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Seattle City Light

November 20, 2023

Seattle City Light Comments re: October 23, 2023 DAM Participation Evaluation Workshop

Seattle City Light (City Light) appreciates the opportunity to comment on BPA's third workshop in the public engagement process for establishing a policy direction on potential Day Ahead Market (DAM) participation. As a BPA preference customer, a transmission customer, and an EIM participant, City Light supports and shares BPA's interest in DAM participation. City Light 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.

These comments provide feedback in several areas related BPA's WMEG results, including the results of the footprint analysis, seams and market-to-market coordination, considerations for potential additional analysis, and a request for BPA to update its online materials. We also discuss related topics around governance and intertie transactions, and finally, provide comments on the overall process.

<u>BPA's WMEG results</u>

Footprint Analysis

Seattle City Light appreciates BPA's presentation of the WMEG results at the October 23, 2023, meeting. As participants in WMEG, City Light agrees with BPA's statement in the presentation that "the study is more illustrative of the impact of various market footprints than it is of specific market design elements." In that vein, WMEG results provide BPA with a useful tool to shape and inform this critical element of its DAM participation analysis.

At a high level, BPA's WMEG results indicate that the greatest benefits arise from either scenario where BPA is in an EDAM footprint; there are lesser benefits or increased costs for the Markets+ footprint scenarios. The benefits for the EDAM Bookend exceed the benefits anticipated from the Markets+ Main Split scenario by $105.9 million dollars annually, or more than 3.5 times greater than the *total* anticipated benefit of Markets+. At a high level, these results intuitively make sense. Considering that footprint and connectivity are the primary drivers of benefits in organized markets, it is not surprising that the WMEG results indicate that BPA would benefit the most from a single market footprint that maximizes BPA's interconnection with a footprint of diverse loads and resources.

While the dollar amounts associated with this analysis may not be precise, these results provide a useful indicator of the potential magnitude in difference of benefits between the markets. As we have noted in all of our prior comments, a compelling case is needed to support a decision to shift away from a market that would optimize the connectivity between the Pacific Northwest and California. The WMEG results raise serious questions as to whether BPA will be able to do so.

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The table below contains BPA's net cost for each footprint in the analysis (excluding wheeling revenue) and calculates how that net cost compares to the net costs for business as usual and the EDAM Bookend Scenario.

	Case					
Cost/Benefit ($ millions)	**EDAM Bookend (2026)**	**Main Split (2026)**	**Alt Split 1 (2026)**	**Alt Split 2 (2026)**	**Alt Split 3 (2026)**	**Alt Split 4 (2026)**
Market Footprint	US WECC in EDAM; BC Hydro only in M+	PAC, CA, WAPA SNR in EDAM; rest of WECC in M+	PAC, CA, SW in EDAM; rest of WECC in M+	PAC, CA, NW, WAPA SNR in EDAM; rest of WECC in M+	PAC, CA, SW, ID, MT in EDAM, rest of WECC in M+	PAC, CA, NV, ID in EDAM, rest of WECC in M+
Where is BPA?	BPA in EDAM	BPA in Markets+	BPA in Markets+	BPA in EDAM	BPA in Markets+	BPA in Markets+
Net Cost (excluding Wheeling)	-474.6	-368.7	-358.0	-450.7	-231.9	-276.6
Net cost compared to BAU ($-339.9M)	-134.7	-28.8	-18.0	-110.8	108.0	63.3
Net cost compared to EDAM Bookend (-$474.6M)	x	105.9	116.6	23.9	242.7	198.0

Aside from the clear benefit shown in the EDAM footprint scenarios, the results of the Alt Split 1, 3, and 4 scenarios provide indication that in a Markets+ footprint that is smaller than the Main Split, the associated benefits are even lower. This is particularly acute under the Alt Split 3 and 4 footprints, where BPA's outcomes dramatically worsen as a participant in Markets+. These results are notable, because it is likely any future Markets+ footprint would be smaller than what is modeled in the Main Split analysis.

Seams and Market-to-Market Coordination

In response to the presentation from BPA and E3 on October 23, there were questions from stakeholders about whether the WMEG study overstates the impact of seams and the potential associated costs. We believe it is reasonable to evaluate whether there might be different impacts than modeled. However, it is important to note that E3 did not develop these assumptions in a vacuum. Instead, the inputs to the analysis were ultimately driven by the input of WMEG participants— including BPA—based on what they provided as known and likely costs.

