

Capacity Market Design / CPUC Resource Adequacy Phase 2

Prepared by

David Withrow

Sr. Market & Product Economist

Market Surveillance Committee Meeting

May 31, 2006

CPUC Proceeding* begins soon: Phase 2 Resource Adequacy

- **Follow-on to Phase 1 (final decision expected late June)**
 - Local Capacity Requirements (LCR)
 - Tradable Capacity Product

- **Phase 2 -- Issues**
 - Centralized Capacity Market/Auction
 - Multi-year RA Requirements
 - Zonal RA Requirements

- **Phase 2 -- Schedule**
 - Summer 2006 -- Initial Scoping Memo
 - Fall 2006 – Workshops and Comments
 - 1st Quarter 2007 – Final Decision

**R.05-12-013*

Early Momentum **from** **Capacity Market Advocate Group**

- **Collaborative stakeholder group has been meeting regularly**
 - Includes utilities and generators
 - Reviewing capacity market models for eastern ISOs
 - Developing capacity market proposals offered by participants
 - Group's proposals to be submitted in the Phase 2 workshop discussions

- **June 12 meeting at CAISO**

As California design debate intensifies, other capacity markets evolve

- NYISO
 - monthly & 6-month strip auctions with demand curve

- PJM Reliability Pricing (RPM) Model
 - auction for 3-4 year forward requirement with a demand curve
 - June 7-8 technical conference at FERC

- ISO-New England LICAP Settlement approach
 - auction for 3-year forward requirement, no demand curve, includes performance incentives



Request for MSC Opinion and Guidance: (throughout Phase 2 proceeding)

- **Assuming the CPUC only considers long-term LSE requirements that necessitate a capacity market, what should the CAISO view as the best model?**
- **What is the optimal interaction between a capacity market model and a proactive transmission planning process?**
- **Can the CAISO attain its local area reliability needs through a capacity market or other long-term RA program?**
- **Assuming the CAISO maintains some mechanism to procure resources for reliability reasons, what is the best way to integrate this mechanism with the operation of a capacity market?**