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DRA Commends the CPUC's Decision to Reject Centralized Capacity Markets

SAN FRANCISCO, June 3, 2010 – The Division of Ratepayer Advocates (DRA), an independent consumer advocacy division of the California Public Utilities Commission (CPUC), is pleased with today's CPUC decision to adopt a proposal to continue bilateral contracting for electric capacity and rejecting proposals for a centralized capacity market.

By unanimous vote, the CPUC voted to support the Administrative Law Judge's decision, which continues the current reliance on bilateral contracting for electric capacity, as advocated by DRA, the Utility Reform Network (TURN), several Electric Service Providers, and Pacific Gas and Electric Company. The decision also rejected proposals for a centralized capacity market advocated by owners of existing generation and two of the state's investor-owned utilities, instead opting to preserve bilateral contracting until at least 2015 in order to promote stability and investment in the market.

DRA has estimated that the bilateral trading approach will save ratepayers several billion dollars over the next few years, as compared to a centralized capacity market approach. Allowing the utilities and other load serving entities to negotiate the terms and prices for generation is the best way to secure electricity capacity resources.

On the other hand, a centralized capacity market approach could result in dramatic price increases for electric capacity because all generators would receive the highest clearing price for capacity in an auction. That price would be based on the cost of the most expensive generating unit and an artificial, administratively determined demand curve.

The decision carefully considered information presented by DRA on the poor performance of centralized capacity markets in eastern states. The experience in eastern states with centralized capacity markets has led to complaints at the Federal Energy Regulatory Commission alleging defects in the market design and unjust and unreasonable prices.

"DRA is delighted that the CPUC has rejected the centralized capacity market detour," said DRA Director Dana Appling. "This decision implicitly acknowledges the success of the CPUC's resource adequacy program, and stays the course while adopting important improvements that will provide certainty and stability to the market. In addition, the bilateral approach preserves state jurisdiction over resource adequacy, which allows the CPUC to continue its oversight of the resource adequacy program. It also allows the CPUC to develop the types of resources tailored to California's renewable energy and environmental policies."

For more information on DRA, please visit www.dra.ca.gov.

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