The questions around seams and potential market-to-market coordination are an important part of the consideration of EDAM and Markets+. As a part of the overall conversation around the development of Markets+, seams agreements are often pointed to as a panacea for any and all seams-related issues that could potentially arise. City Light is concerned that the current discussion around seams may be underestimating how difficult it will be to capture potential benefits through coordination. As noted in E3's presentation, reducing the cost of transacting between markets may take significant effort to adapt market design and practices. We cannot assume that resolving seams issues will be quick, simple, or entirely effective. As such, City Light believes that it will be important to test the assumptions of what can be accomplished through seams agreements as a part of this process.

A seam between EDAM and Markets+ would take significant time and effort to attempt to resolve. Even Eastern ISO/RTOs that have been operating for decades took many years to establish seams agreements for market-to-market transactions, and still are lacking adequate solutions that minimize risk and maximize trading opportunities. Furthermore, a seam between Markets+ and EDAM may prove to be additionally complicated. For example, seams agreements are most conducive between two full

RTOs—where there is a common BA and transmission service provider for all market participants—whereas a Markets+/EDAM seam would be complicated by the multiple BAs and transmission service providers in each market, the voluntary participation of its members, and a lack of negotiating and/or operating authority of the market operators. Additionally, market ties in the Eastern RTOs comprise de minimus transmission capability relative to market size. By contrast, the AC and DC interties between the Pacific Northwest and California are capable of exporting roughly a quarter of the Pacific Northwest generation and supplying 15% of CAISO load, representing a major value for regional transfers.

The only certain way to eliminate the risk associated with a potential seam is to not create it in the first place. While there is potential to reduce the impact of seams through seams agreements, in light of the complicating factors mentioned above and the overall uncertainty around where seams will be located, there are more questions than answers about a potential Markets+/EDAM seam at this stage. To better understand the potential risks of this seam and how BPA anticipates they might be mitigated, this process would benefit from detailed discussion of this issues that might be resolved through a seams agreement, how those actions would result in improved financial outcomes for BPA, and the likelihood of accomplishing this goal. BPA and other entities considering DAM participation will need to weigh the risks and benefits of each market option based on likely outcomes, not on a hypothetical best-case scenario for seams coordination.

Considerations for additional analysis

In the October 23 workshop, there were questions around whether BPA might be able to expand on its existing WMEG results through additional scenario or sensitivity analysis. As a WMEG participant, City Light questions whether making changes to this study would provide the most useful information for BPA's DAM analysis. We think there is potential to further confuse or complicate the discussion by making changes to the assumptions and variables, particularly to produce BPA-only results in a study that involved many entities from across the West. Further, because the WMEG effort concluded several months ago, it is unclear whether this would be supported by WMEG participants who provided information for the group analysis.

We have previously encouraged BPA to undertake additional cost benefit analysis similar to what is being conducted by Seattle City Light and other regional utilities with The Brattle Group as a part of its DAM Participation consideration and believe this may be a more useful path at this stage in the process, rather than trying to revamp the WMEG study.

If BPA does seek additional analysis though the WMEG lens, we believe it would be important to address several issues:

- Additional analysis should allow for like-for-like comparisons between years and should also limit the number of elements that are changed in order to gain a clearer understanding of the primary items driving results.
- BPA should analyze other footprints that reflect potential seams between BAs within the Pacific Northwest. BPA noted on slide 11 of its presentation that the footprint will be influenced by decisions of many entities who will decide between EDAM, Markets+, and RTO West. With that in

mind, it would make sense for BPA to examine a more granular breakdown of the market footprints, with seams that are more complex than anticipated in WMEG. A reasonable first look would be to look at a footprint that only includes the entities currently funding Phase 1 of Markets+. These alternative footprints would be important to evaluate considering the results for Alt Split 3 and Alt Split 4 anticipated increased costs for BPA under smaller Markets+ footprints.

Request for update to BPA's WMEG Presentation

BPA's presentation from the October 23 meeting included an error that was mentioned at the workshop, but not updated in the meeting materials. The tables on slides 28, 29, and 30 have incorrect +/- signage for the change in net costs calculated under Alt Split 3 and Alt Split 4 results. As stated in the bullets summarizing the results on slides 28 and 29, both of those scenarios would result in a "potential decreased benefit to Bonneville" however the signage on slides 28, 29, and 30 matches prior slides where the analysis found an increased benefit. We ask that BPA update these slides to correctly reflect the results of the analysis, as this error has created confusion for stakeholders and other interested parties and has resulted in misunderstanding of the potential costs of these footprints.

