Restructuring TODAY

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PSC weighs fixing rate design flaw in open market

Atlanta Gas Light agreed late yesterday to refund $14.5 million to its 1.5 million customers with most of the relief going to the 263,000 deemed to have been affected by December's rate shock.

The company began Nov 1 adding to its commodity charge a demand charge to collect an interstate pipeline capacity component to cover AGL's cost of having gas on the coldest day of the year. But with warm weather in December customers got larger bills that expected and howled to the PSC.

Under yesterday's accord AGL will go back to basing charges on actual use. AGL set its rate for February bills at 40¢/therm but reserved the right to adjust rates according to temperatures. In time Georgia gas users will learn that when the rate gets too high they may want to switch to another supplier rather than pester the PSC will phone calls.

Competition only began in November and many haven't gotten used to making their own decisions as yet. About 20% of AGL's customers have switched so far.

The 40¢ puts AGL closer to the middle in the 37-47¢ being quoted by its competitors.

But the cost isn't quite that simple. SCANA Energy offers $50 in free gas to those who switch. AGL's own Georgia Natural Gas Services promises a 10% savings for a one year sign up.

Shell Energy Services and Columbia Energy offer 39¢ for one year. Marketers said the settlement would not force them to lower prices. Yesterday's settlement is good through September.

The PSC staff had urged commissioners to order AGL to refund $25 million. Staffers asked that AGL be re-regulated as the 1997 law provides where market forces don't control prices. The staff assumed the public would not be able to figure out that they should switch if the price got too big.

NY ISO gets FERC conditional OK

Single system rate OK'd

FERC today conditionally approved tariffs and rates for the New York ISO.

Once the ISO gets up and running, market participants will have access to unbundled transmission services across the systems of all transmission providers in New York State.

Public utilities have yet to file corporate applications to transfer control of the grid to the ISO. The commission directed applicants to reinstate services, terms and conditions of service of the pro forma transmission tariff as in Order 888.

The Commission accepted the proposed single system rate based on cost of the transmission provider who delivers the power to the customer.

FERC directed the ISO to file a market monitoring plan that tells how the ISO will monitor and detect market power and what it intends doing where it finds it -- how it will mitigate the power.

The agency also proposed to adopt a set of uniform business practices and definition of services for OASIS.

Better late than never.

The practices are divided between mandatory standards and so-called voluntary best practice guides.

The commission would pick up findings of an industry working group but they want comment on all of the proposals -- and should they be adopted as mandatory standards?

Blue sky for nuclear thanks to Clinton?

The nuclear industry outlook is "better than it's been in history," claims Joe Colvin, Nuclear Energy Institute president.

That's partly due to the Clinton administration making a 180-degree turnaround in its perception of the industry, he said. The President's Committee of Advisors on Science and Technology has advised that the administration triple it's nuclear budget by 2003.

The industry had expected cuts, Colvin told an Infocast seminar yesterday.

Next column -- *comparing servcos with gencos.*

New Jersey accord provides Aug 1 start for all

City aggregating ban resolved by compromise to prevent corruption

Legislative leaders and Gov Christine Whitman have agreed on a settlement for the bill to open Garden State retail power markets to competition.

The accord sets up an involved system of writing letters to customers ending an intensely fought moral issue that divided lawmakers into two camps over allowing cities to aggregate.

In New Jersey, allowing aggregation is a set up for corruption, one side argued. Another faction was motivated by mayors who don't want to aggregate then have voters call up and complain that the power is off or the price too high.

The solution will be voted on today and signed in the near future and markets will open for all Aug 1. Whether the public gets a shopping credit that works or prevents competition is to be decided by state regulators possibly at their next meeting.

The accord provides that cities can write to power customers where the mayor wants to do it telling the customer that if they want to benefit from aggregation they should check off and send back their views.

Those who say yes get another letter and their name goes to the favored supplier who then writes the yes people to say "hello" and to ask the buyer to opt in.

Public Service Electric & Gas, New Jersey's largest utility, didn't take a public position during the haggling period but Emma Byrne, spokesperson, said yesterday the firm is glad the issue had been resolved "and is prepared to make it work."

Recovering stranded cost is to be worked out by the Board of Public Utilities.

Nuclear plant staffs weigh merits of setting up servco

How do you restructure a nuclear power plant for tough, competitive markets?

Consider a servco, suggests John Matthews of Morgan, Lewis & Bockius. A servco is a new corporation or other entity created by existing owners and operators of nuclear units to supply centralized support services to nuclear units, he told Infocast's Nuclear Power Plants conference yesterday in Washington.

