Portfolio Management: Design Principles and Strategies

Portfolio Management Workshop

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The Regulatory Assistance Project

50 State Street, Suite 3
Montpelier, Vermont 05602
Tel: 802.223.8199
Fax: 802.223.8172

email: rapcowart@aol.com
web: www.raponline.org

To PM or Not to PM? A range of options

- 1. Just **"reinvent" IRP** (rehabilitate the image)
- 2. **Paradigm shift** to PM as a package
- 3. **Tactical approach** to PM: support the *elements* of PM, even without a full package
  - Retail strategies: default mix, decoupling, rate options, advanced wires planning, etc.
  - Wholesale: LMP, viable spot market, Demand Response products, advanced wires planning, etc.
- 4. **Benign neglect** strategy: We don't care if prices spike, just focus on SBC, RPS
- 5. **Active neglect** strategy: long-term contracts might support coal, we're better off without PM

Reasons to do PM

- **Lower system costs** (customer-based resources --EE, DR, DG, CHP -- cost less)
- Less volatile, more **stable rates**
- Promote effective ***wholesale*** **competition** (resource ladders mitigate market power)
- Diverse, balanced portfolio is **more reliable** (advanced risk assessments are a real step forward)
- Lower **environmental impacts**
- **PM** techniques compatible with customer choice
- **Power system security** advanced by PM

What are the most important elements of PM?

- **Pro-planning**: role of planning and risk assessment
- **Pro-markets**: using wholesale markets and competitive solicitations to set “avoided costs,” select winners, and send price signals to suppliers
- **Explicit support for EE and RE** (SBCs, RPSs, green pricing, etc.) in addition to other PM techniques
- **Efficient Reliability** – capturing the T and D values of customer-based resources
- **Resource Adequacy** – an income stream for EE
- **Utility incentives**: Decoupling, PBR options
- **Customer incentives**: rate designs, demand response options
- **Process**: user-friendly, a regulatory dream (can we make it so?)
- What else?

Portfolio Management Direct Strategies

- Require longer term, diverse resource mix for the default portfolio (in RFPs or directly)
- Purchase EE and RE directly (SBC, RPS)
- Require treating efficiency as a resource across the board
- Preapproval?
  - Not without a least-cost/least-risk mandate, and a public good vision
  - Should help that the approvals will also be laddered
- Ease analytical and procedural burdens

Supporting strategies at regional, wholesale level

- Wholesale market structure
  - LMP adds value to customer-based resources
  - Viable spot market with active demand response strengthens competition, reduces market power
  - -- Reform load profiles to reward better loads
  - Resource Adequacy – neutral rules can add an income stream to longer term resources
- Transmission policies
  - Fair treatment of intermittent renewables
  - Efficient Reliability Standard: Least cost and Resource Parity principles add value and $ to customer-based resources.

Supporting strategies (2) Retail policies

- Retail regulation
  - Revisit rate designs for default customers
  - Expand rate design options for “choice” customers
  - Eliminate the throughput incentive for distribution companies
- Retail competition
  - Disclosure and green pricing – give customers the benefit of the premium

PM Design Choices

Default service essentially market-based	Establish a planning process to project system needs and limits
Rely on wholesale markets for new generation	Ratebase new generation
Default service left to short term bids	Require DSPs to ladder longer-term contracts
Preapproval and guaranteed recovery, as in a fuel clause	Cost disallowances possible
Renewables through RPS only	Default service includes options beyond the RPS
Efficiency investments capped by the system benefits charge	Disco or DSP responsible for all cost-effective efficiency