DMM Comments on Flexible Capacity Procurement: Risk of Retirement

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Overview

- Capacity compensation options
- Energy compensation options

Capacity compensation options

- Current proposal
  - Lesser of:
    - Going forward costs
    - Long-term standby and costs to reenergize
- DMM suggestion:
  - Pay going forward costs only

DMM rationale

- Very difficult to determine actual long-term standby costs
- Going forward costs will be comparable
  - The comparison between going forward costs and long term standby costs is being done annually.

  - Maximum three years for a resource to go on standby and then come back online, even if ISO analyzes over expected designation.

October, Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Applies RORM	RORM	RORM	RORM	CPM ROR	Needed

Energy compensation option

- Current proposal
  - ‘Not-offer’ incentive provision, which takes away 100% of net market revenues
- DMM suggestion
  - Consider a different compensation structure that doesn’t include a ‘not-offer’ provision that takes away most benefits to market participation.
    - (1) Pay GFFC, split actual net revenues
    - (2) Pay GFFC minus estimated market net revenues, generator keep all revenues
  - If still include standby option, use estimated net revenues to project costs

DMM Rationale

Applying a portion of market revenues to the Minimum Revenue Guarantee will allow:

- RORM designated resources to earn revenue,
- Load serving entities to reduce direct out-of-market payments, and
- Will result in more efficient market outcomes during periods when it is economic for resource to bid into the market.

DMM perspective on market efficiency

- Only have RORM because there is a market failure
- If there wasn't a market failure, the resource would have a long-term contract:
  - Markets price in future needs
  - Energy procurement is lumpy
- Resource has at least a portion of their fixed costs covered either by the market or by the mechanism.
- Therefore it is a market distortion to discourage resources from participating in energy market through the 'not-offer' provision.

Comparison of must-offer and DMM recommendation

- Taking away the ‘not offer’ incentive is not the same as a must offer requirement

- Must-offer Requirement
  – Must offer capacity at any bid price
  – Not guaranteed any costs above RA payment
  – Keep 100% of revenues

- DMM Recommendation
  – Resource choses when to offer capacity into energy market
  – Guaranteed all going forward costs
  – Keep only a percentage of revenues