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Submitted Electronically

RE: Draft EIM Phase V Close-out Letter

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Executive Summary

The Public Power Council (PPC) appreciates the opportunity to comment on BPA's draft EIM Phase V Close-out Letter (Draft Letter) and on BPA's decision on EIM participation. PPC has actively participated in the numerous workshops held during the five-phase stakeholder process, providing feedback to BPA through written comments, testimony in the BP-22 case, and verbally at workshops and other forums. In all of these venues, PPC has consistently identified important factors to make EIM participation a success and to ensure that EIM participation provides value to BPA's preference customers consistent with the agency's strategic objectives. These factors include the need for: transparency, accountability, and rates that reflect the benefits of EIM participation. PPC continues to find these areas critical for providing value to BPA's preference customers and has several recommendations for the agency to achieve these goals.

Additionally, the agency has highlighted gaining experience in the EIM as one of the major benefits of participation and a source of future value for customers. PPC is supportive of BPA's interest in gaining experience and using that experience to pursue markets that develop more value for its preference customers by properly compensating BPA for the value of its generating resources. PPC has some recommendations for the agency on how best to leverage this experience to produce value for preference customers and believes that developing a cohesive, long-term strategy on market development and participation is an important first step for the agency to achieving this common goal.

The energy landscape in the West is changing rapidly and BPA's relationship with its customers is evolving, which is framing the discussions on post-2028 products and services. PPC does not see BPA's decision to participate in the EIM as a one-time decision never to be revisited, but instead as a component of the agency's business that is aimed at achieving specific objectives and that should be regularly evaluated to see if those objectives are being met. At the same time, this decision should not prevent or hinder BPA's ability or commitment to explore other market opportunities. To the contrary, the agency should invest resources in exploring other market opportunities that enhance the value of its resources and allow the agency to provide competitive products and services to its customers. BPA should use the experience gained in the EIM to inform these efforts.

We look forward to continued discussions with BPA on this and other market issues and appreciate the agency's intent to pursue high-value opportunities for its customers. It will take ongoing collaboration, open communication, and a willingness to adjust from both BPA and preference customers in order to make this potential value a reality.

We appreciate the opportunity to comment and all the work that agency staff has done during this process to share information with customers.

PPC Members' Role in Funding EIM Participation & the Importance of Benefits in Rates

In BPA's Record of Decision on EIM Policy, the agency cites the need to be "ever diligent in exploring ways to maximize the value of the federal power and transmission systems."¹ We agree. All PPC members are statutory preference customers of BPA and represent over 90 percent of BPA's Tier 1 sales. Overall, Northwest public power is the largest purchaser of BPA's power products and services

¹ Administrator's Final Record of Decision on Energy Imbalance Market Policy, page 16

and is among the largest purchasers of BPA's transmission products and services, funding nearly 70 percent of the agency's total power and transmission costs.

As BPA is a self-funding agency and covers its costs by selling its products and services, this means that PPC members will bear the majority of the impacts from BPA's participation in the EIM. These impacts could be positive or negative. While it is understood that BPA's intention in joining the EIM is to provide additional value to its customers, whether that value is actually realized will be subject to the design of the market, the manner in which BPA participates, the effectiveness of BPA's own performance and BPA's rate policies allocating the costs, benefits, and risks of participation.

Currently, these policies fail to reflect the value cited by the agency in its decision to join the EIM.² PPC has consistently, throughout the stakeholder process and in rate case testimony, advocated for Power rates to include the risk-adjusted expected benefits of BPA's EIM participation and ensure there is balanced exposure to risk and benefits. As described in PPC's direct testimony on the issue:

*The E3 study estimates that potential EIM dispatch benefits may be as high as \$47.1 million annually. Limiting benefits included in rates to the estimated BP-22 rate period costs ensures customers will see no net rate benefits of potential EIM participation without limiting potential risk exposure of financial losses associated with EIM participation. BPA should include benefits of EIM participation in rates based on the best available information.*³

It is true that any power revenue or dispatch benefits in excess of those forecast will contribute to building Power reserves, but as stated in PPC's BP-22 Direct Testimony:

*We are concerned that a proposal to raise rates by substantially reducing or offsetting the best available expectation of net secondary revenues without broad customer support is fundamentally inequitable and goes against the spirit of the Regional Dialogue construct.*⁴

While this statement was made in reference to BPA's last-minute proposal to include revenue financing in Power rates (which was pursued after customers expressed their distaste for the agency's proposal to build reserves through modifying its forecasting methodology for net secondary sales) it also holds true for the expected revenues and dispatch benefits resulting from Power Services' EIM participation.

