



The Public Generating Pool is a group of eight publicly-owned Washington utilities and one Oregon utility who own and operate their own generation and purchase generation from the Bonneville Power Administration under the Northwest Power Act. PGP members have expertise in aspects of integrated electric utility operations, and they are active participants in existing Western wholesale power markets. Four PGP members also operate Balance Authority Areas (BAAs). As a group, the PGP members bring a unique perspective and level of understanding on regional energy issues. Given PGP members' active role in NW markets, they are uniquely impacted by BPA's decisions around joining a day-ahead (DA) market. All of PGP members are embedded within the BPA Balancing Authority Area or are neighboring BAAs with interties to BPA. BPA's decision on whether or not to join a DA market, and which market BPA intends to join, will impact PGP members in terms of future market liquidity, operational and settlement changes, individual decision-making on whether and how to join a DA market, and the potential benefits of joining a DA market. It is therefore critically important to PGP that BPA's decision-making process is rooted in principles designed to achieve clearly articulated objectives and is ultimately supported by a business case that includes robust qualitative and quantitative analysis.

PGP appreciates the information shared by BPA in the July 14th stakeholder meeting, and BPA's intent to be transparent while acknowledging its strategic role in the region. PGP supports the overall framework BPA has proposed for establishing a policy direction regarding potential DA market participation, and seeks additional information to understand the current process, which BPA has indicated will be directional and largely qualitative, in the context of the timeline and process for when BPA expects to make any follow-on decisions, what those decisions will be, and when financial commitments will be made. BPA should also clarify this decision in the context of BPA's long-term strategic plan for market development as well as how any principles or decision-making tools BPA adopts now support achievement of that strategy. To this end, helpful at this stage would be a cross-walk between the principles adopted and key drivers for achieving the benefits or objectives BPA expects from joining a DA market.

PGP offers the following comments regarding the process outlined in the July workshop, and thanks BPA for the opportunity to provide feedback. PGP would also like to recognize the active and robust engagement of BPA staff in the current market design processes at play in the region both in the California Independent System Operator (CAISO) as it relates to ongoing Energy Imbalance Market (EIM) participation and the potential for Extended Day Ahead Market (EDAM) participation, and at the Southwest Power Pool's Markets Plus (Markets+) phase one development initiative. BPA has effectively positioned themselves to influence and lead in these design processes and we have valued having BPA as a fellow regional stakeholder.

1. Interaction with future decision processes and relevant timelines should be further clarified.

PGP appreciates the project timeline included in the materials but would like to better understand the decision process as outlined in the context of subsequent decision-making, including when financial

commitments may be anticipated, expected implementation timelines and commitments, as well how this decision fits in relation to other decision processes within BPA that may be inter-related, such as the Provider of Choice initiative. Similarly, additional mapping of relevant timelines regarding policy development for each of the DA Market options such as the Price Formation Enhancements initiative in CAISO and the protocol development in the Markets+ process would be especially helpful in this effort, particularly if they have the potential to materially impact the business case, discussion of tradeoffs, or direction. Even if timelines or expectations regarding the decision to fund phase two of the Markets+ initiative have not been published, if it is a relevant milestone, it would be beneficial to include on the timeline in relation to other aspects of the decision. External timelines that impact the region, such as legislative guidance for other regional entities to move in the direction of organized markets may also provide useful context for BPA's decision process. PGP recommends these internal and external factors be added to the project timeline with specific drivers and dependencies well documented.

While PGP understands the current process to be directional and qualitative, BPA could also more clearly articulate what is being decided now and what will be decided in the future so that stakeholders and customers can understand BPA's business case supporting the current decision in the context of those future decisions. It is not clear whether this is a decision to financially commit to a market toward which BPA is "leaning" or whether there will be further decision processes to ultimately decide which market to join and make a financial commitment. We recommend for future meetings some additional materials that further document the broader decision-making process outlined in the July stakeholder meeting, and hope that such an effort to enhance the project timeline to include related processes can facilitate any adaptation of schedule if any driving force or interrelated process requires such adjustments.

