

## NW Public Power Organized Market Design Principles<sup>1</sup>

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The NW Publicly Owned Utilities (NW Public Power<sup>2</sup>) 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 body<sup>3</sup> that results in a composition of that body that is reflective of representative regions and participants.

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<sup>1</sup> 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.

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

<sup>3</sup> 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,<sup>4</sup> 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 Adequacy<sup>5</sup> and Resource Sufficiency<sup>6</sup> 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.

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<sup>4</sup> 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.

<sup>5</sup> 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.

<sup>6</sup> 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 Mitigation<sup>7</sup> 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.

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<sup>7</sup> 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.