What is the Impact of California's Infrastructure and Market Structure Priorities?

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Challenges Not Yet Addressed

- Local Reliability Constraints
  - CAISO says 25,000 MW needed to provide local reliability throughout state; avrg. 70% of gen in areas
  - Means market power for energy as well as capacity
    - Market power means prices will be high or will be capped at levels likely unappealing to generators
    - Mitigation of market power not consistent with generator wish for payment for fixed costs and end to energy caps
    - Higher costs also likely from CAISO desire to control all generation and assure generators have costs covered
  - Implication: **higher electricity prices and few benefits from competition**

Market Structure Will Not Help

- To mitigate market power:
  - new transmission to increase competition
  - longer-term bilateral energy and capacity contracts to reduce price volatility; Western US energy markets are based on bilateral contracts
  - Generation near load
  - MRTU market structure does not help
    - It complicates settlement of bilateral transactions
    - Its focus is on short-term markets, in which little power will trade, and on locational pricing for generation with averaged end user prices
    - impact of LMP on market power and transmission is unclear

Infrastructure Focus Needs Shift

- Need more policy and investment focus on transmission additions to mitigate local market power, increase access, and facilitate competition
  - "economic" transmission assessment still not ready
  - Transmission planning still not focused on competition and elimination of congestion affecting local area reliability
  - Too much transmission investment focus on renewables far from load and on imports, aka "backbone"; these will not decrease local market power
  - Transmission additions still laborious compared to generation

- Need more policy support and incentives for generation near load
  - Unclear if LMP will attract generation in local areas to decrease congestion and increase competition
  - Large customer DG would help (and not just renewable-based)
    - Such DG would add resources near load, reducing local area market power
    - It would be paid for by end-use customers themselves, not LSE customers
    - It would help fill gap left by terminating DWR contracts