Local Capacity Requirement Reduction Compensation Mechanism

3/22/2024

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]

2024 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 2023, for delivery in 2024 and 2025. Dash marks were used for local areas without enough contracted MW for confidentiality. For local areas with 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 2024 and 2025

Local Area	Capacity (MW-month)	% of Total Capacity	Weighted Average Price (kW-month)	Local Premium
Bay Area	19,306	11.6%	$19.01	$5.41
Big Creek-Ventura	13,492	8.1%	$13.45	$0.00
Fresno	4,918	3.0%	$13.29	$0.00
Humboldt	-	-	-	$0.00
Kern	817	0.5%	$25.14	$11.54
LA Basin	14,486	8.7%	$13.99	$0.40
NCNB	476	0.3%	$20.22	$6.62
Sierra	7,567	4.6%	$20.16	$6.57
Stockton	141	0.1%	$43.53	$29.94
System	104,904	63.2%	$13.59	-

Staff Notes on the 2024 Calculation

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

In light of the high prices shown in Table 1, staff offers the following observations on the data provided. The weighted average prices and local premiums reported in the table above reflect a significant increase compared to last year's (2023) LCR RCM reported values,[2] with several local areas seeing premiums of over $5 kW-month compared to the largest premium being $2.63 kW-month in 2023. While local prices on average increased 118%, System prices increased 94% compared to the 2023 values.

While the objective of the mechanism adopted via decision is to pay a premium for local capacity, if appropriate based on the price discrepancy between local and system – in this year's data, the extremely high price premium is likely driven by overall high system prices and not necessarily a unique local attribute. In reviewing the data in detail staff offers the following observations:

- High prices in Stockton, NCNB and Kern appear to be driven by a small sample size paired with a large concentration of high-priced summer month contracts.
- High prices in local areas with large sample sizes (Bay Area & Sierra) appear to be consistently greater than System across most months and contract execution periods. In almost every delivery quarter, Bay Area and Sierra have higher weighted average prices while not necessarily having the highest priced contracts
- Across both Local and System datasets, a small volume of high-priced contracts are driving the overall weighted average prices.
- Additionally, a disproportionate number of MW in expensive local areas came from contracts executed in the second half of 2023 for delivery in 2024 (consistently the most expensive type of contract). MW with contract execution dates in the second half of the year made up a greater portion of local MW than with System MW.

In conclusion, based on these observations, paired with the fact that LSEs are contracting with these resources to meet a system need rather than a local need, demonstrate the premiums observed in Table 1 are likely be driven by randomness (what local area MWs are left to contract for system needs in the second half of 2023) rather than being driven by the cost of procuring capacity in these geographic locations (i.e., an actual local RA premium).

[2] https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/resource-adequacy-homepage/resource-adequacy-compliance-materials/lcr-rcm-2023.pdf