Restructuring Today

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Signs of the times

Can we do the 1990s again?

Talk to Scott Spiewak.

He's general counsel at Metromedia Energy and he runs the Power Marketers Assn.

Now that electric marketing has been trashed he sees similarities with the pre-electric market days at wholesale.

"The opportunities are about what they were then," he told us. And you have an opportunity to rebuild the industry.

"The structural requirements, the plans are all the same as they were back at that point. Nothing has changed.

"The only thing that's changed is the bad PR because of a huge amount of fraud related mainly to mark-to-model accounting."

By that he means departing from the mark-to-market accounting that's proper -- "and better than accrual."

Where the industry went awry was using its own computer model that it can toy with to help improve unrealistically profits today based on unrealistic guessing of costs and profits in future years.

One big similarity to 1995 in Spiewak's eyes is the lack of transportation.

"You can't move power from point A to point B. If you think you have a market, you're kidding yourself," he added.

Because little power could be moved, lots of imaginary trades were happening.

Spiewak reports that the number of daisy-chain trades far exceeded the circular trading that got so much publicity -- trades where A sells to B who sells to C etc to boost company revenues and thus stock values.

He sees more chance of markets developing now that FERC is trying to get the grid open to move power so that real markets can develop.

PUC gathers critics' views of retail power markets

Illinois' retail market looks very different to incumbent utilities than it does to marketers, comments to the Illinois Commerce Commission (ICC) show.

The ICC had asked for input as it prepares a triennial report to the General Assembly on the status of retail competition.

Competitive markets "take time to develop," Commonwealth Edison noted, adding it expects marketers to go after the largest customers first to minimize customer acquisition costs.

Once competitive suppliers are established they'll focus then on smaller customers, ComEd added.

Residential customers became eligible to choose in May.

In its territory, ComEd has seen a "steady level of growth" in C&I switching unparalleled in Illinois and rivaled only by "a handful of utilities in the nation."

About 42% of its non-residential load had shopped by the end of last month, it noted.

Just because certain pockets of non-switching exist doesn't mean, the utility wrote, markets are not advancing.

The 20% rate cut customers got through 2006 is "providing them with a significant benefit as the market evolves," ComEd observed.

The legislature might look at removing unnecessary barriers to load aggregation to make it easier for small commercial and residential customers to shop, the firm advocated.

Constellation Energy agreed that the largest customers were shopping freely but since April, competition "has been maintained and has progressed only through ad hoc utility intervention."

That's because the competitive transition charge (CTC) was reset making competitive supplier offers too expensive.

NEMA sees a flawed market where price caps and signals as well as the way CTCs are calculated have created obstacles to a robust competitive retail market.

Legislators should unbundle utility rates based on true embedded costs so consumers "can shop for all manner of competitive products, services, information and technology," NEMA urged, on the grounds that full unbundling -- or shopping credits based on embedded costs -- would send consumers "accurate price signals" and encourage competitive suppliers to enter the market.

Illinois needs to make it easier for marketers to sell their wares by changing the state law that outlaws telemarketing -- arguably the most cost-effective way to acquire customers, NEMA noted.

The marketers agree with ComEd that aggregation programs would help competitive suppliers put together large groups of customers at low cost and would help low-income consumers take advantage of choice savings but rules "must ensure that the program does not limit consumer choice."

The way to do that is to let them opt out if they want to go elsewhere.

The ICC would do well to look at Ohio's experience with aggregation, Constellation NewEnergy suggested.

Price caps do real damage to developing competition and "are simply incompatible with fostering demand response," NEMA wrote, adding that "empowering consumers to engage in demand response through variable pricing and access to real-time pricing" protects them from volatile energy prices.

ComEd offers a voluntary load reduction tariff that allows it to pass along to consumers wholesale market prices when the system is constrained -- an idea it experimented with for several years, ComEd said.

NEMA sees the competitive transition charge (CTC) creating a "significant barrier" to entry and thinks the law should be changed so all customers pay it, not just shoppers.

Getting back stranded costs solely from departing customers punishes those who shop thus slowing the migration and development of retail markets while "encouraging utilities to continue to invest in competitive services that increase future stranded costs."

Those stranded costs linked to IOUs' providing last resort services (POLR) should be built into ...

(Continued on page 2)

5 stories in 1.2 minutes

Calif market delayed: The California ISO can't possibly implement a day-ahead market by Jan 13 as ordered by FERC, certainly not before February 2004, the grid operator claims in documents posted on its website Friday. FERC has scheduled a Dec 3 technical conference on the ISO's market design.

