consider qualifying the term “value” with a more specific description or the use of better terminology to convey what is intended.

BPA’s decision to join a day-ahead market would have widespread and long-term implications for the electricity system in the West. The risks and benefits that could result from BPA’s DAM participation will ultimately depend on the market’s footprint, design, and governance framework. The evaluation principles BPA applies to guide its decision-making will therefore have far-reaching implications for the region, and the State Agencies appreciate the opportunity to provide recommendations for strengthening these principles.

Sincerely,



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