Restructuring Today

ghi

1-800-486-8201

Thursday July 10 2003

Where is power industry headed? What's ahead from the ratings companies? They play such a critical role in our industry we invited two to join us in an audio conference Aug 15 at noon. Denise Furey, senior director at FitchRatings Global Power, is an analyst rating electric utilities, energy marketers and merchant generators. She will be joined by Richard Cortright of Standard & Poor's and a securities analyst to add balance. Mark the date on your calendar and call us at 1-800-486-8201 to take advantage of the early-bird discount registration of $150 for those who sign up by July 22. Each panelist will speak briefly then answer RT questions. The call will then be opened up for you to ask the experts your questions.

FERC staff tells of market rebound: Energy markets are rebounding but face challenges, FERC staff told commissioners yesterday in an assessment of the summer energy market. A tight supply/demand balance in gas markets is raising gas and electric prices, reported Jolanka Fisher of FERC's Office of Market Oversight & Investigations, while demand response is virtually missing from electricity markets. She worries about liquidity because economic troubles have cut the number of firms in energy markets. That means less capital down the road for infrastructure and gas storage injection, she added. Dependence on gas-fired generators can be seen in regional wholesale electric prices - those units are the last to be turned on and set the market clearing price, Fisher added.

Our 800 # not working?

We are very upset to hear that our long battle with American Longlines has heated up. We switched to Capsule Communications and have been pleased with the prices and service. Then we learned it will take 10 days to activate our 800 number at Capsule. Meanwhile we have to ask you to call us at 202-298-8201. With big conferences coming we can't afford an interruption now.

'The market's coming back'

The closed meeting of NEMA marketers in Chicago (RT, 7/1) was invigorated not only by the excitement of the change in strategy to a more pro-active role in getting markets open but as well by uniform signals from around the nation that the economy has begun to turn, President Craig Goodman reports.

Upticks in business are uniformly reported from all areas, he explained.

"The doom and gloom of the third and fourth quarters is substantially over," Goodman added.

Liquidity is beginning to show its pretty face and members uniformly reported an improved business atmosphere back home.

A tough challenge is that the series of teams picked in Chicago will have to convince entrenched monopolies that there's money in getting out of the merchant function.

Goodman sees marketers becoming "the utilities' biggest and best customers" relieving them of much of the day-to-day risks and costs of serving the public allowing them to focus on their strengths — delivering energy.

The marketing firms will focus on new services and technologies to keep the public happy.

The plan is to reach out to the progressive IOUs that want to see markets open up to team up with them.

We have not surveyed the members of the Partnership for Customer Choice in recent years but we know that the following utilities worked to get a federal mandate to open competitive retail markets:

Portland General Electric (before Enron), Pennsylvania Power & Light, Wisconsin Electric Power, Wisconsin Power & Light, PacifiCorp, Allegheny Power, UtiliCorp and Cinergy.

Ownership has changed on many of the members since Dan Schaefer left office.

NEMA sees leverage via support for cooperating utilities in seeking performance based rates.

The next step is the meeting of five policy committees over the next two weeks to plan strategy.

Meet Susan Collins now coming into your life

She's got GAO at work on DSM for America

Maine's junior US senator has observed that electricity restructuring has created markets for suppliers and middlemen, but hasn't done much to include consumers.

So Susan Collins, a Republican, wants the General Accounting Office to study demand response. Collins expects GAO's findings in March.

She chairs the Committee on Governmental Affairs and has become increasingly interested in energy issues. She held hearings last year on what went wrong in California's energy market.

GAO is a research organization available to members to help them with tough law-making questions. It has little to do with accounting and is almost always ready to give the detailed answer it perceives the members want to hear.

She's interested in the experience of utilities around the country that she has heard have had mixed results with lowering demand.

"Instituting demand response in our electricity markets," Collins said, "is one area that shows considerable promise for reducing electricity rates."

Dan Delurey, executive director of the Demand Response & Advanced Metering Coalition in Washington, believes Collins is on the right track.

"She's one of the few policy makers who has drilled down into the details," he said, and is "ahead of the curve."

She knows that some consumers pay rates and others pay prices but may not yet have learned how low rates hurt competition.

