

Resource Adequacy Steering Committee Meeting
September 16, 2005
Meeting Notes

Tom Karier made introductory remarks. Achieving resource adequacy for the Northwest is one of the Council's key goals, as outlined in the 5th Power Plan. Resource adequacy has come to the forefront of planners' minds due to recent events such as the 2001 electricity shortage and consequent price spikes. The Council has used a 5% loss of load probability standard to assess resource adequacy, however, no substantive regional discussion regarding that standard has occurred. Similarly, no translation of that standard to a utility level has been widely discussed. The Northwest needs a broader agreement on a standard both for region as a whole and for individual utilities. This is especially true in light of recent institutional changes, such as the new energy act, the current effort to establish a transmission organization and the regional dialog through BPA. It is also important because of the recent volatility in electricity and gas prices. In its 5th plan, the Council recommended that voluntary standards be established for the region.

Paul Norman then made some introductory comments. He said that the BPA goal is to keep lights on, keep price spikes down and be able to make Treasury payments on time and in full. BPA wants to move away from a central role in resource development and give its customers more say in planning and the ability to assume responsibility for developing new resources. BPA does not want a repeat of the 2001 experience. Accordingly, since BPA is stepping back from the central resource development role, we feel a need to ensure that others are stepping forward effectively to fill that role. This is primarily why we are interested in resource adequacy standards.

Wally Gibson then made some remarks regarding the overall framework for the Resource Adequacy Forum. He mentioned that the technical committee had already met and started to flesh out different ways of looking at adequacy. That group also discussed resource adequacy at the utility level but decided that it would be up to the Steering Committee to decide if and how a regional standard could be "translated" into a utility level standard. There was some unease regarding the term "standard." Wally defined the term standard to mean a metric and target that would equate to resource adequacy. The term "standard" in this context has no implications regarding mandatory actions or implementation methods.

The Steering Committee will deal with policy issues such as whether proposed metrics and targets are appropriate. It will also decide whether to proceed with discussions regarding how a regional standard might be transformed into metrics and targets that individual utilities could use. Another question for the Steering Committee is to decide what level of protection to provide for the region. Does the region need a minimum standard to simply "keep the lights on" or a higher standard that also minimizes the likelihood of price spikes? The next question is how utilities would deal with this? Should there be a utility standard, what would it look like, how would it be implemented?

Mary Johannis then made a presentation describing past efforts to develop a resource adequacy standard and the various organizations that are currently involved. (See her Power Point presentation).

John Fazio then made a presentation describing a proposed standard (metric and target) for the Northwest. (See his Power Point presentation).

After Mary's presentation summarizing the new energy bill, Steve Weiss asked how any standard could be mandatory if NERC cannot order construction of either resources or transmission. Mary said that the *assessment* of adequacy is mandatory and fines would probably be assessed to sub regions that don't comply. NERC will look to states to develop solutions to inadequacies.

Capacity in the Northwest, that is, hydro generation peak day deliverability is different in the Northwest than in other areas of WECC. John Fazio suggested that we could look at California's work for peak day deliverability as a starting point for how to count hydro capacity in the Northwest. It was recognized, however, that peaking capacity for Northwest hydro must be carefully looked at. It was also suggested that the capacity target for California may not work for the Northwest and that we should develop our own capacity target.

A question came up as to how the critical year hydro capability is related to firm load carrying capability. John Fazio briefly described how the firm FELCC is calculated based on the critical period. He reminded the committee that the official critical period is currently defined as the water sequence from September of 1936 through February of 1937. Looking at the average hydro generation for the 1937 water year (September 1936 through August of 1937) will yield a higher value than the FELCC.

Assuming that the Steering Committee could agree on a regional standard, should it direct the Technical Committee to work on a translation to a utility level standard? Would that translation be useful to individual utilities? Steve Weiss said that we need a standard at both the regional and the utility level. However, at the utility level, adequacy targets will depend on what other utilities are doing – the region does not want expensive redundancy. So, the obvious question is, how can we coordinate resource plans among utilities to avoid redundancy but to make sure everyone does their part?

Northwestern Energy stated that it owns no generation so it is entirely dependent on the market.

Jason Eisdorfer (CUB) asked whether a regional target is meaningful if individual utilities don't know how they stand relative to it? Stan Watters replied that just knowing the regional status would provide valuable information to utilities. If the region is OK adequacy-wise and an individual utility is short, it can decide whether to risk using the market to fill the void or to acquire a firmer resource (or to contract for what it needs).

The question arose as to whether utilities really know how they stand with respect to resource adequacy. Much response followed citing IOU integrated resource plans and the public utility commission process. I think it was generally agreed that utilities pretty much know how they stand at least relative to their own demands.

How will public utilities use a standard? Their Boards will not want to give up their prerogative to make planning decisions. Mary Johannis responded that the new energy legislation requires that individual utilities will be held accountable. But all agreed that implementation of a standard at the utility level is problematic, i.e. forcing utilities to take actions or particular types of actions runs into a political barrier.

