Utility Spotlight

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FERC Discusses June Price Spikes; Doesn't Make Major Policy Changes

By Prall Culviner

WASHINGTON - Continuing to probe the causes and implications of the late June electricity price spikes in the Midwest, commissioners and staff members of the Federal Energy Regulatory Commission engaged in a freewheeling question-and-answer session at last week's public meeting.

But the agency took no action.

At the conclusion of the give-and-take over the staff team's report on the spike, made public late last month (***Spotlight***, Sept. 28, page 1), Commissioner Curt Hebert said that formal debate on the report's recommendations should be left to another time, saying the primary issue is "how do we ensure enough transmission to carry new generation to an increasing load?" He suggested as possible solutions transmission companies and independent system operators but did not indicate a preference.

Seeking to make it clear that the Commission is deeply engaged in considering remedies, Chairman James Hoecker said that these are "tough times - this is no time for the industry or FERC to relax."

The session dealt with a number of probing questions from Commissioners seeking to determine just what FERC might be capable of doing to prevent what the agenda described as "price abnormalities."

Commissioner William Massy asked why the electric industry should have any confidence that a similar crisis would not occur in the

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D. C. Current

Electricity Costs Up 86% by 2010 Under Kyoto Treaty Agreement-EIA

WASHINGTON - Contradicting earlier studies by the Clinton Administration, a new study by the U.S. Energy Information Administration asserts that full U.S. compliance with the Kyoto Global Climate Treaty could force electricity costs to soar by 85% by 2010 compared with what prices would be without it.

Administration studies had foreseen little economic pain if the treaty's proposals were followed. The treaty would mandate the U.S. to cap its CO2 emissions to 7% below 1990 levels, while other nations such as India, Mexico and China would be exempt.

(See D.C. Current, page 3)

Power Marketing

NEMA to Aid Small Marketers to Be Active in Electric Restructuring

By Jeff Share

THE WOODLANDS, TX - Noting that gas deregulation has been ongoing since the mid-80s, yet only a relative handful of all homeowners and small businesses can legally buy gas in a competitive marketplace, the new National Energy Marketers Association vowed last week to ensure that smaller marketing entities are not forgotten as this scene changes drastically over the next few years.

President Craig G. Goodman also said that NEMA will be active in the restructuring of the electric industry, which he described as unprecedented. "Changes expected in the supply, delivery and technology related to the U.S. energy industry represent the largest industrial restructuring in the history of the country and, possibly, the world," Goodman said. "That's why input from all sectors of the pro-competitive energy industry will be vital in assuring a balanced national approach."

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Late News

NEW ORLEANS, LA - In its first move into the Eastern Europe energy market, Entergy agreed last week to pay $375 million for a 66% stake in a joint venture with National Electricity of Bulgaria. This will give the venture control of the Maritza Iztok 3 thermal power plant which provides 10% to 12% of Bulgaria's electricity.

AKRON, OH - FirstEnergy agreed in principle to a transfer of 1,436 Mw of capacity owned by Duquesne Light at 8 power plants in exchange for 1,298 Mw at three FirstEnergy plants. The transaction, expected to take 12- to 18 months to complete, is subject to approvals from the Nuclear Regulatory Commission and the Pennsylvania PUC.

Inside This Week

FERC Discusses June Price Spikes

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future. A staff response suggested that there was already hedging against such spikes in the futures market for next summer, with the hedge price at $100 per Mwh. However, team members hastened to point out that this would not minimize operational concerns.

Replying to Massey's seeking to know if market experience and maturity might moderate the possibility of a recurrence of such pricing actions, team leader William Meroney of the Office of Economic Policy said there is "reasonable evidence" that people in the industry are learning. "We see the market is more prepared for them," Meroney said.

Responding to Commissioner Vicky Bailey's questions about operational concerns and whether the price signals might produce more generation and transmission resources, the staff noted that these provided some incentives to greater investment, mostly in generation, with a 35% increase in merchant plants being indicated.

Pursuing the question further, Hoecker asked when additional generation might be expected to have an impact on the market and whether it would be next summer. The staff responded that there was "a limited response" in new plants. But, the team added, the status of available nuclear power plants will be improved.

The chairman pointed out that the Midwest had an 11.9% generating capacity margin against the 20% to 24% range in other regions, with the Northeast at 35%. This prompted his question as to whether FERC or any other body could do anything to attract new capacity to the Midwest.

Hoecker noted that it's "in everyone's interest" to understand the price spikes and prevent future occurrences, adding that the report "does not ensure that power prices are immune from future volatility."

The team suggested FERC could encourage market maturation but, generally speaking, market influences and futures prices at $100 per Kwh would have the most impact. As for transmission expansion, the team said that, as far as it knew, nothing was planned.

On the issue of creditworthiness, the staff saw no need for FERC to impose requirements, pointing out that existing power exchanges have strict standards, and adding that participants in the Midwest power market are moving swiftly to apply standards they already have in place.

While Hoecker noted that the report had found "no direct evidence" of market manipulation in the Midwest, he pressed the staff on whether FERC should be concerned about that possibility.

Commissioner Bailey said she wants FERC to "increasingly engage" in monitoring the power market, but dismissed the June event as an anomaly that probably won't happen again.

Reporting the team had found no proof of allegations of manipulation, members noted that such a concern could exist when a transmission system is used by an entity owning both the system and generation resources. But there was general agreement that broad regional and inter-regionally dispatch would ameliorate questionable situations.

In a discussion of price transparency in the hourly markets to mitigate spikes, the basic problem highlighted was the difficulty of achieving that goal when buyers want power urgently to meet commitments. Massey asked if there might be a mechanism to help clear the market and the staff suggested an IPO or power exchange could be the answer.

Massey then sought to learn whether market discipline might result if 10% to 20% of hourly prices were posted in a public or private power exchange.

