For Distribution

Statement of
Chairman James J. Hoecker
Federal Energy Regulatory Commission

Conference on Remedies for California
Wholesale Electricity Markets

Docket No. PL01-2-000

Washington, D.C.
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Permit me to thank all the California parties for participating in these proceedings. I am particularly pleased that the California Public Utilities Commission has chosen affirmatively to be part of this process. As our December 15 Order makes clear, the support and future decisions of the CPUC are important to the mechanisms that this Commission has chosen to help restore stability and confidence to California's power market.

Regardless of whether parties agree with all of our policy decisions -- and I recognize that many do not --

few if any commenters in our proceeding seriously dispute the need for: (1) improved communications, negotiations, and the sharing of data among sellers and buyers of electricity, and with regulators; and (2) enhanced forward contracting and better risk management. Although the Commission does not seek to circumscribe the discussions that begin today, we expect most of all that the participants will deal in good faith and a sense of urgency, to secure longer term agreements that can diminish both market power and the market risk to wholesale buyers and sellers and, most of all, California consumers.

I feel compelled to address the benchmark five-year contract price provided by the Commission at the request of many commenters.[1] Naturally, that benchmark is advisory. The CPUC and parties to contracts should find it a helpful indicator of what could be regarded

[1] Slip Op. at p. 29.

as in the public interest, but even we recognize that both the price and the term are based on current cost inputs and perceptions of market risk. I believe any fear that the Commission regards its benchmark as a floor (or a ceiling) on forward prices is unfounded. In that regard, let me note some other market prices that may, in the view of contracting parties, justify prices lower than the benchmark.

I believe that the recent introduction of five-year products in the PX block forward market has elicited offers under $60/MWh for on-peak products in the last few days. Also, anecdotal information available before the Commission issued its order indicated some long term contracts were being offered at around $65/MWh.

The order emphasizes that there are many terms that affect the price in forward markets. These would include contract term, risk allocation for variable

cost exposure, the product at issue (e.g., around the clock compared to seasonal), the payment terms (e.g., take-or-pay compared to dispatchable energy), or options to change contract terms or to extend the contract at favorable prices. In other words, the order makes clear that there is no one-size-fits-all forward contract.

I want to thank Chief Judge Wagner for reading this to the parties.