

Resource Adequacy & Other Developments in California

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WESTERN POWER TRADING FORUM



- Broad-based trade association that advocates for competitive market rules throughout the Western Interconnection
- Formed by Gary Ackerman and Dan Douglass in 1998
- Initial Board: New Energy Ventures, PG&E Energy Services, Enron Corp., California PX, Electric Clearinghouse Inc., APS Energy Services, Montana Power Trading & Marketing Co., Coral Energy, Pacific Energy
- 1999 General Members: Aquila Power, APX, Avista Energy (formerly Washington Water & Power), BPA, Green Mountain Energy, Hafslund Energy Trading, LG&E Energy Marketing, NCPA, PacifiCorp, Unified Information Inc., WAPA-Sacramento
- Current Membership: 90+ companies and public agencies, including IOUs, POUs, generators, renewable developers, wholesale marketers, ESPs and CCAs

WPTF FOCAL AREAS



- California Independent System Operator (CAISO)
- Carbon and Clean Energy
- CPUC Monitoring
- Legislative and Government Affairs
- Mexico Electricity Reform
- Project Development and Operations
- Resource Adequacy (RA)
- Wider West (2WC)

CAISO & RA COMMITTEES



- CAISO Committee
 - CAISO stakeholder initiatives
 - Energy Imbalance Market (EIM) subgroup
 - FERC proceedings and technical conferences
- RA Committee
 - CPUC proceedings
 - Regulatory advocacy
 - Policy and technical workshops

BACKGROUND: “CAPACITY?”



- “Capacity” is unique in the world of commodity markets
- Best described to outsiders as a “proxy for storage”
- Electricity – even today – is not easily stored; consequently many in organized markets felt a special mechanism to ensure reliable service was necessary
- Such resources unlikely to run often in energy market: how to compensate
 - Normal market would engage in “hedge;” storage or a “call” depending on risk tolerance of supplier to being “short”

THE FIRST ISO EFFORTS: “CAPACITY”



- All early Eastern ISOs had some explicit capacity obligation
 - Eastern ISOs began with “installed capacity” or ICAP; nameplate capacity
 - Did not deal with likely availability which is “unforced capacity” or UCAP
- PJM made a change to “short-term” auction to incent demand response
- Other markets (ISO-NE, NYISO) seen as not providing enough valuation to make incentives work for investment

THE NEXT PHASE: “CENTRALIZATION”



- Early 2000s, Eastern ISOs began to contemplate centralized market of varying length (1-4 years).
- Failed attempt made for a single capacity market for all three (2002-03)
- PJM then focused on annual auctions to cover prices for three years out with administratively determined curve
 - Based on “cost of new entry” (CONE) of new combustion turbine
- Polar vortex of 2014 led to “performance” adder to assure fuel security
- Low prices and state procurement plans has led to new efforts to manage capacity outcomes and assure price – now locked in 206 proceeding at FERC

OUTLIERS: ERCOT, CALIFORNIA



- ERCOT chose not to have capacity obligation but rely on energy prices
 - High caps and exposure to price volatility intended to drive hedging, builds
 - Thin reserve margin and prices this summer are testing this approach
- California did not engage in capacity markets/obligations at first
 - 2000-01 crisis led to direction for IOUs to build or contract with CAISO counting capacity and then adding administered backstop
 - Massive renewable penetration depressed prices; low RA prices until 2018
 - CAISO began to better account for solar availability leading to tighter RA market
- Load migration (CCAs) added urgency to find better way to procure RA
 - IOU obligations to procure for entire market in such circumstances problematic

CALIFORNIA'S RA PROGRAM



- Program Administrators: CPUC and CAISO
- Standardized Load Forecasts
- Planning Reserve Margin (PRM)
- System, Local and Flexible capacity
- Year-Ahead and Month-Ahead Requirements
- Resource Counting Rules – QC & Deliverability
- Must-Offer Obligations (MOO)
- LSE Compliance Showings
- Noncompliance Penalties ~ LSEs and Suppliers