<u>Governance</u>

BPA followed up the presentation of the WMEG results with brief discussion on governance. Specifically, BPA stated "while the WMEG results suggest significant benefits from a West-wide market footprint, BPA recognizes…the west has yet to agree on a governance model that works for the entire region, which has been a barrier to the development of a single west-wide market."

Considering BPA's stated concern around governance, and that BPA had WMEG results showing the $105.9M difference in benefits between the EDAM Bookend and Markets+ Main Split scenarios since at least May 2023, it is particularly surprising that BPA has declined the opportunity to participate in the West-Wide Governance Pathway Initiative (WWGPI). This initiative seeks to resolve the exact issue that BPA identified above. City Light is concerned that BPA is not acting in its customers' best interests by not pursuing this effort, which has considerable support from within California, including from various state agencies, and key stakeholder groups that are necessary to reach a resolution.

Currently City Light and PNGC are the only PNW public power entities participating in the WWGPI. Despite BPA's stated interest in being a leader in the development of regional markets, BPA is missing a critical opportunity to shape the potential governance for markets in the West by sitting on the sideline for this process. By not participating, BPA calls into question how serious it is about its concerns or interests in governance. It also raises questions of how many benefits BPA is willing to leave on the table at a cost to its customers.

Intertie Transactions

As mentioned above, we are concerned that it will be difficult to resolve seams issues in a manner that will meaningfully reduce the costs that are inherent to implementing two different markets across major regional interconnections. For BPA, the impact of this is particularly acute in terms of creating a seam across the interconnection with California, as these are highly valuable assets and creating a hurdle/friction at this location could greatly impact its ability to achieve benefits. Even with a seams agreement, there could still be large impacts on the value of seams transactions, as well as overall liquidity compared to historical activity.

While there are efforts to ensure that interchange transactions will occur between two potential markets, the intertie bidding opportunities will change from the current construct we have today. It will be important for this to be analyzed by BPA as it considers its DAM participation.

To continue trading at the border of CAISO, BPA and its customers may shoulder large spread risks trading between Markets+ and EDAM, betting on the relative pricing and cleared MWs at the ties between the two markets prior to either market clearing. This additional risk could limit BPA's ability to participate in intertie bidding, which would also limit its ability to benefit from any price spread between the markets. Because of the associated risks, it is possible that most of this trading would be left to marketing shops with more allowance for speculation and risk than BPA and other utilities have.

City Light asks BPA to provide additional detail about how it envisions its intertie bidding participation to evolve if there are two markets. As a part of that analysis, BPA should examine whether intertie transactions could be hindered due to increased risk and what the impacts to BPA might be if there are changes to how BPA transacts with CAISO.

<u>Remaining DAM Participation Process</u>

In our comments submitted on October 15, 2023, City Light asked BPA to provide clarity around its DAM decisional process, as well as additional discussion of how it will be utilized to make a funding decision for Phase 2 of Markets+. The questions posed in our prior comments remain unanswered, and City Light requests that BPA address these issues in its upcoming workshop on November 29.

BPA's initial presentation indicated that the pace of its DAM decision process needs to match the pace of the development of EDAM and Markets+ in order to ensure BPA can influence the development and implementation of these markets. BPA also stated that it would coordinate through this public engagement process to develop its business case to ensure BPA adequately addresses concerns and has broad support for a policy direction regarding DAM participation, as well as a potential indication of a leaning toward a DAM.

Over four months into this process, BPA remains on track to meet its goal of matching the pace of this process to the rapidly developing market options. However, considering the limited number of meetings that remain, it seems unlikely that it will be able to meet its objective of adequately addressing raised concerns and gaining broad support for its business case, as many issues raised by stakeholders in numerous rounds of comments remain unanswered. We believe this process would benefit from BPA articulating precisely what questions it will resolve in the remaining months of this effoet and what questions remain to be answered in later phases of analysis.

Additionally, BPA should provide an update on the timeline for any potential Markets+ Phase 2 decisions, and to what extent the timing of the DAM Participation process is being driven by a real or perceived need to make a funding decision by a date certain. City Light is interested to hear how BPA is considering its potential participation in Phase 2 of Markets+, and if there are any criteria (i.e., tariff approval or protocol development) that would need to be met in order for BPA to determine it has adequate information about Markets+ to support a funding commitment.