While the staff conceded such a move might influence the market to some extent, they emphasized that a price indicator in a situation as critical as the Midwest last June would have made little or no difference since the need for power was severe.

Among the replies to a Hoecker question as to what impressed team members most from their investigations were:

- The very high level of interdependence of the regional entities in both markets and operations.
- A young, developing market where attempts are being made to do things with a transmission system that it wasn't designed to do.
- The need for a better, quicker way for FERC to monitor industry activity in a competitive market.
- Interfaces of transmission systems need reinforcements.
- The industry and its culture have changed so quickly that a lot more planning is necessary - and the market is beginning to realize this.
- Cooperation of the industry with the FERC investigation was excellent - all segments really wanted to be helpful.

The study team members, in addition to Meroney, are Kumar Agarwal and Patrick Rooney of the Office of Electric Power Regulation; Roger Morie of the Office of the General Counsel; Timothy Smith of the Office of the Chief Accountant, and Ron Rattey and Michelle Veloso of the Office of Economic Policy.

INDEX OF STANDING FEATURES

NEI Touts Nuclear Role After Arab Oil Embargo

WASHINGTON - Aiming to provide a perspective on nuclear energy's value and future prospects, Joe Colvin, CEO of the Nuclear Energy Institute, plans to mark the 25th anniversary of the Arab oil embargo with a National Press Club briefing on Oct. 22 (Thursday)

NEI notes that since 1973 "nuclear energy has met 40% of the increased demand for electricity in the U.S. and accounted for over 90% of all carbon dioxide emissions reductions by U.S. electric utilities."- P. C.

D. C. Current

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The EIA noted that under its worst case scenario, the price of gasoline is projected to rise by 53%, with steep price increases in practically all energy costs forcing a 4.1% fall in the national GNP by 2010. This is based on imposition of a pollution tax on greenhouse gas emissions from factories and cars to produce a 31% decrease in such emissions.

Overall energy consumption is seen falling by more than 17%.

The study, undertaken at the request of the House Committee on Science, examined 6 separate reduction goals. For the highest target, carbon emissions were reduced an average of 122 million metric tons a year relative to emissions without the treaty between 2008 and 2012. For the lowest target, emissions were reduced on average by 542 metric tons. To reduce energy-related emissions, EIA assumed adding a carbon tax to the price of delivered energy fuels.

Because coal is the most carbon-intensive fossil fuel, the EIA estimated that its price would rise "dramatically" between 153% and 800% in 2010 when compared with the baseline, and coal use would be reduced by between 18% and 77%. Electricity generation from coal would be reduced to between 2% and 74% of today's level.

"Electricity generation by coal will be replaced by natural gas and renewables and also by the continued operation of many existing nuclear plants," the report added. "Increases in natural gas consumption for electricity generation will more than offset reductions in consumption by other consumers. Natural gas consumption may increase between 2% and 12% by 2010 over the baseline."

Howard Geller, executive director of the American Council for an Energy-Efficient Economy, challenged EIA's report, saying it assumes the government would be unable to gain concessions in upcoming negotiations, including commitments from developing nations to limit their future emissions. President Clinton has set such concessions among conditions the Administration will require bef ore the climate treaty goes to the Senate for confirmation.

Geller charged the EIA study assumes that "the only way to reduce compliance is by taking a sledgehammer approach."

But Karen Kerrigan, president of the Small Business Survival Committee, issued a statement saying of the EIA report: "The good news is that someone speaks the truth for the Clinton Administration . . . the bad news is that all Americans need to hold onto their wallets if President Clinton remains committed to committing the U.S. to. this unfair and expensive treaty . . . (it) mirrors almost every private study conducted on the impacts of the proposed (treaty). President Clinton needs to tell the American public the truth about the sacrifices they would have to make under a system where the UN manages and controls American energy use."

EEI, NRECA Split Over FERC's Complaint Plan

Not unexpectedly, in their filed comments on the reform of complaint procedures proposed by the Federal Energy Regulatory Commission (Docket RM98-13), Edison Electric Institute and the National Rural Electric Cooperative Association differed on how long it should take to resolve disputes.

EEI contended that FERC's proposed 10-day period for answering a complaint is "totally insufficient" and would "seriously compromise the due process rights of the respondents." This is "without doubt t he most troubling aspect" of FERC's proposal, EEI asserted, citing comments of EEI members who contributed to the filing. EEI also emphasized that FERC should clarify that complaint procedures are available to public utilities as complainants, and not exclusively to their customers, as under current interpretations of t he Federal Power Act.

However, NRECA told the Commission that the "litmus test" for gauging the success of a final rule would be "whether the new procedures resolve complaints faster than before, without materially increasing procedural costs or unfairly burdening small entities." It also urged that informal alternative dispute resolution (ADR) not be a mandatory step before filing a complaint so that a complainant should be "free to choose" whether to pursue ADR and "not be forced to engage a respondent in time-consuming and expensive ADR if the complainant knows it will be uneconomical and unproductive to do so."

EEI Protests EPAs Proposed NSR Changes

Separately, EEI told the Environmental Protection Agency that its proposed modifications of the new source review (NSR) rule "are in direct opposition to the efforts of electric utilities to maximize the efficiency of generating units and subsequently reduce carbon dioxide and other greenhouse gas emissions." Furthermore, it said, the proposed revocation of the WEPCO rule would have a "chilling effect on any future programs that utilities and the Administration may choose to pursue on a voluntary basis."

The WEPCO rule, promulgated in 1992, allows electric utilities to undertake energy-efficient projects at existing power plants without running the risk that "such worthwhile practices will trigger the costly and time-consuming NSR process," EEI explained, adding: "Typically, these sorts of efficiency improvement projects allow electric utilities to generate more electricity while burning less fuel, thus reducing air emissions, such as sulfur dioxide, nitrogen oxides and carbon dioxide."

