

# **Perspectives on Credit Requirements and New Generation**

**Pedro J. Pizarro**  
**Senior Vice President, Power Procurement**  
**Southern California Edison**

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# Objectives Of IOU Procurement

- “Least cost-best fit” procurement
  - Serve customer load
  - Comply with regulation/legislation (e.g., renewables, resource adequacy)
- Commercial contracts with suppliers
  - Existing resources
  - Incentives for new resource development
- Manage customer cost risks
  - Price volatility
  - Risk of supplier non-performance

# Key Performance Protection Areas

- Pre-COD: *encourage reliable bids in RFO process*
  - Development security
- Post-COD: *discourage contract default and offset portion of exposure*
  - Liquid collateral
    - Cash
    - Letter of Credit
    - Guaranty from investment grade parent
  - Other assurances to discourage contract default through term
    - Special Purpose Entity (SPE)
    - Attornment agreement
    - Exclusivity
    - Lien

# Other Resource Contracting Considerations

- FERC generator interconnection procedures
- Permitting and siting Issues
- Transmission availability
- Current need for long-term contracts to incentivize new generation (and interaction with future retail competition/load migration)
- State policy support for renewable vs. conventional resources

# Evolution of Credit Requirements for New Generation

	PURPA & SO4 Contracts	AB 1890 Electricity Deregulation & Subsequent Events	Post Crisis Procurement	Today
<b>Era/Events</b>	1978 – 1980's	1998 – 2002	2003 – 2005	2006
<b>Environment</b>	<ul style="list-style-type: none"> <li>• Utilities vertically integrated</li> <li>• SO4 contracts = low % of portfolio</li> </ul>	<ul style="list-style-type: none"> <li>• Utilities required to sell generation assets</li> <li>• Emergence of “power marketer”</li> <li>• Federal Energy Sales default/PCA bankruptcy</li> <li>• California energy crisis</li> <li>• Bankruptcies and credit rating downgrades</li> <li>• CDWR contracts</li> </ul>	<ul style="list-style-type: none"> <li>• AB 57</li> <li>• RPS</li> <li>• Resource Adequacy</li> </ul>	<ul style="list-style-type: none"> <li>• Growing demand for new generation in California</li> <li>• Continued market volatility in power and gas</li> <li>• Improved credit ratings for California IOU's</li> </ul>
<b>Credit Requirements</b>	<ul style="list-style-type: none"> <li>• Minimal credit requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Heightened requirements for wholesale procurement due to power marketers and market volatility</li> </ul>	<ul style="list-style-type: none"> <li>• Adoption of credit policies using industry practices</li> </ul>	<ul style="list-style-type: none"> <li>• Refinement of credit requirements                             <ul style="list-style-type: none"> <li>– Elimination of bid deposit</li> <li>– More flexible collateral options</li> </ul> </li> </ul>

# Where Are We Today?

## ***Successful Contracting Steps to Date***

- Meeting Resource Adequacy Requirements
- Executed 10-20-year renewable contracts (new resources)
- Executed up to 5-year contracts through 2003-2005 all-source RFOs (existing resources)

## ***Future Events May Drive New Contracting Approaches***

- Capacity product development
- Potential 2006 New Gen RFO (pending CPUC decision)
- Potential development of capacity markets

# Next Steps

- SCE is reviewing alternative approaches to mitigate credit and performance risk
- SCE is open to discussing alternatives to current credit requirements
  - Help reduce costs for both generators and customers
  - Find “win-win” solutions

*We are eager to listen to new ideas*

