

Markets+ Phase 1 Funding Parties to Publish “Issue Alerts” to Inform Public Dialogue on Day-Ahead Market Choices

In recent months, there has been considerable industry dialogue focused on the market seams that will exist between EDAM/EIM and Markets+, as well as the EDAM/EIM governance enhancements being pursued through the Pathways Initiative. While both topics are important, the Markets+ Phase 1 Funding Parties believe this dialogue is incomplete without also considering the numerous governance and market design differences between Markets+ and EDAM/EIM that are driving continued support for Markets+. To address this gap, some of the Markets+ Phase 1 Funding Parties¹ have worked together expeditiously to prepare timely information in this first “Issue Alert.” Markets+ Phase 1 Funding Parties will continue this collaboration to issue a series of Issue Alerts identifying and explaining the key governance and market design elements that differ between Markets+ and EDAM/EIM and why these differences have important consequences for customers in terms of reliability, economic value, and environmental objectives.

The Markets+ Phase 1 Funding Parties will share a new Issue Alert every few weeks covering the following topics:

1. Governance
2. Reliability
3. Fair and Accurate Market Pricing
4. Seams Issues
5. Support for Clean Resources
6. Market Operator Actions & Modeling
7. Durable Customer Benefits

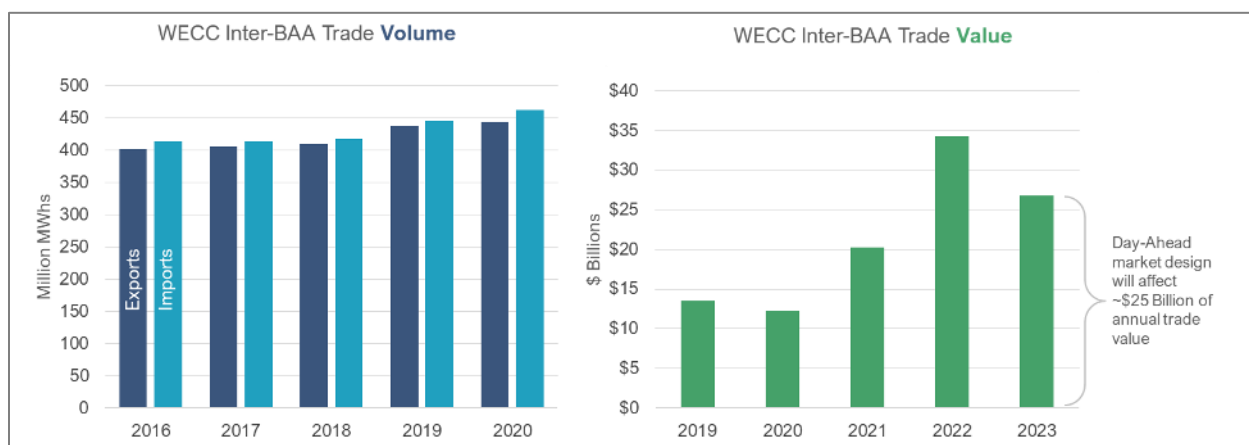
¹ Arizona Public Service Co, Chelan County PUD, Grant County PUD, Powerex Corp., Public Service Company of Colorado, Salt River Project, Snohomish PUD, Tacoma Power, Tri-State Generation and Transmission Association Inc. and Tucson Electric Power Company prepared this Issue Alert 1.

Issue Alert 1:

The Markets+ Governance Framework is the Best Option for a Multi-State Day-Ahead Organized Market

Governance is a key consideration in the selection of a day-ahead market. It determines how key decisions are made in a market where participants and regions sometimes have different interests. A governance framework establishes market design, tariffs, business practices and operating protocols – determining initial rules and how they will adapt over time. Governance affects the daily actions of market operators and the values against which market performance is measured. Consequently, governance has a major influence on market outcomes, including the determination of market prices, how costs are allocated, the extent and allocation of reliability risks during stressed grid conditions, and the success of environmental programs.

The governance framework of a western day-ahead market has the potential to affect \$25 billion or more in annual trade. This is because the transition to a full day-ahead and real-time organized market (whether EDAM/EIM or Markets+) is expected to replace much of the bilateral day-ahead and real-time transactions that occur today while also impacting forward transactions and the utilization of the western transmission grid.



