



Northwest & Intermountain Power Producers Coalition’s (NIPPC) Statement on Resource Adequacy in the Northwest Region

Background

The Northwest is expected to face significant capacity deficits during the 2020-2030 time period. Recent studies by E3 and the Northwest Power and Conservation Council have demonstrated a need for 5,000 megawatts of net new capacity by 2025, growing to as much as 8,000 megawatts by 2030 to maintain reliability.¹ In response, the region’s utilities have convened a process through the Northwest Power Pool to investigate the formation of a Regional Resource Adequacy Program.

Statement on Coordinated Planning

The region does not currently have an organized capacity market or consistent process for counting physical capacity. In fact, it has become a common practice for some large utilities to rely on “market purchases” or “front office transactions” to satisfy projected capacity requirements in their Integrated Resource Plans (IRPs). Such market purchases can serve to reduce customer costs by avoiding unnecessary investment as long as there is an adequate supply of available and affordable surplus capacity. If there is a shortage of capacity, however, reliance on financial contracts and risk-hedging instruments that do not involve an identified physical asset or Balancing Authority system commitment, can jeopardize reliable electric service, expose customers to high costs, or both. The magnitude of the capacity deficit forecast for the Northwest is therefore creating pressure on regulators to take action to relieve what is predicted to be a capacity crisis. Region-wide coordinated resource planning is intended to avoid such crises and minimize uneconomic short-term capacity procurement. NIPPC supports the development of a Resource Adequacy obligation that includes capacity demonstration requirements consistent with well-designed capacity-based markets similar to those that have proven to be effective elsewhere.

Statement of Support for Region-wide Capacity Planning

NIPPC supports the development of a “Regional Resource Adequacy Program” and believes that it will provide benefits to electricity consumers by improving the reliability of electricity service and minimizing long-term cost. A broad footprint can reflect the complimentary nature and diversity of a broad set of resources and obtain the benefits of geographic diversity to the economic benefit of ratepayers. NIPPC believes this effort could not only address future regional capacity needs but could also foster regional coordination, establish common metrics, and create tradable products that would further improve regional reliability while increasing market efficiency

¹ Z. Ming, A. Olson, H. Jiang, M. Mogadali, N. Schlag, 'Resource Adequacy in the Pacific Northwest', [ethree.com](https://www.ethree.com), San Francisco, Energy and Environmental Economics, Inc., March 2019, page 38, https://www.ethree.com/wp-content/uploads/2019/03/E3_Resource_Adequacy_in_the_Pacific-Northwest_March_2019.pdf (accessed January 20, 2020).

and decreasing costs. An agreed upon independent planning entity would be needed to determine the annual load serving entity's capacity obligation and the capacity value of the region's assets, for those who voluntarily participate.

[NIPPC Statement on FERC Jurisdiction](#)

NIPPC understands that some Northwest utilities wish to establish a program as quickly as possible due to the looming capacity shortfalls. NIPPC further understands that the region's publicly-owned utilities and federal power marketing agencies wish to minimize FERC jurisdiction over the program. These practical considerations constrain the program design to a voluntary, multilateral compliance obligation in which each state may have differing, potentially conflicting, market rules about the level of capacity required, resource eligibility and capacity counting requirements and compliance requirements that will leave the region's capacity market balkanized and inefficient. A region-wide, formal, capacity procurement obligation that manages reliability on a region-wide basis will facilitate the development of a capacity product that is well-defined and will provide a framework for facilitating market-based transactions that ensure reliability at the lowest possible cost. NIPPC recognizes the practical political constraints in the Northwest region and does not oppose state-based development of the capacity construct in the near-term, but notes the need for a high level of uniformity and coordination among the states for the development of a workable, successful system.

[NIPPC Principles for a Regional Resource Adequacy Program, and Specific Program Features](#)

NIPPC offers the following seven principles and associated features for the region's consideration in its development of a "Regional Resource Adequacy Program". NIPPC believes adherence to these principles and features will maximize the benefits of the program to the region.

1. **Reliability:** The Program should assure reliability of electricity service to the region based on industry-standard reliability metrics.
 - a. The Program should have binding requirements with meaningful penalties for non-compliance.
 - b. The Program should evaluate individual resources based on the contribution they make toward regional resource adequacy, including stand-by generation.
 - c. The Program should ensure that each eligible resource is counted once, and none is counted twice.
 - d. The Program should appropriately consider the stochastic, variable nature of energy supplies for wind, solar, and hydro resources, including the role of drought years in causing the potential for loss-of-load events in the Northwest.
2. **Efficiency:** The Program design should demonstrate tangible and long-term consumer benefits.
 - a. The Program should appropriately consider the effects of diversity and correlation among the region's portfolio of variable energy resources.
 - b. The Program should allow for expansion to include or integrate with adjacent regions and market designs, including existing and emerging dispatch markets such as the EIM and EDAM.
3. **Independence:** Determination of need and evaluation of resource eligibility must be overseen by a Program Administrator that is independent of market participants.

- a. The Program Administrator should have independent authority for capacity certification/accreditation ratings, test procedures, and deliverability verification.
4. **Non-discrimination:** The resource evaluation must be technology-neutral and must enable all resources to participate regardless of ownership or location.
 - a. The Program should provide for equitable treatment of supply-side and demand-side resources.
5. **Competition:** The Program design should facilitate participation in the program by all regional suppliers and customers, including those that participate in direct access programs.
 - a. The Program should facilitate capacity price transparency and product tradability so that competitive entities can manage the risks associated with compliance.
 - b. The Program should have well documented and defined processes for participation, multiple contracting options, and published market prices to encourage development of new capacity resources.
 - c. The Program should ensure that there is well-formed market oversight to avoid the exercise of market power by either buyers or sellers of capacity resources, and address market power issues if they arise.
 - d. The Program should abide by all open access transmission principles and requirements.
6. **Transparency:** The Program Administrator should undertake all calculations as to capacity requirements, resource eligibility, and compliance in a transparent, auditable manner and all information should be public to the maximum extent possible.
 - a. The Program Administrator should provide forecasts of each BA's net positions over time.
7. **Practicality:** The Program should not be unduly burdensome to comply with and should be consistent over time.
 - a. The Program should have low barriers for entry and exit.
 - b. Variable generation, such as intermittent wind and solar, should be expected to be mechanically available during performance periods but should not be subject to a performance requirement. Capacity counting would be based on the historical ability to deliver when peak loads occur.
 - c. Due to the regional nature of the Program, a showing of capacity should not include a requirement to hold firm transmission rights. A showing of capacity accompanies an obligation to deliver energy if required.
 - d. The Program should leverage existing market institutions as much as possible, e.g., WSPP standard contracts. The capacity obligation should be consistent with other WECC capacity programs such as the resource adequacy construct used by the CAISO.