The new unit can cut costs by centralizing buying, staffing, engineering, refueling, outage work and warehousing yet be staffed by current employees of the operators or contractors and it can be the first step to an opco or genco, Matthews added.

Few, if any, federal regulatory approvals are required, Matthews said. Nuclear Regulatory Commission (NRC) license transfer review is not called for where the servco does not have final decision making authority in key areas, like design control, budgets, shutdown and start up of units.

Disadvantages of a servco are that the operating responsibility and risks, including financial, remain with existing owners and operators.

The servco would still get state regulatory review and approval especially where it's an affiliate of existing owners and operators, Matthews said.

Servcos may not cut operating costs, especially if existing owners and operators have recently gone through reengineering and downsizing programs. Labor and employment law issues associated with the transfer of a significant number of employees and operators of the units could be almost as complex as other options such as the opco and genco options without all of the corresponding benefits, Matthews said.

Servco examples are Utilities Service Alliance, PECO's Illinois Power, Entergy's Maine Yankee, Duke Engineering Services and the proposed Midwest Nuclear Alliance.

An opco is a business entity formed by the existing owners and operators of nuclear units, vendors or contractors to assume complete operating responsibility for nuclear units.

Opcos can cut costs through staff consolidation, pooling of support services, centralized buying and other efficiencies beyond what a servco can do. Add to that enhanced career opportunities for the workforce and reduced likelihood of co-owner litigation, Matthews said, such as litigation following a prolonged outage, Matthews added.

Opco regulatory reviews and approvals are manageable with what he sees as a lower likelihood of antitrust problems and prior regulatory hearings than for a genco, Matthews said.

NRC license transfer is required because the opco will have final decision making authority in key areas identified by NRC staff and have overall operating responsibility for the units.

The big drawbacks are that the nuclear financial risks remain with existing owners, including operations and maintenance (O&M) expenses, capital costs and decommissioning costs, Matthews added.

PSCs could require "pass through" of some of the savings from enhanced nuclear performance to ratepayers. Opcos could get caught up in labor and employment law issues, organizational changes and disruption comparable to the formation of a genco without the genco benefits, he added.

Opcos include Entergy Operations, Southern Nuclear Operating Co, GPU Nuclear, North Atlantic Energy Service Co, Northeast Nuclear Energy Co, South Texas Project Nuclear Operating Co and Wolf Creek Operating Co.

An opco/poolco is formed by the existing owners and operators of nuclear units to assume full responsibility for these units and assist the owners in coordinating a power exchange.

That might be pooling of power where each owner gets a pro rata share of the total generation from all units based upon its ownership interest in the total rather than only getting its pro rata share of output from each unit where it has an ownership interest, Matthews explained.

As with an opco, existing nuclear organizations of the operators would presumably be consolidated and transferred to the opco/poolco, Matthews said.

Opco advantages continue such as transferring operating responsibility to a separate business while lessening involvement in day-to-day nuclear activities and cost savings.

Yet Matthews sees the opco/poolco as an interim step to a genco. Pooling arrangements cut or share financial risks of a prolonged shutdown or running a long time at reduced capacity factor at one or more units.

Regulators may like that too.

NRC license transfer is required because the opco/poolco will have decision-making authority in key areas and have overall operating responsibility.

Opco/poolcos can eliminate potential co-owner litigation resulting from prolonged outage at any unit especially where power from all units and costs for all units are allocated on the same basis, Matthews said, but the financial risks remain with owners.

Pooling arrangements provide a way to hedge this risk, he noted, but equitable opco/poolco arrangements may be difficult to "normalize" -- such as asset valuations, operating costs and allocation of responsibility for capital improvements.

PSCs may not like pooling where some units have been more troublesome than others unless there's some way of protecting ratepayers in case the opco/poolco team can't boost performance of the laggards.

Opco/poolcos on the other hand could involve labor and employment law issues, organizational changes and disruption comparable to the formation of a genco without all the corresponding benefits.

The prioritization of work for different units, inability to obtain similar levels of performance and output at different units, and methodology used for allocation of costs (particularly in the event of prolonged shutdown of one or more units), could still lead to disputes among owners and regulators, Matthews noted.

A genco is a business entity formed by owners and operators or investors to own and run nuclear units. Existing nuclear organizations would presumably be consolidated and transferred to the genco, Matthews explained, as with an opco.

One big advantage is transfer of most, if not all of nuclear risk (financial, operational and regulatory) to a separate business entity, Matthews said.

Dedicated nuclear organizations may enhance overall performance of nuclear units and provide greater technical depth and career opportunities for nuclear employees, he added.