Poor credit? EnergyClear wants you: EnergyClear has a category of membership in its clearinghouse operations for victims of credit-rating downgrades. Unrated and lower-rated traders can get access to EnergyClear's clearance and settlement operations.

Georgia Power website thrives: Georgia Power's EnergyDirect.com website - a free online tool available 24/7 lets businesses track energy use and billing. Some 1,400 customers use it to track costs and make budget adjustments, correlate energy use with changes in operation and forecast energy costs. Customers can take advantage of three levels of enhanced features in return for a monthly fee.

Hotel gets DG prize: Southern Calif Gas gave Sutton Place Hotels at Newport Beach a $500,000 check for installing a $1.6 million cogeneration system that will provide all of the hotel's electric needs. The hotel gets the money as part of the PUC's Self Generation Incentive Program to foster DG plans that give firms up to 50% of the costs of putting in onsite generation.

New York to get DG website: The New York State Energy Research Development Authority (NYSERDA) agreed with Connected Energy Corp (CEC) to launch an "energy operations information website" for onsite power.
When operational, the public will be able to see real-time data from newly built plants as managers use the system for operations via the firm's Central Operating Management System (COMSYS) accessing hardware hooked up at the unit.

PUC gathers critics' views ... (from page 1)

... POLR rates, the marketers wrote.

ComEd noted it has asked the ICC to let it refine its method for calculating stranded costs better to reflect the market value of freed-up generation.

The CTC in Constellation Energy's view hampers marketers ability to offer multi-year, fixed-price deals because the CTC is reset every year.

Another barrier to marketer entry is Illinois' reciprocity law that bans marketing affiliates of utilities operating in states not yet open to competition, NEMA added.

Unregulated marketers "have no influence on whether or to what extent a utility or PUC decides to open a service territory to competition," NEMA noted, so reciprocity shouldn't be a factor.

Constellation NewEnergy considers the reciprocity rule one of the main barriers to competition in Illinois, along with the way CTCs are calculated and tough rules to market on downstate utilities' turfs.

Five years ago in RT

Can gas, power marketers form new trade group?

Gas Daily described two main schools of thought on whether gas and power marketers will form a national association to represent them:

• "We'll probably see a marketer trade association on a national basis in the next year," said Kathleen Magruder, managing director of government affairs at Enron.

• "Anyone who could cobble together a national trade association now should probably go over to the Middle East and solve that problem too. You could have six marketing companies in a room and get eight opinions," said Joe Petroski, president of CNG Energy Services.

(It was then common knowledge that no one has ever been able to bring a marketers group together. Craig Goodman was able to unite in NEMA a group representing unregulated electric and gas, wholesale and retail people under one roof. NEMA has made its mark in Washington policy and in state capitals).

NEMA's Goodman opposes Ontario market plan

Goodman (above) Friday told Williams EnergyNewsLive that the Ontario premier's action plan for retail price caps is "very ill-advised."

NEMA members have spent large sums and thousands of man-hours to perfect a model market design for North America.

Premier Ernie Eves' action plan if adopted would have long-term impacts of encouraging consumers to use energy by capping prices.

Goodman finds no reason to cap the prices beyond "political reasons."

ENL interviewed Goodman for about an hour and his responses are to be aired over a number of days.

He told of task forces NEMA has set up to address clearing and settlements and netting with an eye to helping the ailing energy market.

One is to address implementation of Financial Accounting Standards Board (FASB) rule 133 and mark-to-market accounting and FASB 133 implementation.

All of today's clearinghouses are members of NEMA and offer clearing products to the energy markets.

Some have financial data-bases "unparalleled in the industry."

What is FASB 133?

"It requires you to mark to market certain long-term contracts at prices which in the past have differed depending what side of a transaction you're on and what kind of models you use.

"What has been missing in the marketplace is a credible, auditable, historical database to prices that regulators and investors and risk officers can use to mark their long-term contracts for SEC accounting purposes and financial accounting purposes.

LI market gets strange cutoff

Power cables resting on the floor of Long Island Sound were torn by a barge anchor.

If the cable is not repaired by the summer, the Long Island Power Authority said, small power plants may have to be built in New York City suburbs to avoid blackouts.

The anchor damaged four of seven cables jointly owned by LIPA and Northeast Utilities that ran between Norwalk, Conn, and Northport, Long Island, and carried 280 mw in either direction.

Big Bay Area users seek retail market linked to wholesale

Linking wholesale and retail markets via time-of-use or real-time prices is a cornerstone of the Bay Area Economic Forum's (BAEF) prescription for California's ailing power markets.