Collins is eager to find out what Congress can do to promote demand response as a way for consumers to recognize price signals and shift use to less expensive times of day.

She's drawn up legislation to encourage utilities to offer DSM to consumers working with Sen Jeff Bingaman, D-NM, the top Democrat on the Energy & Natural Resources Committee. One measure would provide a

3 stories in 0.8 minutes

Sempra plant in Mexico can generate for now: A federal judge decided late Tuesday to let Sempra Energy Resources' (SER) 600-mw Termoelectrica de Mexicali power plant in Baja California in Mexico continue to run — helping to keep the lights on in California as the peak-power season approaches, Michael Niggli, SER president reported yesterday. The plant feeds the Pacific Southwest. Judge Irma Gonzales upheld a previous federal court ruling but ordered DOE to do environmental studies to show by May why a presidential environmental permit to send power to the US shouldn't be dropped. The lower court worried the firm fell short on needed air and water quality studies.

Firms unite to push super-conducting wires: American Superconductor (ASC) and Sumitomo Electric Industries agreed to join forces to build a North American market for superconductor power cable. Sumitomo will make cables from ASC's high-temperature superconductor wires and ASC will sell them, said a letter of intent. The plan includes licensing some of each others' patents so customers won't have to make two deals to buy one cable.

Wood MacKenzie sees power sales dip: North American electricity sales will be weak this summer despite the stimulus of an economy beginning to grow again, says consultant Wood MacKenzie. Normal weather will reverse the two-year summer growth in peak demand and drop it 1.1%, the Wood Mackenzie's North American Power team found. Northeast and Midwest demand will drop the most while some regions of the South could grow a bit. Lower demand for power could give some relief to gas markets, the firm predicts (www.woodmac.com).

$30 tax credit for "smart meters."

In a letter to David Walker, the GAO's comptroller general, Collins presents six questions for the agency to consider:

· What types of options exist to allow demand to respond to changes in market conditions?

· To what extent are these options available and used in the various electricity markets in the US, including the use of demand bidding as proposed in FERC's standard market design?

· What have been the experiences of these types of demand response tools with regard to participation, the amount of demand potential responsive to changes in the market and other factors?

· What are the limitations on expanding the use of these types of options and what are the possibilities to broaden their application to other markets?

· What are the implications of more widespread use of these options on energy prices, the effective development of energy markets, the environment and other areas?

· To what extent does the implementation of meaningful demand response programs require capital investment? What options are available for funding these investments?

In effect she wants to know which programs work and which don't and why.

Delurey envisions a mix of technology and policy for demand response to meet its potential. Utilities first have to install smart meters.

Then, state regulators and energy marketers need to design time-of-day rates attractive to consumers, he added.

. . . from Texas to California

Full requirements El Paso contracts to end

FERC yesterday denied a request for delay and reaffirmed orders that El Paso Corp has until September to convert full requirement (FR) contracts to demand contracts (CD) for suppliers using its pipelines along the way to California.

FR contracts have no limit on the amount of gas a shipper can take from the pipeline.

FERC gave El Paso and its customers a few months to work out the details on a 1996 settlement aimed at putting demand contracts and FR customers under the same rules for capacity allocation, Commissioner William Massey reminded.

Stakeholders met and talked but an agreement wasn't found, Massey said.

That meant CD contract holders who had paid reservation charges were taking a back seat to FR contract holders in New Mexico, Arizona and California.

El Paso has gone from a pipeline flush with capacity — one that had applied for stranded costs in 1995 — to one that's constrained much of the time, Massey added.

FERC wants to be sensitive to FR customers, said Massey, while making sure CD customers get the service they pay for.

The commission's action won't change the price shippers east of California pay El Paso for firm service under contracts that run through 2005.

The contract conversion isn't meant to change prices but to give El Paso and other pipeline firms an incentive to grow capacity, Chairman Pat Wood contended.

A complaint by government officials protesting the change is not addressed in the action.

Greens hope DOE focus on demand will avoid gas wells

Energy Secretary Spencer Abraham began a four-city road show yesterday touting the gospel of energy efficiency to American consumers.

It's part of DOE's new Smart Energy Campaign encompassing the energysavers.gov website, packed with light-bulb and insulation tips, public service announcements and regional summits this summer starting in Atlanta.

