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A daily look at the forces shaping retail services

June 27, 2000

Saying competitive market needs more time to develop, Calif. senator urges more 'cautious' approach

Steve Peace is a politician who has no qualms about saying publicly, "I told you so."

A year ago, the California Democratic senator, who was instrumental in getting the state's deregulation bill passed, warned the California Independent System Operator against raising its price cap from $250 to $750. The state's fledgling competitive electricity market was too immature and suffered from a shortage of generating capacity, he said at the time.

But the ISO's Governing Board raised the cap to $750, anyway.

In the throes of a mid-June heat wave that enveloped California, power prices and costs reached what Peace called "grossly unreasonable levels," particularly because he believes there were ample supplies statewide.

On June 14, the California ISO, which manages 124,000 square miles of transmission lines covering three-fourths of the state, declared a Stage 1 power emergency. That meant energy reserves had fallen below 7%.

Peace said he saw the signs a year ago, but his pleas went unheeded.

So now, he's adopting a not-so-Peaceful approach to dealing with those he believes are responsible for the electricity market's under-whelming performance in the nation's most energy-intensive state.

"What happened is exactly what I told them would happen," Peace told *NEXTMarkets* Monday. He dashed off an "I told you so" letter last week to the ISO board in which he said the state's electric market is simply "not workably competitive."

Peace termed the $250 cap "an

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AROUND THE STATES

Indiana group says it's seen the future, and it doesn't work

A coalition of Indiana consumer and environmental groups has looked at electricity deregulation in other states and it doesn't like what it sees. And opening their state to retail competition, they believe, will only hurt residential customers and the environment.

The coalition, People's Energy Campaign, includes the 700,000-member Indiana chapter of the American Assn. of Retired Persons, the 300,000-member Citizens Action Coalition (CAC), the state chapter of the Sierra Club, the Hoosier Environmental Council, the Indianapolis Urban League, and other groups.

While Indiana has been debating deregulation since 1996, neighboring states like Illinois, Michigan and Ohio have or soon will open their markets. But the People's Energy Campaign isn't impressed with what has happened in other states and wants to make sure Indiana continues to regulate its utilities. "We're opposing retail competition until someone shows us it works," said Grant Smith, utility issues coordinator for Indianapolis-based CAC. "For the most part, competition doesn't exist for residential customers."

Under deregulation, only large industrial customers have seen real savings, Smith said. "There are little or no benefits for residential customers."

When considering deregulation, Smith points to the phone industry and sees little advantage to consumers. Long-distance rates have dropped, but local rates have risen, he said, leaving little gain for consumers.

Indiana's power rates are the 10th lowest in the U.S., Smith said, making it likely that deregulation will only lead to

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Marketer group sees Internet law sparking big changes

The National Energy Marketers Assn. is hoping President Clinton will soon sign into law legislation that would, among other things, guarantee retail electricity and gas marketers could use the Internet to enroll new customers.

The Washington-based association believes that the measure, if enacted, could resolve problems in New Jersey, where a number of marketers have complained that the state's "wet signature" rule has prevented them from reaching residential and small commercial users. Using the Internet is crucial to reduce the cost of acquiring small customers, the

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PG&E forms venture capital arm to invest in energy, telecom

PG&E Corp. has decided to invest some of its profits in up-and-coming energy and telecom companies to the tune of $50-million to $100-million annually. The San Francisco-based parent of Pacific Gas & Electric, said Monday that it forming a new unit, Pacific Venture Capital to do just that.

The investment subsidiary will build and manage a portfolio of investments in fast-growing energy and telecommunications enterprises. PVC will seek out companies that "we feel will be influential in their field," according to Bryant Tong, who was named president and chief

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Quotable… "At least up north, people are sick and tired of high rates, and residential competition is going to happen there faster than in Columbus or Cincinnati….[But] we're not going to snap our fingers and have it happen overnight."—Robert Tongren of the Ohio Consumers' Council discusses deregulation with the Columbus Dispatch.

'Cautious' approach...begins page 1

imperfect surrogate," but said the board's $750 version is a "ridiculous surrogate."

Fundamentally "you're going to have an imperfect market until you get more capacity, he said. Building more capacity is the ultimate answer, and we need to provide some time for that."

Indeed, a California Energy Commission report indicates the state must add more generating plants or import more electricity to meet rising demand. And although a number of applications have been filed with the commission, no new power plants are expected to be up and running for another two years.