As those funding nearly 70 percent of BPA's total costs, PPC members would like to reiterate the importance of ensuring that the actions taken by the agency provide the customers with competitive products and services as intended. This will require working with customers to understand their tolerance to risk exposure through the EIM and to work together to develop rate mechanisms consistent with customer preference.

² PPC takes serious issue with BPA's characterization of the treatment of assumed EIM benefits in BPA power rates as a precedential policy position that the Administrator has adopted as part of the BP-22 Final Record of Decision. See additional discussion of this issue in Appendix A.

³ Deen & Linn, BP-22-E-PP-01, page 20

⁴ *Id* at 9.

Evaluation of PPC's Principles for EIM Participation

Similar to BPA, PPC members developed and adopted principles to evaluate the agency's planned EIM participation. These principles are included as Attachment 1. These principles, adopted in 2019, are largely consistent with those adopted by BPA. In evaluating whether the agency's planned participation meets these principles, PPC identified one important exception which could be addressed by adopting specific measures after BPA begins its EIM participation.

The concern is with PPC's principle #4: "BPA's participation is consistent with a sound business rationale and advances the objectives of BPA's Strategic Plan, including providing competitive products and services, by capturing the full value of its power and transmission system."

Under the current framework, the agency's participation will not advance this objective. Failure to pass benefits on to customers through lower Power rates while passing through cost and risk is not consistent with BPA's strategic plan, the balance originally crafted in preference customers' power contracts and sets a poor precedent for the customers' evaluation of future market opportunities. Additionally, without full and transparent reporting on BPA's EIM participation, it will be difficult to determine if BPA's EIM participation is consistent with sound business principles. We urge the Administrator to mitigate these concerns with additional commitments in the final decision document.

PPC Proposed Commitments to Address Preference Customer Concerns

PPC members have a diversity of perspectives on the potential for BPA's EIM participation to benefit preference customers. Despite these differences, there is consensus on important steps BPA can take to make its participation in the EIM as successful as possible. As discussed above, the agency's success in the EIM, if it chooses to participate, is an interest we all share.

There are several areas where commitments from BPA to provide additional transparency, accountability, and sharing of benefits with customers will improve the likelihood that BPA's participation in the EIM will be beneficial to BPA's preference customers. Each of these recommendations is offered to specifically address areas of concern and/or potential barriers to success identified by PPC members.

Adequate Recognition of Benefits in Power Rates

Concerns/Potential Barriers to Success:

- BPA does not adequately account for expected EIM benefits in future rate cases to lower Power rates.
- BPA fails to develop any mechanisms for the equitable accounting of benefits and risks in rates.

Proposed Solutions:

- BPA commits to developing a mechanism for including secondary sales benefits associated with EIM participation in BPA rates in BP-24 and subsequent rate cases.
 - This goes beyond the current commitment to have workshops to discuss potential mechanisms, and rather is a specific commitment to develop such a rate mechanism.

- BPA commits to an ongoing BPA-calculated assessment of the benefits of EIM participation, which will be regularly reported to customers.
 - As much as possible, BPA should be consistent with the analysis it uses to support business decisions, such as continued participation in the EIM, and the analysis used in rate setting.
- In partnership with its preference customers, BPA develops a methodology to quantify the secondary revenue benefits resulting from participation in the EIM during the BP-22 period. This methodology will be reviewed and improved on in subsequent rate cases.
- To ensure benefits from the BP-22 period are reflected in power rates, secondary revenue benefits resulting from BPA's participation in the EIM during the BP-22 rate period are quantified and BPA works with customers to identify a mechanism for crediting BP-24 rates to reduce costs for power customers. BPA could include that mechanism in the BP-24 Initial Proposal.

Additional Discussion:

As described above, this is a key component of delivering value to PPC members and without a commitment to develop mechanisms to return benefits through rates, the benefits used to justify BPA's participation in the EIM are not being delivered to customers.

