

Comments on Capacity Payment Mechanism

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Outline of Talk

- Three issues currently under consideration at California ISO
 - Pricing granularity to loads
 - Capacity Payment Mechanism (CPM)
 - Renewable Generation Integration
- Provide comments on each topic (not official Market Surveillance Committee) opinion

Capacity Payment Mechanism

Capacity Payment Mechanism

- ISO is required to file a successor mechanism to its Interim Capacity Procurement Mechanism (ICPM)
- Capacity Procurement Mechanism (CPM) proposal is ISO's replacement
- Stakeholders agree to the need for a backstop procurement mechanism
 - Disagreement over payment to generation units for CPM designation
- All uses of ICPM designation during 3/31/2009 to 8/16/2010 period were the result of Exceptional Dispatch
 - \$1.7 million in payments for 456 MW purchased for typically for 30 days (minimum purchase period)

Capacity Payment Mechanism

- ISO proposal is to pay going-forward fixed costs
 - \$55 /kW-year starting in April 1, 2011
- A number of stakeholders object to this proposal and argue for a cost-of-new-entry (CONE)
- Arguments for paying CONE for CPM
 - Provides price signal for new entry
 - Hard to argue that the small amount of purchases that occurred under ICPM provides a credible price signal for new entry

Capacity Payment Mechanism

- Stakeholders also argue that ICPM payment serves as cap on resource adequacy procurement
 - Suppliers can refuse to sign RA contract at prices below \$55/kW-year
 - Difficult to determine the frequency that this happens
- May not want new generation unit entry at locations where CPM procurement occurs
 - Only existing generation to remain in operation that month or at least one month of following year

Capacity Payment Mechanism

- CPM payment should ensure that generation unit owner remains in operation
 - Paying going forward cost ensures that is the case
- Larger unresolved issue—Long-term resource adequacy process for California
 - CPUC rejected centralized capacity market
 - Raises stakeholder concern about how existing generation units will recover costs
 - What mechanisms will ensure generation unit owners receive sufficient compensation to remain in operation, particularly given large state-level renewable energy mandates
 - Issue must be addressed by CPUC in near term

For More Information

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