

## **SeTrans Sponsors' Position Statement Regarding Resource Adequacy**

The SeTrans Sponsors agree with the need to have a resource adequacy requirement in order to mitigate price spikes while ensuring sufficient resources are planned on a long-term basis. An installed capacity requirement will provide a fairly long-term signal that should assist in the development of new generation or the ability to dispatch load, particularly in the early days of the SeTrans RTO market. While an Installed Capacity requirement will provide an incentive for developers to build new generation, it will also promote the development of dispatchable load. In order to accomplish this, resource adequacy responsibilities should take the form of longer term obligations, possibly on a multiple year basis. When more load has developed the capability to be dispatched when resources are tight, less generating capability will be required to ensure reliability for the remaining load.

The SeTrans Sponsors are concerned, however, with the penalty structure proposed in the NOPR (§527). The proposed penalty structure may not provide the proper incentives for load serving entities to secure adequate resources on a prospective basis. It is not clear how the proposed penalty structure would handle LSEs who gain or lose load relative to the base forecast, or for LSEs who buy or sell contracts in the interim period.

Additionally, the SeTrans Sponsors are concerned with the proposed process for determining the regional requirement (§490). The Southeast is primarily characterized by a business model in which bundled retail services are provided to customers via both state regulated, vertically integrated utilities as well as public power utilities. The jurisdictional utilities in the Southeast, in accordance with state regulation, utilize long-term integrated resource planning processes that already guarantee resource adequacy. Accordingly, the SeTrans Sponsors believe the resource requirement should be determined by the SeTrans RTO in coordination with the LSEs and controlling regulatory authorities within the region. The resource requirement should be developed using a system-wide statistical evaluation of system reliability using typical industry reliability measures such as Loss of Load Expectation (LOLE).

With regard to Capacity markets, the NOPR (§549) permits but does not require RTO markets for acquiring and trading resources for the purpose of meeting the reserve margin supply requirement. The SeTrans Sponsors agree with this approach. The SeTrans proposal does not specifically grant the RTO the authority to operate capacity markets. However, consistent with the SMD proposal, there is nothing within the SeTrans proposal that prevents the RTO from operating such markets if the stakeholders so desire.

The SeTrans sponsors also believe that Capacity Benefit Margin should be included in the discussion of the long-term resource adequacy proposal. “Reservation of CBM by a load-serving entity allows that entity to reduce its installed reserve requirements below that which would otherwise have been necessary without interconnections to meet its

generation reliability requirements.”<sup>1</sup> The discussion in the SMD NOPR on resource adequacy makes no mention of CBM and thereby ignores the installed reserve benefits derived by CBM. The resource standards discussion (§509-519) presumes only generation and demand resources and makes no recognition of CBM as an alternative to installed resources within the RTO footprint.

The SeTrans Capacity Requirement implementation is summarized below:

- In coordination with the LSEs within the region, the SeTrans RTO will determine the default reliability criteria for the SeTrans RTO. This criteria will be developed using a system-wide statistical evaluation of system reliability using typical industry reliability measures such as Loss of Load Expectation (LOLE).
- The SeTrans RTO will calculate the amount of Installed Capacity required to meet the reliability criteria for each LSE based on the following:
  - LSEs with regulatory requirements to serve load subject to regulatory oversight of planning activities will use that planning criteria as a basis for determining capacity requirements. Load curtailment plans will also be established, if necessary, to meet the RTO default reliability criteria.
  - LSEs with specific legal or contractual capacity requirements will use those requirements. Load curtailment plans will also be established, if necessary, to meet the RTO default reliability criteria.
  - LSEs in retail choice regions and LSEs without the obligation to serve will use the default RTO reliability criteria as a basis for determining capacity requirements. To the extent that these LSEs represent a subset of the customers in a specific area, allocation procedures will be put in place to track the appropriate share of total ICAP responsibility to be assigned to each LSE. Load curtailment plans will also be established, if necessary, to meet the RTO default reliability criteria.
- The SeTrans RTO will assign each LSE the responsibility for acquiring their required amount of Installed Capacity.
- The SeTrans RTO will determine standards for calculating the amount of output from a resource that is eligible to be considered Installed Capacity for the purpose of meeting an LSE’s Installed Capacity requirement. All Installed Capacity will be subject to deliverability, capability and availability tests to ensure that adequate capacity is available when needed, as determined by the RTO.
- For all LSEs, the SeTrans RTO must levy penalties against those entities who fail to acquire sufficient Installed Capacity to meet their pre-determined Installed Capacity requirements. This penalty may either be in the form of severe financial assessments and/or targeted physical load curtailment during RTO-wide capacity shortfalls.

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<sup>1</sup> “Available Transfer Capability Definitions and Determinations,” North American Electric Reliability Council, June 1996, p. 14.

- In order to ensure sufficient resources are available to meet real-time demand, provide balancing energy, manage congestion, and to maintain system security, the RTO will require each LSE to make a subset of their ICAP resources available to the RTO on a day-ahead basis. This requirement is referred to as the Monthly Available Capacity (MAC) requirement, and resources used to supply this requirement are known as MAC resources.
- This MAC requirement is based upon the RTO forecasted monthly peak of the LSE, plus operations planning reserves. The mix of resources used to fulfill the MAC requirement may change daily, but in any event, must be equal to the specific MAC requirement for each LSE.