However, EEI charged that the July 24, 1998, EPA notice specifically targets "changes at utilities that increase reliability, lower operating costs, or improve operational characteristics."

The trade association added that EPA proposes to include "demand growth" in calculating emission charges, which the WEPCO rule expressly excludes.

-PRALL CULVINER

Where & When

OCTOBER

21-23 - **Profiting in the New York Power Market** conference at New York Marriott Brooklyn. Details (818) 902-5400.

21-23 - **Distributed Resources Week: Strategies for Successful Implementation** at Pfister Hotel, Milwaukee, WI. Details: EPRI, ATT: Cindy Layman (650) 855-8763.

22-23 - **Mexican Energy '98 conference** at Houston, TX, by The Center for Business Intelligence. Telephone: (800) 817-8601.

23-25 - **Alameda International Electric Vehicle Exposition** at Alameda Point, CA. Contact: (888) 334-3976 .

Communications & PR

Perennial Gas vs. Oil Battle Draws Criticism of *Boston Globe* Column

BOSTON, MA - Since more than 9,000 residential customers in this state switched from oil to gas last year, according to the **New England Gas Association, Boston Gas's** ad campaign seems to be working. Nevertheless, the *Boston Globe* Consumer Beat column took to task the present campaign "that magnifies the virtues of natural gas and the vices of oil."

"That's not right," said Michael Farrante, president of the **Massachusetts Oilheat Council**. "We don't mind a competitive marketplace, but we think at times utilities flex their muscles and confuse customers."

The *Globe* cited a Boston Gas brochure whose target was clearly heating oil customers since it focused on getting rid of customers' oil tanks. It also touted gas as better for the environment, more convenient and key to "significant savings on your energy bill year-round."

The savings claim had three asterisks, referring readers to the bottom of the page where tiny print disclosed the savings claim was based on a comparison between a house with oil heat and electric water heating, cooking and clothes drying and one using gas for all four functions.

What the brochure failed to say, according to the column, was that all savings came from switching from electric to gas for water heating, cooking and clothes drying and there was no savings from switching from oil to gas for heat. In other words, smart customers would switch to gas for hot water, heating and clothes drying and stick with oil for heating.

The *Globe* said Boston Gas acknowledges gas is more costly than fuel oil, costing about $950 this winter to heat a 2,200-square-foot home with gas. With most oil dealers charging less than $1.10 a gallon for oil, it would cost about $840 to heat the same house with oil. - J. F. McG.

ATLANTA, GA - **Georgia Natural Gas Services** introduced last week "The Gas Guy," a blue flame-costumed spokesman created by BBDO South, as the key figure in a statewide print and broadcast ad campaign to promote the company as the "most reliable, competitively-priced natural gas service provider" now that the state is fully deregulated.

The $20 million campaign, which runs through 2000, features the slogan "Now That's True Blue" and will use TV, radio, print and the Internet.

"'The Gas Guy' is the embodiment of who we are - an approachable, straight-forward company that is passionate about what we do . . . committed to becoming Georgia's first choice for energy resources. The new company will earn its customers by providing the highest level of customer service and offering reliable, competitively-priced natural gas," pledged president Steve Gunther.

WASHINGTON - **Vermont Yankee Nuclear Power** may be a relatively small power plant in one of the East's least populated states, but it certainly knows how to spread the word about its various operations, both nuclear and community-related.

RFO 20, a 32-page, full-color magazine that was sent to employees, contractors and others who worked on its 75-day-long planned refueling outage led the way (Spotlight, Sept. 14, page 4).

The latest, a special September 6-page supplement to the Nuclear Energy Institute's *Insight '98*, "Keeping the Green Mountain State Green," explains:

"Vermont produces more nuclear-generated electricity than any other state, on a percentage basis. But Vermont Yankee's contributions to the Green Mountain State go far beyond the safe, reliable and clean energy it generates." The story goes on to detail community efforts of the employees.

NEW YORK - **The Worldwide Corporate Network** has launched its third industry sector conference program, Energy-conference.com, on WCNonline.com until Nov. 12. It includes interviews conducted during the 17th Congress of the World Energy Council at Houston, TX.

The first month's focus is on electricity, covering such topics as research and development and the effects of deregulation.

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Power Marketing

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In its first annual conference, NEMA focused on the latest developments in electric restructuring and natural gas unbundling at state and federal levels. The group worked to finalize suggested guidelines for restructuring the electric transmission, generation and distribution sectors.

Although a number of states have begun test programs to allow small numbers of consumers competitive choices for purchasing natural gas services, NEMA officials said that more than 95% of all homeowners and small businesses have no competitive choices and have received little, if any, price reduction from decontrol of natural gas prices. They said this was because the last natural monopoly function of transporting natural gas through small, low-pressure pipelines from the interstate market to the residential and small business customer has not been legally separated from the competitive functions involved in marketing gas and related products and services.

Starting the next phase of gas restructuring will require state PUCs to legally separate regulation and price of the gas distribution function from a host of other products and services currently bundled in the price of the natural monopoly function, they said.

They agreed that as regulated utilities fully unbundle energy supply and service functions, the-provider-of-last resort functions can be provided by qualified suppliers and the obligation to serve can be modified into an obligation to deliver.

NEMA urged regulators to adopt these guidelines:

- All consumers must be permitted to purchase energy and related products, services and technologies with a minimum of red tape and paperwork burdens.
- Any collection of consumers must have the right to voluntarily aggregate, select a third party to service all or any portion of their natural gas supply needs and receive a price for utility transportation services as a single load on a uniform, non-discriminatory basis.
- Consumers must have an option to receive one bill from a supplier of choice.
- Artificial barriers to competition such as unreasonable administrative charges, access fees, switching fees, creditworthiness standards, aggregation and pooling charges or anti-competitive telemetering requirements must be prohibited.
- Regulated utilities should sell regulated distribution services on a cost of service basis and unbundle other services.
- All regulated utility distribution services must have rate certainty and be provided on a non-discriminatory, cost-basis pursuant to filed tariffs.
- All load management tools previously available to local distribution utilities should be separated from regulated distribution services and properly priced and available on a non-discriminatory and optional basis to all competitive suppliers.
- Stranded cost recovery for unneeded upsteam capacity must only reflect prudently incurred, aggressively mitigated costs that are fairly allocated to all classes of customers.

