

Forward RA Procurement

CPUC Workshop on Track One of the Joint
Reliability Plan R.14-02-001

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What Will Happen to RA Prices Under a Multi-Year Forward RA Requirement?

- Typical Economist answer:
 - It depends
- There are a number of fundamental issues that need to be addressed before one can postulate what will happen to prices
 - These fundamental issues address objective, mechanisms, and minimum/maximum requirements

A Full Understanding of the Objective of the Regulation is Necessary

- Deciding upon the objective of the regulation will likely lead to decisions on the mechanism and the minimum/maximum requirement
 - With these elements understood, a more reasonable expectation of prices can be developed
- Documents to this point indicate that the objective is to either reduce or eliminate the risk of disorderly retirement of resources
 - Is this the sole objective or are there other objectives?

What is Necessary to Prevent Disorderly Retirement

- To provide generators with a stream of revenues, there are two primary options
 - Utilize a multi-year forward RA requirement
 - Potential implications
 - Requirements may need to be set high in all years
 - » Likely premium paid for RA
 - Load forecast error will play a larger role in under and over procurement
 - Load migration between years will play a more significant role
 - Continue with some form of CAISO backstop procurement
 - Potential implications
 - Cost and frequency of backstop procurement unknown
 - Ability to adhere to California's energy policy goals uncertain