

August 15, 2023

Seattle City Light Comments re: DAM Participation Evaluation

Seattle City Light (SCL) appreciates the opportunity to comment on BPA's first workshop in the public engagement process for establishing a policy direction on potential Day Ahead Market (DAM) participation. As both a BPA preference customer and an EIM participant, SCL supports and shares BPA's interest in DAM participation. SCL is evaluating its own DAM participation and actively monitoring CAISO's Extended Day Ahead Market (EDAM) Initiative and Phase 1 of SPP's Markets+ development.

BPA asked specifically for feedback on what unique elements should be included in its principles for DAM participation, using EIM and WRAP principles as a starting point. SCL recommends using the following seven principles to guide BPA's DAM participation:

- A. Efficient market design, market footprint, and connectivity should serve as BPA's primary guiding principles in its decision to join a DAM.
- B. BPA's DAM participation will be consistent with its statutory, regulatory, and contractual obligations. To maintain compliance, BPA will create and, if necessary, make changes to its operations and products to enable both to work within a DAM framework.
- C. BPA will maintain reliable delivery of power and transmission to its customers.
- D. BPA's DAM participation will be consistent with a sound business rationale.
- E. BPA will use both qualitative and quantitative analyses in its DAM decision.
- F. BPA will consider the proposed governance structure of a DAM in its decision, but balance governance against efficient market design, market footprint, connectivity, and other economic and reliability considerations. Because both markets have a governance structure that is adequate for purposes of a DAM, governance should be a secondary consideration in BPA's DAM decision.
- G. RTO participation should be a secondary consideration in BPA's DAM decision due to the uncertainty of a yet-to-be formed RTO in the west.

The comments which follow will expand upon SCL's thinking on some of the above proposed principles and provide detail as to why SCL feels these are important considerations for BPA to make.

A. Efficient market design, market footprint, and connectivity should serve as BPA's primary guiding principles in its decision to join a DAM.

Ensuring that BPA joins an efficiently designed market is hugely important to SCL as this is the primary way that the benefits of market participation are realized. A market designed to fit or favor only some entities' current operations may result in inefficiencies. SCL encourages BPA to adopt new approaches and products that would facilitate its market participation, rather than requiring the market rules that impact all market participants to accommodate BPA-specific issues. As a preference customer, SCL understands the need to work within the statutory requirements and operational limitations that BPA faces, however, doing so cannot come at the cost of market efficiency. Market design needs to work for all parties in the west, of which public power is a member of, but also includes IOUs, generators, and other entities that may not be BPA customers. Diminished market efficiency due to BPA's influence could also have the paradoxical and costly consequence of degrading the value of the market to BPA and its customers.

Another critical factor in DAM participation is the market footprint. The market footprint, including its size and number of participants, as well as the diversity of loads and resources, will have a considerable impact on the benefits that can arise from the market. While there is not a magic number for the size or number of participants necessary for an optimally functioning DAM, who is likely to participate in the market is a determinative factor in realizing benefits. California makes up the majority of the load in the west. If BPA is considering leaving the Western Energy Imbalance Market and joining a market that would not include this significant player, SCL recommends some type of footprint size threshold to ensure BPA is joining a robust, diverse market with widespread participation to be able to realize the benefits of DAM participation.

Similar to footprint, connectivity is another critical factor in being able to realize the benefits of DAM participation, and the two are inextricably linked in that realizing the benefits of a wider footprint is entirely dependent on having robust connectivity between the different areas of the footprint. SCL encourages BPA to thoroughly evaluate and discuss connectivity to each proposed market as part of the stakeholder workshops. Further, SCL recommends that BPA focus its efforts on ensuring that connectivity extends to all parts of the market footprint it is contemplating. If connectivity is limited to a certain region of a market footprint, it will be difficult for BPA and its customers to reap the benefits of DAM participation. Historically the majority of sales outside of the Northwest have been to California, in large part due to the capacity and connectivity of the AC and DC interties. This connectivity has provided decades of economic benefit to BPA customers and the region. A compelling case would need to be made to support a decision to shift away from a market that would optimize this connectivity, and in doing so, create a seam with this significant trading partner.

As BPA looks at footprint and connectivity, seams considerations will be a critical component of this analysis. Generally, it would be in BPA's best interest to choose a market that will minimize market-to-market seams. If connectivity within a market footprint is not as strong, then entities will be left to trade on the seams which, by nature, is more speculative. SCL is interested in getting a better understanding

of BPA's ability from a risk portfolio to enter into market-to-market transactions. Entities in the east have experienced difficulty with seams transactions, as noted in the presentation¹ by Potomac Economics on transactions between New England and New York ISOs. Notably, these challenges arise despite carefully crafted seams agreements. The complexity of seams in the west could produce unique congestion. In the east, market boundaries are largely drawn around states, creating distinct regions; this is not the case in the west. Instead seams boundaries will be around multiple large transmission owners within different regions, likely producing pockets of congestion that may prove difficult to optimize around. This type of congestion may not have a comparable case in the east where we can draw upon experience of those who have gone before us and charted a best practice to effectively mitigate these effects. SCL encourages additional study (a potential example that could be explored are the impacts of Invernergy's participation in MISO rather than SPP, and the resultant effects on MISO prices) to better understand seams-related impacts if BPA's DAM participation includes seams.

