Restructuring Today

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FERC's Wood optimistic on gas price outlook

Relief is in sight for the nation's tight gas market, FERC Chairman Pat Wood told yesterday's National Petroleum Council conference.

He pointed to more gas in storage now, rising LNG imports and the prospect of an industry accord on price reporting.

Gas inventories rose to a record 127 bcf by the end of last week, the Energy Information Administration reported yesterday, continuing a string of sharp rises in gas supply.

"Just as new pipes take pressure off the need for storage, sufficient storage takes the pressure off pipes," Wood told the conference.

Planned expansions will boost America's capacity to import gas from 1 bcf/day to 4 bcf, Wood reported, and applications at FERC and the US Coast Guard could raise that number to 9 bcf/day by 2007 and twice that by 2009.

Responding to a series of scandals, a coalition of sellers and buyers has proposed standards for more reliable data in price indexes.

A FERC technical conference next week is to address "safe harbor" provisions in the standards, Wood predicted, hoping an accord could tie up loose ends.

The safe harbor proposal was made by NEMA President Craig Goodman and quickly embraced by commissioners at FERC's second technical conference on price indices earlier this week after it appeared that an industry consensus had not been reached (RT, 6/25).

What is a safe harbor as applied to price reporting?

A rebuttable presumption of good faith in favor of the data being collected and used in energy pricing, Goodman told RT.

That means the data "could be challenged if the party relying on the price at issue had committed some act of wrongdoing to generate that price," Goodman added.

NEMA members want to avoid FERC's deciding that the amount of data reported or quality is not good enough then mandating reporting protocols.

If FERC mandates reporting rules the cost could undermine the progress being made by a number of substantial companies who are competing intensely in this space, Goodman warned.

Smaller NEMA members could be put out of business, he added, if they had to comply with mandatory rules.

A voluntary approach "is the lowest-cost solution" for FERC and the industry.

Is there a danger that the industry might find itself back where it started?

Previous scandals arose because price reporting was not based on actual transaction data but was the product of hearsay, Goodman replied.

NEMA members have devised a rigorous protocol, Goodman said, based on actual transactions that requires matching data "that would not otherwise be reported in the ordinary course of business and would be kept confidential."

The issue for FERC, Goodman suggested, is whether the industry can be enticed to report.

A safe harbor with a voluntary reporting protocol, Goodman predicted, would mean "more information by more counterparties and a much higher quality snapshot of true prices in the marketplace."

Safe harbor provisions are valid for federal and state regulatory purposes and could be applied to mark-to-market accounting, tariff filings, prudency reviews and refund investigations.

For those unable to attend FERC's July 2 conference on safe harbor (or rebuttable presumption of good faith) in person can listen by phone (www.ferc.gov).

Now let's see — which supplier?

Monongahela Power's plan for large-C&I SOS bidding next year tweaked the Energizer Bunny (RT, 6/11).

The battery firm makes electrolytic manganese dioxide — a component in its popular Energizer alkaline batteries — in Marietta, Ohio, on the Allegheny Power subsidiary's turf.

The plant employs 50 people and contributes some $3 million/year to the local economy through wages, buying and contributions, it told the PUC.

Ohio Consumers' Counsel Robert Tongren agrees with the battery plant that Mon Power's plan is flawed and should await the setting of post-transition rules for all Ohio utilities.

Plant Manager Donald Goedde worries that the mere 213 mw of load from his company and two others that make up the entire rate class won't attract the bidders Mon Power hopes will seek large users through the IOU's proposed bidding process.

The PUC hasn't yet come out with a final rule on competitive bidding of SOS.

Mon Power wants to match its Ohio default service with those in other states where its parent operates.

Having a patchwork of SOS supply rules at Ohio utilities would make the market less efficient for potential suppliers, the utility argued.

Energizer doubts it can play one supplier against another because none has registered to do business.

One-tenth of the plant's manufacturing costs is power and still higher bills would impair its ability to compete with cheap imports.

The PUC should extend the IOU's market development period for large C&Is through 2005, Energizer added, to match the end of the transition period.

EIA talks about $9 gas next year

Gas prices will average $5.34/mmbtu this year, the Energy Information Administration's administrator, Guy Caruso, predicted, and next year may fall to almost $5.

But, if the temperature varies by 10% from average, prices could go to $9/mmbtu, Caruso warned the Gas Roundtable yesterday.

Expect a tight gas market "driven by the need to fill storage," Caruso said, and short-term volatility.

EIA wants to help out with the energy sector's growing need for more immediate market data, Caruso said.

EIA is working on an action plan to upgrade its data collection process, a realization that much of its work is done through surveys that reflect the status of markets many weeks or months in the past.

"We're looking at other ways of getting more accurate and timely up-to-date analysis without having to do a survey," Caruso said.

DOE is worried about production and storage levels, Caruso noted, but data from states varies in quality so EIA is seeking its own methods.