NEMA also wants certain services now bundled in the price of gas distribution rates to be legally separated, priced and competitively available on a non-discriminatory basis. A competitive natural gas market requires that allocation of interstate natural gas pipeline capacity be optional, NEMA said, and that charges for injection, storage and withdrawal of natural gas be separated and available on a non-discriminatory and optional basis to all competitive suppliers.

"The right to switch energy suppliers is the ultimate consumer protection," Goodman said. "Choice must exist in order to serve the public interest and it should not be complicated or expensive. A true measure of a competitive market is the number of customers that has choice. One true measure of the quality of choice is the number of customers that, in fact, exercise choice."

Poll Finds Prop. 9 Vote Still Up for Grabs

SARATOGA, CA - Although only two of 10 polled are even aware of **Proposition 9**, residents remain deeply divided over the measure which would cancel this state's deregulation of the electric industry, according to the latest poll conducted by RKS Research & Consulting.

When responses are confined to those who consider themselves "very likely" to vote, only 38% are in favor of Proposition 9, 43% are opposed and 18% are not sure. But among all those in the sampling, 42% favor passage, 33% are opposed and 25% remain unsure.

Among other findings of the poll which took place Oct. 2-4, is that by a margin of 5-4, residents believe it unlikely that electric rates will decline by 20%. By 2-1, they expect taxpayers will have to assume the burden of paying off rate reduction bonds and, by a like margin, they see it unlikely that utilities will not be compensated for nuclear plant investments. And an overwhelming majority of 7-1 expects the courts to be clogged with lawsuits if the initiative should pass.

New NEESCom Expanding in Telecom Sector

WORCESTER, MA - **New England Electric System** plans to expand its stake in the telecommunications field in the near future with the start of construction here of a fiber-optic network whose capacity will be leased to telephone, cable TV and Internet providers by its new **NEESCom** subsidiary.

In announcing plans for the network, **Anthony Pini**, president of the new unit, said NEESCom and the city will collaborate on the project, with NEESCom sharing on information providers and the city assisting with the permitting process.

Expected to be completed in 18 to 24 months, the new network will include a "hub loop" in the downtown area, a building where carriers can tie into the network, and four ancillary loops through offices and municipal buildings, colleges, hospitals and other institutions.

Seeking to replace earnings lost from stopping power generation under deregulation, NEESCom's ventures draw upon the utility's expertise in engineering, building and maintaining a wires infrastructure on poles and underground, and a knowledge of the wholesale function. - J. F. McG.

New Houston Industries Wholesale Energy Group

HOUSTON, TX - In a move designed to make it a significant player in the deregulated energy market, **Houston Industries** has

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Natural Gas

Major Gas Changes in California Delayed to 2000 in New Timetable

LOS ANGELES, CA - What began the year with projections of a natural gas industry overhaul by the end of 1998 in California has run into utility and legislative concerns that have pushed back unbundling and full customer choice for another year under a revised timetable established by state regulators. This is a new "road map" in response to new state legislation that delays major gas changes until 2000.

A pre-hearing conference by the PUC will be held Nov. 4 in San Francisco to start the process leading to a full report and recommendations to the state legislature by the mid-part of next year. For now, all of the same outstanding issues - many of which are controversial among the state's investor-owned gas utilities - will be covered in upcoming hearings, according to a PUC staff analyst familiar with the gas case.

That means everything from unbundled billing/meter reading services to competitive intrastate transmission/storage services is in play - at least theoretically - although the state's three major gas utilities have expressed a lot of concerns with proposals to unbundle gas to the same degree as the electric industry is being opened up. Concerns about public safety and consumer protection have been expressed strongly by Southern California Gas, Pacific Gas & Electric and San Diego Gas & Electric.

"Timing is the main difference" now as opposed to where the PUC was headed on natural gas, the PUC staff analyst said.

Under the delayed schedule, evidentiary hearings will be held in December, briefs by the parties will be filed in January, oral arguments will be held in February, and a final report with proposed actions will be provided to the state legislature by mid-year. Under current state law, the PUC cannot begin further unbundling gas services until 2000.

In the meantime, the PUC is expected this month to circulate for comments a set of gas consumer protection guidelines. Once those are in place - assuming that can be done apart from overall gas strategy - the PUC believes it can lift all restrictions on the state's controlled pilot project offering residential and small business customers choice of their gas suppliers by pooling their energy loads with others under an aggregator. This is the so-called "core aggregation" program that has been ongoing since 1991. - R. N.

FERC Sets Auction Workshop for Oct. 20

WASHINGTON - In a move to facilitate capacity auctions as contemplated in a Notice of Proposed Rulemaking (RM98-10), the Federal Energy Regulatory Commission staff will hold a workshop on Oct. 20. Participants received in advance a staff-prepared paper, "Auctions and Their Use in Natural Gas Markets," along with a glossary of auction terms. The paper covers general issues of auction design and describes auctions that have been used in the gas and electric industries.

The NOPR would lift the price cap on short-term transportation services and would require that all short-term service be sold through an auction. This includes all pipeline firm and interruptible transportation and all capacity release of less than one year in duration. Storage of less than one year is also to be auctioned. FERC explained that short-term capacity auctions are being proposed "to prevent withholding of capacity and undue price discrimination." - P. C.

