Comments on Administrative Scarcity Pricing: SCE’s Perspective

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Overview

- SCE supports the implementation of **Administrative Scarcity Pricing (ASP)**

- Administrative Scarcity Pricing must be designed to work within California’s existing Resource Adequacy (RA) construct

- Because of the fine and often indistinguishable line between legitimate and “artificial” scarcity, special attention must be paid to the “triggers” resulting in ASP
SCE Supports Administrative Scarcity Pricing

- If properly implemented, ASP can be beneficial for
  - Demand Response and conservation
  - A price signal to attract additional energy and A/S when needed
  - An incentive for RA sellers to go “above and beyond” their RA obligations [more later]
  - An incentive for suppliers to invest in technology that can provide needed services (i.e. increase their ramp-rates so they can sell additional A/S)
  - To eliminate arguments for the “need for hockey stick bidding”

- In California, ASP should **not be** designed to
  - Provide “missing money” needed to finance new generation
  - Provide an incentive for sellers of RA capacity to actually fulfill their RA must-offer obligations
  - Ration supply among non-price responsive load
As a policy decision, California implemented an RA capacity payment program intended to supply the “missing money” necessary for new generation construction:

- “Each load-serving entity shall maintain physical generating capacity adequate to meet its load requirements, including, but not limited to, peak demand and planning and operating reserves. The generating capacity shall be deliverable to locations and at times as may be necessary to provide reliable electric service” (Public Utilities Code §380(c))
- We don’t rely on “scarcity pricing” to get generation built

RA payments provide money not otherwise available due to price caps

Moreover, RA units do not need an ASP “incentive” to provide the CASIO with energy and A/S; rather by selling RA they have an **OBLIGATION** to provide services to the CAISO
Don’t Pay RA Units Administrative Scarcity Prices

- Other ISO’s with Capacity structures (PJM, NEISO, and NYISO) have explicit means to “claw back” capacity payments if the market experiences high/scarcity prices
  - PJM and NY adjust demand curves based on realized prices
  - NE ISO has a “PER” deduction that reduces capacity payments based on energy prices
  - The CPUC proposes a capacity market with a PER
- Since here the CAISO does not “pay” capacity prices, they cannot “claw back” capacity payments
- The alternative for CA: **Simply don’t pay RA units ASP for the RA capacity they sold**
- If an RA unit performs “above and beyond” its sold RA capacity, this additional capacity should be eligible for ASP
  - Provides RA units incentives to go beyond their RA commitments to capture additional ASP
What Should Trigger ASP?

- Tension: We want to pay ASP if we are truly, *physically short of supply*, but we do not want to provide incentives for sellers to withhold to create artificial scarcity
  - Making RA units ineligible for ASP goes a long way in addressing withholding concerns
  - ASP should not be triggered because the CAISO has arbitrarily decided it “sure would like to have some more reserves in this area”
- Rather, SCE believes ASP should only be trigger if the CAISO declares a Stage Emergency
  - We believe the Stage Emergency is the best indicator of when we the grid is physically short of resources
  - If the CAISO sets “local” requirements, they should only pay ASP if they are willing to declare a Stage Emergency if they can’t satisfy the local requirement
- SCE would consider a “but for” test (but for APS we would declare an emergency) but the mechanics must make it clear that an actual emergency would have been called “but for” APS
Questions?