Restructuring Today

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Missouri schools break monopoly grip on gas

Public schools in Missouri won the right to buy their gas via an aggregation program pushed through the state legislature this year by school groups who faced tough opposition by natural gas union members, Ameren UE and Laclede Gas.

Except for large C&Is, public schools are the only customers able to choose, said Warren Wood, PSC's energy department manager.

The final piece — Laclede Gas' aggregation tariff — just made its way through the PSC so the program can begin Dec 1.

The Missouri School Boards' Assn (MSBA) and the Cooperating School Districts of the St Louis Area have been running a pilot program for the last three years through their Missouri Purchasing Resource Center's Energy Consortium.

LDCs didn't have transmission tariffs before the new law but Missouri Public Service and Missouri Gas Energy volunteered and about 10 large school districts signed up and saved $600,000 in the first 18 months of the program.

School districts had to be fairly large to qualify for the pilot. Now that all Missouri LDCs are in the program and virtually all public schools are eligible, Jim Cherrington at MSBA expects about 30 districts to sign up by Dec 1.

Savings will be only about 5% the first year because members will be paying off a capacity charge ordered by the PSC to make whole non-shopping customers, the utilities and taxing authorities.

In years two and three savings should reach 25%-30%, Cherrington predicts.

Some districts don't use gas and others might have it hooked up only in the stadium for the hot-dog vendors, Cherrington noted, but many schools should be able to benefit.

Next year private and parochial schools become eligible and more public schools will join when they start talking to each other about the savings, Cherrington predicts.

But schools may be as grateful for price stability as they are for savings, the PSC's Wood explained, after gas price spikes in Missouri's worst winter ever — 2000-2001 — gave many users sticker shock.

The state responded by calling for four purchase gas adjustment (PGA) filings a year to avoid over- and under-collections.

Those frequent PGA reviews have the effect of moving utility rates closer to the market.

A marketer can go into the school program "with a desire to bring complete stability to gas prices and/or have a target price," Wood noted.

Then if he sees prices drop below $3.50, he can lock it in by buying NYMEX contracts.

MSBA hired TXU Energy Services to operate the program and contracted with energy consultants Latham & Associates to handle supplier bidding.

Suppliers must be licensed by the PSC as energy sellers.

Will schools be able to buy electricity the same way?

Not under this law, Wood said.

But a successful program might show the Show-Me state that competition can work.

"This is a good limited basis to try it out and see how it works," Wood added.

The program will expire in June 2005 unless it's renewed by the legislature sooner.

EEI unveils master netting accord

A master netting agreement (see EEI's website, www.eei.org) allows trading partners to net out their obligations to each other if one of them defaults on a deal.

Here's how it works:

Where John sells Mary $1,000 worth of energy and Mary sells John $1,500 worth then Mary defaults with a master netting agreement, John need only get $500 worth of energy.

Just imagine what master netting might have meant when Enron closed its doors.

"We think it could have prevented the Enron collapse," NEMA President Craig Goodman explained in a phone interview.

Enron's failure "was characterized as a run on the bank," but "when Enron folded it was because half their book went down and it couldn't be netted against the other half of their book," Goodman noted.

Without netting "you don't have the ability to fulfill your obligations under contract."

EEI's master netting agreement offers a way to boost liquidity of markets now hamstrung by fears of credit exposure (RT, yesterday).

EEI and NEMA worked together on the contract — a process the energy marketers group began a year and a half ago, said Goodman.

It's intended to be "the cutting edge on every type of law surrounding bankruptcy and we're hoping that it will pass legal muster."

The contract is complex, EEI President Thomas Kuhn said, with language options to address conditions traders might encounter.

It's so complex and may be affected by so many commercial and bankruptcy laws that EEI prepared a kind of crib sheet called the Legal Landscape to explain how other laws might impact the master agreement until it passes real-world legal tests.

With trading volumes down, terms of deals shorter and major players leaving the trading arena, anything that can ease "the liquidity crisis may help begin to restore some of the confidence that has been lost," Kuhn noted.

"A robust wholesale trading function is critical to well-functioning competitive markets," he said, since trading itself promotes liquidity and provides transparency.

"It must not fall by the wayside," Kuhn added.

What's needed next are guidelines for risk valuation, management and financial governance, said Goodman, and these are being worked on by various industry groups like NEMA, EEI, EPSA and the chief risk officers committee (RT, 9/20).

