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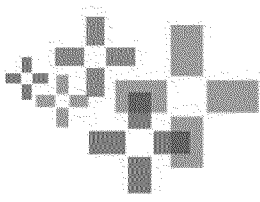
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Multi-year Forward Resource Adequacy Requirements

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May 2, 2014 workshop in R.14-02-001

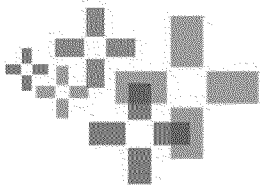


▪ Multi-Year Forward (MYF)

- It's not about building new resources
- It's about contracting with existing resources to ensure forward needs can be met cost-effectively
- It's about economic deferral of retirement

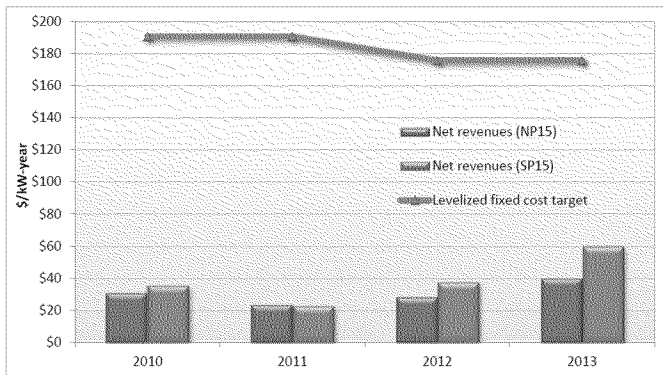
▪ We have “soft” MYF now

- No forward *requirements*
- LSEs may contract for RA capacity multiple years forward



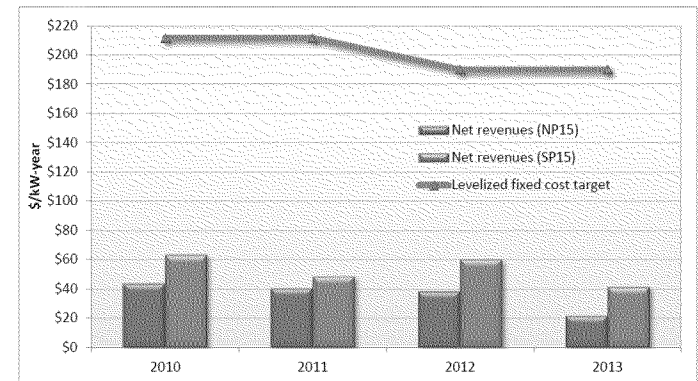
- An “open” window in time
 - Last SCE MYF RA RFO in 2011
 - Units rolling off those contracts very soon
- NRG facing many open positions
 - Including some resources identified as needed in 2018
 - 2013 CAISO annual report confirms: resources need contracts to remain economically viable

Figure 1.22 Estimated net revenue of hypothetical combined cycle unit



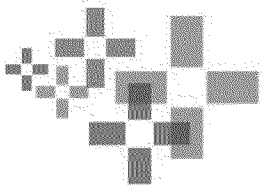
Source: CAISO 2013
Annual Report on
Market Issues and
Performance

Figure 1.23 Estimated net revenues of new combustion turbine

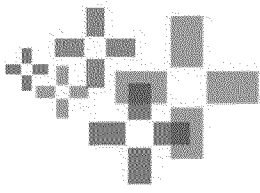




- **Sutter a case study**
 - **Plant rolled off CDWR contract**
 - **Faced major maintenance**
 - **CAISO sought to increase RoR authority term**
 - **CPUC stepped in to order contracting**
- **What do you do now to address a far-forward need?**
- **Orderly retirement**
 - **CAISO backstop authority limited to one-year forward**
 - **Universal opposition to extending CPM MYF (FLRR)**
 - **Is the “crisis management” approach best?**



- **What value do MYF RA requirements provide?**
 - **Revenue certainty:**
 - **Allows for consideration of cost-effective major maintenance or capital additions that could keep existing generation in operation**
 - **Amortizes capital additions and major maintenance over longer period**
 - **Reduces risk of outages or increased costs due to deferred maintenance**
 - **Leads to more orderly retirement**
 - **Reduces CAISO backstop procurement**



▪ **To be most effective:**

- **MYF RA requirements cannot be too highly “feathered” (i.e., a decreasing forward obligation)**
 - **But the more forward the needs assessment, the less dependable it is**
- **There should be opportunities to restructure forward positions prior to delivery year**
 - **In a purely bilateral market - how?**