

Briefing on Capacity Pricing Mechanism



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California ISO
Your Link to Power

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CPUC proceeding on Long Term Resource Adequacy is at the halfway point.

Background

- CPUC decision expected April 2008 to adopt Long Term Resource Adequacy rules
- CAISO asked by CPUC to recommend design of Centralized Capacity Market – if adopted by CPUC

Progress to date

- CAISO stakeholder process – August to October
- CAISO straw proposal – October
- MSC opinion and CAISO reply – November
- CPUC workshops – August
- CPUC Staff Report will include CAISO Management recommendations

Debate will continue up to final CPUC decision.

- 🌐 CPUC Staff Report – expect publication later this month
 - Revised proceeding schedule expected at same time
- 🌐 Comments and Reply Comments on Staff Report – January
- 🌐 Proposed Decision by CPUC – March 2008
- 🌐 Comments and Reply Comments on Proposed Decision
- 🌐 Final CPUC Decision – April 2008

A few key issues are central to the debate.

- 🌐 Decide LT-RA policy framework now, versus retain current RA rules with minimal changes
- 🌐 Require multi-year forward demonstration of RA capacity, versus retain current 1-year/1-month showings
- 🌐 Create a Centralized Capacity Market, versus rely entirely on bilaterals between load-serving entities and suppliers
- 🌐 Retain RA Must Offer Obligation for all RA capacity, versus revisit the RA capacity product definition

Management recommendations to the CPUC focus on need for key RA enhancements now.

- 🌐 Long Term RA framework decisions needed now to attract market-based investment
- 🌐 Determine RA capacity commitments four years ahead of delivery year
- 🌐 Centralized capacity market, while not necessary, does offer advantages
- 🌐 Retain RA Must Offer Obligation as basis for RA capacity product definition

Conclusion

- CPUC decision on Long Term Resource Adequacy will affect climate for market-based investment
- Debate will continue at least to April 2008
- Management will participate via comment filings
- Management will update Board as important developments unfold.