Peace faults the Federal Energy Regulatory Commission, too, for having what he called "an unrealistic expectation" about energy deregulation. The agency, he said, "continues to push the market open too fast and (as a result) you have people…profiteering."

Until more capacity is in place, and until real-time pricing meters allow the general public to respond to price signals, "we should not be exposing the small residential customer…to be obligated to a direct access market. Until then, you have to be cautious and conservative."

Future...begins page 1

higher power costs. Indiana's Utility Forecasting Group, a state agency, recently reported that under deregulation, rates could rise, Smith said.

In addition, without regulatory oversight, power companies will have no incentive to deactivate coal-fired power plants, which will harm air quality, Smith said.

In addition to opposing deregulation, the coalition is developing alternative "consumer-friendly" legislation, Smith said. The coalition's bill would keep universal service constraints, promote green power and energy efficiency, and provide comprehensive siting rules for new power plants.

The bill will be introduced next session, which starts in January, he said.

Big changes...begins page 1

group says.

While the bill does not specifically address energy markets, it would give all electronic contracts the force of law.

NEM notes that some states have been reluctant to permit Internet signups believing that consumer protections could be compromised, meaning that customers could too easily be switched without their permission. That, at least, has been the rationale of New Jersey's Board of Public Utilities, which, however, recently announced plans for two Internet enrollment pilots this fall.

Earlier this year, retail marketers KeySpan Energy and DTE Edison

NEWS SNAPSHOT

Freebie. On-line energy marketer PowerTrust.com Wednesday will announce plans to provide its customers with free Internet service under an agreement with another firm. The Reston, Va.-based dot-com sells natural gas, propane and heating oil to small users in Georgia, Maryland, Virginia and the District of Columbia, and plans to offer power before the end of the year as it expands into other Eastern states. The company last week began offering satellite dish television service to its energy customers, and said it planned to expand its "beyond the meter" services. It already offers long-distance telephone service.

A definite maybe. AEP is still evaluating its options about entering retail markets in several states where they are emerging such as Ohio, Virginia, West Virginia and Texas. Although it has not made a final decision, the company "probably" will be involved at the retail level in those states, a spokesman said.

Seal of approval. The Connecticut Energy Cooperative, Hartford, has become the first New England utility to win certification from the California-based Center for Resource Solutions' Green-e Program. To receive certification, at least half of an electricity product's energy supply must come from eligible renewable resources such as wind, solar, geothermal, biomass or small-scale hydro projects. The co-op says its EcoWatt offering is the first 100% renewables-based option in the state. To retain its certification, the co-op will be audited annually by CRS to ensure it purchased enough green power to meet its marketing claims.

The halls of academe. FirstEnergy Services Corp., a subsidiary of Akron, Ohio-based FirstEnergy, has signed a three-year "master energy services agreement" with Kent State University. Under the accord, FirstEnergy Services will serve as the school's energy manager, helping it secure competitive natural gas and electricity supplies for its main campus and seven regional locations. In addition, the company will conduct energy conservation audits and retrofit or replace systems to reduce energy consumption.

Jersey bound. Philadelphia-based UtiliMAX, an Internet-based company that sells electricity and telecommunications services to business customers, has been licensed to sell power in New Jersey. The company, which opened for business earlier this year, began selling electricity in Pennsylvania .

'Robust' choice. Otter Tail Power Co., a Fergus Falls, Minn., utility, has sold an Internet-based software technology it designed to "facilitate full and robust" customer choice in deregulated retail electricity markets to Retx.com, an Atlanta-based e-business provider. Under the agreement, Retx.com gains exclusive rights to the technology. In addition, Otter Tail will receive undisclosed royalty rights on all product sales over a five-year period. According to Otter Tail CEO John MacFarlane, the software provides customer switching, scheduling, and imbalance accounting. Further, it allows customers to modify their consumption in response to market prices and gives customers the option of choosing from among "multiple, simultaneous suppliers."

Man with a plan. Vice President Al Gore, the presumptive Democratic presidential nominee, will today unveil a multi-billion-dollar "market-driven" proposal to promote energy conservation and spur the development of alternate energy sources, the Associated Press, quoting unnamed aides, reported Sunday. Included in the plan are incentives to encourage utilities to replace older and dirtier power plants, tax breaks and loans to spark development of alternate energy sources and tax incentives to induce consumers to purchase more energy-efficient appliances.

Me and my shadow. The Palo Alto, Calif., municipal utility will work with Energy Masters International to supply energy demand management solutions to the muni's largest business customers. Under the agreement Energy Masters will "shadow" the muni's key account personnel and provide support in analyzing and implementing energy saving opportunities for the customers.

