

Key Issues for Discussion at October 1, 2007 MSC Meeting

The goal of this Market Surveillance Committee (MSC) meeting is to assist in the formulation of a long-term resource adequacy process (LT-RA) for California that improves upon the current RA process. A necessary first step is to identify the deficiencies and strengths of the current RA process. The second step is to identify remedies for these deficiencies. The final step is to identify tradeoffs in the design of these remedies.

This meeting will begin with a session on why changes to the current RA process are necessary. For the Proposed Objective/Vision section of the meeting, the MSC will ask each panelist to identify the deficiencies and strengths of the current RA process and their vision of the end state for long-term resource adequacy process. The second part of the meeting will focus on identifying features that must be part of any LT-RA process. MSC members will use this session to engage in a question and answer with each panelist regarding how best to remedy the identified deficiencies. In the third session MSC members will use the results of the previous session to discuss the necessary features of a LT-RA process and the tradeoffs between these features. During this final session, panelists will be able to ask questions of the MSC with regard to their views on various design features of a long-term resource adequacy framework.

Panelists should assume the MSC has reviewed all written documents pertaining to their proposal and has heard, through the various public meetings, the stated justifications for various design elements. The focus of this meeting will be to advance the understanding of the various proposals by having a targeted discussion of specific design attributes. In order to guide this discussion, panelists are asked to be prepared to discuss and propose potential resolutions to the specific topic areas identified below.

A. Potential Topic Areas

1. What long-term vision of Resource Adequacy should guide any changes adopted at this time? (This question should be addressed in parties' opening statements.)
 - Is the ultimate aim an "energy only" framework, a "steady state" capacity market, or something else?
 - What is the optimal balance of market-based incentives and decisions versus regulatory processes in driving new investment?
 - How should future expansion of Direct Access be accommodated in the LT-RA framework?
 - What mechanisms are needed to limit the costs to retail electricity consumers associated with modifications to the current RA process?

2. What revenue streams are needed to finance new investment?
 - Will all of the necessary revenue come from a capacity mechanism plus the spot markets?
 - Do investors need bilateral energy contracts or something else in addition?
 - What evidence can be provided on how long of a revenue stream commitment is needed for new investment?
 - How effective are ex ante mechanisms such as multi-year forward LSE RA requirements and showings versus ex post penalties and price incentives on LSEs to induce long-term investment and forward contracting?
3. Given California's ambitious renewable energy and energy-efficiency goals and the amount of long-term contracts signed by California's three large load-serving entities for new generation capacity, what is the cost delaying implementation of significant changes to the LT-RA process until there has been more experience with the mechanisms recently adopted in the eastern ISOs?
4. On the supplier side of procurement, how effective are ex ante mechanisms such as a must-offer obligation (RA-MOO) versus ex post performance penalties and the price incentives of forward energy contracts to guarantee performance of capacity?
5. What are costs and benefits of treating new and existing units differently in the resource adequacy process?
6. How extensive should ISO's role in backstop procurement be, and how far forward of delivery is ISO backstop warranted?
7. What market power mitigation mechanisms are needed as part of the long term RA process? Examples include offer caps, must-offer obligations, capacity payment refunds based on availability.
8. How should imports and demand response participate in the long term resource adequacy process?
9. How should a resource adequacy obligation follow load as it migrates to other retailers?
10. How should determination of RA requirements be coordinated with transmission planning?
 - In a multi-year forward framework, how can an efficient mix of new generation and transmission investment be achieved?
 - Can transmission upgrades compete directly against generation or demand response in an RA procurement process?

11. What is the appropriate role for the ISO in an RA process?
- Can ISO just perform and publish the assessment of needs for the system and for local areas?
 - Is it necessary to demonstrate multi-year forward commitment of capacity to serve ISO load?
 - Does ISO need to set market-clearing price?
 - What role should operational attributes and AS policies play in procurement?