Consumer and environmental groups applauded the effort and cranked out news releases calling it a quick solution to looming gas shortfalls that avoids drilling more wells.

EEI's been in the demand-management business a long time, noted President Thomas Kuhn, and saved 517 million mwh in the past 10 years.

If gas prices are high and supply short it's because gas is a victim of its own success, said Kuhn.

He favors fuel diversity and not those policies that punish one fuel or reward another.

Energy efficiency is "our nation's inexhaustible domestic energy supply," said the Alliance to Save Energy's Mark Hopkins.

Programs to cut energy use — like Energy Star — have seen budget cuts, noted Carol Werner of the Environmental & Energy Study Institute.

She wants to add solar, geothermal and biomass to the wind technology tax credit.

A federal renewable portfolio standard

could boost building green power plants.

Gas now fuels 17% of power generation, Alan Nogee, director of the Union of Concerned Scientists' Clean Energy Program, told reporters yesterday.

Adding renewable power helps avoid gas shortages, he added, citing Energy Information Administration figures showing raising renewable power to 10% by 2020 would save consumers $2.4 billion.

The Bush administration thinks it can drill its way out of virtually any energy problem, noted Nogee, but it admits drilling won't solve shortages quickly.

Limits on drilling didn't cause tight supply, only 12% of gas in national parks and other protected lands is off-limits in the Rockies, The Wilderness Society's Dave Alberswerth quoted from a report put out this year by the Dept of the Interior.

That disagrees with the Bush administration statement last year that 40% couldn't be drilled, he added.

The only real restrictions to drilling in the Rockies have been the shortage of drill rigs, pipelines and normally low prices for Rockies gas, said Nogee.

Markets tend to solve their own shortage problems, pointed out Wilderness Society Economist Pete Morton, and drilling usually flourishes when prices are high. Resource estimates have grown seven years out of the last eight, Morton noted, while demand for gas has grown only 1.3% in the last 30 years.

Only 1.3%?

Demand for gas plunged in the 1980s following policies based on the view that America was running out of gas.

He doubts gas demand will grow to the 30 tcf/year the industry talks about if prices stay above $5/mcf, leaving no reason to open up US wild places to drilling.

FERC SMD task force to dodge Congress' roadblocks

FERC commissioners yesterday expressed thinly veiled frustration at proposed Congressional roadblocks to power-market standardization and agreed on a method to skirt them.

The commission denied a Reliant Energy Mid-Atlantic Power Holdings complaint against PJM and told the staff to do an informal task force analysis of regional market differences.

PJM was routinely calling on 10 Reliant peaking plants but imposing an unfair cap on payments, Reliant told FERC in April. Reliant failed to show that its units weren't recovering costs or that the caps didn't encourage new suppliers, FERC's order said.

PJM is to reexamine its price cap policy to make sure it mitigates market power for must-run services, FERC added in its order.

The grid operator is to report back in September.

FERC yesterday approved ISO New England's plan to mitigate market power by picking a "pivotal supplier" — "a market participant whose aggregate energy supply offers for a particular hour are greater than the NEPOOL supply margin," the order said.

The case is like 10 others in several regions, Wood told reporters after the meeting.

The commission usually gets only 60 days to respond, complained Wood, leading FERC to make policy "on the fly."

A downside to having more flexibility on SMD is that decisions aren't made collectively, said Wood.

"These issues merit a more national, comprehensive look," he added.

Commissioner Nora Brownell wonders why there's a different solution in each region. She suggested forming the task force.

"We're always trying to achieve this mysterious, somewhat magical balance between pricing incentives in the marketplace, that attract needed investment, and ensures that prices are within the zone of reasonableness," Commissioner Massey added.

FERC should use a system of metrics to see common traits around the country, Massey suggested.

SMD may not have to be precisely the same in each region, he assured Capitol Hill (and Washington Chairwoman Marilyn Showalter).

Is there merit in having five definitions of reliability in five areas, Brownell asked.

"We're creating some dysfunctions and some seams in the marketplace," she noted, and that creates uncertainty for those using the market in more than one region.

Brownell's task force will give stakeholders and regional entities data for comparison.