2. PGP supports BPA's sequencing of decision concepts.

BPA has outlined that this process will cover the decision to join a Day Ahead Market, and also offer indications of which market BPA is "leaning" towards. PGP agrees that the first steps should address the interaction of preference power statutory obligations with the DA market and the potential for a transition to a Regional Transmission Organization (RTO), effectively answering the question of "How will BPA join a market and continue to meet its statutory obligations?" PGP sees the second step as documenting sources of potential economic, reliability, and environmental benefits and risks of different market constructs and market design elements, effectively answering "What are the potential benefits of a Day Ahead market and how can BPA access them?". These first two phases should help to inform decision criteria that may help with the final question, which we see as "Which market appears to best align with BPA's ability to continue to meet its statutory obligations while also maximizing regional benefits given the information available to date". This third phase needs to be informed by the first and second phase, and we look forward to the additional information and analysis that comes out of these first steps.

Regarding the question of which market best aligns with the desired outcomes, PGP recommends that the reason for attempting to answer this third question while the market designs are still under discussion could be better outlined for stakeholders. If the indication of "leaning" towards one market operator or another is truly about readiness, e.g., to fund an implementation agreement or new phase of market development, increase staffing, or to allow for internal system upgrades, and these aspects of "next steps" have the potential to differ depending on the market, these considerations should also be incorporated in the business case and decision analysis. If this process is instead about determining

appropriate guidelines for decision-making, and internal policy changes that may need to occur to enable BPA's participation in a DA market, that could be articulated more clearly in the process outline as a desired outcome of phase one and two of the decision process.

3. PGP's Recommendations for Use of Day Ahead Market Evaluation Principles

Market evolution is ultimately necessary for the West to affordably and reliably accomplish the energy transition, and PGP agrees with BPA that the status quo cannot be seen as a viable future for consideration. Given this acknowledgement, PGP has already worked with other public power entities NRU, WPAG, and PNGC to develop a set of organized market principles (attached) that supports market design and tradeoff analysis and can help entities step towards a future where the bilateral market is diminished, and organized market structures grow. We appreciate BPA's inclusion of these as sample principles in the July workshop. As BPA works to develop decision criteria, we encourage the incorporation of the Northwest Public Power Organized Market Principles in their more granular form for inclusion when framing tradeoffs that will be necessary when determining the appropriate path ahead. Given that no design is likely to perfectly align with the principles established by NW public power or the broader BPA stakeholder pool, we encourage BPA to avoid framing the discussion of alignment with principles as a pass/fail evaluation or scoring matrix, and to avoid attempting to rank principles in any defined order of precedence. Principles should be used to discuss tradeoffs and alignment, and should be looked at holistically and on balance, with the acknowledgement that they are qualitative and may be prioritized differently by different regional stakeholders. PGP also notes that our own attempt to compare market designs under consideration to these principles resulted in the reshaping of our principles to orient them towards desired outcomes rather than specific structures/mechanisms to do so, and PGP recommends BPA consider this approach when drafting market design principles for use in the current process.

4. The decision process should acknowledge short-term and longer-term implications where known.

The region is currently facing a decision regarding an incremental approach to organized markets, that may lead to a transitional state for the region for an indefinite period of time. PGP sees the decision as a consideration of the market designs and tradeoffs during three phases in time: 1. Today with the backdrop of the majority of the region participating in the EIM, 2. A transitional period as participants join DA organized markets and/or potentially leave the existing EIM footprint with tradeoffs that may be only relevant in the transition period, and 3. a time period with one or two Day Ahead Markets in the West with prospective paths to a single or multiple RTOs that would include BA consolidation, regional transmission planning functions and consolidated transmission service providers for the respective footprint(s). We see each of these as distinct phases of the future that may warrant separate analysis. This should include the acknowledgement that an RTO has not been established by all regional participants (including BPA) as the desired or feasible end-state, nor has the path from a DA market to such an end state been clearly articulated in either market expansion path under consideration today. Such an evaluation of the path towards an RTO end-state and exploration of the transition-period should address long-term governance structures and tradeoffs using the best information available, acknowledging unknowns where they exist. BPA should clearly articulate the role of the governance structure and the weight of the governance structure in balancing meeting remaining principles, and any other economic or reliability tradeoffs. This long-term look should also consider off-ramps, exit strategies, and ongoing optionality where applicable as potential risk mitigation measures given the weight and relative permanence of this decision.

