



# National Energy Marketers Association

## FERC Technical Conference on the Resource Adequacy Requirement Proposed in Standard Market Design NOPR

FERC convened a technical conference on November 19, 2002, to discuss aspects of the resource adequacy requirement (RAR) proposed in the SMD NOPR. Kevin Kelly of Commission Staff opened the conference by stating that the NOPR will complement existing resource provisions, rather than supplant them.

### **Session I – Northeast**

KeySpan supported a market with a two-part demand curve, annual auctions, a capacity market and a long-term bilateral market. KeySpan saw demand response serving the role of a load modifier rather than counting equally toward the resource requirement. Green Mountain stressed the need to recover costs of resource adequacy (RA) from all customers because if the full costs of RA fell on LSEs it would create a hardship, especially for competitive LSEs. Additionally, Green Mountain thought that costs of new resource payments should be collected from all customers and that there should be incentives for new generation. NY also advocated a demand curve approach and favored a central procurement process controlled by ITPs. All panel members supported some form of centralized market for capacity and most felt it should be required.

FERC staff asked the panel to discuss the enforcement mechanisms in the NOPR. The need for up front commitment from LSEs was expressed. Currently, in the Northeast LSEs are not required to do anything. They can self-supply or a central body buys the needed resources and sends the LSEs the bill. Therefore, there is no issue when LSEs do not procure adequate resources.

Issues that arose from the panel discussion include: Should the auction include total load or net load? Do bilateral contracts have to participate in an auction? Should spot markets allow LSEs to trade capacity rights?

### **Session II – West**

The Cogeneration Association of California and the Energy Producers and Users Coalition said that the NOPR does not make sense for customer generators. While the SMD works for merchant and utility suppliers, customer generators need structured contractual relationships. Silicon Valley Manufacturing Association said that RA is fundamental but was concerned that it may restrict customer choice since central

planning results in stranded costs ultimately borne by customers. The California Consumer Power and Conservation Financing Authority stated that FERC cannot mandate RAR nationwide because there are too many differences in regions and it is the states' responsibility to make sure there are adequate resources. Plus, it felt that all resources should not be treated the same. WestConnect RTO agreed on the need for regional diversity since there is resource and seasonal load diversity in different regions. They suggested that areas be divided into even smaller segments than by regions. Additionally, they felt that FERC's role should be as a backstop and an independent market for capacity is not necessary. Southern California Edison supported imposition of capacity requirements and felt that it must apply to all LSEs. They pointed out that there is currently no demand curve in California and market power is a problem.

All these panelists agreed that states should oversee RA and FERC should step in only if states fail to act. FERC staff said that the point of the NOPR was to avoid failure in the first place.

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Issues that arose from the panel discussion include: Should there be cost recovery in the spot market for generators based on speculative need? Should there be a price cap in place for generators?

### **Session III - Midwest and South East**

American Wind Energy Association currently has a 15% reserve capacity obligation for each member and monetary consequences when a member is deficient. The association felt that penalties should be assessed on an after-the-fact basis. MAPPCOR said that load is currently the POLR's responsibility, and load should get more directly involved in the market. MAPPCOR called for the coordination of load participation programs. Missouri River Energy Service expressed that FERC should base the resource requirement on actual load, not forecasts and that penalties should be assessed if an LSE fails at peak. Additionally, Missouri River thought that ITPs should have audit rights to LSE data and called for a deliverability requirement.

This panel generally supported RA and pointed out that many regions within it currently have provisions for RA. When the panel was asked about reserve sharing pools, one member advocated them, but felt they should not be mandatory. All but two panel members agreed that there is no need for a centralized capacity requirement.

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peak. There was some agreement that the NOPR penalty of \$1,000 for purchases out of the real time energy market is not enough and a more severe financial penalty is warranted.

Issues that arose from the panel discussion include: Can you penalize resources for failure to have adequate capacity? Can you forfeit revenue? Should you penalize LSEs or generators?

#### **Session IV - State Commissioners and Associations**

The North American Electric Reliability Council (NERC) said there are many different kinds of distributed energy resources. It supported federal standards that allow regional variation and said all sources should be allowed in the market. NERC said that it is essential to set long enough terms of payment for industry response and that there are new technologies to contribute to RA needs. Northeast Joint Capacity Adequacy Group said the FERC proposal has benefits because it has a forward looking obligation, recognizes regional issues and allows all resources to participate on a level playing field. However, they felt that the FERC proposal has problems since it links adequacy with CRRs, and the proposal will not work with retail access. NERC felt that fixed percentages was not a good approach to RA. Another panel member brought this up as well. Kelly said that the NOPR merely suggested the 12% reserve margin and offered other options in a footnote. A panel member suggested that RAR be based on uniform technical criteria that recognizes regional differences. Kelly said the NOPR allows each region to fix its own reserve margin, and there is no requirement to use a fixed percent.

FERC staff asked the panel to discuss the enforcement mechanisms in the NOPR. There was concern with enforcement since a real time penalty would have to be extremely large, and FERC cannot use curtailment for enforcement.