

# Day-Ahead Market Design Interests

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The NW Publicly Owned Utilities (NW Public Power) recognize that centralized markets have been evolving as part of the Western power landscape. The market design and governance foundation of a centralized day-ahead market is critical to an equitable sharing of value among participants. 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 should be applied to any centralized day-ahead market that develops in the Northwest.

This document addresses market design interests only; governance will be addressed separately.

## Transparent Price Formation and Fair Compensation for Services

- The market solution co-optimizes the procurement of energy, capacity, flexibility, and ancillary services (if included in design) needed to meet reliability needs through the market and minimizes the need for out of market actions
- Bidding rules allow resources to reflect true costs of dispatching units, including opportunity costs
- Market rules send proper price signals for the attributes and/or products required to meet reliability needs
- Products and price formation recognize and appropriately compensate resources for the attributes supplied to the market
- Market prices accurately reflect shortages and scarcity conditions

## Resource Sufficiency<sup>1</sup> Requirements Promote Reliability, Ensure Equity and are Applied Consistently

- Requirements ensure sufficient resources and flexibility to meet a wide range of potential real-time conditions with a high level of confidence to ensure reliable operation of the system
- Counting rules appropriately account for the capacity, energy, and flexibility that different resources contribute towards meeting requirements
- Requirements assure resources are deliverable to load
- Effectively prevents entities from leaning on the market for energy, capacity, and flexibility needs
- Enforcement measures do not allow Resource Sufficiency compliance to be a discretionary economic alternative
- Requirements and counting rules are applied consistently to all entities subject to the test and avoid double-counting of transactions
- Timelines allow continued participation in bilateral markets

## External Resources are able to participate and are treated comparably

- Market rules provide external resources the ability to economically participate in the day-ahead market and be treated comparably to internal resources

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<sup>1</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--day-ahead and real-time.

### Transmission Framework meets Open Access Principles and Minimize Cost Shifts

- Open access and reservation priority principles are upheld
- Transmission framework minimize cost shifts to load and results in no adverse impacts to existing transmission rights
- Transmission Owners and Service Providers receive sufficient compensation to cover the costs of existing transmission and those costs are appropriately assigned to users based on cost causation.
- Transmission rights holders are ensured congestion/financial rights to mitigate congestion costs

### Market Power Mitigation recognizes the unique attributes of resources

- Mitigation methods accept and provide for the complex and dynamic nature of hydropower planning, operational constraints, and opportunity costs. Therefore, opportunity costs for hydropower should recognize the trade-off between producing energy today instead of producing energy in the future, as well as the opportunity costs of alternative real-time bilateral market transactions
- Market Power Mitigation should only occur where the opportunity to exercise market power exists
- Market Power Mitigation methodology should consider the unique aspects of a voluntary market which includes choices surrounding the nature of a voluntary market (access to other opportunities, opportunity costs, the cost of water in various time increments, etc.)

### Greenhouse Gas Accounting Accurately accounts GHG attributes of resources

- Accurately accounts for and values the GHG attribution of resources being dispatched to serve load in a carbon-regulated state and credits those resources accordingly
- Methodology is compatible with carbon and clean energy legislation of all states that impact day-ahead market participants

### Respects Existing Laws, Statutory Obligations, Regulations, and Local Regulatory Authorities

- Organized markets with different kinds of participants (e.g. IOUs, POUs, PMAs, etc.) must respect existing laws, statutory obligations, regulation, and local regulatory authorities
- Resource Sufficiency requirements do not supplant local regulatory decision authority for resource procurement

### Proper Market Function is Assured

- An independent market expert provides routine review and reporting, evaluating the market design and function relative to fair and competitive market principles
- Mechanisms are in place to signal when the resource sufficiency framework is not functioning properly
- Mechanisms are in place to evaluate proper price formation relative to costs of energy, capacity and flexibility
- Mechanisms are in place to assure proper GHG accounting and compensation