While discussing tradeoffs among principles and design features, PGP also looks forward to seeing BPA's exploration of how different market designs may impact different customer groups. Acknowledging that the "best" outcome for some may not be applicable to every customer type, PGP also recommends consideration of the ongoing ability for BPA to manage any inequities that may exist through rate processes and other strategies after the fact, or through explicit market design features that limit the potential for cost and benefit transfer beyond the BPA. These aspects should be incorporated in the subjective evaluation using the principles, as well as the quantitative analysis. We also note that while tradeoffs and considerations between customers are critical, PGP supports BPA in seeking the best outcome for the region and BPA customer group as a whole and recommends this be the foundational premise for the economic analysis and business case to support any decision.

5. The business case should be robust and impactful to the decision.

Principles are critical, but also critical is the diversity and connectivity of the market footprint and the loads, resources, and transmission expected to participate, so all elements that are expected to drive costs and benefits need to be considered in any analysis. The economic analysis and business case should address the tradeoff between the alignment of unique market design and governance features of the different markets with principles, and the "cost" and barriers introduced through the introduction of seams. This further reiterates the need to have a high certainty of core design elements before completing this analysis regarding market selection. BPA's business case should recognize that a market design that fully aligns with policy principles may not actually achieve expected outcomes if the market design does not attract sufficient diversity in participation, and we recognize BPA's "leaning" may help to solidify a participant pool that aligns with BPA's preference. Analysis should be able to help determine what such a participant pool requirement may look like through the explicit analysis of the cost of seams. To the extent that seams impacts are difficult to quantify and model, we suggest that analysis should encompass both the quantitative and direct impacts of seams as well as the indirect and qualitative impacts of seams. This may include impacts on access to new resources, reliability implications, system planning implications, staffing implications and overhead in a single vs two market future, for example, and the impact of seams on determining the allocation of the costs and benefits of market expansion. Given the complexity of this analysis and the uncertainty involved, we recommend BPA's business case includes an indication of the firmness of the "leaning" if one market is selected over another, a discussion of what questions are still open, what might be needed to shore up support, and what could lead to a change in direction. This process should also conclude with a discussion of the future final decision-making process and how and when BPA intends to come to an official Record of Decision to join a DA Market.

Conclusions

PGP looks forward to seeing robust analysis and consideration of these concepts in BPA's decision process and business case development, and we look forward to continuing to engage with BPA on market design and development as well as in the decision process that is so impactful to our members. We appreciate BPA's strategic role in determining broader regional outcomes and the goal of being agile and adaptive in this decision process.

NW Public Power Organized Market Design Principles¹

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The NW Publicly Owned Utilities (NW Public Power²) recognize that centralized markets have been evolving as part of the Western power landscape. NW Public Power's mission is to provide reliable and least-cost service to the customers and communities we serve while meeting our evolving regulatory obligations. A successful organized market would be one that can help our utilities navigate the challenges of the changing operating environment while continuing to meet these bedrock obligations. The major elements of a centralized market, including its governance structure and market design, can be critical to achieving this threshold requirement.

Respects Existing Laws, Statutory Obligations, Regulations, and Local Regulatory Authorities

- Organized markets with different types of participants (e.g. IOUs, COUs, PMAs, etc.) must respect existing federal and state laws, statutory obligations, regulation, and local regulatory authorities and directives
- Market design respects Federal laws by which public bodies and cooperatives are entitled to preference and priority in the sale of Federally generated electric power.
- Resource Adequacy and Resource Sufficiency requirements do not supplant local regulatory authority for resource procurement.

Independent Governance Informed by an Open, Transparent and Representative Stakeholder Process

- The governance structure drives unbiased decision-making and balanced outcomes.
- There is a clearly defined process for the selection of the decision-making body³ that results in a composition of that body that is reflective of representative regions and participants.

¹ This paper is not intended to offer support or opposition for any specific new or expanded market proposals but provides NW Public Power's perspective on principles and elements that would ideally inform any centralized market offering for the Northwest. These principles are intended to provide the foundation for our ideal market design and governance, however, we recognize the development of any organized market will require trade-offs for all stakeholders and the end state proposal may not align with all of our principles. Our support for any particular market proposal will consider the full package of market design, governance and risks.

² Public Generating Pool (PGP), Northwest Requirements Utilities (NRU), PNGC Power and Western Public Agencies Group (WPAG).