Nuclear

Safe Decommissioning Work Ends Maine Yankee Fine Possibilities

WISCASSET, ME - Saying that Maine Yankee's present management is doing a safe job decommissioning the plant and isn't responsible for past operations, the Nuclear Regulatory Commission has declined to levy fines for a range of safety violations that took place before the plant was closed in August 1997. This ended two years of NRC inspections and investigations.

"From the NRC's perspective, this bring closure to the remaining enforcement issues, dating to when the plant was operational," explained NRC regional spokesman Neil Sheehan.

Maine Yankee took comfort in the findings, saying that the NRC cleared the company of charges that it intentionally sought to mislead the agency about anonymous allegations over a safety-related computer code. The allegations did lead to criminal probes, which ultimately found sufficient evidence to support the charges.

"Maine Yankee is gratified that the NRC has set the record straight and agrees we never sought to mislead the NRC," said Mary Ann Lynch, company counsel.

However, a key anti-nuclear activist, Ray Shadis, who fought for the plant's shutdown, said he was disappointed but not surprised that the NRC omitted any financial penalties, saying: "This is to be expected. There are lessons here for the rest of the nuclear industry that the NRC is bypassing."

He also charged that NRC should have been more forceful in 1996 when major safety questions were being raised at the plant but, now, any action is moot.

In a letter to Maine Yankee, NRC regional administrator Hubert Miller summed up NRC's findings, saying that many of the violations and underlying causes were "long-standing and appeared to be caused by ineffective engineering analyses, review and processes." Also lacking, he added, was control over design, corrective actions and quality assurance.

Despite this, he said NRC didn't think a civil fine was necessary since management had been replaced after the violation period, the plant was shut down and the new management team is doing a safe decommissioning. - J. F. McG.

FirstEnergy Creates New Nuclear Operating Unit

AKRON, OH - FirstEnergy directors approved last week creation of FirstEnergy Nuclear Operating as a new, wholly-owned subsidiary to operate its Davis-Basse and Perry Nuclear Power Plants. John P. Stetz was elected president, with John K. Wood vice president, Davis Besse, and Lee W. Myers, vice president, Perry. Pending NRC approval of the transfer of operating licenses, the new company is expected to begin operations on Jan. 1, 1999.

Around the Circuit

‘97 Coal Output Topped 1B Tons With 46.8% from the West - NMA

WASHINGTON - For the fourth consecutive year, the nation’s coal production topped 1 billion short tons, with 1997 output at 1,089.9 million tons, the National Mining Association reported last week.

While 53.2% of total production came from the East, the shift to the West continued with its record 510.6 million tons accounting for 46.8% of the total, according to the *1997 Producer Survey*. NMA noted that Energy Information Administration data indicated that productivity, as measured in tons per miner per hour, has nearly doubled since 1985, mainly because of use of longwall and continuous mining methods.

‘97 Texas Air Emissions Down 6% Under ‘71 Law

AUSTIN, TX - The amount of emissions released into this state’s environment from utility plants is decreasing despite a booming state economy, the Texas Natural Resource Conservation Commission (TNRCC) reported in a new study.

It also determined that emissions from so-called “grandfathered plants” that operate without state permits have declined although the amount of pollution they release is still substantial. The just-completed 1997 inventory of air emissions from some 1,600 major industrial sources found 2,504,296 tons were released, down almost 6% from the 1996 inventory and 16% less than the 1986 level of 3 million tons. Grandfathered emissions of 900,000 tons ran 44% lower than the 1986 figure of 1.6 million tons.

According to the inventory, 60% of the emissions from major industrial sources were permitted, 36% were grandfathered and 4% came from “insignificant” sources exempt from permitting.

The 36% from grandfathered plants - those either in existence or under construction before the Legislature passed Clean Air mandates in 1971 - is considered surprising since TNRCC estimated last year their emissions comprised 52% of all industrial emissions in 1994, the last year from which statistics were compiled. This was cited by environmentalists and elected officials in demanding that the Legislature take stronger action in placing stricter controls on industry. - J. S.

FirstEnergy Creates New Transmission Unit

AKRON, OH - Continuing an internal reorganization, FirstEnergy decided last week to transfer its transmission assets into the new American Transmission Systems unit, with the goal of ultimately becoming part of a larger independent regional transmission company. The operating authority of its transmission system is to be transferred to the new unit as soon as possible, with the asset transfer to be completed by early 1999.

American Water Adds Mott Assets for $485.2M

VOORHEES, NJ - American Water Works agreed last week to acquire closely held National Enterprise via a stock exchange valued at around $485.2 million, plus assumption of $226 million of National’s debt. All of National’s shares are held by descendants of t he Charles Stewart Mott family, which formed the water company in the early 1900s. They will hold about 16% of American Water’s stock and two board seats.

National provides water service to some 1.7 million customers in Missouri, Louisiana, Indiana and New York, states in which American already has operations. American supplies water to more than 7 million customers in 22 states.

Dams - Problem in Maine; Project in Vermont

GARDINER, ME - The Maine PUC has been advised in a preliminary report from a hearing examiner to void transfer of the New Mills Dam from the Gardiner Water District to former Gardiner City Counselor George Trask, who paid $1 for the dam on the Cobbossee Stream. While the dam could still be transferred to Trask, the examiner said first refusal for the 130-year-old dam must be offered to this city. The dam controls water levels in the Cobbosse Stream and Pleasant Pond.

In his report, examiner Gilbert Brewer cited PUC rules specifying that, if a dam is owned by a consumer-owned water utility, the municipality in which it is located has the right of first refual in any sale.

Meanwhile, under a fish restoration program between the State of Vermont and US Generating, which bought several New England Power dams on the Deerfield River, native trout from tributaries of the Deerfield are being moved to the main streams.

This is the first step in a multi-year restoration project outlined in an agreement last year to allow several dams on the river to be relicensed. State environmental officials must give final approval before the dams can get renewed Federal Energy Regulatory Commission licenses.

