



# CPUC Procurement and Resource Adequacy Issues

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# Resource Adequacy Starting Point: CPUC Procurement Rulemaking

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## **CPUC long-term plans and continued efforts to promote policy and programs coordination.**

- The Procurement Rulemaking (R.04-04-003) focuses on:
  - Review and adoption of long-term plans
  - Resource adequacy issues not otherwise addressed in workshops
  - Treatment of confidential information
  - The development of procurement incentives
  - The development of a long-term policy for expiring QF contracts
  - Review of management audits of SDG&E's and PG&E's electric procurement transactions with affiliates



# Introduction of Resource Adequacy Framework – Phase 1

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- January 2004, CPUC established long-term Resource Adequacy Framework (D.04-01-050)
  - 15 to 17% planning reserve margin (PRM)
  - Directed each Load Serving Entity (LSE) to acquire sufficient PRM to meet its own load.
  - Each LSE's requirement: peak load + 15% PRM must be met by forward commitments at least one year ahead of each summer month (May – Sept)
  - Resource Adequacy Requirement (RAR) to be phased in starting 2005, with full PRM in 2008.



## Phase 1 Workshops and Issues

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- In D.04-01-050, CPUC recognized many technical details and policy determinations necessary before RAR could be effective.
- Workshops held Spring 2004 on:
  - Protocols for counting supply and demand resources,
  - Deliverability of resources to load,
  - Load forecasting



# Phase 1 Workshop Report Consensus – June 2004

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- General agreement in principal that prior to making 90% year ahead forward commitment showing:
  - Rules for load forecasting and eligibility of resources to “count” towards meeting that load will have to be established, and
  - Procurement of actual resource will have been approved in manner consistent with policy guidance in adopted long-term procurement plan.
  - If above elements in place, actual showing that LSE is resource adequate would be mechanical and non-controversial.



# Importance of Deliverability for System Reliability

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- July 2004 CPUC Decision (D.04-07-028) focused on issues related to local area electric reliability.
  - CPUC noted specific problems with lack of deliverable resources in SP 15 zone.
  - Finding that Edison's reliance on larger volumes of non-deliverable resources stressing ISO's ability to maintain reliability.
  - Utility procurement plan should take deliverability of procured energy into account; solitary focus on least cost energy not in compliance with state policy.



## Resource Adequacy Targets 2006 – Phase 2

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- October 2004, CPUC re-evaluated phase-in approach established in January citing concerns for short-term reliability (D.04-10-035).
  - Set goal of having all LSE's meet their Resource Adequacy Requirements by June 2006.
  - Accelerated schedule would require LSE's to meet entire 15% PRM before summer peak of 2007.
  - RAR would be in place for roll-out of ISO's new market design.





## Phase 2 Workshops and Issues

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- D.04-10-035 identified issues to be resolved for LSEs to meet 2006 RAR
  - LSE's obligation under RAR,
  - Specific roles of ISO, CEC, and CPUC in ensuring RAR are met,
  - Technical details of load forecasting,
  - Establishing parameters how various resource types will count towards RAR, and
  - Requirements for reporting, review of compliance filings, and penalties for non-compliance.



## Phase 2 and Recent Developments

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### Month-Ahead Forward Commitment Obligation:

- Establishes a month-ahead forward commitment obligation in addition to requirement to meet 90% of summer capacity needs a year ahead
- Ensures that sufficient capacity will be available if it is required while allowing LSEs ample flexibility to procure their energy needs economically
- Draft Decision on Agenda for March 17, clarifying that LSEs must satisfy 100% of the 15-17% planning reserve margin for each month of the year not less than one month ahead



# Commissioner Peevey Ruling on Capacity

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- On February 28, President Peevey issued an Assigned Commissioner's Ruling (ACR) that Commission staff would be evaluating capacity markets
- ACR expressed Peevey's intentions that any actions taken in Phase 2 of the Resource Adequacy proceeding should allow for the potential development of a capacity market framework.
- During the Phase 2 workshops, parties addressed various possible market "end states" as a way of laying out all the issues surrounding LD contracts.



## After Phase 2

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### Second Generation Resource Adequacy Requirements:

- Unit-specific differential adjustments to average forced outage rates
- Multi-year forward commitment concept, and
- The resource tagging and trading concept