Transparency & Metrics

Concerns/Potential Barriers to Success:

- A lack of transparency and accountability related to BPA's participation.
- Failure to develop or put forward any realistic metrics that BPA will use to measure its participation performance and/or engender accountability.

Proposed Solutions:

- BPA commits to providing metrics and regular reporting on additional areas related to its EIM participation to help preference customers understand the impacts of BPA's participation on their power products and transmission services.
- BPA commits to working with customers to develop an agreed upon set of metrics that will provide meaningful reporting.
- The agency develops its own methodology for estimating benefits of EIM participation for the purposes of ratemaking and evaluating BPA's participation.
- In order to assess the impacts of BPA's rate and policy changes made to accommodate EIM participation, PPC offers this initial list of areas where metrics should be developed and reported on regularly (quarterly or more frequently if practical):
 - Dispatches deemed delivered to California (quantity and associated premium/costs)
 - "Unspecified" purchases made through the EIM (quantity)
 - Resource Sufficiency (RS) Test trends
 - Transmission donation and use trends
 - Comparison of LAP/LMP to Mid-C index to understand impacts of Ancillary Service price changes

Additional Discussion:

BPA has shared that there are challenges to committing to reporting on specific metrics. This leads to customer concerns that no metrics will be shared. If there are “challenges to committing to reporting on specific metrics,” customers question whether there will be a way to determine if EIM participation is adding value to BPA and its preference customers.

At the same time, PPC understands that not all metrics can be reported due to concerns about exposing BPA’s bidding strategies. A possible solution to address BPA’s commercial information concerns would be to have a confidential report (subject to a Non-Disclosure Agreement) provided to customer groups, or representatives that are not EIM participants, where no commercial conflicts with BPA exist. Alternatively, PPC is willing to work with BPA to develop alternative metrics that address customers’ needs while protecting BPA bidding strategies. Regardless, the need to protect bidding strategies should not be broadly applied to prevent BPA from sharing information with its customers that is important to understanding the agency’s performance and subsequent impacts to customers resulting from EIM participation.

Additionally, PPC continues to have significant concerns with the use of the CAISO benefits report as the sole assessment of benefits BPA receives through EIM participation. This analysis is based on simplified assumptions and while it is one data point which provides *some* information about BPA’s participation, these estimates are not accurate enough to be used in rate setting and should not be used in decision-making. There should be some consistency in the information used to assess the success of BPA’s EIM participation and the benefits include in rates.

Commitment to Long-term Strategy and Maximizing Benefits to BPA Customers

Concerns/Potential Barriers to Success:

- BPA does not commit adequate resources to/will not be open to exploring other organized market options that develop.

Proposed Solutions:

- BPA commits to taking a proactive/leadership role in pursuing/developing the Markets option(s) beyond EIM that best meet(s) the needs of customers and BPA.
- In addition, BPA develops a long-term strategy on organized markets and clearly demonstrates how that strategy is related to being the provider of choice post-2028.
 - This could be an addendum to agency’s current strategic plan.
- BPA must commit sufficient resources to this effort to ensure success.

Additional Discussion:

BPA has cited the experience it will gain in the EIM as one of the primary benefits from joining at this time. This experience is most valuable if the insights gained through this experience allow the agency to take a leadership role in developing other market opportunities in the West. This leadership will need to come from all levels of the organization and will need to be focused on advancing BPA’s longer-term goals as well as near-term issues.

One of the agency's strategic goals is to address market and regulatory barriers to capturing the clean energy and capacity value of the Federal Columbia River Power System. BPA's strategic plan states that:

BPA will continue to engage in ongoing state and federal regulatory processes and the development of new markets by informing policies, standards and practices to ensure fair treatment and valuation of FCRPS products and services. Our primary focus is on capturing the full value of our flexible, low-carbon and reliable generation portfolio in resource adequacy policies, emerging clean energy requirements and potential carbon reduction strategies.⁵

BPA should work to create an addendum to its strategic plan that evaluates the effectiveness of different policies or market designs in meeting this objective and work with preference customers to advocate for these policies and market designs as regional markets and programs are established.

Accountability

Concerns/Potential Barriers to Success:

- BPA does not continue to advocate for market design issues that will benefit its customers.
- BPA does not track its performance in the EIM.
- BPA does not appropriately pass on benefits to customers or will inappropriately expose them to risk.