Gencos can provide savings from staff consolidation beyond what a servco or opco can do, Matthews claimed. When properties are transferred owners have a chance to handle recovery of stranded costs as well, he reminded, but look out for the lengthy, complex and expensive financial transactions along with federal and state regulatory proceedings plus antitrust review of genco market power.

The NRC may require greater financial assurances of ability to fund O&M, decommissioning and withstanding extended outage than now required -- fiveyear-projections of power sales revenues and O&M costs and payment of remaining decommissioning funding obligations through "prefunding" by existing licenses, guarantees from existing licensees, long-term power sales agreements or non-bypassable wires charge approved by FERC to state PSCs, Matthews said.

Without new legislation or favorable IRS rulings, the tax implications of decommissioning could be significant. Again, PSCs in their wisdom may want to pass on the savings to ratepayers and dilute benefits of better performance.

Genco examples are AmerGen's Three Mile Island #1, Entergy's Pilgrim and Yankee Cos. Non-operator gencos include Great Bay Power's Seabrook and System Energy Resources's Grand Gulf.

Marketers viewpoint:

Right to switch is first commandment in freedom's bible

"The right to switch energy suppliers is the ultimate consumer protection. Choice must exist in order to serve the public interest and it should not be complicated or expensive.

"Restructuring US energy markets can save consumers tens of billions of dollars a year, and the country cannot afford additional delays," said Craig Goodman, president as the National Energy Marketers Assn (NEMA) yesterday issued its guidelines on opening up markets, the handiwork of top legal and marketing experts from all segments of the energy industry.

Here in NEMA's own language are the highlights:

— Congress should resolve outstanding jurisdictional issues, clarify current tax laws, expand existing stranded cost recoveries and mandate a date certain by which the states must complete the transition to a competitive energy market.

— FERC should expand and clarify Orders 888 and 889 to require all jurisdictional transmission services be unbundled and that all service providers reserve, purchase, schedule and curtail transmission services under the same uniform, non-discriminatory, open-access transmission tariff and mandate compliance and strictly enforce Order 889.

— FERC should also make transmission services sufficiently uniform to be transferable and tradable, and should regionalize the US electric grid under truly independent management and operational control with incentives to optimize service, accountability and throughput.

— Generation assets should be divested to the extent necessary to mitigate horizontal and vertical market power.

— State legislatures should clarify existing laws and empower state PUCs to implement customer choice and retail access to all classes of customers, at the earliest possible time.

— State legislators should also require government to purchase power from competitive providers, thereby implementing tax and budget reductions immediately.

— State PUCs should act promptly to remove the numerous operational, behavioral and tariff barriers to competition and should establish a date certain by which to complete the transition to a competitive market.

— Regulatory commissions should immediately separate regulated and unregulated services so that consumers may choose, on a line-item basis, both the price and amount of each competitive service that they wish to purchase. Regulatory commissions should also implement NEMA's Uniform Code of Conduct.

AEP, Link team up to help gencos

American Electric Power thinks it can make money helping utilities restructure.

They think 400 gw of generation capacity will change hands during the coming decade.

AEP's new subsidiary created with Link Resources, a privately-held company, will offer operations and maintenance help.

Combining AEP resources with Link Resources' transition expertise and entrepreneurial plant management focus "will provide clients the most innovative, efficient and big-picture capabilities available in the O&M business," ALP said.

The Rescue-Link Alliance will offer services ranging from assisting a client in defining the objectives of a particular merger or acquisition to evaluating whether the acquisition of a particular generation asset can reach those goals.

The company offers facility turnaround strategies and implementation, transition management, human asset strategies and infrastructure development too.

Some companies are simply not equipped to implement corporate and transition strategies at the facility level, a survival factor in a low-margin commodity market, said Linda Cabal, Link Resource principal.

Companies that buy generation have a brief window of opportunity to make changes to get better earnings growth, Cabal added. Rescue-Link will go after US facilities with over 300 mw capacity with coal-fired facilities given higher priority than gas or oil.

Plants under 300 mw "will be considered if adequate opportunities arise, or if they come as part of a package of plants."

Williams signs yet another fiber deal

Williams Communications yesterday signed a $52.8 million deal to provide dark fiber and network services to an undisclosed, privately held telecommunications company.

Yesterday we told you about its fiber-optic inland network from Portland, Ore, to Los Angeles. Under this agreement, Williams Communications is to provide dark fibers on the Washington DC-Atlanta-Houston-Dallas segment.

Williams is to supply network services on this segment -- some 2,225 route miles, its 10th dark fiber and network services sale since Williams got back in the business in January of last year.

They now have one of the largest fiber-optic networks -- 19,000 miles of fiber in the ground, 17,000 miles lit and in service and plans to expand to 32,000 miles with connections to 125 cities by the end of 2000.