Government has been doing its part with Congress enacting the Sarbanes-Oxley measure that requires CEOs to certify their financial reports.

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4 stories in 1 minute

Pa town goes 44% green power: Media, Pa, signed with the Energy Cooperative of Southeast Pennsylvania for 128 mwh/year but is passing up savings to get 44% of the power from wind (Community Energy). The co-op is a licensed electricity supplier and offers conventional and green power on one-year, fixed contracts to residential and commercial accounts.

Duke cited for financial reporting: Duke Power has entered into a proposed settlement with the North Carolina PUC and the South Carolina PSC in response to an independent audit that found the utility had underreported regulated profits by $123.6 million between 1998 and 2000 so as not to exceed the allowed rate of return on investment and trigger a rate reduction. The Duke team did it in a way that would not impact or lower Duke Energy's consolidated earnings as reported to its investors and the SEC, press reports say.

FPL signs PNM for wind deal: PNM agreed to buy 204 mw of wind power from FPL Energy, said to be the nation's largest producer of wind energy. FPL is to build and operate the New Mexico Wind Energy Center with 136 wind-powered turbines. PNM will ask New Mexico regulators to approve a tariff allowing customers to buy wind-generated energy for a small monthly premium. Remaining power will be sold on the wholesale market in or outside New Mexico.

Congress is meeting only in abbreviated, non-legislative pro forma sessions now but Nov. 12 both bodies are to resume normal operations including surgery on an energy bill. Energy conferees' staffs are said to be working. Members are off campaigning and tough decisions can't be made without them. Should you be nostalgic for energy bill activity during the campaign, an important staff person directs us to House- and Senate-passed versions and webcasts of conferee meetings at http://energy.senate.gov.

NEMA fears ban on customer contact

Can energy marketers be prevented from contacting customers altogether?

NEMA suspects that could happen if the Federal Trade Commission (FTC) doesn't adopt rules carefully to implement the Federal Electronic Signatures in Global & National Commerce Act.

The problem, as NEMA sees it, is "piecemeal" implementation. Some states allow energy marketers to advertise websites and the chance to switch suppliers by enrolling online.

Yet in other states such as Massachusetts and Illinois in particular a wet signature is required.

NEMA has written FTC seeking clarification.

The piecemeal adoption from state to state of electronic signature laws and regulations "is contrary to the federal statute and is slowing the growth of the competitive energy market," NEMA wrote.

The FTC needs "uniform rules to implement legislation nationally so we don't have 50 different states treating electronic signatures differently," said NEMA President Craig Goodman.

Marketers aren't happy with the FTC's national do-not-call (DNC) registry NOPR for telemarketers.

"The telecom industry is allowed to telemarket without regard to a DNC call list. If someone asks them not to call, they respect that or get penalized. We should be treated the same way," Goodman advocated.

The association has found DNC lists in every state apart from the FTC's national rules so that complying with all of them becomes "extremely onerous, very expensive, and takes a huge percentage of the population out of the marketplace," he added.

...for Idaho

Consultants find time-of-use meters not worth it

Christensen Associates found the $47 million cost to install time-of-use (TOU) pricing for residential customers of Idaho Power wouldn't produce anywhere near its cost.

Power rates in Idaho are among America's lowest and critical days when time-of-day demand switching would reap substantial cost savings are few in Idaho, the consultant wrote.

Automated meter reading equipment to give customers more timely price signals would cost $72 million and customers would pay $1/month for years.

Other approaches would be more cost-effective for the IOU and its customers to reap the same benefits, Christensen suggested.

That's not to say TOU pricing isn't a good idea, the consultants found.

The idea has been around for 25 years or so and recently tested successfully in markets such as Puget Sound Energy (RT, 9/11) and Gulf Power in Florida, Christensen added.

Puget Sound found more efficient metering and billing covered the expenses of new meters even before demand-shifting benefits were figured in.

The Gulf Power pilot program includes a "critical peak price" that kicks in when demand and power prices crest in Florida's heat and humidity. The pilot is being expanded to more customers.

Back in Idaho, the study found that even a mandatory time-of-use program would bring consumers only $1 million in savings a year but the utility might save $12 million in operating costs of peaking facilities.