America cited the wet signature rule as a major factor in their withdrawal from the small-user market in the state. Other companies, such as Greenmountain.com, Exelon Energy and Conectiv Energy have also appealed to the BPU.

They are backed by the Division of Ratepayer Advocate (RPA), which points out that while signatures can be forged, users have more control over Internet transactions. In fact, the only major "slamming" problem New Jersey has experienced to date involved a company that was going door-to-door to collect signatures. Energy America was accused of recruiting customers under false pretenses.

NEM President Craig Goodman says the bill, which he expects the president will sign, "will set several powerful forces into motion.…States will no longer be able to deny the efficacy of Internet contracts." In addition, the law "will ensure that more uniform information conventions and data flows will be developed sooner. As these conventions are adopted, competitive suppliers of energy services will be able to design more efficient systems to aggregate larger numbers of customers at lower prices nationwide."

He believes emerging technologies can reduce the costs of aggregating customers, as well as the costs of billing, metering, customer-care and risk management. They "can also provide an excellent, low-cost platform for meaningful price competition," he adds. While the law is a good start, NEM stresses that it alone is not enough, adding that "rules, tariffs and operating procedures must be rewritten to accommodate these new technologies, or the true benefits of restructuring will miss the smallest customers."

Goodman also cites provision in the proposed law that would bar state regulators from adopting any regulations inconsistent with the act unless they can provide "substantial justification." Specific exceptions are outlined in the bill, and the only exception affecting utility service requires that termination of service must be conveyed by written notice, Goodman noted.

PG&E venture…begins page 1

executive officer of the subsidiary.

The company anticipates investing $350-million to $500-million over the next five years, according to Tong, who was also appointed senior vice president of PG&E Corp.

Tong comes to the company from ReSourcePhoenix.com, a firm that pioneered the use of the Internet to help businesses manage financial and accounting operations.

Tong said PVC will invest 75% of its money in energy services and enabler companies that have already received seed money and are expanding their production or marketing operations. Energy enabler companies, Tong said, are those that help energy companies deliver and service products.

PVC investments in the telecom industry will be broader, Tong explained. The company will capitalize on the experience of Tong's boss, Peter Darbee, senior vice president and chief financial officer of PG&E Corp. who has an extensive background in the telecom industry and on Wall Street at both Goldman Sachs and Salomon Brothers.

Tong explained that the energy industry is undergoing tremendous change now, not only because of deregulation, but because of the need for electricity—the fuel feeding the Internet. PG&E Corp. needs to look at technologies that get us there, Tong explained. PVC will be looking at the technologies that help us understand changing markets, that spur competitiveness and that can create cost efficiencies.

Tong said he expects PVC will be making its first investments of $3- to $7-million per company within the next two months.

Study predicts bright future for green power generation

While the $843-million renewable energy industry is still struggling to carve out a piece of the power generation market, a new study predicts that green power technologies will become increasingly cost-competitive and eventually give natural gas and coal a run for their money.

Renewable developers, who saw significant growth last year, may gain even more attention because of high natural gas prices, according to Heidi Anderson, an analyst with the San Jose, Calif.-based Frost & Sullivan consulting firm, which released the study Monday.

While Anderson believes gas prices will eventually come down, she projects that gas supplies will continue to tighten over the long term. "Unless new reserves are exploited, it will be extremely difficult to keep up with demand. This may raise prices of natural gas in the future and make renewables a price-competitive option."

Still, unlike the oil shocks of the 1970s, which inspired the development of solar, wind and biomass generation, Anderson believes that when prices ease with a more abundant gas supply the interest in renewables will not wane.

Renewable revenue rose more than 310% last year, up from $204 million in 1998. Capacity swelled by 882 MW, increasing at a rate of 3.7%, the report says.

The study looks at the renewable market from 1996-2006, predicting growth will be "fairly stable" and that the decade will end with another 4,000 MW of installed wind solar, biomass, small hydroelectric capacity.

Anderson, however, says major activity is expected after 2006 when the cost of solar is projected to come down, economies of scale have improved, public demand for cleaner fuels rises, investments in renewable technologies come to fruition and the Kyoto Protocol takes hold. The Clinton administration has requested $2.1-billion for bio-based renewable generation and fuels for the next fiscal year, Anderson adds.

"The trend...will continue," she says. "Certain factors may slow the growth, but I don't see it disappearing. I believe [renewables] are too firmly entrenched; that the demand is too great for it."

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