That should be FERC's role in her view with added focus on oversight and leaving development to the RTOs.

FERC is "not hamstrung" by the political push back to its SMD, Wood assured, and wants the task force to develop some of its own ideas.

The work of the task force could be made public, Wood suggested.

Maine auction sets fall-winter rates

Fall and winter SOS rates for Bangor Hydro-Electric (BHE) and Central Maine Power (CMP) C&Is are down not surprisingly from spring-summer rates this year but are higher than last fall and winter's.

The Maine PUC bid out SOS in June (RT, 6/5) for the six months beginning in September and announced Tuesday the winning bids but not the bidders, at least for a couple of weeks until supply arrangements are completed.

Medium C&Is are being served since March at both IOUs by FPL Energy Power Marketing while Select Energy is supplying larger customers.

Those contracts end in September.

Residential and small commercial customers at both utilities are assured an SOS rate of 4.95¢/kwh until March 2005 by Constellation Energy.

Medium C&Is at CMP will pay an average 5.6¢/kwh beginning in September for six months while larger customers will pay 5.7¢/kwh. BHE's medium C&Is will pay 5.6¢/kwh and larger users 5.4¢. That's 4-6% lower than they are paying now.

Those rates are averages because they change every month. Large users pay a capacity charge for peak and shoulder capacity and time-of-use rates.

The PUC was pleased with the competitiveness of the bids, Chairman Tom Welch noted, adding that they're in line with the current market.

Customers looking for longer-term stability can turn to the competitive market, he reminded.

Prices are up since fall and winter SOS service were bid out last as part of a 12-month package.

Medium C&Is will be paying 5.178-5.453¢/kwh this fall compared with 3.468¢ for CMP and 3.465¢ for BHE last fall. Big industrials will pay 5.228-5.975¢/kwh at CMP and 5.194-5.801¢ at BHE for peak power versus 3.168-4.157¢ at BHE and 3.420-4.407¢ at CMP last fall.

The market has moved higher since bidding for last fall and winter more than a year ago.

About 45% of medium and large C&Is take SOS instead of buying from a marketer or through an aggregator.

WPS Energy Services is serving all SOS customers at Maine Public Service for a full year ending in February.

Residential and small business customers pay 5.802¢/kwh, medium C&Is pay 5.847¢ and large industrials pay 6.253¢.

Georgia gas prices are down

Most Georgia gas marketers and the regulated provider dropped their prices for July though offers are running 20¢/therm higher than they were a year ago.

EnergyAmerica's (Centrica) 54.9¢/therm variable price is the lowest offer but customers pay one of the highest monthly service charges plus an interstate capacity charge.

GasKey is offering the lowest fixed price at 72.7¢/therm but those customers have to pay an interstate capacity charge that's about half what EnergyAmerica's variable-price customers pay.

The regulated provider, now SCANA, is charging the highest variable price — $1.5189/therm for its Group 2, high credit-risk customers - folks marketers hope to avoid.

Low-income (Group 1) default customers pay $1.0909/therm.

The 87.9¢/therm fixed-rate default service for Group 1 customers beats offers from Southern Co Gas, Coweta-Fayette EMC, Georgia Natural Gas (AGL/ Piedmont Natural Gas), Infinite, SCANA and Shell.

Marketers a year ago were offering fixed rates as low as the mid-60s and variable rates down to the mid-50s for customers not on low-income or senior-citizen rates.

Georgia gas users this month have 10 marketers to choose from plus a default provider compared with just eight marketers and no regulated provider last year.

FERC sends complaint against Southern Co to court

Calpine complained to FERC that Southern Co used its control of the grid to give its affiliates a competitive advantage and treated Southern Power as a "network resource."

Southern Co treated bids from non-affiliates as cost adders for transmission upgrades during the RFP process, Calpine charged, or rejected them outright saying it was unable to make upgrades to the IPP's plant in time for the needed service.

The agreements are the result of a highly competitive process supervised by state commissioners and clear all FERC's hurdles, Southern Co countered.

Wholesale competition may suffer, EPSA warned.

FERC yesterday tentatively approved the two, long-term supply deals between Southern Co and its affiliates — then suspended them pending review by an ALJ.