But for Christensen the math still doesn't work without rethinking the overall rate structure.

Thus the PUC extended its comment period a month to Dec 6.

The report is at www.puc.state.id.us.

Generation not overbuilt says FERC's Brownell

Despite market signals, the US will not have a glut of electricity in coming years, FERC Commissioner Nora Brownell told an EEI financial conference in Palm Desert, Calif.

"It is very, very clear we are not overbuilt," Brownell assured a panel.

Ron Walter, Calpine senior vice president, agreed.

"If we do not add more generation and add four more years to where we are today, it is quite clear we are going to be in a whole world of hurt," he said.

Merchant generators will need help building the generation to prevent a shortage, warned Ralph Cavanagh, senior attorney with the Natural Resources Defense Council.

"The old merchant-generation model cannot deliver today," Cavanagh added, noting that new plants won't be built unless utilities commit to long-term contracts for their output.

Texas regulators want marketers' sales figures

ERCOT weekly data shows how many retail choice customers have been successfully switched to new suppliers and other transactions.

The PUC understandably wants a clearer picture of market activity with reports directly from marketers and enhanced reports from the grid operator to add transparency and provide the PUC with a shot at more effective oversight.

It set a Nov 26 public hearing on the plan.

The PUC intends to compare ERCOT numbers with those of marketers.

Our experience is that numbers ERCOT has given us have not matched those from marketers -- in ERCOT's favor (RT, 2/13).

The PUC could expand its proposal, commissioners warned, to require data on the types of products offered to C&I customers.

The PUC can easily see what offers are made to residential customers by reviewing mandatory labels retailers provide.

C&I products are a mystery because they typically are based on bilateral contracts the commission doesn't see.

Commissioners have thought about and might require retailers to report the number of products offered in broad categories that cover price, options and contracts' length.

The PUC is looking for a way to gauge customer satisfaction and has asked for comment on whether marketers should be required to share the results of their surveys.

Retailers won't like sharing sales figures with regulators but the PUC assured that portions of the reports can be made confidential on request.

The proposal would allow the PUC to assess penalties for failing to report and for poor market performance.

Poor market performance?

The PUC acknowledges "that a new market will experience start-up difficulties.

"Penalties for poor performance may not be appropriate in a developing market or for a new entrant," the PUC said, but may need to be imposed at a later date.

Should Texas penalize its two regulators for poor performance?

That's an issue that should be decided later too.

Gathering data will be a financial burden, the PUC noted, but "the benefit to competition in the retail electric market is expected to far outweigh any costs of reporting the performance measures."

The PUC wants the first set of comments by Nov 11 but "is only interested in receiving leading edge" examples of best practice regulatory policies.

In a separate action, the PUC asked for comments on ERCOT performance by Nov 12 and has set a public hearing for Dec 3. In the past complainers have had to go through ERCOT procedural rules before going to the PUC but the PUC now would bypass that activity.

US buying unit to end opposition to NM choice

The US Executive Agency (USEA) may reverse course today and withdraw its opposition to an agreement that calls for repeal of a law that would open New Mexico to retail electric competition in 2007.

The USEA works within DOE to buy power for federal properties such as military bases and the US Postal Service and pays about $19 million/year alone for the electricity used by Kirtland Air Force Base and Sandia Labs.

The deal, pushed by New Mexico Attorney General Patricia Madrid lets Public Service of New Mexico (PNM) lower its rates 6.5% over the next two years in exchange for supporting a repeal of competition and permission to invest $1.3 billion in merchant power plants.

The repeal of competition is "not in the public interest" because it would lead to higher electric rates," USEA said in a petition Monday to the Public Regulation Commission (PRC).

The merchant plants, USEA added, "will be used by PNM to sell power mainly to non-New Mexico customers who will bear the financial risks if PNM's merchant activities go sour."

The merchant plants were USEA's chief concern but the agency is likely to withdraw its opposition after meetings with state and utility officials.

PNM's Frederick Bermudez would only confirm for us that the utility has asked the PRC hearing officer to move forward as if the deal were uncontested.

Dynegy picked

Bruce Williamson, (RT, 6/6/00) former Duke Energy Global Markets CEO who earlier ran risk management for PanEnergy, to replace Dan Dienstbier who's been acting Dynegy CEO and will continue as board chairman (RT, 10/16).

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