Restructuring in the Rearview Mirror – a 10-Year Retrospective of California's Doomed Experiment with Electric Deregulation. By The Energy Overseer

Prospects for the New Power Market

The "unexpected deficiency" in available resources during last week's Stage Two Alert serves as another reminder of how dangerously close California is to a serious capacity shortage. Although everyone is moving toward solutions as quickly as practicable, there is lingering fear that answers might not come soon enough.

During a presentation to the Independent Energy Producers' annual meeting at Fallen Leaf Lake on September 28, California Energy Commission chair Bill Keese reviewed the list of proposed merchant power projects and generation unit repowering plans working through the CEC's siting process. Even though the commission has done its best to streamline the licensing process, and new state law eliminates early procedural hurdles while increasing siting staff, Keese described external sources of delay--everything from NIMBY challenges and local jurisdictional disputes to financing problems for developers--as evidence that the next generation of additions could be detained.

Pointing to the first dozen projects in the queue, Keese predicted, "It is highly unlikely any of these plants will generate electricity in 2001. It is also unlikely any will generate in 2002." In that event, he said, the state is looking at a 4,000 MW gap between projected needs and available resources. "Next year is going to be dicey," Keese concluded.

In the audience were people who can do something about the situation. The collected members of IEP and other conference attendees represent one of the most influential and active organizations in California's energy community--people who have proved they can get things done. Four companies alone--Calpine, Duke, Dynegy and PG&E Generating--account for so much new power development in the region and nationally that they have tied up nearly all the new turbine equipment that can be made by General Electric and Westinghouse for the next two years.

If Keese is correct, even the new projects being pursued by these energy giants will not be on line in time to avert future shortfalls. Luckily, other IEP member companies possess untapped resources that can and should be applied to the capacity problem.

For years, a regular panel discussion at the conference has been about QF contract restructuring. Power producers may "repurpose" their facilities, find other buyers for their energy and perhaps match their operations to suit the fluctuating market, rather than running under standard-offer contract terms.

One of the shining examples of this has been the 30 MW Burney biomass project, which took an early risk of renegotiating its contract with Pacific Gas & Electric to become a merchant plant, selling its valuable "green power" into the power exchanges or directly to retail energy service providers. By all accounts, it has worked out well for Burney and for the marketplace. Burney's deal with PG&E would have it return to the QF "must take" mode of operations come next April, but there is a possibility for the plant to keep its options open in the new market.

The green power market is just one alternative. Another takes the form of the California Independent System Operator's ancillary services and imbalance energy marketplace, which affords some power generators both another place to sell energy and occasional opportunities to capture price premiums that more than offset the higher costs of operating during peak stress periods.

There will always be price volatility; the best way to keep the spikes in check is to make sure there are plenty of generators willing and able to bid into the market. Freed from their avoided-cost contracts, independent producers could fill the "thinness" that has plagued the ISO's ancillary services market and forced price caps.

It should be a goal of future QF contract restructurings to encourage plant operators not to simply take their money and go away, but to apply their existing resources to meeting peak needs.

Last year, IEP and PG&E worked out an arrangement that could free independent producers from the strict contractual limits on their facilities' energy output. As described by Andy Brown of the consulting law firm Ellison & Schneider, generators will be able to produce power above their contract limits and sell it into the CalPX, to the Automated Power Exchange, into the ISO markets, or perhaps directly to energy service providers who need to serve direct-access loads.

QFs are in a position to operate under their existing agreements but make a little more than their contract commitments and sell it into the market. Conceptually, the idea is a simple one, but it has taken more than a full year to work out the accounting and settlements process. According to Brown, details may be finalized this month, allowing the program to be in effect in plenty of time for summer 2000.

These are, of course, solutions to the potential resource squeeze that come from the supply side. I am of the opinion--disagreeing with Keese just a little--that improvements and adjustments to transmission systems and distribution can go a long way toward smoothing out the market problems that bring price spikes and system emergencies.

However, I agree with him that demand-side answers must also be explored and implemented. Customer aggregation and coordinated load-shedding can be a simple way to prevent peaks--if only the ISO and customer groups can agree on how to properly value such actions.

But in the short term, I see a major role for California's independent power community in meeting the growing resource deficiency through more flexible operations and increased market participation **[Arthur O'Donnell].**

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