Who's News

Executive vice president **David Mensch**, a founding partner of Commonwealth Energy, has been promoted to president.

Steven L. Sianey, vice president, finance & planning for Crouse-Hinds, has been promoted to president of the division of Cooper Industries.

John R. Wodraska, who resigned as GM of the Metropolitan Water District of Southern California, has been named managing director of North America at Azurix, the new global water operation of Enron.

Gary Cardone, former director & GM of energy trading at Dynegy UK, has been promoted to managing director of Dynegy UK and Dynegy Europe.

Robert S. Lilien, vice president & general counsel, corporate & energy services, will become on Nov. 30 head of Duke Energy’s diversified operations.

James Hawes III, former president & CEO of Philadelphia Gas Works, has joined AGL Resources as executive vice president-chief information officer & chief administrative officer.

Timothy L. Ferguson as been promoted to senior vice president of Virginia Gas.

James C. Fleming has joined Southern Co. as vice president & associate general counsel.

WEEKLY ELECTRIC OUTPUT

(48 Contiguous States)

Source: EEI

WEEKLY ELECTRIC OUTPUT BY GEOGRAPHIC DIVISION
(48 Contiguous states)

	Week Ended October 10		52 Weeks Ended October 10	
	Gwh Output	% Increase Over Same Week 1997	Gwh Output	% Increase Same Week 1997
New England	2,112	2.8	116,194	0.1
Mid-Atlantic	7,542	(5.5)	433,102	2.7
Central Industrial	12,562	(5.5)	693,369	2.3
West Central	4,668	(7.4)	255,464	3.9
Southeast	16,007	0.9	840,574	4.9
South Central	8,990	(3.4)	483,854	4.9
Rocky Mountain	3,207	3.7	176,758	2.9
Pacific Northwest	2,951	(6.2)	165,114	(2.8)
Pacific Southwest	5,019	4.4	261,498	0.5
Total United States	63,058	(2.4)	3,425,027	3.2

The net available amount of electric energy distributed by the total electric utility industry (excluding Alaska and Hawaii) for the week ended Saturday, October 10, 1998, was 63,058 Gwh, equivalent to 156 on the weekly electric output index. For the year to date, output was 2,738,880, or 3.6% more than last year's 2,664.,379.

Rate Actions

□ An average rate cut of 12.4% for customers of **Narragansett Electric**, once considered a sure thing, has now turned into a long shot although the Rhode Island PUC may adopt a rate reduction of some sort that is expected to be less than 12.4% and may be postponed until January.

"The Commission always moves as quickly as possible to reduce rates. That's our inclination," stated Chairman James J. Malachowski.

Any decision hinges on two unresolved issues that surfaced since the utility proposed the rate cut on July 30:

- The PUC says Narragansett failed to produce all information needed. While the company hoped to be able to provide some data, it said some key information will not be available until Dec. 1.
- At the same time the company has been pressing to reduce one element of the rate, a second portion is scheduled for Jan. 1 increase and regulators are studying options for either leveling out those two elements during the next 15 months or postponing the rate cut until January. The proposed rate cut was traced to the sale by Narragansett's parent, **New England Electric System**, of 18 power plants for $1.59 billion. - J. F. McG.

□ As required by the Kentucky PSC, **Louisville Gas & Electric** filed last week for performance-based ratemaking as the means to reach the PSC's goal of "providing incentives to utilities and a sharing of resulting benefits with ratepayers." In line with the PSC's Sept. 12 order for the merger of **LG&E Energy** and **KU Energy**, the latter two utilities filed separate, but identical, applications with the PSC and requested consolidation of the applications. KU's **Old Dominion Power** unit was not part of the filing.

□ As of Oct. 1, newly-formed **Energy United** announced a 5% rate cut for its customers in North Carolina. The new unit, formed through the merger of the **Crescent** and **Davidson municipal electric systems,** projects $38 million in savings over the next 11 years.

□ **The Snohomish (WA) Board of Commissioners** plans to hold five public hearings on its 1999 proposed budget which contains no increase in spending for the electric system, keeping it at the same $426 million level as the 1998 budget. In addition, there is no provision for a rate increase in the 1999 budget but a possible rate increase appears likely for the next year.

□ **South Jersey Gas** received approval from the New Jersey BPU to change the format of its temperature adjustment clause to eliminate in large measure variations in customer bills and company earnings by providing protection at "less extreme" temperatures.

Contracts

□ **Amoco Egypt** and Italy's **ENI** signed a contract for undisclosed terms last week to supply by 2003 480 MMcf/d to state run **Egyptian General Petroleum.** The 20-year contract, which contains a five-year, negotiation-free extension, requires the two companies to spend $700 million over the next four years to develop the Temsah offshore gas field's 3.9 Tcf of proven reserves. An Egyptian affiliate of ENI and the Amoco unit each hold 25% shares and EGPC 50% interest in Temsah.

□ As part of the U.S. Navy's facility modernization program, the **Sage Systems business unit of Valmet Automation** will provide a supervisory control & data acquisition (SCADA) system for the **Navy Public Works Center** at San Diego, CA. The contract, valued at more than $12 million, is scheduled for completion in August 2000.

□ **ABB Power Generation** has been awarded a $10 million contract to build and replace the generator stator for **City Public Service of San Antonio's (TX)** Deely #1 Unit. Manufacturing is to begin immediately, with installation planned for late 1999.

□ **Southwest Water's ECO Resources** unit received a four-year, $9.3 million renewal of its contract to provide a water supply and wastewater collection system, billing, collecting and service functions for the **City of Biloxi (MS).**

□ **IBM** reached an agreement for undisclosed terms on a contract extension with **Yankee Gas Services** to provide information technology support and services through 2008. The contract covers dat a center operations services, an on-site jointly staffed help desk, and network station management for over 600 client systems and 25 servers.

