

Credit Increases Disproportionately Impact Energy Efficiency Resources

January 2014

Timing of EE in RPM

- Energy Efficiency resources are eligible for capacity payments for 4 years. No other RPM resource has an expiration date.
- This means that a large part of an EE provider's portfolio will *always* be “planned” and have credit requirements.
- Example for project completed during DY2012/13, and so eligible for 2013/14 through 2016/17:

10/11

11/12

12/13

13/14

14/15

15/16

16/17

17/18

1x credit**1x credit****1x credit****revenue**

After clearing first BRA in May 2010.

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1x credit**2x credit****2x credit****revenue****revenue**

After clearing second BRA in May 2011.

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10/11 11/12 12/13 13/14 14/15 15/16 16/17 17/18

1x credit

2x credit

3x credit

revenue

revenue

revenue

After clearing third BRA in May 2012.

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10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18
1x credit	2x credit	3x credit	4x credit revenue	revenue	revenue	revenue	expired

Final, after clearing second BRA in May 2013. Many EE projects do not qualify as “existing” until after data is reported at the end of the summer, and so have a financial assurance requirement through October of their first delivery year.

Steady state credit

- So far, same as other RPM resources. The difference is that EE projects start to fall off after four years.

Inst. Year	Delivery Year															
	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
12/13	1x	2x	3x	4xEE	EE	EE	EE	exp.								
13/14		1x	2x	3x	4xEE	EE	EE	EE	exp.							
14/15			1x	2x	3x	4xEE	EE	EE	EE	exp.						
15/16				1x	2x	3x	4xEE	EE	EE	EE	exp.					
16/17					1x	2x	3x	4xEE	EE	EE	EE	exp.				
17/18						1x	2x	3x	4xEE	EE	EE	EE	exp.			
18/19							1x	2x	3x	4xEE	EE	EE	EE	exp.		
19/20								1x	2x	3x	4xEE	EE	EE	EE	exp.	

- 17/18 is the first steady state year, where new projects are added to replace expiring old ones.
- In this steady state, the EE provider is earning RPM revenue on 4 years' projects, but posting credit on 6 to 10 years' worth.
- This credit requirement never goes away.

This outcome is different than for all other resource types:

- Planned generation and QTO developers post 100% credit until a full interconnection agreement is signed, 50% credit until interconnection service starts, and none thereafter.
- CSPs post credit while their portfolio is growing, but have no ongoing credit requirement once they are stable.
- External generation posts credit until firm transmission has been procured.
- Uniquely, an EE provider who is providing the same amount of capacity year after year faces a never-ending requirement to post credit based on 150% to 250% of their annual revenue.

Proposal

Allow future revenue from proven, in-service EE projects to stand as RPM Seller's Credit only against financial assurance obligations for years in which the project would still be in service.

- EE projects require little maintenance year-to-year, and MW quantities have shown to be stable.
- Members are exposed to little additional risk. Seller's credit is fully backed by existing resources.
- Consistent with treatment given to existing generation and DR.
- Simply requires change of "RPM Credit Adjustment Factor" to be based on MW-years rather than MW.
- A provider in steady-state would have 6 to 9 years worth of future revenue to pledge against 6 to 10 years of credit obligations. So, credit obligation drops to near zero only if provider is not growing and consistently meeting obligations.

Timing Example

- During the 17/18 delivery year, the dark green project years have already been proven, and will be generating RPM revenue when the provider's credit requirements come due.

Installation Year	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
2012/13	EE	EE	exp.								
2013/14	EE	EE	EE	exp.							
2014/15	EE	EE	EE	EE	exp.						
2015/16	3x	4xEE	EE	EE	EE	exp.					
2016/17	2x	3x	4xEE	EE	EE	EE	exp.				
2017/18	1x	2x	3x	4xEE	EE	EE	EE	exp.			
2018/19		1x	2x	3x	4xEE	EE	EE	EE	exp.		
2019/20			1x	2x	3x	4xEE	EE	EE	EE	exp.	

- E.g., projects scheduled for 2017/18 installation must be delivered by June 1, 2018. Projects completed from 2014-2017 will be earning revenue during DY18, and so should be allowed to stand as collateral against possible deficiency.

Precedents

Requiring credit to exactly match possible deficiency penalties on planned resources is not a current requirement, and, in any event, is not a very close match to actual member exposure.

- “The purpose of the RPM credit requirement is to encourage future physical performance, but not necessarily fully guarantee financial obligations related to Capacity” (M18)
- Tariff specifies RPM credit requirements as absolute values, not in terms of deficiency penalties, and so will need to be changed under most packages.
- In 2012, at least 75% of replacement capacity was used by resources with no credit requirement*.

*Source: *IMM Analysis of Replacement Capacity for RPM Commitments*, taking “internal generation in service” as having no credit requirement. At least some of the other resource types also likely had no credit requirement, so the actual number is likely higher than 75%.