BUSINESS
CALIFORNIA POWER CRISIS

Prices climb for power on spot market | Increases may eventually put pressure on retail rates

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Soaring natural gas prices and reduced hydroelectric power production have led to California's highest electricity prices on the spot market since the power crisis of 2000 and 2001.

Experts say the ongoing spike is unlikely to cause a repeat of that debacle but could put pressure on consumer rates.

Prices on the spot market -- for power to be used within 24 hours -- have hit $140 per megawatt-hour, or more than $50 above the federal price cap that was lifted in October. Southern California prices have been lower but reached $90 per megawatt-hour in recent days, said Jan Smutny-Jones, executive director of the Independent **Energy** Producers, which represents power-plant owners and marketers.

Those prices translate to retail rates of 9 to 14 cents per kilowatt-hour, compared with the 6.9 cents now paid by most San Diego Gas & Electric residential users. By contrast, prices during the crisis rose to monthly averages above $300 per megawatt-hour and caused SDG&E's rates to triple.

The jump in spot prices won't necessarily translate into an immediate increase in retail rates, because those rates are now set by the California Public Utilities Commission. Also, high spot prices thus far have had minimal impact on utility costs, said Ed Van Herik, an SDG&E spokesman.

Experts noted that unlike the previous crisis, California buys less than 10 percent of its electricity in spot markets. The vast bulk of the state's electricity needs are met by generating plants owned by local utilities and from long-term supply contracts signed by the state during the crisis.

Van Herik said SDG&E, which resumed buying power for ratepayers Jan. 1, has typically bought 5 percent or less of the power it needs on the spot market. But the percentage bought on the spot market varies widely.

He declined to speculate about the impact that sustained high prices on the spot market for electricity could have on local rates.

Michael Shames, executive director of the San Diego-based Utility Consumers' Action Network, said a sustained rise in prices could hit electricity ratepayers with additional costs.

Under the long-term contracts signed by the state last year, suppliers can pass along the increased cost of natural gas, which is burned to produce power, for about half of the electricity they provide. The other half is provided under fixed-price contracts.

In SDG&E's territory, the percentage of power bought with floating natural gas prices is much less than 50 percent, Van Herik said.

Either way, regulations allow the state Department of Water Resources, which retains financial responsibility for the agreements, to ask the California Public Utilities Commission to raise rates to pay for additional costs incurred under the deals, such as the increased fuel costs. The CPUC is required to raise rates to meet DWR's expenses.

"DWR could come in later this year or early next year to recover those costs," Shames said.

A spokesman for the water department agreed.

"Of course, if **energy** prices are abnormally high, you will need to pay more money for electricity," said Oscar Hidalgo, a DWR spokesman.

Unlike 2000 and 2001, when the industry said California had power shortages and critics said suppliers rigged the market, there is agreement this time on the causes for current price spikes.

On Monday, the price of natural gas surged 38 percent. Yesterday, it climbed an additional 44 cents to close at $9.58 per million British thermal units on the New York Mercantile Exchange, its highest level in more than two years, amid concerns about supplies and cold weather on the East Coast.

Robert McCullough, a **Portland**-based **energy** consultant who was among the first to argue that the market was rigged during the crisis, said natural gas prices are also being driven higher by a switch from the use of oil -- whose price has also risen sharply -- and stockpiling of natural-gas supplies. He agreed that hydropower is also in shorter supply than usual at this time.

"The difference between what is happening today and three years ago is that I can see logical explanations for the price increases," said McCullough.

Smutny-Jones of the Independent **Energy** Producers said California's long-term contracts, which the state alleges includes vast overcharges, are a key element blocking a replay of the crisis.

"If we had not entered into long-term contracts and added some electric generation, we would be having the same conversations we had three years ago," Smutny-Jones said.

David Freeman, chairman of the California Consumer Power and Financing Authority, said it may be time rethink unregulated natural gas prices.

Unregulated natural gas prices have worked well for many years, Freeman said, but "we're burning up more natural gas each year than they're finding.

"I'm not even sure we can claim these prices are due to manipulation. They reflect a scarcity." Freeman said. "They do raise the question of whether there should be controls."

The Associated Press contributed to this report.

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