

**Testimony of Pedro Pizarro  
Before the Federal Energy Regulatory Commission  
June 2, 2005**

**Talking Points**

- 1) Thank you, Commissioners and Commission staff. My name is Pedro Pizarro and I am Senior Vice President of Power Procurement at Southern California Edison.
- 2) **I have four messages for you today, with a focus on the transition period ahead of us.**
- 3) **First, as we heard from Yakout Mansour and others earlier, the CEC and the ISO have concluded that new generating capacity is needed in Southern California in 2006 and beyond.**
  - a) We at Edison will continue to target filling our requirements through procurement from existing resources. We will be going out to the market again in the next few weeks with an RFO for contracts under 5 years for our bundled customers.  
  
However, we recognize that our customers – along with all SP-15 customers – will be affected if there are insufficient resources to meet the needs of any LSEs.
- 4) **Second, as Yakout Mansour also said, we lack a market framework that will get new generation developed without long-term contracts from creditworthy LSEs.**
  - a) Under current market conditions, merchant generators and their banks typically require long-term LSE contracts to invest in new plants.
  - b) Moreover, while the CPUC will be exploring establishing a capacity market framework, this or any other long-term solution will take years to implement, yet we need capacity sooner than that. It will take time to develop a market structure

that can allocate costs fairly across all LSEs, retain needed existing resources, and incentivize development of new resources, so we are very focused on the transition period.

- 5) **Third, SCE is willing to enter into long term contracts provided that the costs and benefits of such contracts are allocated fairly to all SP-15 customers.**
- a) To address the reliability concerns expressed by the CEC and the ISO, SCE issued an “RFO for New Generation Resources” in SP-15 on April 22. This RFO solicits offers for up-to-10-year PPAs tied to specific new generating facilities that are deliverable to SP-15.
  - b) Such new plant contracts will likely carry higher costs than contracts with existing resources. It would not be fair for SCE’s bundled service customers to be the only ones paying higher costs for new plants needed to maintain reliability across all of SP-15. All SP-15 customers should bear their fair share of the costs and receive their fair share of the benefits. Exit fees for future departing load will not suffice, since they still allow an uneven cost allocation between our current bundled customers vs. other LSEs’ current customers.
  - c) SCE’s proposal is intended only as an interim approach until a market framework is finalized and implemented that will equitably allocate to all customers the costs of maintaining long-term system reliability and support development of new resources when they are needed.
- 6) **Fourth, FERC should authorize, through a FERC jurisdictional charge, recovery of the net costs of these long-term contracts from all SP-15 customers.**

- a) This will result in allocating costs to bundled service, DA and CCA customers of the IOUs, and the customers of non-IOU Participating Transmission Owners, non-PTO utilities, and other transmission users serving load in SP-15.

**7) Let me describe our next steps**

- a) SCE is filing today an application with the CPUC requesting consideration of any contracts signed through the RFO, and requesting that the CPUC support at FERC SCE's proposal to allocate the incremental costs associated with the long-term contracts to all SP-15 customers.
- b) SCE has also requested that, if FERC does not authorize recovery, the CPUC allocate the net contract costs to all SP-15 customers within the CPUC's jurisdiction.
- c) SCE is expecting a decision from the CPUC by year-end. If the CPUC approves SCE's request, we will make our FERC filing in early 2006.
- d) Although CPUC-jurisdictional cost allocation would not cover all SP-15 customers and is therefore less fair, we are going through the CPUC process first for a couple of reasons.
  - i) FERC may well want to see State-level endorsement of this transitional approach in the form of CPUC action before considering the proposal.
  - ii) In addition, SCE would rely on CPUC-level approval by the end of the year to make final commitments to generators offering to build new plants as early as Summer 2006. Otherwise, the long-term contracts cannot go into effect, and the option for new 2006 resources will not be viable.

- e) We recognize that this proposal has elements that are far from ideal. However, our goal is to create a real option for the Commission to address new resource needs on a transitional basis now, and buy the State time to develop a better long-term framework.
- 8) Thank you for the opportunity to speak with you today. I look forward to your questions.