MULTI-YEAR LOCAL RA & “CENTRAL BUYER”



- CPUC Goal: Reduce need for CAISO backstop procurement
- Track 1 Decision (June 2018)
 - Established Multi-Year Local RA (MYLRA) Program
 - Called for “central buyer” proposals for MYLRA Program
 - Identify central buyer(s)
 - Equitable cost allocation to all customers
 - Cost-effective, efficient and coordinated procurement
 - Balance economics with other state policies

CENTRAL BUYER PROPOSALS



- Track 2 Proposals
 - PG&E ~ “Full” procurement
 - SDG&E ~ “Residual” procurement
 - SCE ~ “Hybrid” model
 - WPTF ~ Centralized capacity clearing market (CCM)
- Proposed Decision (Nov. 2018)
 - Designated IOUs to be Central Procurement Entities (CPEs)
 - LSEs no longer have Local RA requirements
 - All-source solicitations
 - “Reasonable efforts”

CENTRAL BUYER PROPOSALS



- Track 2 Decision (Feb. 2019)
 - Adopted MYLRA procurement requirements (100/100/50)
 - Deferred decision on a “central buyer structure”
 - Ordered parties to conduct workshops on central buyer issues
- Track 2 Workshops (April-May)
- Settlement Negotiations (June-August)
 - Initiated by SDG&E and CalCCA
 - Focused on workable “residual procurement” model
 - Proposed settlement filed August 30

CENTRAL BUYER SETTLEMENT



1. MYF requirements for System, Flexible and Local RA capacity
2. Designation of CPE left to CPUC (or possibly Legislature to decide)
3. CPE responsible for procuring all capacity needed to meet RA requirements
4. CPE must be “competitively neutral, independent, and creditworthy”
5. CPE to conduct annual all-source solicitations
6. CPE procurement costs allocated to LSEs based on actual loads and load shares

CENTRAL BUYER SETTLEMENT



7. Creditworthiness requirements similar to those for SCs
8. LSEs can bilaterally procure RA capacity
9. LSEs can “show” self-procured capacity to CPE
 - a. Reduces CPE procurement need (MW-for-MW)
 - b. LSE’s CPE cost responsibility reduced (MW-for-MW)
10. LSEs can optimize “Shown RA” and trade with other LSEs
11. LSEs can bid self-procured capacity into CPE solicitations

CENTRAL BUYER SETTLEMENT



12. CPE to accept bids up to CAISO's Capacity Procurement Mechanism (CPM) Soft Offer Cap (currently \$75.67/kW-year, or \$6.31/kW-month) until residual RA requirements fulfilled
13. CPE may accept bids above CPM Soft Offer Cap when deemed reasonable and consistent with other CPUC-established bid selection criteria
14. Settling parties no longer bound by settlement if not approved by Mar. 30, 2020

RA IMPORT RULES



- CPUC Proposed Decision (issued Sep. 6, 2019)
 - Firm energy requirement: “Firm” means energy delivery must flow, during Availability Assessment Hour window (4:00 p.m. to 9:00 p.m.)
 - Firm transmission requirement: “Firm” means contracted energy product from source BA cannot be curtailed for economic reasons or bumped by higher priority claim to the transmission
- Related CAISO Stakeholder Initiatives

INTEGRATED RESOURCE PLANNING OIR



- Procurement Track PD (issued Sept. 12, 2019)
 - Extend OTC retirement deadlines for 2,500+ MW
 - Directs LSEs to procure 2,500 MW of “incremental” capacity
 - Applies to all LSEs in SCE’s TAC
 - Capacity must be incremental to baseline resources
 - 60% by Aug. 2021, 80% by Aug. 2022, and 100% by Aug. 2023
 - All-source, including existing and new resources and RA imports
 - Utility-owned resources “when justified”

CONTACT INFORMATION



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