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Unbundling Flexible and Generic Attributes for Procurement Purposes

Resource Adequacy Workshop

April 9, 2014

Agenda

- Background: What is Bundling?
 - Bundling for Compliance Purposes
 - Bundling for Procurement Purposes
- Inefficiencies Created by Bundling for Procurement Purposes
- Benefits of Unbundling
- SDG&E's Proposal
- Staff's Proposed Changes to Bundling for Compliance Purposes

Background: Bundling for Compliance Purposes

- Bundling for compliance purposes in 2014 means that *if* a flexible megawatt was committed in an LSE's compliance showing as providing flexibility, that same megawatt must also be committed in the LSE's showing as providing generic capacity.
- For example, a hypothetical 1 MW flex resource shown as flex, must, as a consequence of bundling, also be shown as generic in an LSEs compliance filing.

	Flexible	Generic
Resource 1	1 MW	1 MW

- In operational space this showing translates to:
 - Flex MOO on the 1 MW for some hours of the day (varies by category)
 - Generic MOO on the 1 MW for remaining hours of the day

Background: Bundling from a Procurement Perspective

“A megawatt may be sold *only once* as either flexible or inflexible.” Revised Staff Proposal at p. 9.

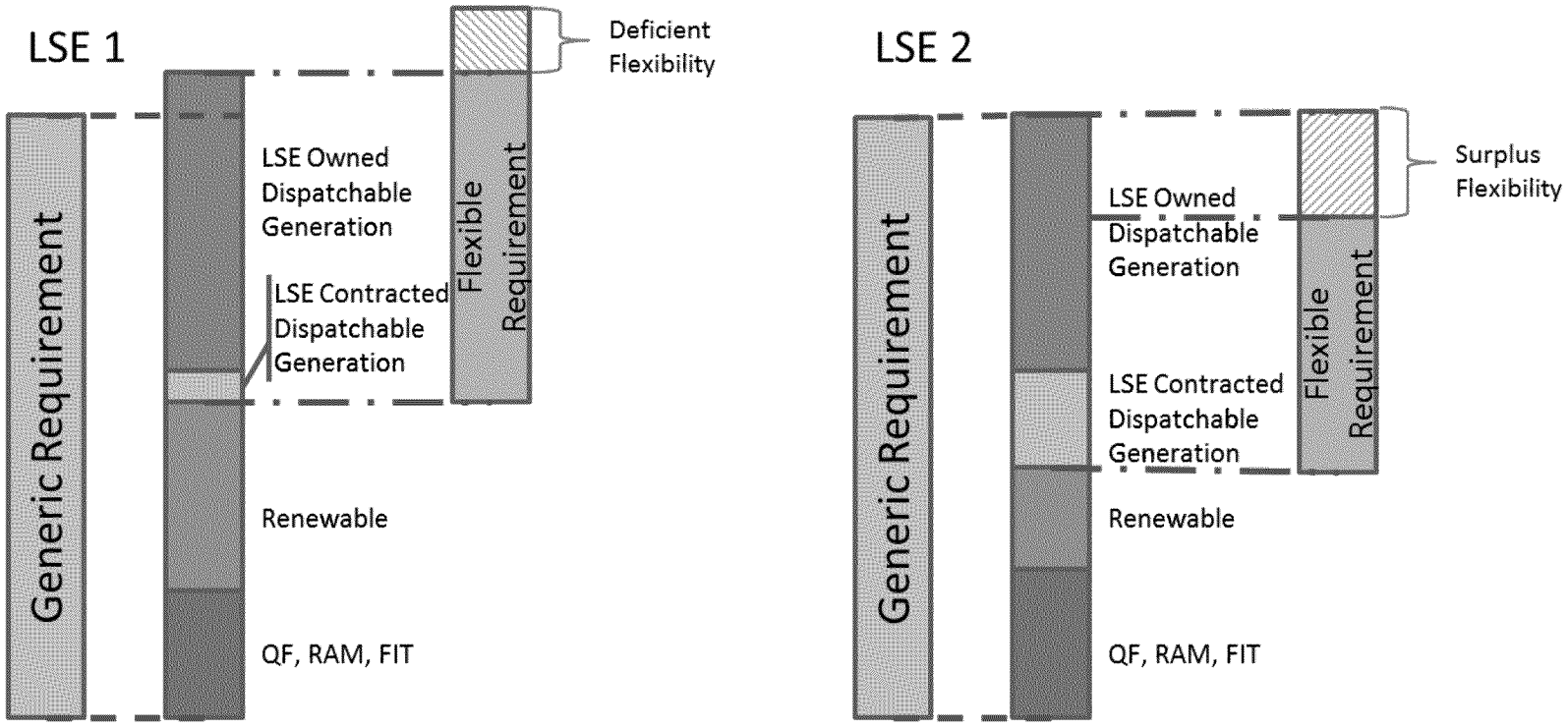
- Permissible outcomes under bundling using 1 MW example from previous slide
 - Sell 1 MW to LSE 1 as both flexible and generic
 - Sell 1 MW to LSE 1 as generic only
- Not permitted under bundling:
 - Sell 1 MW flex to LSE 1, and sell 1 MW generic to LSE 2
 - Literally construed, bundling also prohibits a resource from initially selling only generic capacity to LSE1, and then later selling the flex attribute to LSE 1