Sound governance is a foundational requirement for a day-ahead organized market to provide the benefits of increased efficiency and enhanced reliability while also ensuring equitable outcomes for all participants and all western sub-regions. Key features include a durable, effective, and independent governance structure which provides fair representation to all market participants and stakeholders, and in which participants take a regional view. Stakeholders initiate, develop, and own outcomes. Decision making and stakeholder engagement occurs in a transparent and inclusive manner.

The Markets+ Governance framework fully achieves this objective through these key features:

1. A geographically diverse board / panel fully independent of market participants and stakeholders with authority over all aspects of the market;
2. A transparent and consensus-based market development process led by stakeholders, with stakeholder voting rights to determine whether each specific market design proposal moves forward;

3. A fully independent and impartial market operator that does not also act as one of the participating balancing authorities with its own interests; and
4. A participation framework where all generators, load and BAAs are participating in the same manner with equivalent rules, rights, and responsibilities.

Importantly, the Markets+ governance framework is already up and running, and it provided the decision-making framework for developing the Markets+ initial market design and proposed tariff. The stakeholder-led approach fostered collaboration for consensus, and the proposed Markets+ tariff concluded with its separate sections passing through the highest-level stakeholder committee at a greater than 90 percent approval rate.

While the Pathways Initiative has proposed incremental improvements to the governance of EDAM and EIM, it is not likely to result in a governance framework comparable to Markets+ for several reasons:

1. The starting point for EDAM and EIM is a market design and tariff developed under the California ISO's existing governance framework. The Pathways Initiative does not propose to replace this initial market design with a stakeholder-driven design.
2. Both EDAM and EIM were built as extensions of a legacy institutional framework with embedded dependencies on, and obligations to, California state agencies, which the Pathways initiative does not propose to eliminate.
3. The Pathways Initiative has not proposed a framework in which stakeholders with formal voting rights—rather than California ISO staff—will determine how the market design will evolve over time.
4. The Pathways Initiative does not ensure that the California ISO, as a market operator, will balance the interests of all stakeholders and avoid undue influence from California interests.
5. EDAM/EIM is an extension of the CAISO's existing market, with CAISO BAA having different rules, rights, and responsibilities, as well as different settlement practices. There are no current plans to enable an equivalent participation framework for all entities, including CAISO, within the Pathways Initiative governance model.
6. The Pathways Initiative remains in development, with an evolving scope and an uncertain outcome. Changes to the CAISO governance structure require action at the California legislature. Previous attempts to amend the structure—the most recent one appeared in the 2023 legislative session—have failed to receive broad support in the state and did not advance out of committee. A fully independent governance framework will not realistically be achieved until well after most western entities will have made their market participation decisions, even if the significant and numerous uncertainties are ultimately overcome.

The stakeholder-driven Markets+ development process has resulted in a market design that is substantially different from the EDAM/EIM design in several key respects. Production cost models—including the models used in the multiple studies published comparing Markets+ and EDAM/EIM—are limited in their ability to reflect and quantify these important market design differences. This is because these models have limitations that inherently assume the two markets are largely identical in important market design aspects when in fact they are not. The limitations in these models include:

- Both markets are always fully resource adequate/resource sufficient, and thus there is no material reliability risk or undue leaning;

- Scarcity events rarely or never occur in either market (and no scarcity pricing);
- There are few, if any, differences in how prices are calculated between the two markets;
- Congestion rent is allocated similarly in both markets;
- Environmental programs, including GHG attribution, are similar in both markets;
- There are no operator actions such as load biasing or changing import/export limits in either market; and
- Substantive hurdle rates and inefficiencies severely limit trade between markets.

Not only do these studies make the above simplifying assumptions, they also do not consider that each distinct market design can impact:

1. the extent to which entities participate in the day-ahead market (versus transacting in forward and day ahead bilateral markets); and
2. future investments in generation or transmission

In reality, differences in the design of a voluntary day ahead market can drive increased or decreased participation, while also encouraging or discouraging generation and transmission investments. For example, a market that inaccurately suppresses peak prices will discourage flexible generation and storage solutions. Similarly, a market that misallocates congestion costs will generally lead to less economically efficient transmission investments.

Finally, experience in the East demonstrates that the ongoing existence of two or more competing organized markets provides the opportunity for participants to continuously evaluate which organized market provides the best value for its customers. This places ongoing competitive pressure on each organized market to continuously evolve to deliver value to all of its participants and all of its sub-regions, driving immeasurable value for consumers while also reducing risk.

Future Issue Alerts will focus on key market design differences, which have the potential to greatly impact real-world economic, reliability and environmental outcomes for customers.