Proposed Solutions:

- Establish a clear owner/champion of BPA's market participation and performance.
- Develop an agency Key Strategic Initiative related to market performance and implementation of the agency's longer-term strategy on markets.
- Include clear expectations of "success" for EIM participation or markers for failure that indicate that exit is better for customers. If these success factors are not achieved BPA should remove itself from the EIM.

Additional Discussion:

PPC understands that results of EIM participation should be evaluated based on longer-term trends and as stakeholders we must understand the potential volatility in results over the short-term. BPA should not shy away from establishing success criteria for fear that stakeholders will demand withdrawal from the EIM after short periods without optimal results. To the contrary, without clear goalposts on what the agency views as success, it may be quite challenging to assess whether participation is successful. In addition, without clear goals the agency and stakeholders may have differing views on what constitutes "success." BPA's business case assumes a benefit of \$29-34 million.⁶ Without additional information, it would appear to PPC that results systematically falling below that estimate indicate participation that is inconsistent with BPA's business plan and that therefore is not meeting the agency's expectations for success. If this is not the case, BPA should

⁵ BPA 2018-2023 Strategic Plan, page 38

⁶ Administrators Record of Decision on Energy Imbalance Policy, page 120

establish specific quantitative success metrics where possible and continue to provide qualitative assessments where benefits cannot be reasonably quantified.

In any case, tracking the results of EIM participation will be critical. PPC seeks clarification on commitments and accountability in this regard in the Final Phase V Close-out Letter.

Conclusion

As the agency embarks on this new chapter, PPC looks forward to working with BPA to make it a successful one. BPA often cited the rapid development of markets as driving the need for a timely entry into the EIM. Our hope is that the agency will take this opportunity to be a leader in those developments, working closely with its customers to deliver value, instead of allowing itself to be swept along in evolutions driven by others. With the recommendations outlined above, we believe that this endeavor can bring value to customers as BPA intends. We look forward to continued collaboration and exploration of this new frontier and hope to build additional trust between the agency and its preference customers as we approach contract decisions for services post-2028.

We have also included a few requested clarifications on BPA's Draft Phase V Close-out in Appendix A of this document.

Thank you for your consideration of these comments.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Scott Simms', with a stylized, cursive script.

Scott Simms
Executive Director, Public Power Council

Appendix A: Clarifications Sought in BPA Draft EIM Phase V Close-out Letter

PPC offers the following requests for clarification on items in the Draft EIM Phase V Close-out Letter (Draft Letter) in the final version:

- Governance Developments
 - In the Draft Letter BPA states, “While the CAISO asserts that California law requires the BOG to retain ultimate approval authority, the proposed joint authority model represents progress towards independent governance.”⁷
 - As stated, PPC’s understanding is the California law requires the California Board of Governors, which are appointed by the Governor of California to serve California interests, to retain ultimate approval authority over all rule changes.
 - The proposed governance changes, while beneficial, do not alter this constraint.
 - Therefore, PPC is unclear how these changes represent “progress” towards independent governance. Instead, we believe a more accurate characterization is that they are an improvement to the existing EIM governance structure.
- CAISO 2020 Summer Heat Events
 - In the discussion on the CAISO 2020 Summer Heat Events and subsequent changes to market rules, BPA notes “meaningful enhancements to EIM operations” that were adopted.⁸
 - In this section BPA fails to address the lack of EIM specific analysis conducted after these events. We think this is important context to include along with the other discussion offered by BPA.
- Carbon Costs and Benefits of Sales to California through the EIM
 - In its discussion supporting the decision to “opt in” to sales into California through the EIM, BPA makes reference to additional “deeming” risk not captured in its analysis the impacts participation will have on the agency’s system mix.
 - PPC would like to reiterate previous comments that this risk is concerning and is one of the reasons that regular monitoring and reporting on impacts of participation on BPA’s system mix are so important.
 - Additionally, the Draft Letter states, “[a]t this time, selling into California via the EIM appears to be cost-effective. Based on the E3 analysis, the benefits of selling into California in the EIM appear to far outweigh the costs. To the extent this conclusion does not hold true in actual operations, Bonneville can decide to stop selling to California in the EIM at any time.”⁹
 - PPC would like to remind BPA that PPC members are not only concerned with the benefits and costs in the strict financial sense as evaluated by BPA, but also with the impact that changes to BPA’s system mix have on their own green goals and regulators’ requirements. This is yet another reason that monitoring and discussing potential impacts on the BPA’s system mix with customers on an ongoing basis will be so important.
- BP-22 Rate Proceeding Decisions

