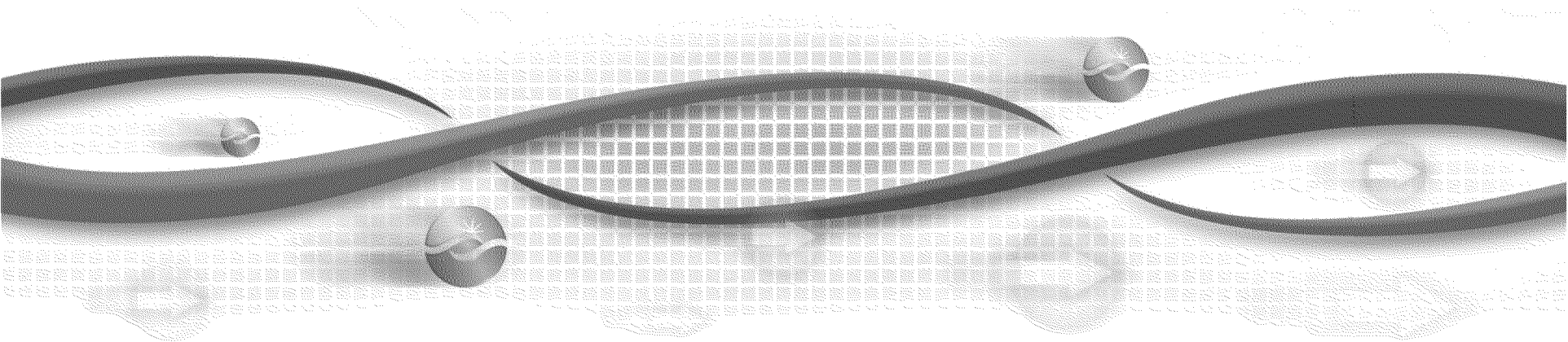


The Differentiated Capacity Option

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Summary of the Differentiated Capacity Option

- Distinct flexible and generic capacity counted by resource
- Requires generic and flexible capacity be bundled when sold
- Inflexible capacity, such as Pmin, must be sold as generic capacity, not flexible capacity
- An example:

NQC	300 MW
Pmin	50 MW
Start-up time	120 Min
EFC (NQC -Pmin)	250 MW
RA capacity sold	100 MW

Flexible RA counting for RA sold: 50 MW

Benefits of the Differentiated Capacity Option are significantly greater than the alternatives

1. Provides clear upfront flexible capacity procurement targets
 - No need to estimate a “flexible capacity reserve margin” to account for Pmin of flexible resources that may be procured as part of the final RA portfolio
2. Directly accounts for the flexibility provided by a resource
 - Reduces overall procurement cost because LSEs do not have to over procure flexible capacity to account for Pmin of resources
 - Minimizes the probability the ISO could need to issue backstop designation even if all LSEs have met their flexibility compliance showings
3. Provides superior incentives for:
 - LSEs to procure resources that provide the needed flexibility
 - Generators to enhance their flexibility range
4. Generator’s flexible capacity offer obligation aligns with the flexible capacity amount it has sold
5. The increased specificity of the capacity is a step in the right direction towards addressing long term capacity needs

Implementation of the Differentiated

- Requires parties to explicitly contract for either generic or flexible capacity from a given resource and accurately report flexible capacity procurement
 - Likely also required under Energy Divisions Count-all proposal
- Will require additional steps to validate flexible capacity showings
- Add an effective flexible capacity (EFC) value to the NQC tables
 - ISO will conduct resource assessments and provide EFC values in the NQC table

Contact information

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