³ The reference to the decision-making body is intended to refer to the highest-level of decision-making authority within the governance structure.

- Decision-making body, and individual members making up the decision-making body, can act without undue influence and do not have direct ties or interest in any market participant, the market operator, or single state or provincial government.
- Market participants,⁴ state representatives, power marketing agencies, and public power from all regions impacted by the market shall have organized forums to discuss issues, develop proposals, and make recommendations to the Board on these issues.
- Decision-making and stakeholder engagement occurs in a transparent and inclusive manner.
- A market monitor and/or independent market expert provides independent and routine review and reporting, evaluating the market design and function relative to fair and competitive market principles.

Resource Adequacy⁵ and Resource Sufficiency⁶ Requirements Promote Reliability, Ensure Equity and are Applied Consistently

- Market design includes resource sufficiency and/or resource adequacy frameworks that aim to ensure reliability and minimize the potential for a market participant to access market benefits without first adequately and independently demonstrating resource adequacy and/or resource sufficiency.
- Processes assure that participants offering resources to the market satisfy their obligations and ensure deliverability to the market.
- Market rules and participation frameworks accommodate participation and management of fuel-limited resources to maximize system benefits.
- Market rules and accreditation contemplate unique characteristics of different resource types such as flexible hydroelectric resources.
- Enforcement measures for non-compliance do not allow for Resource Adequacy or Resource Sufficiency compliance to be a discretionary economic alternative.
- Requirements and counting rules are applied equitably and consistently to all entities subject to tests.
- Mechanisms are in place to signal when the resource adequacy or resource sufficiency framework is not functioning properly.

Transmission Framework Honors Open Access Principles and Minimizes Cost Shifts

- Transmission framework recognizes the transition impacts from existing transmission frameworks (e.g., OATT framework) and minimizes or mitigates cost shifts to load and any adverse impacts to existing transmission rights.
- Transmission rights holders are ensured congestion/financial rights to mitigate congestion costs.
- Transmission planning and cost allocation processes fairly allocate transmission costs and recovery.

⁴ The term Market Participant is intended to be construed broadly to include entities with either load or generation in the market, including load-serving entities.

⁵ The term Resource Adequacy in this context references the capacity to reliably meet demand in a certain confidence interval over a given time horizon, usually longer term.

⁶ The term Resource Sufficiency in this context references a showing of resources with the appropriate resource characteristics that are available to meet demand on a shorter time horizon-usually day-ahead and real-time.

- Market design facilitates and informs interregional transmission planning.

Market Power Mitigation⁷ is Appropriately Applied and Recognizes the Unique Situation of Hydropower Systems

- Market power mitigation should result in energy prices that approximate prices that would occur in a competitive market.
- Market Power Mitigation should only be applied where the opportunity to exercise market power exists and should be effective at mitigating the exercise of market power.
- Mitigation methods accept and provide for the complex and dynamic nature of hydropower systems, operational constraints, and opportunity costs.

Transparent Price Formation Results in Fair Compensation for Services

- Market rules send proper price signals to accurately signal shortages and scarcity.
- Market rules send price signals that incentivize all resources to follow dispatch instructions.
- Market rules ensure compensation for the attributes and/or products required to meet reliability.
- Ancillary service and flexibility products value and recognize the scheduling flexibility that resources such as hydro and storage provide.

Accounting of GHG Emissions & Value of Non-Emitting Generation

- Dispatch and price formation incorporate the cost of greenhouse gas emissions consistent with state policies and pricing programs without inappropriately impacting market participants in states without greenhouse gas pricing policies.
- Accounting, data, and reporting methods are compatible with and support compliance with greenhouse gas and clean energy legislation of all states that impact market participants.
- Methodology supports the linkage of cap-and-trade programs.

⁷ Market Power Mitigation are measures taken to mitigate the market effects of any conduct that would potentially distort competitive market outcomes. Mitigation rules employed by RTOs and ISOs are designed to ensure that resources are able to bid their marginal costs, but are not able to exercise market power. Market power is the ability for a Market Participant to increase/decrease the market clearing price above/below competitive price levels for their advantage. Mitigation measures vary amongst different RTOs/ISOs but generally involves replacing a resource's offer price into the market with a defined reference level price.