B. BPA's DAM participation will be consistent with its statutory, regulatory, and contractual obligations. To maintain compliance, BPA will create, and if necessary, make changes to its operations and products to enable both to work within a DAM framework.

As stated above, in championing efficient market design, SCL reiterates the need for BPA to exhibit flexibility in its operations and products should changes be necessary for DAM participation. SCL appreciates that BPA has laid the groundwork with customers throughout the 2028 Provider of Choice process that there may need to be future changes made to anticipated planned products and operations. These changes may impact load-following customers. Considerations about the impacts of these changes must be carefully thought through, but SCL recognizes that the need to conform to market rules may require flexibility by BPA and its customers.

E. BPA will use both qualitative and quantitative analyses in their DAM decision.

In the July 14 meeting, BPA indicated that it will develop a business case for both of BPA's business lines, and may primarily focus on potential qualitative benefits from DAM participation. It would be useful for BPA to identify the qualitative factors that it is considering beyond the DAM principles it develops and seek feedback on what qualitative factors are important to stakeholders. BPA staff indicated that to the extent BPA relies on quantitative analysis, it will look to the WMEG results and the CAISO EDAM Benefits Study. While SCL believes that useful insights can be drawn from both of these efforts, these studies were very broad and many assumptions had to be made in order to model theoretical markets with theoretical boundaries. Any study performed on a future market without actual data will yield uncertain results. If BPA will rely on either of these for its decision, SCL encourages BPA to hold time in this process to thoroughly review and discuss the assumptions and potential limitations of these analyses. It will be important for the region to have a full understanding of the analyses being relied upon to support the business case.

¹ https://www.iso-ne.com/static-assets/documents/2017/04/a2_first_year_evaluation_of_cts_4132017.pdf

SCL is concerned that heavy reliance on studies that have inaccurate assumptions will not be a useful predictor of future conditions or benefits. Moreover, primarily focusing on potential qualitative benefits for a decision that could have considerable economic consequences for BPA and the region is not adequate. Thus, in addition to utilizing these broader studies, SCL believes that it would be appropriate for BPA to conduct a more detailed cost benefit analysis, incorporating updated footprint assumptions, and the potential impacts of any seams that would emerge from its DAM decision.

F. BPA will consider the proposed governance of a DAM in its decision, but balance governance against efficient market design, market footprint, connectivity, and other economic and reliability considerations. Because both markets have a governance structure that is adequate for purposes of a DAM, governance should be a secondary consideration in BPA's DAM decision.

Governance is an issue that has received significant attention and has fueled numerous discussions around market participation. SCL agrees that governance is an important aspect to consider when exploring market participation, it is important to note that the governance structure necessary for a DAM is different than that would be necessary for participation in a full RTO. Further, the consideration of governance should balance against the most impactful factors in DAM benefits.

While the issue of independent governance persists for CAISO, elements like joint authority of the EIM Governing Body, and the Board of Governors mandate to execute decision making for the market as a whole should not be discounted. Further, the backstop of FERC tariff approval gives additional protection that non-California entities are not disparately treated or discriminated against. The recent "Letter from Regulators" announcing to the west that a process will convene to address governance may well remove the block that has left some entities looking for market alternatives. BPA stated in the first workshop that active engagement in market development-related processes will ensure that BPA can influence the development and implementation of these markets. SCL looks forward to hearing BPA's plan for participating in this governance process once it kicks off.

G. RTO participation should be a secondary consideration in BPA's DAM decision due to the uncertainty of a yet to be formed RTO in the west.

SCL encourages and appreciates that BPA is proactively planning and looking towards the future, which, in time, may include joining an RTO. However, because at present a multi-state RTO in the west does not yet exist and is not under consideration, tying a DAM determination to hypothetical RTO participation is speculative. Too much can and will change between possible DAM participation and an RTO determination. Choosing a DAM at this time will not limit or be determinative of BPA's RTO options at a later date. Thus, SCL recommends that BPA limit this process to the bounds of DAM participation. When the conversation is ripe to discuss RTO participation with the region, BPA should commence a separate stakeholder process to dedicate to that issue alone.

Conclusion

SCL recognizes the desire for BPA to conduct a swift process with its DAM participation determination given the rapid evolution of both EDAM and Markets+. Seattle also recognizes BPA's desire to be a leader in market design alternatives. That said, leadership does not mean unnecessary swiftness in decision-making to be an early adopter in either market alternative. Proper time and effort and both quantitative and qualitative analysis is necessary in making this significant decision. While time is at a premium, SCL encourages BPA to continue to be thoughtful, thorough, and efficient with the time allocated to the existing scheduled workshops and open to adding additional time for discussion of topics if needed, within the bounds of releasing a policy direction. This is a significant decision that will have widespread ramifications for the region, and a robust analysis and stakeholder process is necessary to fully vet the DAM options under consideration.

SCL looks forward to actively participating in the continued discussion on what is an exciting and dynamic next step towards DAM participation with BPA and the region.