That linkage was missing in California's "last exercise" in competitive markets, BAEF's President Sean Randolph told reporters last week.

BAEF's report details solutions to California's energy problems and urges a reopening of the state to retail competition (RT, 11/22).

Real-time pricing -- even of default service -- for C&Is would "shave demand off the peak" thus mitigating high prices and producing environmental benefits, Randolph noted.

And if time-of-use pricing was available to most residential customers another 2,000-mw chunk of demand could shift -- about 14% of residential use.

"Who were the idiots," asks Jim Cunneen, who passed California's AB 1890 to deregulate only "half of the ledger?"

He was one, the former state legislator admitted.

Now he's wiser and chief of the San Jose Silicon Valley Chamber of Commerce.

It's terribly important, he said, that consumers be empowered to make economic decisions about energy use.

The state has invested already in meters for customers up to 200 kwh -- some $35 million in California Energy Commission funds went to the project last year -- but BAEF urged extending the meters to residential customers who consume at least the average for single-family houses.

The state should pay for it because it's a public good and all customers benefit, BAEF recommended.

But even before interval meters are widely installed retail prices should "float monthly for all customers and reflect wholesale prices, BAEF said, so customers pay "the true cost of power."

Wild fluctuations could be muted by using a balancing account that accumulates funds when prices are low and disperses them when prices are high, but BAEF warns that too much smoothing would blunt the benefits of price signals.

An intensive meter installation program might cost $1 billion to $2 billion, BAEF estimated, but would save ratepayers $270 million to $380 million a year -- "and even more if reserve margins tighten again.

"Had real-time pricing been put in place in 2000, California might have saved well over $1 billion in energy costs," BAEF observed.

Once retail competition is deployed, competitive retail suppliers could offer fixed-price options but California should move as Europe has to time-of-use rates, the forum advised.

Worth continuing is the program to pay consumers to enter into interruptible power agreements -- a strategy used to stabilize the market during the power crisis.

The ISO now administers the program through retail providers, BAEF noted, but it should "be expanded by creating a central market where users can bid in real time what they want to be paid for curtailing their use."

The demand-management market would be helpful during the transition to full-fledged, real-time prices for C&Is, the group wrote.

Too many regulatory cooks spoil energy soup in California

BAEF's agenda (above) includes a plea to "rationalize" the 13 "overlapping and confusing" agencies that govern California electricity market by eliminating some, separating others and coordinating their missions.

The California Energy Commission (CEC) and the separate Power Authority (CPA) missions overlap and should be merged, BAEF recommended.

The CPA has $5 billion in financing authority to ensure a "sufficient surplus" of electricity and has focused on supporting renewable energy sources and installing interval meters.

Putting the agencies together, BAEF noted, would concentrate resource planning and siting efficiently.

The Energy Oversight Board created to supervise the ISO in competition with FERC and "serve as an appeals board for majority decisions of the ISO," could be abandoned and save California taxpayers $4.5 million a year.

DWR is out of its power-buying role as of January but it should turn over management of its power contracts to the utilities, BAEF urged.

The forum would split off the Office of Ratepayer Advocate (ORA) from the PUC as a separate entity.

California is alone in merging the PUC and advocate functions, BAEF said, and this "creates real and perceived conflicts of interest."

The PUC, BAEF noted, "should review its current performance compared to other PUCs across the country."

Its $93 million budget -- not including ORA costs -- "is roughly double" the average of the next six largest energy-consuming states.

That's out of balance, BAEF said, especially since California regulates three IOUs compared to the average of eight regulated by New York, Texas, Pennsylvania, Michigan, Ohio and Illinois.

"While the largest in the country, the CPUC is one of the lowest performing according to the Regulatory Research Associates (RRA)," a group the forum describes as an independent research organization.

"RRA rates the CPUC in the bottom third of all PUCs and the worst of the six PUCs" in its peer group, BAEF noted.

It has twice the employees of Ohio, three times as many as New Jersey and five times as many as Texas, the group said.

Paring it back to its peers' size would save taxpayers $40 million to $70 million a year, BAEF observed.

The state's EPA, Air Resources Board, Air Quality Management Districts and Western Electricity Coordinating Council, along with FERC, the Nuclear Regulatory Agency and the US EPA regulate state energy affairs as well.

The forum called for change in the ISO board noting that members should not be appointed by the governor for one-year terms and that greater independence could be achieved by staggered five-year terms.

