

Flexible Capacity Procurement: Issues and Implementation

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What is the Problem?

- *Motivation:* The current market and regulatory environment is insufficient to guaranty continued operation of flexible resources CAISO claims are needed to support reliability in the system.

Potential Economic Justifications

- Is CPUC procurement preventing regulated LSEs from procuring the “right” amount of flexible resources?
- Can unregulated LSEs profitably free ride on procurement of regulated ones?
- Do CPUC & CAISO rules prevent the volatility sufficient to profitably fund flexible resources?
- When the market “gets it wrong” are the consequences unacceptable?

Implementation Issues

- *Timing*: Could the “backstop” feedback on the existing market processes in undesirable ways?
- *Finding of need*: What are the right standards and assumptions for planning for “flexibility”
- *Level of payment*: cost-based, or something else? How well will independent evaluator process operate?
- *Claw-backs of revenues*: should there be an incentive to participate in energy markets? What will be the feedback effect on LT markets?