EIA will expand its array of surveys, Caruso reported, but each proposal must go

3 stories in 0.5 minutes

Rating firm downgrades better right now? Credit clearing houses still aren't catching on in the power sector or curing liquidity problems, Fitch Ratings says. "Clearing has reduced collateral needs by over 80%" in other markets, said Denise Furey, senior director, but not in power. Why? "Ever-changing clearing products, short or no track records for power clearing as a concept and the specific challenges of power as a commodity," she said, are to blame. Utility sector credit downgrades still outpace upgrades 3.5:1, Fitch Ratings' global power team told audiences on a recent five-city tour, but that's much better than last year's 15:1.

Constellation renews Maine supply pact: Maine PowerOptions renewed for three years its contract with Constellation NewEnergy where the marketer is the favored supplier. The energy consumer group was created by the Maine Municipal Bond Bank and Maine Health & Higher Education Facilities Authority to get better electricity and fuel oil deals. NewEnergy will make offers to group members several times over the next three years so that members can pick their time to buy in the market and match their contract terms to their budget year. The program added a 100% renewable electricity offer last month.

Can artificial intelligence speed fuel cell to market: Neutron Enterprises is banking on it. The firm signed to buy Force Scientific, an Edmonton firm that landed world rights to use the Intuition software platform in the fuel-cell industry. Intuition is a modeling package using artificial intelligence to let users in a variety of industries test changes to their products or processes and see the results right away. Intuition would use precise data on what actually happens inside a fuel cell and Neutron hopes fuel-cell makers will value the chance to get their products to market ahead of schedule. Force Scientific is owned by AI Solutions.

through a comment period at the White House's Office of Management & Budget.

And that takes time.

Thus Caruso doesn't expect much action before the first of the year.

He reported favorable gas storage levels but he expects continued volatility.

Those low storage numbers in recent months contributed to today's \$6/mmbtu and that's going to level off demand for the remainder of this year and cut next year's demand.

Caruso sees limited probability of importing more gas from Canada where producers find known resources beginning to wane.

He predicted slow growth for LNG imports this year.

"We can bring in more LNG but we need more connections to get it where it needs to be," Caruso noted.

CL&P buying from spot market — despite FERC rule

Despite FERC's Wednesday ruling that NRG must resume delivering power to Connecticut Light & Power, CL&P is still buying power from ISO New England's spot market.

FERC's jurisdiction over wholesale energy contracts does not end when a utility declares bankruptcy, a majority of commissioners decided (RT, yesterday).

NRG will ignore FERC, the company said in response, pending a decision by a US District Court in New York.

Bankruptcy Judge Prudence Carter ruled June 2 that NRG could ignore its contract with CL&P but had to honor FERC's May 16 order to continue service until commissioners decide.

FERC has set the matter for a 120-day ALJ review.

Supplying CL&P with 45% of its load requirement was creating a loss of \$500,000/day, NRG told Carter, and the loss was threatening its efforts to restructure.

Judge Richard Casey of the US District Court for the Southern District of New York stepped in June 12 and issued a temporary restraining order and preliminary injunction affirming that NRG could stop supplying CL&P.

"We will look to the US District Court to clarify the issue of jurisdiction," said NRG's Meredith Moore, but in the meantime the company will wait to see whether Judge Casey makes his June 12 decisions permanent.

CL&P will await a bill from the ISO before deciding whether it will be necessary to ask state regulators for authority to charge customers for higher electricity costs, the utility's Chris Riley said.

"Power will continue to flow and the lights will stay on," Riley assured.

Dominion agrees to more changes to improve pilots

Dominion Virginia Power agreed to extend the wires-charge reductions to be offered to those in pilot programs until rate caps expire (RT, 6/6).

The utility urged regulators to allow changes in pilot rules to make them more attractive to marketers.

Having the 0.9¢/kwh discount abruptly end with the pilots a year before state-wide rate caps come off had worried many potential suppliers (RT, 6/12).

DVP went further, offering to make the discount larger if it could cut the 500 mw committed to three pilots.

Reducing the wires charge to nothing would cut the pilot package to 250 mw, David Holt, manager of the pilots, told RT yesterday.

Revised plans split up the Competitive Bid Supply Service (CBSS) pilot — a test of bidding out retail service of default customers that has been renamed — into three regions.

That would give smaller suppliers a shot at winning, Holt predicted, because they could better afford to sell and service customers in a smaller market.

The winning bid will be the lowest weighted-average bid for a geographic block — a change that scoops up savings that otherwise would be left on the table.

The IOU eliminated a provision that would have imposed a minimum stay on C&Is whose suppliers default and is giving them 60 days instead of 30 to find a competitive supplier.

The minimum-stay rule still applies if they don't find a new supplier in 60 days and want to stay in the pilot.

