Restructuring Today

CHRONICLING EFFORTS TO OPEN COMPETITIVE ENERGY MARKETS

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EPA to regulate power plant GHGs under Clean Air Act

Administrator Jackson hopes Congress will help

EPA yesterday announced greenhouse gases (GHG) endanger public health and welfare thus opening a path for regulation of them under the Clean Air Act after the Supreme Court directed it to in the 2007 case Massachusetts v EPA.

"These long-overdue findings cement 2009's place in history as the year when the United States Government began addressing the challenge of greenhouse-gas pollution and seizing the opportunity of clean energy reform," said EPA Administrator Lisa Jackson at a press conference announcing the finding.

EPA combed over decades of scientific data that pointed to man-made GHGs contributing to the warming of the planet and in turn, potential environmental catastrophe. The announcement came as international negotiators began meeting in Copenhagen to work toward a binding agreement on climate change -- and it demonstrates the US' commitment to GHG cuts, said Jackson.

EPA is considering a rule to direct power plants and other emitters of over 25,000 tons of CO_2/year to adopt the best available technology to cut emissions (RT, Oct-01).

Jackson declined to offer a timeline for the large emitters rule, though she noted the endangerment filing requires the agency to act on limiting CO_2.

Congressional action would be better than the EPA trying to use the Clean Air Act by itself, she added, but Jackson believes her agency's powers can help in addition to a new law. The announcement was not made to push any fence-sitting Senators over to the side of passing a new law, said Jackson.

But others doubt that the timing was devoid of politics, including House Select Committee on Energy Independence & Climate Change Ranking Member Jim Sensenbrenner, R-Wis.

"It's ironic that EPA first proposed its endangerment finding just as the House was beginning to debate the Waxman-Market 'cap-and-tax' bill," said Sensenbrenner, using a nickname for the bill coined by its detractors. "Now, it is finalizing the finding just in time for President Obama to travel to Copenhagen."

[Comments]

Washington Gas Light, NEM find common ground in Maryland

One roadblock to widespread power competition in Maryland was a workable purchase of receivables (POR) program -- with some proposals in the state calling for risk factors that could make a discount rate unbearable for marketers. But this week Washington Gas Light (WGL) and NEM have been working on a deal that could keep the discount rate at or below the 2% threshold that can make the program work for both sides.

"We believe that WGL should be congratulated for listening to the marketer community and trying to create a program that will inspire the most amount of competitive electricity in the state," NEM President Craig Goodman told us yesterday. "Consumers need a choice and the more choices they have, the better the chance that they will get a better deal."

The offer by WGL involves the firm changing how it wants to move forward with POR.

"They have reconsidered their filing they are willing to go forward with a purchase of receivables program in Maryland," said Goodman. "We have had preliminary discussions on the structure of the program so that it can be structured in a way that will actually allow marketers to come in and successfully market."

Goodman has continuously stressed that a solid POR program is essential to bring marketers into the state in large numbers. If WGL's plan is approved, it would be a big step in accomplishing that.

"They are going to do a bad debt analysis and it's going to get trued up from year to year and that's going to be the major component of WGL's plan," said Goodman. "They are going to have implementation costs that will be amortized over a number of years and trued up from year to year so that they can be assured recovery of the implementation costs."

While a review of markets across the US show that implementation costs can be minimal, WGLs plan is better than making a guess and building in something that might be artificially high.

One thing that WGL could have in its plan is a risk factor, something the PSC put into the regulations, though not as fully explained as it could be.

"There is some concern generally across the board about adding a risk factor adder to the discount rate," said Goodman. "POR can be very successful if you don't start adding on premiums to the cost of energy through the discount rate. But in their case, they are looking at a rather small risk factor adder, particularly when looking at the other utilities" at 0.25% or less.

To the extent that the risk factor will mitigate the increases year-to-year of the discount rate, it helps stabilize the discount rate so that if there are long-term contracts, you don't have the volatility in the discount rate from year to year.

"If it is used in that fashion, there may be some good to it but we are not endorsing risk factors that don't have any relevance to collection costs," said Goodman. "We are supporting what WGL is doing and we support it strongly -- and we believe if they implement their plan at a discount rate of less than 2%, then they are going to have a very, very strong marketer participation in their service area."

[Comments]

Natural gas groups warn Congress about OTC bill risks

If Congress reforms over-the-counter (OTC) derivatives markets the wrong way, it could take $900 billion out of the economy and cost the energy sector tens of billions on its own, two energy lobbies said in a letter to House leaders yesterday. The Natural Gas Supply Assn and the American Exploration & Production Council sent the letter to House Speaker Nancy Pelosi, D-Calif, and the chairmen of committees that had jurisdiction over the bill.

"We have serious concerns about forcing the trading of over-the-counter energy derivatives onto an exchange," said NGSA CEO Skip Horvath. "Mandating centralized clearing and margins is a recipe for unintended negative economic consequences."

In addition to costing the energy sector tens of billions of dollars, the move would drive smaller participants out of OTC markets and centralize risk, he added.

Language in The Wall Street Reform & Consumer Protection Act would force energy firms to centrally clear their OTC derivatives transactions and that could negatively impact the 65 million gas consumers, said their letter. The resulting higher costs would take capital away from infrastructure projects at a time when the US is considering shifts in policy that will create the need for much more such investment.

The two lobbies want to see OTC energy derivatives used for hedging explicitly exempted from mandatory clearing requirements. The proposal would boost risk by shifting from numerous counterparties to a few central clearinghouses, said the letter.

Central clearing would disregard credit quality, disadvantaging energy participants with significant physical assets and high credit quality.

It would boost the cost of taking part in the market, cutting down the number of entities who do so and resulting in higher commodity price volatility.

[Comments]

Iberdrola brand replaces 'Energy East'

As part of the ongoing integration process under way since Iberdrola in September purchased Energy East (RT, 2008-Sep-18), the name "Iberdrola USA" is replacing the name "Energy East."

"Directly linking the strong Iberdrola global brand and its association with renewables, caring for the environment and focusing on customers -- with our companies makes complete sense. It also makes complete sense to keep our operating company names that are strong brands in their own right," said Iberdrola USA CEO Robert Kump.

The name change will not affect the names of Iberdrola USA's utility firms including NYSEG, RG&E, Central Maine Power, Southern Connecticut Gas, Connecticut Natural Gas, Berkshire Gas, Maine Natural Gas and New Hampshire Gas and unregulated firms that include NYSEG Solutions and Energetix.

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