



Decision on Reserve Shortage Scarcity Pricing Design

Greg Cook
Director, Market and Infrastructure Policy

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Scarcity pricing is an important enhancement to the current market design.

- Provides enhanced price signals and incentives in situation of supply shortage.
- Enables the ISO to use all available supply resources.
- Facilitates further development and utilization of price-responsive demand
- Improves reliability and market efficiency.

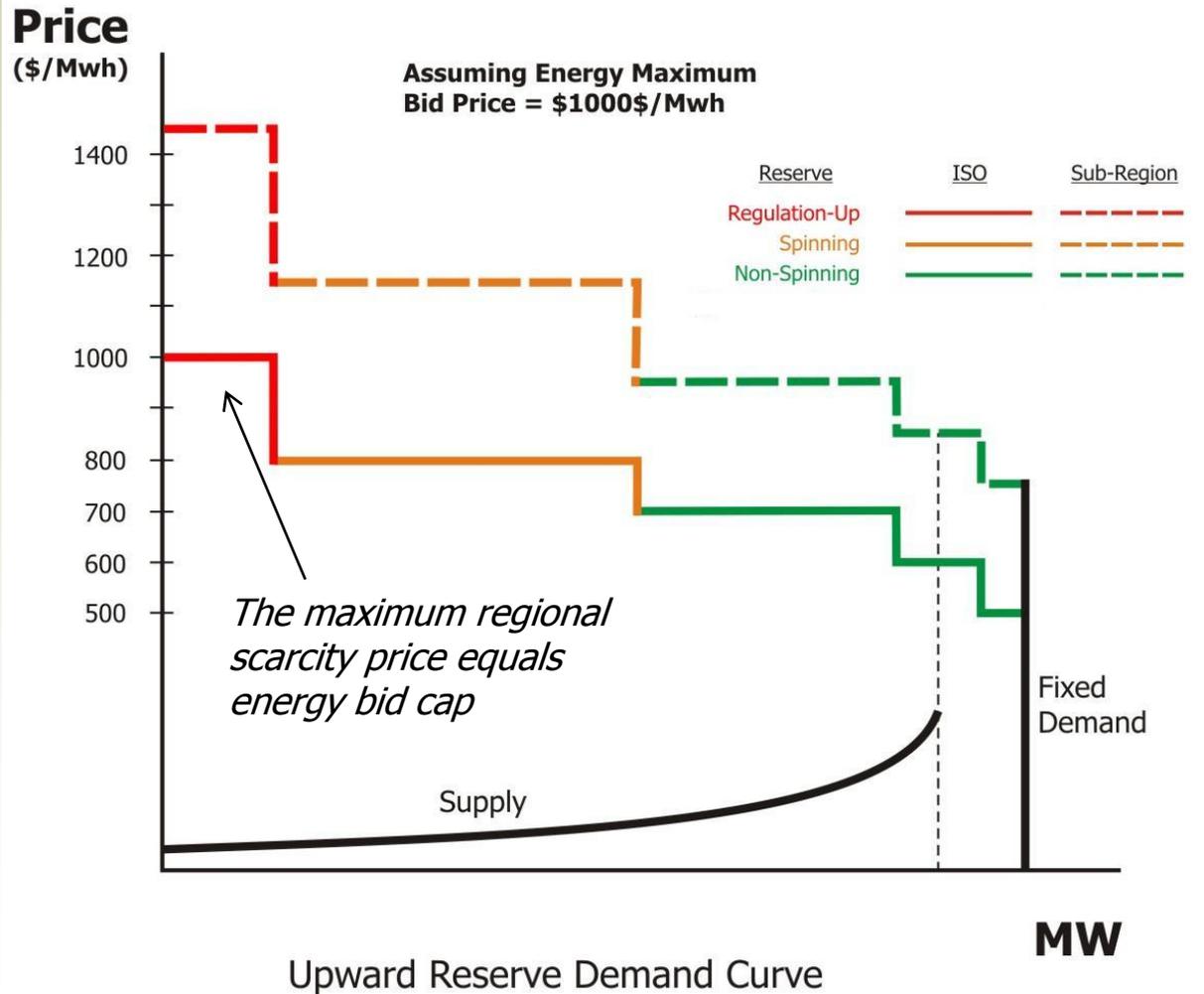
FERC directed the ISO to implement a reserve shortage scarcity pricing mechanism.

- Raise prices automatically during reserve shortage
- Apply administratively-determined graduated prices to various levels of reserve shortage
- Implement in both day-ahead and real-time markets
- Implement within 12 months after new market startup

Management developed a balanced proposal with stakeholders for the scarcity pricing design.

- Demand curves
 - tiered structure
 - tie scarcity prices to the maximum energy bid price
 - reflect the value of scarce resources
- Scope – reserves in both day-ahead and real-time markets
- Trigger – minimum reserve requirements
- Periodic design review

Scarcity prices increase in step with severity of supply shortage.



Stakeholders have differences of opinions on a few issues.

- Supply resources—higher prices
 - prices in sub-regions should be the same as that for the region
- MSC—scarcity prices determined by “value of reliability”
- CPUC—delay implementation to allow for development demand response resources

Management requests approval of the proposal.

- Key enhancement to current market design
- A balanced proposal
- Compliance with FERC order