□ **The SCT Utility Systems division of Systems & Computer Technology** reached a $4 million agreement to provide **Central Illinois Light** with its Banner customer management system.

□ **HTE** has signed a contract valued at nearly $3 million for a Year-2000 compliant, enterprise-wide solution for the **City of Meriden, CT.** It covers HTE software product for the city's utility, public safety, financial and school administration.

□ **SCANA's South Carolina Electric & Gas** subsidiary issued last week a request for proposals for purchasing 100- to 300 Mw of electricity for five years, beginning in 2001, to meet future peak needs. Bids are due on Nov. 30, with a decision expected as early as Jan. 31, 1999.

Salomon Gives Unicom Medium Risk Rating

NEW YORK - Citing **Unicom's** plan to restructure its core business, sell off coal-fired generation, issue securitization bonds, "write-off a portion of its nuclear assets to create a regulatory asset, and run its nuclear fleet," Salomom Smith Barney reinitiated coverage of the company with a 2M (Outperform, Medium Risk) rating. Analysts Pamela Bonnie and Alistair Buchanan consider Unicom shares to be "still undervalued at around its 52-week high of $37 ($23 low), trading at a 12% discount to comparable nuclear utilities and put a long-term target price of $42 for its shares.

Power Marketing

(Continued from page 5)

formed **Houston Industries Wholesale Energy Group** that combines power generation, natural gas transportation and wholesale energy trading and marketing capabilities of the company.

"Houston Industries is positioned to compete across the energy chain, and capturing the value creation opportunities that exist between our businesses is a key part of our corporate strategy," said Steve Letbetter, president & COO of the parent. He said that the consolidation of two previous business groups, Houston Industries Trading & Transportation and Houston Industries Power Generation, positions the multibillion-dollar company to be a leader "in this rapidly evolving upstream industry."

The HI Wholesale Energy Group will be led by CEO **Charles Oglesby** and **Joe Bob Perkins**, president & COO.

The new group represents 17,800 Mw of generating capacity and 1,400 Mw of projects under construction or development as well as 8,200 miles of interstate natural gas pipeline and 4,000 miles of gathering pipeline. Wholesale trading volumes total 4 Bcf/d of natural gas and 80 million Mwh of electricity annually, placing the company among the nation's top 10 in terms of natural gas and power marketing.

Marketing Deals

PORT HURON, MI - **SEMCO Energy Gas** signed a three-year agreement with **TransCanada PipeLines** for management of the utility's gas supply. SEMCO also agreed to buy the majority of its gas supplies from TransCanada for three years under the agreement, effective April 1, 1999.

RICHMOND, VA - **The U. S. Navy Public Works Center** signed an $11.6 million three-year energy-efficiency lighting contract with **Virginia Power's EVANTAGE unit.** Under the pact, EVANTAGE will retrofit or replace an indefinite number of lights and occupancy sensors at naval bases in the Center's Washington jurisdiction.

BOSTON, MA - **The Connecticut Conference of Municipalities** has teamed with **National Energy Choice** to evaluate and develop, if feasible, a comprehensive program to reduce municipal electric bills to save money for Connecticut cities and towns and their property taxpayers. - J. F. McG.

HOUSTON, TX - **NorAm Energy Development** reported that the **Rhode Island Hospitality & Tourism Association** has selected it to provide a gas purchasing plan for around 30 restaurants and hotels in the state. It provides guaranteed savings for a one-year term starting Nov. 1.

HOUSTON, TX - **Coral Energy** signed an agreement to become the principal gas supplier to **Mountaineer Gas**, West Virginia's largest gas distributor. The agreement also calls for coral to manage virtually all of Mountaineer's total firm transportation and storage entitlement.

LATEST EARNINGS

	Net (Mil)	Year ago	Balance per Current	Previous
Utilities - 3 months ended 6/30				
Connecticut Water Service	$1.48	$1.20	$.49A	$.39A
*Piedmont Natural Gas	(6.25)	(5.78)	(.20)A	(.19)A
Miscellaneous Companies - 3 months ended 8/31				
*Ecology & Environment	(.006)	.08	-----A	.02AT
Juno Lighting	8.05	5.81	.43A	.31A
Morrison Knudsen	9.58	8.24	.18AT	.15AT
Foreign Company - 3 months ended 6/30				
Norsk Hydro	1,815.000U	1,496.00U	7.90U	6.60U

* - 3 months ended 7/31

Notes: Figures in parenthesis denote losses. A-Based on average shares. B-Restated. C-Canadian funds. D-With gain from sale of assets. E-With loss from sale of assets. F-With income from discontinued operations. G-With loss from discontinued operations. H-With pre-tax gain. I-Includes write-off. J-With extraordinary credit. K-With extraordinary charge. L-With restructuring gain. M-With restructuring charge. N-With gain from accounting change. O-With loss from accounting change. Q-With non-recurring net charge. R-Adjusted for stock split. S-Adjusted for stock dividend. T-Diluted. U-Norwegian Kroner

DIVIDEND ACTIONS

Company	Period	New	Old	Payable Date	Record Date
		INCREASED			
NorthWestern	Q	.25 3/4	.24 1/4	12/1	11/15
United Water Resources	Q	.24	.23	12/1	11/13
		IRREGULAR			
MCN Engy 8 3/4% PRIDES	S		1.0084	11/2	10/30

PORTLAND, OR - **The Oklahoma Municipal Power Authority** signed a brokering agreement to have **PacifiCorp Power Marketing** sell its excess power and provide additional services covering displacement power at lower cost when it is available and ready access to back-up suppliers in case of unexpected outages.

Marketing Ventures

FOLSOM, NJ - **South Jersey Industries** and **Energy East** announced plans to form a jointly-owned limited liability company for marketing retail electricity and energy management services. This is in line with South Jersey's plan to shift away from wholesale electric trading toward the retail sector. The new company will focus on New Jersey, Maryland, Delaware, Washington (DC) and Virginia.

