# Restructuring

## Natural Gas & Electricity Markets

*After a three-year lull in deregulation efforts, natural gas and electric markets are moving toward a competitive market-based model. Many state regulators and utilities have determined that the benefits of separating the commodity sale from the delivery function are healthier for both consumers and energy market participants. Regulated utilities are focusing on delivering dependable natural gas and electric services, while unregulated energy retailers are performing the merchant and commodity risk management functions.*

### Progressive States are Leading the Way

There are measurable signs that energy deregulation invigorates economies in states that encourage customer choice. Over 50 new retail marketers have registered to do business in New York as a result of well-engineered restructuring policies announced by the New York Public Services Commission. New York's innovative restructuring policy encourages utilities to offer consolidated billing services and in turn encourages deregulated energy retailers to offer lower rates to consumers who shop for energy. "New York is an impressive display of progressive, market-based policy making," according to Craig Goodman, President of the National Energy Marketers Association (NEMA). "Utilities are rewarded for enhanced reliability and retail marketers can avoid needless duplication of costs, passing along these savings to the consumers."

When states set smart rules in place, technology companies respond. Pat McParlane, Siemens Building Technologies, agrees and says that, "Siemens works closely with the New York State Energy Research and Development Authority to secure funds that help create energy-reducing programs for customers in a number of innovative projects around the state."

The Texas electricity and Georgia gas market models serve as excellent examples of win-win deregulation, and even California is revisiting the benefits of reopening its electricity markets. Joe Desmond, Deputy Secretary of Energy for the State of California, reports that "Governor Schwarzenegger called for an open, transparent, competitive procurement process for energy. The new rules adopted in December by the Public Utilities Commission ensure the best possible deal for consumers in terms of price, risk, reliability and environmental impact."

### Regulated Utilities Thrive with Restructuring

Utilities benefit from restructuring by reallocating capital, credit and resources that are currently utilized in commodity markets and back office overhead. The public is better served if these funds are invested in delivery infrastructure to improve reliability.

Atlanta Gas Light (AGL) exited the regulated merchant business in late 1999, allowing it to focus resources on expanding its investments in delivery and service infrastructure and unregulated wholesale and retail commodity marketing. As a result, AGL has enjoyed a steady growth in stock price of about 20% per year since restructuring began. The retail marketers were also winners in Georgia, with access to over a million new customers.

TXU, a Texas utility, implemented a bold business model in the restructured energy market environment. TXU outsourced high-cost internal operating units and shed non-core assets, which freed up approximately $3.5 billion that TXU used to repurchase its stock. Last year TXU stock nearly tripled, rising from $27 to $79. According to NEMA's Craig Goodman, "TXU is an excellent illustration of how a deregulated environment inspires creativity and conclusively demonstrates that restructuring provides substantial benefits to utilities, shareholders and consumers."

### Retail Marketers Poised for Growth

With renewed growth in restructured natural gas and electric markets, retail marketers are reaping the benefits of customers switching from their host utilities. One such retail marketer, Commerce Energy Group, has positioned itself for growth by becoming publicly traded, (AMEX: EGR) and acquiring ACN Energy. Founded in 1997 as a retail electric provider in California, the company has since expanded to 9 states and 17 utility markets offering both electric and natural gas. "The growth potential in retail electric and gas markets is unparalleled in any other industry I can think of," says Peter Weigand, Commerce Energy Group President. "With our strong balance sheet, access to public equity, and superior systems and people, I like our position in the market very much," continues Weigand. Commerce Energy Group investors seem to concur, as their stock has risen 78% since the beginning of this year.

### Technology in the Energy Sector is Booming

A natural incubator for technological innovation is created by the system needs of new retail marketing customers, and the infrastructure needs of utilities for system reliability to address population growth, economic expansion, and market restructuring.

The comprehensive energy legislation currently before the Congress contains a number of provisions that are designed to strengthen and diversify our energy supply and distribution system. Randy Zwirn, president and CEO, Siemens Westinghouse, explains that, "as a result, we expect the industry to develop ways to increase access to gas through the strategic siting of LNG terminals, introduce the next generation of clean coal technologies, continue to extend nuclear licenses and modernize nuclear power plants, and increase our use of renewables in the production of electricity." The ability to utilize a variety of fuels in our production of electricity will help mitigate the extreme price spikes we've experienced during the past several years.

As for power grid reliability, Dave Pacyna, CEO of Siemens Power Transmission & Distribution, reports that, "depreciation incentives are already passed, but two remaining points, standards and siting authority, would complete the package of stimuli needed to get investment in the grid moving." The even bigger picture is that the industry should become free to re-model itself to drive out cost inefficiencies while maintaining/improving the reliability and performance of the network.

US industry as well as individual energy consumers expect a reliable energy supply at reasonable prices. Zwirn believes, "that the energy legislation currently before the Congress will help meet that expectation. And while we can't expect to achieve wholesale change overnight, it's imperative that we start now so that in future years, our economy will be driven by a clean, reliable and cost-efficient supply of electricity."

With more state regulators converting to the benefits of restructuring and the technology sector responding with new and innovative solutions, the results bode well for energy market participants, shareholders, and most importantly, consumers.

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