The rule would not apply if buyers want to shop without the wires-charge discount and of course that would eliminate one element of risk for those customers.

C&Is that voluntarily leave the pilot are subject to minimum-stay rules.

DVP will pre-screen potential participants in the CBSS pilot to make sure they'll actually save money at their individual pilot price to compare.

Determined customers who won't save money can still participate, Holt noted.

Another change: Instead of holding a lottery where the CBSS pilot is over-subscribed, DVP will advertise that participation is first-come, first-served.

It's basically a marketing gimmick that provides a sense of urgency to potential participants, Holt explained, but it's a good motivator as any marketer can tell you.

DVP asked to be allowed some flexibility towards the end of the pilots to pull unused megawatts out of unpopular pilots and add them to those attracting the most interest.

That will help create a true onramp to competition, Holt noted, and let DVP apply lessons it learns during the pilots and respond to moves in the market.

Stakeholders would be consulted if DVP saw a need to adjust pilot sizes, Holt added.

Filing changes in the pilot with the State Corporation Commission and allowing time for comments will delay the pilots' start, but the IOU asked to begin the pilots 150 days after regulators OK them.

Meetings continue with county officials — "moving up the chain," Holt reported — to choose communities for the opt-out and opt-in aggregation pilots.

DVP expects to choose final candidates in late September or early October, Holt added.

Comments are due July 1 on the revisions and July 25 on the SCC staff report due out July 15 (PUE-2003-00118).

Tractebel really wants generation to back marketing

The recipe for success in the electric industry is to have a non-integrated business model that includes owning generation and then selling the power to consumers, Bob Stibolt, chief risk officer for Tractebel Energy Services (TES) told an Infocast/Nexant conference in Chicago yesterday.

TES has several assets along the value chain, Stibolt explained, that begins with generation and ends with a retail unit.

A marketing company as a "stand-alone business doesn't make sense," he told RT. It's the same with trading.

They need to be part of a company's portfolio, he explained, since the risk can be managed and the savings passed on to consumers.

The company's strategy is to lock customers in with a low index price that lets ratepayers weather the cycles of higher prices, he said.

Retailers without hard assets find that very difficult to do, Stibolt remarked.

TES, the Belgian firm owned by the French Suez Lyonnaise des Eaux, calls its retail electricity "risk-managed power."

The retail market has been appealing to TES and yields "pleasant surprises," Stibolt said.

The northeast retail market is "dynamic" and far along in maturing and ERCOT seems to be working "extremely well," he advised RT.

Texas and Northeast progress create a "compelling" case for deregulation in Stibolt's mind.

He predicted that states' opening for competition will turn around sooner than most people expect. So will the power sector's health, he forecast.

Regulated IOUs "aren't the answer" in creating a low-cost power market that can sustain profitable businesses, Stibolt explained.

TES sells just to C&Is and reported an uptick in the economic health of large users.

Politics and its influence on regulators keeps him "up at night," Stibolt revealed.

The company will stick to power as the gas side is too "grueling" and too "competitive."

Since the power industry is "distressed," companies with good credit can pick up good bargains other than power plants, he added.

In TES' case, it hired a group of ex-Dynegy risk managers that now know "how to do it right," Stibolt reported.

Let's see what NARUC can do

NARUC is creating a special task force to study gas market issues and named Massachusetts Commissioner Robert Keating to head it.

"Current problems only highlight the need for policymakers at all levels to continue examining longer-term issues that can improve the United States' energy posture," President David Svanda said, and that includes encouraging investments in infrastructure and diversifying the fuel mix.

El Paso settles

El Paso Corp yesterday agreed to a master settlement agreement with several western states' officials to resolve allegations of market manipulation.

El Paso did not admit wrongdoing but agreed to make cash payments of $78.6 million to be deposited into escrow and to issue about 26.4 million common shares on behalf of the settling parties. Over the next 20 years, El Paso will pay $45 million/year rather than deliver gas as originally agreed, permitting the company to use its entire portfolio of gas reserves as a possible source of funding for the payments and to pay ahead of time if it chooses.

El Paso is to cut prices by $125 million for two power supply contracts with the California Department of Water Resources.

Calif ISO agrees to new market design

The California ISO yesterday approved a "conceptual" proposal for a new market design for FERC next month.

FERC had sent back an earlier market design proposal for more work. The new one keeps integrated day-ahead and hour-ahead markets, LMP, congestion revenue rights (CRR) and a $250/mwh bid cap and adds greater load aggregation, self-scheduling and a day-ahead scheduling priority for those with CRRs.

Existing transmission contract rights would be honored, the board agreed, and work will continue with stakeholders to set rules on how to deal with contracts signed before the design was first proposed last year. The Dept of Water Resources worries that LMP will adversely affect overpriced contracts it signed in 2001.

Abbreviations: To see a glossary of RT's abbreviations, go to www.restructuringtoday.com/glossary.html.

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