PPC Principles and Philosophies for Organized Markets

Purpose: PPC members are interested in expanding and emerging western markets as a tool to help serve their customers with the lowest cost, highest quality service possible. These philosophies and principles will be used to help PPC members assess a variety of market options including but not limited to: real-time energy imbalance markets, day-ahead markets, and resource adequacy programs.

PPC Organized Market Philosophies

What should organized markets do?

Well-functioning markets should emphasize:

- Efficiency
- Fairness
- Transparency
- Creating appropriate incentives

Organized markets should take resource agnostic approach:

- Markets that focus on the attributes of supply (instead of the specific resources) are better prepared to adapt to new technologies.
- Markets should send appropriate signals to incent optimum long-term investment.

Market design should start with clear market objectives:

- A clear definition of what the market trying to achieve as a whole, and the market should not focus on specific outcomes for specific participants
- Should avoid a patch work approach to meeting objectives (where inefficient solutions are adopted to avoid larger market changes)

PPC Organized Market Principles

How should organized markets work?

1) Sends appropriate and transparent price signals

Transparent price signals incent desired behavior in market participants. Any interventions that distort transparent and accurate pricing are minimized.

2) Appropriately allocates & prices risk

Market design allocates risk, costs and accountability to those positioned to best manage those risks and provide efficient outcomes and sends appropriate price signals to inform risk management.

3) Cross-market integration/Co-optimization

To the greatest extent possible multiple products including energy, ancillary services, capacity, and emissions, should be co-optimized to increase efficiency. The design in different market timelines (real-time, day-ahead, longer-term) should work together to produce efficient outcomes.

4) Market modeling and financial accounting should closely resemble physical realities

System modeling that ignores locational differences or disconnects actual dispatches from market settlements creates inefficiencies, gives poor pricing signals, and causes cross subsidies.

5) Resources should be compensated for attributes that create value to the market on a technology neutral basis

If market optimization dispatches certain resources over others because of specific attributes that more efficiently meet market needs, the resource should be compensated for those attributes. These specific attributes must be clearly defined to allow the market to stay technology neutral.

6) Rules should be clear, durable and provide all participants timely information

Market participants must have a clear understanding and expectation of market rules to make decisions. Information must be made available to all participants equally to ensure an even playing field.

7) Equitably allocates benefits

Benefits should be allocated equitably among market participants.