



Western Public Agencies Group

## Northwest Public Power Organized Market Design Principles<sup>1</sup> *January, 2022*

The Northwest 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.

### Independent Governance Informed by an Open, Transparent and Representative Stakeholder Process

- Market is governed by a non-affiliated Board that is independent<sup>3</sup> from market participants or regional governments and is of sufficient size to allow the Board to represent different regions, market participants, and interests.
- There is a clearly defined process for the selection of the Board by representative regions and participants.
- Market participants, state representatives, power marketing agencies and public power from all regions impacted by the market shall have organized forums to discuss issues related to the market and to advise the Board on these issues.
- Board 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.

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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> See *Regional Transmission Organizations*, Order No. 2000, FERC Stats. & Regs. ¶ 31,089 (1999), *order on reh'g*, Order No. 2000-A, FERC Stats. & Regs. ¶ 31,092 (2000), *aff'd*, *Public Utility District No. 1 of Snohomish County, Washington v. FERC*, 272 F.3d 607 (D.C. Cir. 2001).

## Resource Adequacy<sup>4</sup> and Resource Sufficiency<sup>5</sup> Requirements Promote Reliability, Ensure Equity and are Applied Consistently

- Market participants must meet market-defined minimum resource requirements that provides for a high level of reliability.
- Processes assure that participants offering resources to the market satisfy their obligations and provide deliverability to load.
- 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 Minimize 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 adequately expand the transmission system and fairly allocate transmission costs and recovery.

## Market Power Mitigation<sup>6</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.

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<sup>4</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>5</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.

<sup>6</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 involve replacing a resource's offer price into the market with a defined reference level price.

### Transparent Price Formation Results in Fair Compensation for Services

- Market rules send proper price signals and compensate resources for the attributes and/or products required to meet reliability. This should include compensation for the capacity value provided by flexible resources such as hydro.
- Market rules and timelines allow for efficient participation of purchasers of Slice products from BPA and the MidCs.
- Market rules allow market prices to accurately signal shortages and scarcity.
- Market rules ensure proper economic market function and reliability.

### Greenhouse Gas Accounting Accurately Accounts for GHG Attributes of Resources

- Appropriately accounts for and values the GHG attributes of resources being dispatched and claimed in a carbon-regulated state.
- Methodology is compatible with and aids in compliance with carbon and clean energy legislation of all states that impact market participants.
- Methodology supports the ability for states to link their cap-and-trade programs.

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

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

*The group of entities that adopted these “Northwest Public Power Organized Market Design Principles” represent in aggregate 81 publicly owned utilities across the West.*

- *NRU represents 56 utilities across 7 western states and advocates on behalf of its members for cost-effective and reliable wholesale power supply and transmission service from Bonneville Power Administration (BPA).*
- *PGP represents 11 consumer-owned utilities in Oregon and Washington that work together on carbon policy, market evolution and resource adequacy issues.*
- *PNGC Power is an Oregon-based electric generation and transmission (G&T) cooperative-owned by 15 Northwest electric distribution cooperative utilities with service territory in seven western states, providing power supply, transmission, and other management services and is an aggregator of geographically diverse loads in the region.*
- *WPAG represents 23 consumer owned utilities located in Oregon and Washington regarding the wholesale power supply and transmission services they receive from BPA.*

*Together, NRU, PGP, PNGC and WPAG represent almost three-quarters of BPA’s preference customers and over 90% of BPA’s FY 2022 Tier 1 Load, including some of BPA’s smallest and largest power customers with total retail load amounts ranging from 0.623 to 1,074 aMW. NRU, PGP, PNGC and WPAG utilities also own or purchase the output of a significant amount of non-BPA generation that they either use to serve their loads or sell on the market.*