

May 3, 2024

RE: Powerex's Comments on Bonneville's Day-Ahead Market Participation Policy Paper

Powerex Corp. (Powerex) appreciates the opportunity to comment on Bonneville Power Administration's (Bonneville) day-ahead market participation workshops and the Staff Recommendation on Day-Ahead Market Participation Policy Paper (Policy Paper) dated April 2024.

The Policy Paper is an important step in Bonneville's robust decision-making process and reflects its ongoing commitment toward important regional initiatives that has ultimately informed the recommendations in the Policy Paper, including:

- California Independent System Operator's (ISO) Extended Day-Ahead Market (EDAM) development since 2018;
- Western Energy Imbalance Market's Governance Review Committee from late 2019 through February 2023;
- Western Resource Adequacy Program (WRAP) with Southwest Power Pool (SPP) selected as the program operator since 2019; and
- SPP's Markets+ since 2022.

Bonneville leadership has been instrumental in the development of regional initiatives, including the governance and market design of Markets+, for the benefit of its customers and the region at large. Bonneville's contribution to Markets+, and the thoughtful and comprehensive Policy Paper, were key drivers in the regional support letter¹ dated April 12, 2024. This letter was signed by a broad and diverse group of 26 western stakeholders expressing support for continued development of Markets+ and highlighting some of the preferred aspects of the Markets+ tariff and market design.

Powerex believes Bonneville has appropriately identified the key considerations in its day-ahead market selection and Powerex supports the conclusions in the Policy Paper and Bonneville's staff recommendation as further outlined below.

Independent Governance

As identified in the Policy Paper, Bonneville's participation in any day-ahead market requires independent market governance that is not obligated to, or disproportionately influenced by, any single state or entity. Markets+ is the only day-ahead market option that meets this requirement with its stakeholder-driven, inclusive and independent governance framework, an initial market design developed under such a governance framework, and a fully impartial market operator. The governance of Markets+ will also support equitable outcomes with a durable framework for years to come as Markets+ continues to evolve. Powerex agrees with Bonneville staff's assessment and fully supports Bonneville's continued insistence on an inclusive,

robust and independent governance framework as a fundamental prerequisite for its participation in any day-ahead market.

Ensuring Adequate Supply

As stated in the Policy Paper, Bonneville's primary goal as a participant in a day-ahead market is to provide a firm power supply for its long-term power sales contract customers in the most economical, efficient, and reliable manner. This goal will be supported through the Markets+ requirement for a common resource adequacy program, enabled through WRAP, ensuring that there are adequate resources for regional reliability and that all market participants contribute equitably without any systematic leaning on others. Markets+ is the only day-ahead market option with a common resource adequacy requirement and Powerex agrees with the conclusion in the Policy Paper.

Price Formation and Market Power Mitigation

The Policy Paper recognizes the importance of price formation and market power mitigation as differentiating market design elements. In Powerex's view, an organized market can only be well-functioning and equitable if it has transparent price formation with price signals and compensation that accurately reflect grid conditions and the value of products and services provided. Markets+ achieves this important objective.

In addition, and as discussed in the Policy Paper, market monitoring is an important cornerstone of an organized market to protect against the exercise of market power and potential manipulation. Markets+ will achieve this objective in a variety of ways, including employing the conduct and impact framework used in other organized markets, as well as a Seasonal Hydroelectric Offer Curve (SHOC) framework to formulaically account for the differences in and flexible nature of hydro resources. Powerex agrees with Bonneville's assessment that the Markets+ design elements will ensure accurate prices, that resources are appropriately compensated, and that appropriate monitoring and protection against market power are in place. The Markets+ approach in these areas are significant improvements over available alternatives.

Transmission and Congestion Rent

Under the Markets+ design, congestion rents will be delivered to those transmission customers that hold monthly (or longer) firm transmission rights for both network service and point-to-point transmission rights as discussed in the Policy Paper. Powerex agrees that this key market design element will generally provide the appropriate congestion revenue to each customer while also providing a strengthened investment incentive for firm transmission service. Not only will this help drive equitable congestion rent outcomes, it will help protect the revenue for all transmission service providers within the market footprint, an important consideration for Bonneville and its customers.

In addition, the flow-based approach to transmission availability in the Markets+ design will unlock more reliability and economic benefits on the existing transmission system by removing scheduling constraint inefficiencies within the footprint.

While not specifically highlighted in the Policy Paper, Powerex also notes that the Markets+ Transmission Use (MTU) Rate will protect the revenue requirements for participating transmission service providers using a formulaic approach that will minimize potential transmission cost shifts.

