Southern California Water Company Announces Decision by Federal Energy Regulatory Commission

March 27, 2003
SAN DIMAS, Calif., Mar 26, 2003 (BUSINESS WIRE) -- Southern California Water Company (SCWC), a subsidiary of American States Water Company (NYSE:AWR) reported today that it was disappointed by the public statements by Commissioners of the Federal Energy Regulatory Commission (FERC) at its regular meeting today suggesting that the Commission will not grant relief on SCWC's pending complaint against Mirant Americas Energy Marketing, L.P. (Mirant) seeking FERC action to establish a just and reasonable price for SCWC's long-term power purchase contract with Mirant. The Commissioners' public statements indicated that the Commissioners were not aware of certain undisputed facts established in the record of the proceeding before a FERC administrative law judge last fall.

At the height of the California energy crisis in March 2001, SCWC entered into a contract to purchase 15 megawatts of firm, round-the-clock energy from Mirant for the period April 1, 2001, through December 31, 2006, at a price of $95 per megawatt-hour. After FERC acted to mitigate spot market prices in June 2001 and indicated that it would not be taking further action to mitigate prices of long-term contracts but desired parties to file complaints, SCWC filed a complaint against Mirant at FERC in December 2001 seeking FERC action to reduce the price of its contract to a just and reasonable level. SCWC alleged that the dysfunctional California spot market for electricity in March 2001, which was expected at the time to persist for two years or more, was reflected in the price of its long-term contract beginning in April 2001.

While FERC did not definitively rule on the matter, two of the three Commissioners indicated by public statements that they were inclined to deny relief in all pending complaint proceedings, including SCWC's, concerning long-term contracts executed during the energy crisis. FERC Chairman Patrick Wood III stated in a press conference that a "dispositive" factor for him was that the total amount of power at issue in the contracts was small in relation to the buyer companies' overall "portfolios" of power contracts, which remained unknown. In fact, SCWC showed at the hearing, and it was never disputed, that the Mirant contract supplies the entire baseload power needs for SCWC's Bear Valley Electric Service, SCWC's electric distribution utility in San Bernardino County, California. Thus, the Mirant contract alone accounts for over 80 percent of the megawatt hours of electric energy purchased by SCWC for its retail electric customers each year. SCWC purchased this power to meet its baseload power needs and to hedge its spot-market risk, which was exactly the strategy that FERC was advocating to California utilities in March 2001.

Chairman Wood also stated that a FERC staff analysis issued today demonstrated a statistically significant correlation between spot power prices and forward power prices, but he suggested that this relationship held only for short-term contracts of one or two years. Based on this conclusion, Chairman Wood appeared to rule out any relief for longer-term power contracts. In fact, the FERC staff report found that the effect of spot prices on forward prices declined with the "time to delivery" under forward contracts. Thus, the relationship was strongest for a class of contracts with an average time to delivery of 1 to 2 years, and was weaker for contracts with an average time to delivery of 3-4 years or 5-8 years. Thus, the term of the contract is not the issue, but rather the time to delivery under the contract. Under the SCWC-Mirant contract, power deliveries began immediately in April 2001, not three or more years in the future. The effect of the spot market prices on the price of the Mirant contract was direct and immediate. In fact, the evidence at the FERC hearing was that the $95 levelized price under the contract was the product of Mirant's own projections of $200-$300 monthly forward prices in the first year of the contract. Thus, it appears that the findings in the FERC staff report support granting relief to SCWC for this contract.

SCWC is a wholly owned subsidiary of American States Water Company. American States Water Company is a holding company that, through its subsidiaries, provides water service to 1 out of 30 Californians located within 75 communities throughout 10 counties in Northern, Coastal and Southern California and to approximately 12,000 customers in the city of Fountain Hills, Arizona and portions of Scottsdale, Arizona. The Company distributes electricity to approximately 22,000 customers in the Big Bear recreational area of California, and contracts with various municipalities and private entities in both California and Arizona to provide services to an additional 91,500 customers.

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