The 15-year contracts are for 1,240 mw bought through Southern Power.

Southern asked that documents they gave outlining the deals be kept confidential but commissioners unsealed them.

An ALJ is to hold a pre-hearing conference within 15 days.

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

Restructuring Today (ISSN 1522-7324) is published 247 times a year on business days by US Publishing Co for **ghi llc** at 4418 MacArthur Boulevard, Washington DC 20007. Phone 1-800-486-8201 or 202-298-8201 and fax to 1-202-298-8210. One year's subscription is $487 in US funds (plus 8% sales tax in the District of Columbia). Significant discounts for site licenses that allow you to put our copyright-protected issues on your internal grid for others to see. Season Hawksley, marketing director. Joan Henderson, managing editor. George Spencer, editor & publisher.

daily@restructuringtoday.com
www.restructuringtoday.com

Register before July 14 for $170

The Outlook for the Texas C&I Energy Markets

Large Texas commercial and industrial buyers face a mix of risks and opportunities that energy buyers in other states don't share.

Eighteen months after the retail market officially opened buyers and sellers have completed the first contract cycle and what have they learned? More important, what's up ahead for energy buyers and sellers?

Restructuring Today will present a 90-minute panel of experts including PUC Chairman Rebecca Klein who will guide the development of the most-watched, large American C&I market.

Mark your calendar for July 18 from 10:00 - 11:30 AM Central, 11:00 AM - 12:30 PM Eastern, 9:00 - 10:30 AM Mountain, 8:00 - 9:30 AM Pacific for this audio conference call.

Jim Ajello, CEO of Reliant Energy Solutions, joins Chairman Klein along with Texas Industrial Energy Consumers Chairman Ray Cunningham of Exxon Mobil and Jackson Mueller, a consultant who guides large energy buyers.

Here's what the conference will cover:

• The potential for $4 billion more cost if the PUC allows the unregulated Reliant Solutions to buy Reliant assets and pass on the cost to the public as a transition cost.

• The real costs of switching from a zonal congestion pricing to locational marginal pricing.

• A non-surprise may be the outlook for competition in East Texas where fear of Entergy grid access has cooled retailer eagerness to sell to the public. PUC Commissioner Brett Perlman has vowed to get the area open before he leaves the commission in September.

• Is market gaming a real threat in Texas or has the ERCOT market oversight division (MOD squad) got the situation under control?

• As gas prices rise are there things power buyers can do to ease the burden?

• Is there any hope for green power from wind mills in West Texas. Will needed transmission get built to move that power to market?

• Within ERCOT is the market competitive today? Does the over building of generation assure competitive prices for C&I buyers?

After each speaker gives you their view of the market, you'll have a chance to ask the panel your own specific questions by phone or email.

Expert Panel

• Texas PUC Chairman Rebecca Klein

• Reliant Energy Solutions CEO Jim Ajello

• Texas Industrial Energy Consumers Chairman Ray Cunningham, and

• Jackson Mueller, a consultant who guides large energy buyers

The savings are significant

No travel time and exorbitant hotel and registration expenses. Register before July 14 for just $170. Late registration is $200. **Use the form below or call 202-298-8201 to register**

As an added bonus

Many listen to conference calls by speakerphone so that with five people listening the cost is only $34 if you register today. Discounted prices are available for additional lines going to other locations in your organization.

Can't make it July 18?

For those who miss the live audio conference, a digital replay will be available to listen to (one time use only) at any time/day the following week.

---

restructuring TODAY

Yes! I'd like to register for *The Outlook for the Texas C&I Market* Audio Conference

__ **Regular registration (June 20 - July 14) $170**

__ **Late registration $200**

Fax completed form to 202-298-8210, **call 202-298-8201, go to www.restructuringtoday.com/0718is2.htm** or mail to: *Restructuring Today*, 4418 MacArthur Blvd. NW Suite 202, Washington, DC 20007.

Name:________________________ **Company:**________________________

Address:________________________

City:____________ **St:**____ **Zip:**__________

Phone:__________ **Fax:**__________

E-mail:________________________

Credit Card: __VISA __MC __AMEX

Card # ________________ **Exp. MM/YY**____/___

Name on Card ________________

Signature ________________