



Principles for addressing Western market seams

As the California Independent System Operator (CAISO) engages in seams discussions, we note that these are not simply bilateral negotiations between CAISO and the Southwest Power Pool (SPP). Instead, these discussions require the engagement of balancing authorities, transmission providers, transmission operators, reliability coordinators, market operators, and others when scoping procedures, agreements, discussions, and solutions. Functional discipline is particularly important in the West given its diversity of business models, jurisdictions, and interests. For market-to-market seams issues where CAISO and the SPP coordinate as market operators, we do so with a spirit of collaboration, transparency, and shared commitment to reliability and affordability across the Western Interconnection.

At the same time, CAISO enters these discussions with a perspective informed by over a decade of work expanding the footprint of the Western Energy Imbalance Market (WEIM) to include 22 balancing authorities across 11 western states, representing 80% of the demand for electricity in the Western Interconnection. The success of the WEIM has demonstrated that the benefits of a real-time market in the West increases as it expands across a geographically diverse, electrically connected, and operationally integrated market footprint.

The WEIM has also proven that balancing areas can function seamlessly in a real-time market, providing reliability benefits and economic value to participants and customers across the West. Breaking up the WEIM footprint risks unwinding these benefits. Market-to-market seams arrangements are a poor substitute for seamless real-time operation of the grid and can only limit the loss of efficiency and reliability that results from fragmented footprints.

Applicability

Seams refer to the interfaces between adjacent wholesale electric systems – such as balancing authorities, reliability coordinators, transmission service providers, and electricity markets – where neighboring entities perform essentially the same function on either side of a jurisdictional boundary within a shared network.

Seams issues are problems at these interfaces that hinder the efficient and effective execution of responsibilities by neighboring entities. These principles apply to work between market operators – in collaboration with their respective balancing areas, transmission service providers, customers, and stakeholders – to develop arrangements to address market-to-market seams issues including trading barriers caused by market configuration, rules, designs, or protocol.

Principles

Maintain system reliability

Seams arrangement should build upon the foundation of the operating agreements, arrangements, standards and procedures used to maintain reliability in the West. Ensure seams arrangements preserve system reliability, continue coordination, account for emergency coordination, and are compatible with NERC and WECC requirements.

Just, reasonable, and non-discriminatory access consistent with approved market design and transmission tariffs

Participants on both sides of market-to-market seams must be treated in a just and reasonable way that protects transmission rights, benefits customers, and allows for non-discriminatory access to markets, consistent with their respective established and approved market designs and transmission providers Open Access Transmission Tariffs (OATT).

Seams arrangements should benefit both markets

Seams arrangements must either not impact or, where feasible, benefit both markets by improving market-based transactions and operations across the seam. Seams arrangements should neither harm customers nor detract from participation in day-ahead or real-time markets.

Seams discussions are not a forum for market design advocacy

Market-to-market seams discussions are not a forum to relitigate transmission service, renegotiate transmission rights, or a vehicle to redesign market rules. Seams discussions are predicated on sufficiently defined market protocol, transmission tariffs, and market boundaries.

Avoid impediments to efficient trading

Support imports and exports across market interfaces consistent with respective market designs and OATTs. Ensure prices for market-to-market transactions reflect locational value.

Respect the autonomy of our partners

Market evolution in the West has been incremental and voluntary. Seams arrangements and negotiations must respect retained jurisdiction and ownership interests.

- **Respect the authority of transmission service providers**

Seams arrangements should respect the authority of transmission service providers over processes, procedures, and business practices for providing transmission service within their jurisdiction.

- **Respect the jurisdiction of balancing authorities**

Seams arrangements should respect the authority of balancing authorities over operating agreements, protocol, processes, procedures, and practices for maintaining reliability within their jurisdiction.

Provide appropriate compensation for market use of transmission and minimize cost shifts

Rights of both internal and external transmission must be reconciled with market operations in a just and reasonable way. Costs of mitigating congestion due to network power flow should be reasonably allocated. Cost of market-to-market redispatch, if implemented, must be allocated in proportion to benefits received. Financial rights on shared paths are honored consistently.

Coordinate market monitoring and design against gaming at the seams

Advance seams protocols that minimize the risk of gaming or manipulation. Facilitate market power monitoring at interfaces between market areas to maintain robust competition while accommodating jurisdictional differences where necessary.