The network has multiple conduits for today's and future use -- typically 96 to 144 fibers in each conduit.

America's biggest heads to Canada: Southern California Gas serves over 4 million customers in the greater Los Angeles area. Add to that the customers from San Diego Gas & Electric and you've got over 6 million meters and about 18 million people. The holding company is Sempra Energy and a sister firm, Sempra Atlantic Gas is about to become the supplier for 75% of the households in Nova Scotia as a conventional monopoly utility. It's new service bringing newly available Sable Island gas to market.

Calif PX hourly prices

(Unconstrained market clearing prices, supply and demand, day-ahead market for delivery January 27.)

Hour	Price	Volume
1	13.9903	17,105.9
2	12.4959	16,873.0
3	12.0033	16,804.4
4	12.0085	16,694.9
5	13.9936	17,367.2
6	14.9980	19,109.4
7	22.0051	21,851.3
8	22.6466	22,580.2
9	22.5073	22,873.2
10	22.5098	23,211.0
11	22.5018	23,231.6
12	22.4558	23,065.3
13	21.9907	22,761.8
14	21.7505	22,505.4
15	21.4231	22,216.3
16	20.9982	22,130.4
17	21.9419	22,796.8
18	24.9941	25,020.2
19	25.2037	25,289.3
20	24.1094	24,594.8
21	22.6495	23,735.4
22	21.3479	22,131.3
23	17.2270	20,451.5
24	14.4919	18,506.3
Total		**512,906.9**

6 stories in 2 minutes:

FERC today gave its blessing to the marriage of Consolidated Edison and Orange & Rockland Utilities of Pearl River, NY. The union would bring Con Ed into parts of Pennsylvania for the first time..... NERC made a coup in luring David Cook, FERC's deputy general counsel, to the incumbent side of the ring as NERC's new general counsel March 1. Chairman James Hoecker was genuinely sorry to see him go. Cook gave FERC 20 years of his life. President Bush cited Cook with a presidential commendation when the commission was opening up the gas industry at wholesale under the guidance of Chairman Martha Hesse. Michehl Gent, NERC president, agreed with Hoecker that NERC could not have found a better general counsel..... **Joseph Kraemer, the strategic planner and vice president at AT Kearney, has joined Hagler Bailly as a senior vice president focused on global telecommunications**..... Baltimore Gas & Electric and EPRI have put in the first commercial retrofit of a Underwriters Lab-approved flywheel system to store energy and prevent power sag in critical applications. Comcast Corp got the installation since it needs the highest level of power quality and reliability to protect cable and its Internet hub. It's the nation's fourth largest cable company - www.cesource.com..... **Coral Energy (Shell) has teamed up with Western Farmers Electric Cooperative in Anadark, Okla, to market into SPP WFEC power in excess of coop member needs**..... TransData signed TU Electric and Texas-New Mexico Power for its Mark-V meters to be put in at their utility inter-tie points and thus provide ERCOT real-time metering data. The SCADA communications port continuously tells output of real-time metering data on more than 50 measured quantities including Watts, Vars, Q, VA, Volts, Amps, Neutral Current, Frequency and Power Factor. The SCADA Port transmits instantaneous billing registers (kwh and kvarh) and demand register (kw and kvar).

Replacement Reserve Generation

(California ISO day-ahead market information for zone SP15 for delivery January 27.)

Hour	MW Procured	Market Price
1	0.10	0.00000
2	0.10	0.00000
3	0.10	0.00000
4	0.10	0.00000
5	0.10	0.00000
6	0.10	0.00000
7	398.05	0.96000
8	206.05	0.96000
9	253.05	0.96000
10	253.05	0.96000
11	210.05	0.96000
12	210.05	0.96000
13	185.06	0.96000
14	185.06	0.96000
15	160.06	0.96000
16	253.04	0.96000
17	253.04	0.96000
18	238.36	1.99000
19	230.19	1.99000
20	253.05	1.91000
21	238.05	1.88000
22	207.64	1.80000
23	0.10	0.00000
24	0.10	0.00000

Santee Cooper buying 500 mw from GE: Santee Cooper, the state agency in South Carolina, worried about the record 3,722 mw load it reached Jan 6 and the 3,523 mw last summer. It's agreed with General Electric for a 14-mw retrofit at Cross Unit 2 in Berkeley County and a new 500-mw combined cycle plant for an undetermined site. The new plant is to cost $275 million. It's going to make Santee Cooper Carolina's leading generator at 4,350 mw. They serve 11 counties, 15 co-ops and expects the industrial load to continue to grow, *Megawatt Daily* reported.

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