Separately, South Jersey and **Conectiv** signed an agreement for a joint customer account services venture that will provide meter reading services in Southern New Jersey by year-end. The new **Millennium Account Services** will be a separate entity that is jointly owned by the two utilities.

ATLANTA, GA - **Allied Utility Network** chose **MGC Communications, EchoStar Communications** and **Central States Indemnity** to become preferred partners who will supply HomeVantage brand products and services to Allied's electric and gas utility members.

STERLING, VA - **National Electronics Warranty** has signed a partnership agreement to have **Apollo Worldwide** provide customer service support to assist customers in locating service centers for repairing appliances.

Wall Street Says

Utilities Led Specialized Funds in 3Q; Quick Texas Move Applauded

NEW YORK - If further support is needed for the traditional belief that utility investments can provide a safe haven in a period of difficult stock market conditions, one need look no further than Morningstar's third-quarter tally of performance of specialized stock funds. **Sixteen of the leaders were utility funds.** Only Fidelity Selected Computers and Smith Barney A Telecom turned in better returns at 8.78% and 8.12%, respectively. Rounding out the top five were **Strong American Utilities** (4.89%), **Principal Utilities A** (4.71%) and **Franklin I Utilities** (4.62%).

Separately, Moody's Investors Service concluded that, by responding early to the threat of deregulation, regulatory settlements by **three Texas utilities** produced support for their credit quality.

"Despite the fact that the Texas Legislature has yet to mandate deregulation of its retail electric market, the utilities with the most to lose in an open market have already begun to prepare for its eventuality," noted vice president A. Tucker Hackett.

He cited **Houston Industries** (rated A3) and **Texas Utilities (Baa1)**, whose bilateral agreements with the PUC "contributed" to credit outlooks that are stable and positive, respectively. **Texas-New Mexico Power** (Ba2) with a more extensive plan was placed on review for potential upgrade when its settlement was approved last month.

However, **Entergy Gulf States** (Baa3), which has not been able to reach an agreement, received a negative outlook and an unfavorable PUC order last spring resulted in a downgrade for **Central Power & Light.**

"The Texas agreements prove that individual electric utilities can do much to prepare for competition without legislative approval of securitizations," Hackett said, noting that securitization has been "the tool of choice for stranded cost recovery" in 7 of the 12 states that have already deregulated.

□ On the credit ratings front, describing the acquisition of DeepTech as "a valuable addition," Moody's assigned its (P)Baa3/(P)Ba1/(P)ba1 ratings to the $800 million shelf registration of **El Paso Energy** and confirmed DeepTech's Baa3 ratings on $82 million of senior secured debt guaranteed by El Paso Energy, which was created in August as a holding company for **El Paso Natural Gas** and DeepTech. El Paso Natural Gas is also the parent of **El Paso Tennessee Pipeline, El Paso Field Services** and **El Paso Energy International.**

□ Elsewhere, in separate rulings, Moody's assigned its Aa1 and Fitch IBCA its AA+ ratings to **City Public Service of San Antonio's (TX)** $885 million bonds, with both citing the municipal utility's competitive cost structure and adequate generation resources. In addition, they find the region's economy enjoying a resurgence. While both agencies have some concerns over exposure to the South Texas Nuclear Project, they agree that its improved performance mitigates that to a large extent.

□ Additionally, in separate decisions, the ratings agencies confirmed their ratings on $172 million of subordinate lien bonds of the **Municipal Electric Authority of Georgia** (Fitch-A-; Moody's-BAA1), citing MEAG's strategic moves to prepare for competition.

□ Elsewhere, Fitch upgraded **Arizona Public Service's** first mortgage bond rating to BB and the preferred stock and unsecured debt ratings to BBB. This reflects the "strong growth" of service territory, improved financial condition and reduced power prices and costs as a result of continued cost-cutting moves. Arizona's "regulatory uncertainty" and exposure to nuclear risks are also factored into the ratings. - GENE SMITH

Financial Focus: 'UCU' 'On Track' for 8% Earnings Growth - Green

"We are on track to meet our 8% target for earnings growth," affirms **Richard C. Green, Jr., CEO of UtiliCorp United** (assets over $5 billion, long-range debt $1.2 billion, 54 million common shares outstanding).

"Strong cost control, results from international businesses and exceptional performance in energy marketing are allowing us to overcome the challenge of lower prices for natural gas liquids."

Electric angles? "Generation has turned into a much riskier business and companies demonstrating better risk management skills stand to be rewarded. This team has been getting ready for a deregulated kilowatthour market for the past dozen years by developing expertise in trading, non-regulated generation and credit supervision."

Meantime, **Aquila Gas Pipeline** (82% owned) will not be on the for-sale table as Green seeks "potential opportunities to achieve operating efficiencies and to drive costs down."

Based in Kansas City, MO, this group (Slogan: "Smart . . . Simple . . . Energy") has expanded through European and Australian deals and could raise revenues near the $11-billion mark this year. Brightly known as "UCU," on the Big Board, these shares seem buyable near $38 with 4.7% yield on the $1.80 payout.

Futurist from Fort Worth, TX: "Investments have been made in fuel cells and coal micronization, two cleaner technologies, and positive results have been shown in their test runs," proclaims **chairman Kevern Joyce of TNP Enterprises** (the former Texas-New Mexico Power, $995 million total assets, 3.3% on the higher $1.08 dividend around $32).

Four completions: **Alabama Power**, $150 million senior notes (5 3/8% of 2008); **Cleveland Electric Illuminating**, $125 million of 6.86 10-year bonds; **Lakehead Pipeline**, $200 million worth of callable notes (to 7.125% for the '28 set) and a hefty $1.5 billion package of 6% 15-year power bonds from the **Tennessee Valley Authority**. - ED BRENNAN