Inefficiencies Created by Bundling for Procurement Purposes

- In nearly all instances, procuring the bundled product is the least cost, best fit solution.
- SDG&E anticipates the **vast majority** of transactions for flexibility will be bundled with the underlying generic attribute.
- A prescriptive rule **requiring** bundling in all instances is not necessary to promote least cost/best fit procurement.
- In fact, requiring bundling in every instance promotes overprocurement, artificially constrains the market for flexibility, and potentially exposes incremental capacity to SCP penalties.

Inefficiencies Created by Bundling for Procurement Purposes

Figure 1 Hypothetical LSEs' Portfolios



Inefficiencies Created by Bundling for Procurement Purposes

Consequences of bundling using Figure 1:

- In satisfying its generic requirement, LSE 2 effectively stranded flexible capacity that could be sold to others.
- Because the underlying generic capacity is needed to meet LSE 2's generic requirement, and because a "megawatt can only be sold once," the current bundling rule bars LSE 2 from offering surplus flexibility to LSE 1.
- LSE 1's options to cure its flexible deficiency are administratively and artificially constrained because of bundling.
- Additionally, bundling will cause LSE 1 to overprocure generic capacity to satisfy its flexible deficiency.

Take away:

Artificially or administratively constraining the market for RA products or attributes is unquestionably bad for ratepayers.

What if the Attributes are “Unbundled?”

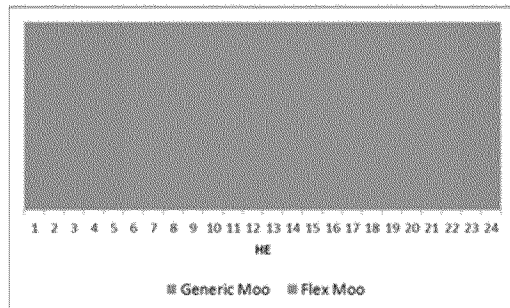
Bundled Scenario

Resource A
 PMAX: 1MW
 NQC: 1MW
 EFC: 1MW Category 1



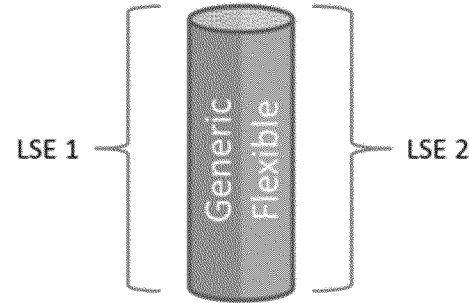
	Generic	Flex
LSE 1	1MW	1MW

Scheduling Coordinator for Resource A ensures compliance with applicable Must Offer Obligation for each attribute



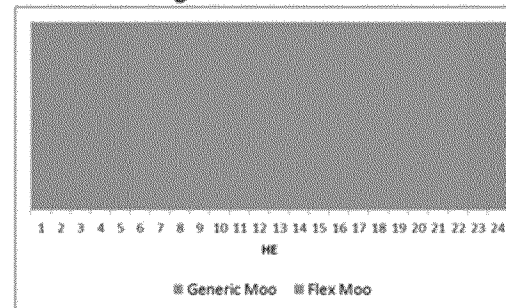
Unbundled Scenario

Resource A
 PMAX: 1MW
 NQC: 1MW
 EFC: 1MW Category 1



	Generic	Flex
LSE 1	1MW	0MW
LSE 2	0MW	1MW

Scheduling Coordinator for Resource A ensures compliance with applicable Must Offer Obligation for each attribute



Benefits of Unbundling

- Removes administrative constraints and enhances liquidity
- Mitigates overprocurement by allowing LSEs to buy and sell specific attributes
- Alleviates the consequences of “lumpy” procurement.
- Potentially decreases financial (SCP) risks
- Consistent with FRACMOO

Staff's Proposed Changes to Bundling for Compliance Purposes

- **Current rule**: A resource shown as flex, must, as a consequence of bundling, also be shown as generic in a compliance filing.
- **Proposed change**: “the EFC of a resource committed by an LSE may be greater than, equal to, or less than the NQC committed for that resource.” Revised Staff Proposal at 10.
 - Impact: Assuming LSE 1 is able to satisfy its flexible deficiency from the administratively constrained pool of available flexible resources, it need only show the flexible capacity on its compliance filing, and does not need to show the surplus generic capacity.
- Staff's proposed change **does not** address the fact that current rules requiring bundling on the procurement side artificially constrain the market for flexibility.
 - A corresponding change to bundling rules on the procurement side is required.

SDG&E's Proposed Change

1. Omit the following sentence/concept from any final rule on implementing the flexible RA program:
~~“A megawatt may be sold only once as either flexible or inflexible.”~~
2. Adopt Staff's proposed changes to bundling for compliance purposes.