⁷ BPA Draft EIM Phase V Close-out Letter, page 19

⁸ *Id.*

⁹ *Id.*, page 22

- In the Draft Letter BPA characterizes findings in the BP-22 case as a “‘new fact or circumstance’ in that it was not known at the time of the EIM Policy ROD” and clarifies that “Bonneville does not view this decision as requiring a revision to its business case.”¹⁰
- PPC does not view the rate level adopted in the BP-22 proceeding as a new fact or circumstance but *does* view the characterization of agency’s business case made by BPA staff in its testimony as a new circumstance. BPA staff made it clear that there was not confidence that the level of benefits included in the business case would ever be achieved. It is this lack of consistency in the representation of the business case supporting BPA’s participation that is concerning. We still do not believe these inconsistencies have been sufficiently addressed.
- Additionally, the Draft Letter states, “Staff’s testimony in the BP-22 rate proceeding developed that policy position,” meaning an assumption of zero net benefits, “and the Administrator has adopted it as part of the BP-22 Final ROD.”¹¹
- PPC would like to clarify that the Administrator adopted the proposed level of EIM benefits in power rates as part of a non-precedential settlement package. The Administrator did not opine on the merits of BPA staff’s testimony as seems to be indicated by the text quoted above.
- Potential Changes in FCRPS Operations
 - In its final close out letter BPA should address how the system operations proposed by Oregon in its motion for preliminary injunction and any associated costs would impact BPA's evaluation of its expected participation in the EIM

¹⁰ BPA Draft EIM Phase V Close-out Letter, page 25

¹¹ *Id.*

PPC Principles Regarding BPA's Participation in the EIM

6/17/2019

PPC offers these principles for consideration in BPA's decision to join and participate in the Western Energy Imbalance Market (EIM). PPC plans to use these principles when evaluating and commenting on BPA's EIM participation prior to its ultimate determination on EIM participation in 2021 and to revisit that evaluation on an ongoing basis.

Principles

1. BPA's participation is consistent with its statutory, regulatory, and contractual obligations.
2. BPA maintains reliable delivery of power and transmission to its customers.
3. BPA's participation in the EIM is discretionary and BPA retains its ability to effectively exit the market in the event participation is no longer consistent with these principles.
4. BPA's participation is consistent with a sound business rationale and advances the objectives of BPA's Strategic Plan,¹ including providing competitive products and services, by capturing the full value of its power and transmission system.
5. BPA's evaluation of EIM participation includes transparent consideration of the commercial and operational impacts on its products and services.

In addition to these principles, we have identified market elements of the EIM that are key to ensuring BPA's initial and continued participation in the EIM is consistent with these principles. The retention of these market elements will be an important consideration in PPC's evaluation of BPA's EIM participation both initially and on an ongoing basis.

While we will continue to seek improvement on these elements where necessary or applicable, they are sufficient to support BPA's EIM participation. Participation in a day ahead market, such as EDAM, would require additional assessment of these and other market areas.

Key EIM Market Elements for BPA's Initial and Continued Participation

- Participation is voluntary.
- Participation does not change BPA's ability to determine rules and policies associated with its Tariff.
- Market Power mitigation methods that accept and provide for the complex and dynamic nature of hydropower planning, operational constraints, and opportunity costs are in place and functioning properly.
- The EIM Governing Body (or a similar independent governing body that represents the diversity of those impacted by the EIM) exists and has primary authority over EIM issues.
- BPA is able to determine the manner of participation for transmission on its system.
- GHG benefits and costs are accurately allocated and only apply to actual physical EIM dispatches made to serve load subject to carbon regulation.²

¹ BPA's 2018-2023 Strategic Plan published January 2018

² Accurate allocation of GHG costs and benefits is important for BPA's participation in the EIM to the extent that their participation includes dispatches to serve load subject to carbon regulation. It is our understanding that BPA's initial participation will opt out of such dispatches.