Greenhouse Gas Accounting

Powerex agrees with the assessment in the Policy Paper that the Markets+ design makes significant improvements to Greenhouse Gas (GHG) accounting, a topic that has been challenging for many in the west, including within the California ISO's Western Energy Imbalance Market since the market went live. Although Bonneville is not subject to state requirements, Bonneville is uniquely situated as an advocate for its geographically diverse customers who purchase from Bonneville's mix of both federal and non-federal resources.

Powerex agrees it is both beneficial and necessary that the Markets+ design enables the attribution of energy from a resource when it is economically dispatched by the market to a specific load that has procured that supply via a forward commitment. Powerex understands this is a necessary tool to honor forward contractual commitments between Bonneville and its customers who have contracted for that power, as well as others across the market footprint with other forward contract arrangements.

Markets+ has additional work underway to further refine the GHG accounting and reporting framework and Powerex has full confidence the stakeholder-led working group will find transparent solutions. Markets+ is the only solution that not only provides an appropriate and equitable approach, but also provides a robust stakeholder framework to meet evolving requirements in the years to come.

Seams

Seams have been emphasized by some entities as a reason not to pursue Markets+. While careful seams coordination will be required between EDAM and Markets+, Powerex agrees with the Policy Paper that seams are manageable and that they must be assessed relative to the equitable allocation of superior benefits anticipated in Markets+. Seams exist today across the Western Interconnection – between balancing authority areas, transmission service providers, resource adequacy programs, jurisdictions with different GHG policies and more – and these will persist under one day-ahead market or two. Just as Bonneville staff state in the Policy Paper, Powerex has full confidence in the experience of all entities involved to find efficient seams solutions. Furthermore, Powerex believes Markets+ is the only solution that protects the equitable allocation of benefits at these many seams.

Potential Regional Transmission Organization Formation

Powerex agrees with the staff assessment in the Policy Paper that SPP offers a path for those entities who may seek a path to a Regional Transmission Organization (RTO). SPP is independent today and has been from the outset. SPP also has proven experience operating a multi-state RTO and managing related seams. SPP is an experienced facilitator of stakeholder-led solutions, including for the west. It is well positioned to assist, should a subset of Markets+ participants elect to pursue full RTO participation or otherwise consolidate balancing authorities or transmission service provider service territories within the Markets+ footprint.

West-Wide Pathways Governance Initiative

Powerex recognizes that Bonneville will continue to monitor the Pathways initiative. As Bonneville notes, achieving the objective of Pathways likely requires modification of California legislation, which has not gained traction in the past.

More importantly, Powerex believes that the goals of the Pathways initiative – even if fully realized – will not provide the full suite of elements necessary to achieve an acceptable initial and evolving regional day-ahead organized market. As demonstrated by the Markets+ tariff filing and the April 12, 2024, regional support letter, a stakeholder-led governance framework supported by an independent board and a fully impartial, non-participating market operator, results in a market design that can best achieve regional and local reliability, affordability and environmental goals while doing so in an equitable manner that gains broad and diverse support.

Pathways, in contrast, proposes to adopt California ISO's EDAM/EIM platform as the initial market design, which was designed under the existing California governance structure through a California ISO staff-led process. Pathways does nothing to address the primary role of California ISO staff in driving market design choices in the future, nor does it fully address the conflicts of interest that arise from California ISO participation in the market as a Balancing Authority Area. If the objective is to have one west-wide market, Markets+ is the only viable solution, with California generation, load-serving entities, transmission service providers and balancing authorities, including California ISO, joining Markets+. Only Markets+ has an initial market design that was developed under an appropriate governance framework and has the complete governance framework necessary to enable market evolution.

West-Wide Market Formation

Powerex supports Bonneville's measured interpretation of industry study results as a useful tool to estimate the potential range of production cost savings associated with organized day-ahead markets as discussed in the Policy Paper and as presented in an earlier workshop. While these studies may provide some limited information in this regard, there are obvious limitations. Powerex notes that these types of studies can be quite sensitive to certain input assumptions, including the modeled hurdle rates between markets that may suggest less trade between markets than what is likely to occur in practice. Market design details are not well captured within these models, so it is important to evaluate the impacts of market design and governance on the overall allocation of benefits. Thus, model results for either market must be interpreted with caution. For this reason, Powerex supports the quantitative and qualitative evaluation principles defined in the Policy Paper.

Conclusion

Powerex appreciates the extensive work effort captured in the Policy Paper. Powerex also recognizes that Bonneville and its customers have helped shape the Markets+ design to ensure that Markets+ will properly value the clean and flexible federal hydro system while continuing to allow Bonneville to reliably serve its preference customers with low-carbon firm power. Markets+ is also expected to provide a durable framework for preserving third party investment in the federal transmission system.

As Bonneville proceeds with its public process, its decision to fund and join Markets+ will help others finalize their decisions and will play an important role in the region toward achieving a well-governed and well-designed western market with broad participation.