"The ISO has a vital operational role in dispatching and balancing power over the grid, as well as maintaining the transmission system and must be viewed as fair and consistent," the report noted.

How to prevent Northeast RTO litigations? Pack it in. ISO New England CEO Gordon van Welie blamed the breaking off of merger talks with New York's ISO on FERC's decision to delay the SMD and the almost uniform opposition to the union. He saw litigation even if the merger were approved. ISOs should focus on developing the SMD and resolving seams issues (RT, 11/21) and ways to improve Canadian and Northeast markets, said William Museler, New York ISO CEO, who believes a natural marketplace exists between the ISOs.

Standard & Poor's rates itself

Rating trading firms today is a dicey business but Standard & Poor's has thought it through.

Because of the dynamic nature of energy trading, S&P has decided it hasn't been looking at enough variables when it assesses a trader's risk.

Where one year has been its standard, S&P plans to add five-year and 10-year windows when it explores the probability that a trader's counterparty will default.

Because most trading and marketing operations don't have investment-grade ratings today S&P finds "a high concentration of transaction volumes with a small number of counterparties.

"The credit deterioration of one large counterparty could have a daisy-chain effect on other industry players," John Kennedy, S&P credit analyst, warns in its report Taking Another Look at US Energy Trader's Credit Risk Capital.

S&P will begin "stress testing portfolios" by observing how credit portfolios react to "a one-notch and then a two-notch downgrade of a firm's top 10 counterparties."

Large industry players are marginally in the investment-grade category, Kennedy noted, and "this type of scenario could trigger a significant increase in capital-at-risk from credit because the risk of default increases substantially."

Tests could be refined further by calculating how much debt could be recovered after a default, Kennedy said, but "it is more conservative to assume no ultimate recovery or payment of liquefied damages."

The variety of a firm's alliances will be analyzed with the potential risk by the diversity of industries.

How quickly a counterparty reacts to changes in its credit reserves will be factored into reports, Kennedy added (www.standardandpoors.com).

S&P plans further refinement of its analysis, depending on how bored it gets with the changes it has just made.

Next time they'll explain how they missed the call on Enron (as we did).

You can stop scratching your head

CORRECTION: A grand error on our part made the two following items seem like news in our Friday edition. The truth? These two were news five years ago when we ran them Nov 4 1997. Through an incredible misunderstanding Friday in our newsroom (too complicated to explain) the items were erroneously left in when we pulled a third five-year-old item for further checking and with it the identification that these items were news then -- not now.

Montana to customize Calif CMA prices: How will California Manufacturers Assn members learn the discount they get in the contract CMA signed with Montana Power Trading & Marketing? The Wall Street Journal quoted an 8% discount off the prevailing California price. We asked Frank Rotondi, president of Montana Power Trading & Marketing...

A New York Times special section on power yesterday (11/3/97) had a positive, upbeat approach to competition...

TXU makes deal down-under: TXU has agreed to pay US $56 million over the next decade for 25% of the output from a wind farm owned by Australia's Pacific Hydro (PH). TXU is to buy about 150 gwh/year at a price following the consumer price index, said Jeff Harding, PH CEO.

SoCal Ed, PG&E get ready to buy power again

But not very much.

It's simply the power not provided by the long, long Dept of Water Resources contracts or their own generators - - maybe 10-15% -- the so-called residual net short.

DWR's authority to buy power runs out Dec 31.

"At this point, it does look like it will be a smooth transition," Deborah LeVine, director of contracts for the ISO assured her board last week.

PG&E and SCE have told the ISO they will post collateral for their buying Christmas Eve.

The PUC last week gave PG&E permission to begin signing contracts.

LeVine expects DWR to be in the picture far into the future because of the high-priced contracts signed at the market's peak.

Merchant shares rise

Stock prices of merchant energy companies improved Friday on predictions of rising forward energy prices.

Calpine closed up $1.77/share at $4.06, its highest price in two months while AES rose 23¢/share to $1.77.

Duke Energy gained $1.07 to $20.15/share and a share of TXU stock rose nearly a dollar closing at $16.14.

Salomon Smith Barney's US "spark spread" index for 2004 was raised to $8.51 Friday from $7.92 on Nov 13.

The spark spread is a rough sketch of the profitability of gas-fired generators gained by subtracting wholesale gas prices from electricity prices.

Salomon's spark spread was virtually unchanged for this year and next but investors are focused on 2004 as one measure of generating companies' future prospects.

Despite the upturn, Salomon analysts continue to recommend investors minimize exposure to energy industry stocks because of the sector's large debt load.

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