The IOU perspective assumes that the standard will include broad guidelines regarding resource adequacy but it will not specify actions that need to be taken. The assumption is that a penalty (fine) will be assessed to utilities that do not conform to the standard.

PacificCorp has to deal with “standards” in different states and has to consolidate these inconsistencies in some way. The current effort to develop a regional standard is a good idea from PacificCorp’s perspective in that it will uniform the standard. Stan stated that a 5% LOLP is NOT the standard put into utility IRPs. Targets for individual utilities may differ depending on the make up of their power supply. A global utility standard (i.e. using the same metric and target for each utility) will not work. Again it was reiterated that how we count resources is very important. There may be a different counting method (or strategy) for a reliability assessment as opposed to the development of an IRP.

Is BPA going to take on the role of resource adequacy? What about the independent power producers (IPPs)? Someone suggested that individual utilities should derive their own targets.

Do firm contracts carry capacity with them? Do you have to identify a resource that is associated with a contract? Defining a resource adequacy standard could affect normal business practices at some utilities. In California you have to link a resource to a contract.

How do we count available capacity out of California? We must make sure that air quality and fuel supply constraints are properly taken into account.

One way to count resources is to look at the actual physical resources that are available in the region. But translating this to a utility level is problematic due to contract information (i.e. tying resources to contracts). We all agreed that figuring out how to best count resources is complicated but necessary to developing a standard.

Should deference be given to PUC decisions? For example, the OPUC allowed PGE to be short given the state of the market. But there may be a problem with a standard that gives deference to PUCs but not to utility boards for the publics. The same flexibility must be available to both PUCs and public utility boards.

While there are problems with translating a regional standard into a utility level standard, the development of a regional standard is very important. OPUC would like to see some coordination with other state PUCs and would like to see a more flexible approach for utilities to solve adequacy problems.

Paul Norman asked if the Steering Committee could agree to a few simple principles before proceeding. Paul suggested a set of principles and after some debate and modification there was general agreement. The final version of the principles is listed below:

1. It is important to have a regional resource adequacy metric and target.
 - a. Develop metric and target that shapes WECC's energy assessment.
2. We should develop mechanism to assess whether regional RA metric and target is met.
 - a. One basic mechanism is a reporting process to get data from individual load serving entities for regional assessment.
 - b. This allows region-wide transparency and allows individual utilities to assess themselves with respect to their position in the Region.
3. There should be some mechanism reasonably to assure that the regional metric and target will be met going forward.
4. Don't trample on jurisdiction of states or prerogatives of individual utilities in planning and acquiring resources to meet load.

Some indicated that items 3 and 4 might be mutually exclusive but Paul seemed more hopeful that a viable solution could be found. We all agree that it would be helpful to continue this exercise but that we shouldn't try to solve all of the problems at once. It was suggested that this group first deal with a regional standard and then decide if it wants to move on to a utility standard.

Other questions that came up included, who would implement the standard, that is, who takes action and who pays? How do we avoid the situation where some utilities rely on others to supply part of their adequacy?

It was decided that more information was required for further progress. With that in mind, this committee developed a set of questions for the Technical Committee listed below:

1. Counting Definitions
 - a. Peak day deliverability of hydro capacity; how to relate that to reserve margin
 - b. Resources under contract
2. Define planning horizon
3. LOLP methodology—what are others (NERC regions and NW utilities) doing; neighboring regions; how to translate their methodology to our LOLP

- a. Why 5%; what does 10% look like; what are the economic tradeoffs in going from 2% to 5% or other target
4. Send out White Paper to Steering Committee
5. Develop data requirements and data collection process (including confidentiality issues) to allow assessment or resource adequacy to be done

Discussions of implementing a standard made this group very uneasy. There was a feeling that implementation of a standard would take some planning flexibility away. However, if we mandate that the standard be applied to individual utilities then parties in the region will more readily address the question of who pays and who takes action.

Can the technical committee come up with a function to translate the regional standard into a utility standard taking into account the types of resources and loads and other characteristics of individual utilities? It was decided not to ask the Technical Committee to pursue this task just yet.

Because no utility is totally independent, poor planning decisions made by one utility could affect many others.

Stan Watters said that appropriate parties would take corrective action without necessarily translating a regional standard into a utility level standard. It will be “self correcting” in that if the region is not OK, utilities that are OK do not need to do anything while others may have to take action. We should be able to tell who is in bad shape.

Steve Weiss reiterated his stand that the standard should be based on an economic test (minimizing the likelihood of price spikes). He suggested that it is the cost of service rather than the likelihood of curtailment that most customers react to. In fact, he said that many customers in the Northwest expect to be curtailed simply due to problems with the distribution system. Steve’s point is that a 5% LOLP is less meaningful to customers than say a five percent likelihood of extreme price spikes in a given year.

One of the principal issues for this committee to address is who has the authority to implement the standard? Many suggested that we simply provide the adequacy assessment to the region and let individual utilities make their own choices.

Next meetings:

Technical committee	October 7 th at the Council offices.
Steering committee	October 26 th at the Council offices.