

Local Capacity Requirement Reduction Compensation Mechanism

3/14/2025

In this document, CPUC staff provides data to support the implementation of a CPUC decision related to a mechanism to support Local Capacity payments. Decision (D.) 20-12-006 adopted a Local Capacity Requirement Reduction Compensation Mechanism (LCR RCM) to encourage development of preferred and energy storage resources in local capacity areas. The two Local Capacity Central Procurement Entities, PG&E and SCE, are responsible for implementing the Local CPE program in accordance with the decision, and this data supports their related efforts.

D.22-03-034 updated the LCR RCM price calculation. It states that “if selected, the load-serving entity shall be paid the showing price (pre-determined or below) without annual adjustment for effectiveness. The showing price shall not exceed the pre-determined local price, which is calculated as follows:

- Use the weighted average price from the last four quarters of the Energy Division Power Charge Indifference Adjustment responses for system and local Resource Adequacy (RA); subtract system RA price from local RA price.”¹

2025 LCR Reduction Compensation Mechanism Calculation

In accordance with the D.22-03-034, the table below summarizes the weighted average price for system RA and local RA in the SCE and PG&E territories based on Energy Division PCIA responses from Quarters 1-4 2024, for delivery in 2025 and 2026. Dash marks were used for local areas without enough contracted MW for confidentiality. For local areas with a weighted average price greater than the system price, the local premium is the difference between the two, otherwise it is \$0.

Table 1. Weighted Average Price for System and Local RA in SCE and PG&E Territory, based on contracts entered between Q1-Q4 2024 for deliveries in 2025 and 2026

Local Area	Capacity (MW-month)	% of Total Capacity	Weighted Average Price (kW-month)	Local Premium
Bay Area	10,891	16.4%	\$24.64	\$0.00
Big Creek-Ventura	6,123	9.2%	\$25.77	\$0.58
Fresno	2,425	3.6%	\$24.29	\$0.00
Humboldt	-	-	-	\$0.00
Kern	1,851	2.8%	\$29.05	\$3.86
LA Basin	5,802	8.7%	\$18.54	\$0.00
NCNB	224	0.3%	\$17.12	\$0.00
Sierra	3,414	5.1%	\$34.68	\$9.49
Stockton	1,313	2.0%	\$28.86	\$3.67
System	34,529	51.9%	\$25.19	-

¹ [1] D.22-03-034 at Ordering Paragraph 15.

Staff Notes on the 2025 Calculation

The 2024 LCR-RCM premiums, published last year, were very high compared to the 2023 LCR RCM values, published in 2023. We observe that this is not the case for the 2025 LCR RCM premiums. Although some LCR RCM premiums have increased in comparison with the previous year's values, for the most part staff is seeing local and system prices converging in the 2024 data set. While the weighted average prices reported in the table above reflect a significant increase compared to last year's (2024) weighted average prices,² most local premiums did not increase in the 2025 LCR RCM calculations. This is because the weighted average system price increased more significantly than the local prices between the data set used for the 2024 LCR RCMs and the one used for 2025 LCR RCMs-Local prices on average increased 53%, while system prices increased 85% compared to the 2024 values. In 2024, the increases were 118% for local prices and 94% for system prices. On average, system weighted prices are only 2 cents higher than local weighted prices in the aggregate (\$25.19 compared to \$25.17).

In reviewing the data in detail staff offers the following observations:

- Local premiums in Stockton, Sierra, and Kern appear to be driven by a small sample size paired with a concentration of high-priced summer month contracts larger than that of system. Additionally, some of the most expensive contracts in some of the smaller local areas are affiliate transactions.
- The capacity volumes used to create the 2025 LCR benchmarks have significantly declined from the 2024 LCR RCM data set, reflecting an approximate 60 % decrease. The 2024 LCR RCM data set, which included contracts executed in 2023 for the 2024-2025 compliance years, totaled 166,106 MW. The 2025 LCR data set, which included contracts executed in 2024 for the 2025-2026 RA compliance years, only amounted to 66,571 MWs. Note that both these data sets referenced include both system and local (excluding San Diego / IV).

² <https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/resource-adequacy-homepage/resource-adequacy-compliance-materials/lcr-rcm-2024.pdf>